

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document and the action you should take, you are recommended immediately to seek your own advice from a person duly authorised under the Financial Services and Markets Act 2000 (as amended) who specialises in advising on the acquisition of shares and other securities.**

If you have sold or otherwise transferred all of your Ordinary Shares in Silence Therapeutics plc or prior to 15 December 2009 a sale or transfer is effected, please send this document, together with the Form of Proxy, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected.

This document constitutes an admission document drawn up in accordance with the AIM Rules for Companies and does not comprise a prospectus prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of FSMA, and it has not been, and will not be, approved or filed with the Financial Services Authority under the Prospectus Rules.

The Directors and the Proposed Directors, whose names appear on page 3 of this document, accept individual and collective responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge of the Directors and the Proposed 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 contains no omission likely to affect the import of such information.

For the purpose of Rule 19.2 of the Takeover Code only, each member of the Concert Party accepts responsibility for the information contained in this document relating to that member of the Concert Party. To the best of their knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this document for which each member of the Concert Party is responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

**Application will be made for the Enlarged Issued Ordinary Share Capital to be re-admitted to trading on AIM and it is expected that Admission will take place on 5 January 2010. 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. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.**

**The rules of AIM are less demanding than those of the Official List of the UK Listing Authority. The Ordinary Shares are not dealt on any other recognised investment exchange and no other such applications have been made. Prospective investors should read the whole text and contents of this document and should be aware that an investment in the Company is speculative and involves a degree of risk. In particular, prospective investors' attention is drawn to the section entitled "Risk Factors" in Part III of this document.**

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# Silence Therapeutics plc

*(Incorporated in England and Wales with registered number 2992058)*

## Proposed Acquisition of Intradigm

## Proposed Placing and Subscription of 65,217,392 New Ordinary Shares to raise approximately £15,000,000

## Approval of waiver of Rule 9 of the Takeover Code

## Re-admission to trading on AIM

## Notice of Extraordinary General Meeting

## Nominated Adviser and Broker

## Nomura Code Securities Limited

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Nomura Code Securities Limited which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as the nominated adviser and broker for Silence Therapeutics plc for the purpose of the AIM Rules and is acting exclusively for Silence Therapeutics plc in connection with the proposed Admission. Nomura Code Securities Limited is not acting for and will not be responsible to any person other than Silence Therapeutics plc and will not be responsible to any person other than Silence Therapeutics plc for providing the protections afforded to its clients or for providing advice to any other person in connection with this document or any transaction or arrangement referred to in this document. Nomura Code Securities Limited's responsibility as the nominated adviser to Silence Therapeutics plc are owed solely to the London Stock Exchange. No representation or warranty, express or implied, is made by Nomura Code Securities Limited as to the contents of this document, or for the omission of any material from this document, for which it is not responsible.

Notice of an Extraordinary General Meeting of Silence Therapeutics plc, to be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA at 10.00 a.m. on 4 January 2010 is set out at the end of this document. To be valid, the enclosed Form of Proxy for use at the meeting should be completed in accordance with the instructions thereon, signed and returned so as to be received by the Company's Registrars, Capita Registrars, Proxy Department, PO Box 25, Beckenham, Kent BR3 4TU as soon as possible but in any event not later than 10.00 a.m. on 2 January 2010. Completion of the Form of Proxy will not preclude a Shareholder from attending and voting at the meeting in person.

The contents of the Company's website or any website directly or indirectly linked to the Company's website do not form part of this document.

The Ordinary Shares have not been and will not be registered under the Securities Act, or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. No public offer of the Ordinary Shares is being made in the United States. The Ordinary Shares are only being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

The distribution of this document and the offer of the Ordinary Shares in certain jurisdictions may be restricted by law. Accordingly, neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons outside of the UK into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions.

Prospective investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company or Nomura Code Securities Limited. Without prejudice to the Company's obligations under the AIM Rules, neither the delivery of this document nor any subscription or purchase of shares made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since, or that the information contained herein is correct at any time subsequent to, the date of this document.

The contents of this document are not to be construed as legal, financial, business, investment or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice. Prospective investors must inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, redemption or other disposal of Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer, redemption or other disposal of Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer, redemption or other disposal of Ordinary Shares. Prospective investors must rely on their own representatives, including their own legal advisers and accountants, as to legal, tax, investment, or any related matters concerning the Company and an investment therein.

This document contains forward-looking statements. These statements relate to the Company's future prospects, developments and business strategies.

Forward-looking statements are identified by their use of terms and phrases such as "believe", "could", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These statements are primarily but not exclusively contained in Parts I and II of this document.

The forward-looking statements in this document are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements.

If one or more of the risks or uncertainties described in Part III of this document materialises, or if underlying assumptions prove incorrect, the Company's actual results may vary materially from those expected, estimated or projected. Given these risks and uncertainties, potential investors should not place any reliance on forward-looking statements.

These forward-looking statements speak only as at the date of this document. Neither the Directors, the Proposed Directors nor the Company undertake any obligation to update forward-looking statements or risk factors other than as required by the AIM Rules or by the rules of any other securities regulatory authority, whether as a result of new information, future events or otherwise.

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## DIRECTORS, PROPOSED DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Iain Gladstone Ross ( <i>Chairman</i> ) Jon Melvyn Davies ( <i>Finance Director</i> ) Jeremy Laurence Curnock Cook ( <i>Senior Independent Non-executive Director</i> ) Annette Clancy ( <i>Non-executive Director</i> ) Jerry Anthony Philip Randall ( <i>Non-executive Director</i> ) Hugh Ronald Peter Reynolds ( <i>Non-executive Director</i> ) David Charles U'Prichard ( <i>Non-executive Director</i> ) Bernd Otto Wetzel ( <i>Non-executive Director</i> )  <i>All of:</i> The Royal Institution, 21 Albemarle Street, London W1S 4BS
<b>Proposed Directors</b>	James Newman Topper Philip Haworth David Mack  <i>All of:</i> 3350 West Bayshore Road Suite 100, Palo Alto California 94303 USA
<b>Company Secretary and Registered Office</b>	Jon Melvyn Davies FCA 22 Melton Street, London NW1 2BW
<b>UK Lawyers to the Company</b>	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA
<b>US Lawyers to the Company</b>	Waller Lansden Dortch & Davis, LLP 511 Union Street Suite 2700 Nashville Tennessee 37219 USA
<b>Nominated Adviser and Broker to the Company</b>	Nomura Code Securities Limited 1 Carey Lane London EC2V 8AE
<b>Lawyers to the Nominated Adviser and Broker to the Company</b>	Dechert LLP 160 Queen Victoria Street London EC4V 4QQ
<b>Reporting Accountants</b>	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
<b>Auditors</b>	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
<b>Registrars</b>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Lifting of the suspension of trading on AIM	16 December 2009
Latest time for receipt of Forms of Proxy for the Extraordinary General Meeting	10.00 a.m. on 2 January 2010
Extraordinary General Meeting	10.00 a.m. on 4 January 2010
Cancellation of admission of trading on AIM of existing Ordinary Shares	8.00 a.m. on 5 January 2010
Admission, and dealings expected to commence in New Ordinary Shares and re-commence in existing Ordinary Shares on AIM	8.00 a.m. on 5 January 2010
Completion of the Acquisition	5 January 2010
CREST accounts to be credited for the Placing Shares and Subscription Shares	5 January 2010
Despatch of definitive share certificates in respect of New Ordinary Shares	11 January 2010
The Company's SEDOL code is 0843335 and ISIN code is GB0008433350	

## ACQUISITION, PLACING AND SUBSCRIPTION STATISTICS

Number of Ordinary Shares in issue at the date of this document	135,033,392
Issue Price per New Ordinary Share	23 pence
Number of Consideration Shares	79,640,668
Number of Subscription Shares	25,332,990
Number of Placing Shares	39,884,402
Number of Ordinary Shares in issue following completion of the Proposals	279,891,452
Consideration Shares as a percentage of Enlarged Issued Ordinary Share Capital	28.5%
Placing Shares as a percentage of Enlarged Issued Ordinary Share Capital	14.2%
Subscription Shares as a percentage of Enlarged Issued Ordinary Share Capital	9.1%
New Ordinary Shares as a percentage of Enlarged Issued Ordinary Share Capital	51.8%
Estimated net proceeds of the Placing and Subscription	£12,600,000

## DEFINITIONS

The following definitions and terms apply throughout this document unless the context otherwise requires:

“Act”	the Companies Act 2006 (as amended)
“Acquisition”	the merger of Silence Therapeutics Sub a wholly-owned subsidiary of Silence Therapeutics with and into Intradigm resulting in the acquisition by Silence Therapeutics of the entire outstanding issued share capital of Intradigm
“Acquisition Agreement”	the agreement and plan of merger dated 16 December 2009 by and among Silence Therapeutics, Silence Therapeutics Sub and Intradigm pursuant to which Silence Therapeutics will acquire the entire outstanding issued share capital of Intradigm
“Admission”	admission of the Enlarged Issued Ordinary Share Capital of the Company to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the AIM Market operated by the London Stock Exchange
“AIM Rules”	the AIM Rules for Companies and/or, where applicable, the AIM Rules for Nominated Advisers
“AIM Rules for Companies”	the rules for companies whose securities are traded on AIM published by the London Stock Exchange as amended from time to time
“AIM Rules for Nominated Advisers”	the rules for nominated advisers published by the London Stock Exchange as amended from time to time
“Approved Scheme”	the HM Revenue & Customs Approved Share Option Scheme operated by the Group
“Board”	the board of Directors of Silence Therapeutics
“Combined Code”	the Principles of Good Governance and the Code of Best Practice included within the Listing Rules of the UKLA
“Company” or “Silence Therapeutics”	Silence Therapeutics plc, a company incorporated in England and Wales with registered number 2992058
“Concert Party”	means those stockholders and officers of Intradigm to whom New Ordinary Shares are to be issued pursuant to the Proposals, and whose names are set out in paragraph 9 of Part I of this document
“Consideration Shares”	the 79,640,668 New Ordinary Shares to be issued in accordance with the terms of the Acquisition Agreement
“Directors”	the directors of the Company as listed on page 3 of this document
“Intradigm”	Intradigm Corporation, a company incorporated under the laws of the State of Delaware, USA

“EGM” or “Extraordinary General Meeting”	the Extraordinary General Meeting of the Company convened for 10.00 a.m. on 4 January 2010 (and any adjournment thereof), notice of which is set out at the end of this document
“EMI Scheme”	the Enterprise Management Incentive Scheme operated by the Group pursuant to the Finance Act 2000
“Employee Agreements”	collectively, (i) the employment agreement to be executed and delivered at the signing of the Acquisition Agreement but to be effective at the closing of the Acquisition between the Company and Philip Haworth and (ii) the employment agreements to be executed and delivered at the signing of the Acquisition Agreement but to be effective at the closing of the Acquisition between the surviving corporation from the merger and each of Michael Riley, Xiao-Dong Yang and Samuel Zalipsky
“Enlarged Board”	the Directors and the Proposed Directors
“Enlarged Group”	the enlarged Group following completion of the Acquisition
“Enlarged Issued Ordinary Share Capital”	the ordinary share capital of the Company as enlarged by the issue of the New Ordinary Shares
“Euroclear”	Euroclear UK & Ireland Limited, the operator of CREST
“EU” or “Europe”	European Union
“FSMA”	Financial Services and Markets Act 2000, as amended
“Form of Proxy”	the form of proxy for use at the Extraordinary General Meeting which accompanies this document
“Group”	Silence Therapeutics and its subsidiaries including, following completion of the Acquisition, Intradigm
“IP”	intellectual property
“Independent Shareholders”	existing holders of Ordinary Shares with the exception of Novartis Bioventures Limited
“Issue Price”	23 pence per New Ordinary Share
“Lock-Up Agreements”	the agreements made between the Company and certain persons restricting their ability to transfer or dispose of their Ordinary Shares, further details of which are set out in paragraph 7 of Part VI of this document
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	the Consideration Shares, the Placing Shares and the Subscription Shares
“Nomura Code”	Nomura Code Securities Limited
“Official List”	the Official List of the UKLA
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company

“Panel”	the Panel on Takeovers and Mergers
“Placees”	those persons who have agreed to subscribe for Placing Shares
“Placing”	the placing of Placing Shares as described in this document
“Placing Agreement”	the conditional agreement dated 16 December 2009 and made between Nomura Code, the Directors, the Proposed Directors and the Company in relation to the Placing, further details of which are set out in paragraph 7 of Part VI of this document
“Placing Shares”	the 39,884,402 New Ordinary Shares to be issued pursuant to the Placing
“Proposals”	the proposed Acquisition, the Placing and the Subscription
“Proposed Directors”	James Topper, Philip Haworth and David Mack, who are proposed to be appointed as Directors of the Company following the Acquisition
“Prospectus Rules”	the Prospectus Rules made by the Financial Services Authority pursuant to section 73A of the FSMA
“Regulation D”	Regulation D under the Securities Act
“Resolutions”	the resolutions as set out in the notice of EGM at the end of this document
“Rule 9”	Rule 9 of the Takeover Code
“Securities Act”	the United States Securities Act of 1933 (as amended) and the rules and regulations of the Securities and Exchange Commission promulgated thereunder
“Shareholders”	holders of Ordinary Shares
“Silence Therapeutics Sub”	Silence Acquisition Corp., a newly formed and wholly owned subsidiary of Silence Therapeutics
“Subscribers”	those persons who have agreed to subscribe for the Subscription Shares pursuant to the Subscription Agreements
“Subscription”	the private placement of the Subscription Shares concurrent with the Placing pursuant to the Subscription Agreements
“Subscription Agreements”	the agreements made between the Company and the Subscribers in relation to the Subscription, further details of which are set out in paragraph 7 of Part VI of this document
“Subscription Shares”	the 25,332,990 New Ordinary Shares to be issued to the Subscribers pursuant to the Subscription Agreements
“Takeover Code”	the City Code on Takeovers and Mergers

“Termination Agreement”	the agreement to be executed and delivered at the signing of the Acquisition Agreement but to be effective at the closing of the Acquisition pursuant to which Intradigm and certain current officers of Intradigm agree, in exchange for the issue by the Company of 2,700,000 New Ordinary Shares to those certain officers (such number of New Ordinary Shares subject to applicable tax withholding requirements), to terminate an incentive plan known as the ‘Intradigm 2009 Change of Control Incentive Plan’
“UKLA” or “UK Listing Authority”	the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the FSMA
“Unapproved Scheme”	the Company’s share option scheme which has not been approved by HM Revenue & Customs as described in paragraph 2 of Part VI of this document
“US”, “USA” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia

## GLOSSARY OF SCIENTIFIC AND TECHNICAL TERMS

“19-23nt, 25nt”	double stranded RNA 19 to 23 nucleotides and 25 nucleotides in length, respectively
“angiogenesis”	the growth of new blood vessels
“antisense”	a nucleic acid sequence that is complimentary to a functional sequence which, by binding to it prevents production of the protein encoded by that sequence
“ADME”	an acronym in pharmacokinetics and pharmacology for Absorption, Distribution, Metabolism and Excretion, and describes the disposition of a pharmaceutical compound within an organism
“AtuRNAi”	a proprietary form of RNAi developed by Silence Therapeutics
“bioinformatic algorithms”	mathematical analyses used to identify sequences and patterns in biological systems
“diabetic retinopathy”	a diabetic eye disease caused by changes in the blood vessels of the retina, which may lead to blindness
“endosomal compartment”	a network of membranous tubes and vesicles extending to the cell nucleus
“endothelial”	the flat cells which line the interior surface of blood vessels
“FDA”	The Food and Drug Administration, the US healthcare regulatory body
“gene”	structurally, a basic unit of hereditary material that encodes a product (this product could be RNA, rRNA or a protein)
“gene silencing”	targeting or interfering with a specific gene and preventing its expression (in other words, preventing the product it encodes from being produced)
“homology”	refers to the similarity of genetic sequences
“immunogenicity”	ability of a substance to provoke an immune response
“intracellular delivery”	transport into the cell
“ <i>in vitro</i> ”	within an artificial environment; outside a living organism
“ <i>in vivo</i> ”	within, or into, a living organism
“L-histidine”	a naturally occurring amino acid
“ligand”	an entity that is able to bind to and form a complex
“L-lysine”	a naturally occurring amino acid
“liposome”	a microscopic, closed vesicle, within a fat-based surface, used to encapsulate molecules for delivery into a cell
“macular degeneration”	an eye disease which can lead to loss of the central field of vision

“macular oedema”	a disorder of the eye caused by leaking blood vessels in the retina leading to impairment of vision
“Merck”	Merck & Co., Inc., a pharmaceutical company
“moieties”	a characteristic part of a molecule
“mRNA”	messenger RNA: RNA which embodies the code of a gene and which interacts with the protein producing element within a cell
“nanoparticles”	small particles with dimensions of the order of 1-100 nanometers
“nuclease degradation”	process by which nucleic acids are broken down
“oligonucleotides”	a short nucleic acid polymer
“peptide polymer”	long chains of linked peptides / amino acids
“Pfizer”	Pfizer Inc., a major pharmaceutical company
“pharmacodynamics”	the study of the response on a living organism to a drug including duration and magnitude of the response
“pharmacokinetics”	distribution of active agents throughout the various tissues of the organism in terms of space and time
“Phase I”	the assessment of the safety, pharmacodynamics and pharmacokinetics of a drug candidate in human subjects
“Phase II”	the assessment in patients of a drug to determine dose range and preliminary efficacy
“Phase III”	the assessment of the efficacy and safety of a drug, usually in comparison with a marketed product or a placebo, in the patient population for which it is intended
“Quark”	Quark Pharmaceuticals, Inc. (formerly Quark Biotech Inc.) a biotechnology company developing siRNAs
“RNA”	ribonucleic acid
“RNAi”	RNA interference: a technique used to prevent translation of specific genes by targeting and degrading the mRNA embodying the genetic sequence of the relevant gene with the intention of inhibiting production of disease causing proteins
“RTP801”	a gene expressed under low oxygen conditions which may be a useful target for treatment of cancer and certain eye diseases
“siRNA”	short interfering RNA, short strands of RNA which can induce RNA interference
“translation”	the expression of a protein encoded by mRNA embodying the genetic sequence of a gene
“vasculature”	in relation to blood vessels
“xenograft”	a transplant of tissue from one species to a different species

## PART I

### LETTER FROM THE CHAIRMAN OF SILENCE THERAPEUTICS PLC

# Silence Therapeutics plc

*(Incorporated in England and Wales with registered number 2992058)*

*Directors:*

Iain Ross  
Annette Clancy  
Jeremy Curnock Cook  
Melvyn Davies  
Jerry Randall  
Peter Reynolds  
David U'Prichard  
Bernd Wetzel

*Registered office:*

22 Melton Street  
London NW1 2BW

16 December 2009

*To the holders of Ordinary Shares and, for information purposes only, to the holders of options under the Approved Scheme, the EMI Scheme and the Unapproved Scheme*

Dear Shareholder

### **Proposed acquisition of Intradigm, approval of waiver of Rule 9 of the Takeover Code, Placing, Subscription and re-admission to AIM**

#### **1. Introduction**

On 16 December 2009, the Company announced that it had entered into an agreement, conditional on the consent of Shareholders, to acquire the whole of the outstanding share capital of Intradigm in consideration for the issue of the Consideration Shares.

By virtue of the size of the Acquisition, together with the related Placing and Subscription, the Proposals constitute a reverse takeover under the AIM Rules and require the consent of Shareholders. The purpose of this document is to provide Shareholders with information on the Proposals, to explain why the Directors believe that the Proposals are in the best interests of the Company and Shareholders as a whole and why the Directors recommend that Shareholders vote in favour of the Resolutions to be proposed at the EGM, notice of which is set out at the end of this document, as they intend to do in respect of their own holdings.

The terms of the Proposals give rise to certain considerations under the Takeover Code. The Panel has agreed to waive any requirement under the Takeover Code for the Concert Party to make a Rule 9 offer for Silence Therapeutics, subject to approval by Independent Shareholders voting on a poll. Further details are set out in paragraph 9 of this letter.

#### **2. Background to the Acquisition**

Silence Therapeutics and Intradigm are both working on resolving the multiple challenges involved in the delivery of siRNA, as well as individually establishing proprietary positions on specific sequences, structures and targets. A major challenge in the development of siRNA molecules as therapeutics is delivery. The challenges of effectively delivering siRNA *in vivo* are multiple, including:

- Delivery of the siRNA to the target tissue
- Uptake of the siRNA across the cell membrane
- Escape of the siRNA from the endosomal compartment

In addition, any delivery system must be biocompatible and suitable for repeat administration.

The respective boards of the two companies believe that the different approaches being taken by the companies are complementary in achieving solutions to the range of delivery challenges. Silence Therapeutics will issue new Ordinary Shares as consideration to acquire Intradigm and the resulting Enlarged Group will possess:

- A broader intellectual property portfolio
- A wide range of delivery technologies
- Greater resources, both human and financial, to develop those delivery technologies
- A more compelling package of technology, IP and skills to offer potential partners and licensees
- A larger pool of knowledge and skills from which to expand the technology and IP base

While acknowledging the scientific strength in the siRNA field in Europe, and in particular Germany, the Board believes that the Group needs to establish a presence in the US. In order to succeed in meeting the technical and business goals faced by the sector, there needs to be an increasing emphasis on both business implementation and access to capital. Both size and range of technology are important features for the success of the Group, as the strength of Alnylam within the sector and the acquisition of Sirna Therapeutics Inc. for \$1.1bn by Merck in December 2006 demonstrate.

The Acquisition will not only raise the Group's profile in the US, the single largest pharmaceutical market in the world, but will also increase the technical and management resources, financial and commercial support necessary to fully develop the business and maximise shareholder value.

### **3. Information on Intradigm**

Intradigm is a privately held biotechnology company based in Palo Alto, California, USA. It is focused on the discovery, development and delivery of novel, targeted, systemic RNAi therapeutics for the treatment of serious diseases and in particular cancer. Intradigm possesses a comprehensive RNAi therapeutic platform comprised of proprietary delivery technologies, potent siRNA sequences and innovative siRNA structural features. This platform is protected by Intradigm's strong intellectual property portfolio which includes a number of issued US patents.

Additionally, Intradigm's RNAi platform has broad therapeutic applicability, including the ability to target sequences against protein targets that were previously considered 'undruggable' for other treatment methods (for example small molecule or antibody drugs). Intradigm is presently leveraging its RNAi therapeutic platform in a dual-pronged business strategy with shared focus on the establishment of multiple high-value development partnerships and the creation of an internal RNAi therapeutics pipeline.

#### **Science of RNA Interference**

RNAi, the discovery of which earned a Nobel Prize in 2006, is a natural cellular process of gene silencing that occurs in almost all organisms. RNAi works through short double stranded RNA (< 30 base pairs), known as short interfering RNA (siRNA), that induce sequence-specific

silencing of the target disease genes which, in turn, prevent the production of disease causing proteins.

Over the last decade, researchers have learned that by introducing siRNA into a cell they can selectively direct the body's natural RNAi process to suppress the undesirable product of a "disease" gene. RNAi is a fundamentally different approach to disease management as compared to more traditional or current therapeutic modalities involving small molecules and biologics because siRNA offers the ability to suppress the production of a specific protein regardless of the structure or function of the protein. With the molecular causes of numerous diseases now being more clearly defined, many believe that RNAi offers significant therapeutic potential. It is unlikely that any single delivery mechanism will be suitable in respect of all siRNA or for all target indications. Silence Therapeutics is developing one suite of solutions utilising its liposomal technology whilst Intradigm is approaching the challenge from a non-lipid base.

### **Intradigm's novel delivery technology**

To achieve the goal of systemic delivery of siRNA, Intradigm has developed proprietary nanoparticles that combine the active siRNA molecules with Intradigm's proprietary and novel PolyTran™ biodegradable peptide-based polymers.

PolyTran is a library of L-histidine and L-lysine co-polymers all of which carry a positive charge which combines passively with the negative charge on the siRNA to form spherical PolyTran nanoparticles. PolyTran nanoparticles are being optimised for efficient siRNA delivery, providing the nanoparticles created by Intradigm with the capability to facilitate intracellular delivery of siRNA payload under physiologically relevant conditions.

Intradigm's nanoparticles are considered by the Directors and the Proposed Directors to have the potential to enable safe systemic delivery to certain tissues in the body. Furthermore, the modular, multi-component nature of Intradigm's RNAi nanoparticles also allows for a number of key modifications that can further enhance their delivery features and pharmaceutical properties:

- PEGylation – Increases half-life and reduces immunogenicity
- Attachment of targeting moieties – Specific ligand to enhance uptake by the targeted cell type

### **Intradigm's siRNA sequence library**

The ability to effectively select appropriate disease targets will play a critical role in the development and optimisation of RNAi therapeutics. To maximise target selection success, Intradigm weighs up a number of critical considerations including the role the target plays in disease modification, the cell type in which the target is expressed and the potential "freedom to operate" issues for developing a therapeutic against the target. Through diligent scientific research based on bioinformatic algorithms and in depth know-how, Intradigm has compiled a library of proprietary siRNA sequences against more than 50 potentially important disease targets. Because these sequences represent the "active ingredient" of an RNAi therapeutic, this library represents a broad opportunity for the development of therapeutic products.

### **Intradigm's structural modification approach**

To further strengthen its position within the RNAi therapeutics space, Intradigm is exploring potentially valuable structural modifications for its proprietary siRNA sequences. These modifications are designed to improve both the efficacy and safety of these sequences, while also offering Intradigm an increased depth of patent protection. Intradigm's position in this area is strengthened by its exclusive in-licensing of a patent portfolio based on the "Zamore

Design Rules”, from the University of Massachusetts Medical School. The Zamore Design Rules relate to sequence mismatches engineered into either the two RNA strands of the siRNA or between the antisense strand of the siRNA and the target mRNA. These modifications are designed to improve the performance of the siRNA.

### **Platform proof of concept**

Through an extensive pre-clinical research programme, Intradigm has established proof-of-concept for its broad RNAi therapeutic platform. To date, Intradigm has shown:

- Ability to identify potent, patentable siRNA sequences
- Capability of PolyTran nanoparticles to mediate target gene knockdown both *in vitro* and *in vivo*
- Systemic delivery of siRNAs to tumours and other tissues
- Potent anti-tumour activity in multiple xenograft tumour models for PolyTran nanoparticles

### **Intradigm’s Intellectual property**

Intradigm has built an intellectual property portfolio covering proprietary siRNA delivery technology, siRNA sequences against more than 50 potential disease targets and key siRNA structural features. This IP portfolio is a particularly attractive feature in that it positions Intradigm as an RNAi company with issued patents covering both siRNA delivery technology and methods relating to siRNA structural motifs.

Key assets include an exclusive license to the Zamore patent family (broad siRNA structural features) from the University of Massachusetts Medical School, as well as licenses covering various aspects of the Polytran technology from the Massachusetts Institute of Technology, James Mixson and the University of Maryland, Baltimore as well as Intradigm’s own proprietary patent applications. The Zamore patent family provides the opportunity for exclusivity over siRNA products that Intradigm believes will have improved performance over siRNA that do not incorporate the Zamore Design Rules. The combined PolyTran patent portfolio provides Intradigm with exclusivity over a diverse range of peptide polymer technology.

### **Intradigm’s Employees**

Intradigm currently has about 20 employees located in its facility in Palo Alto, California. Of the 20, fifteen are deployed in a variety of research and development functions including: formulation development, synthetic and analytical chemistry and molecular and cellular biology. The remaining five are in general administration (executive, legal, finance and corporate). The management team has more than 50 years of combined experience in the US biotechnology industry and has contributed to the development of several approved oncology therapeutics including Doxil® (doxorubicin HCL liposome injection), PegIntron® (Peginterferon alfa-2b) and Vectibix® (panitumumab).

### **Competition**

Intradigm’s competitors are essentially the same as those of Silence Therapeutics. Its principal competitor is Alnylam Pharmaceuticals, Inc. (Nasdaq: ALNY) but other major competitors include Merck through its acquisition of Sirna Therapeutics Inc., MDRNA Inc. (Nasdaq: MRNA), RXi Pharmaceuticals Corporation (Nasdaq: RXII) and Tekmira Pharmaceutical Corporation (TSX:TKM); all of these companies are developing RNAi therapeutics. There are also approximately a dozen smaller privately funded biotechnology

companies throughout the world trying to develop various RNAi therapeutic platforms. These include Traversa, PhaseRx, Cequent, Dicerna Pharmaceuticals and Tacere Inc.

#### 4. Reasons for the Acquisition

The Directors and the Proposed Directors believe that the Acquisition will allow Silence Therapeutics to strengthen considerably its research and development capability and broaden its delivery platform and intellectual property portfolio.

The Enlarged Group will have an impressive and wide ranging span of technical capabilities in the siRNA field which is supported by a combined portfolio of issued and pending patents making it a major player in the RNAi space. This estate comprises a range of intellectual property to support a successful RNAi therapeutic company offering multiple overlapping layers of patent protection for the platform and for products.

Source	siRNA Targets and Sequences	siRNA Structure	Delivery
Silence Therapeutics	Issued and pending patents on target IP and 19-23nt sequences in cancer	Issued and pending patents on chemical modification (AtuRNAi)	Issued and pending patents on delivery technologies: on AtuPLEX Atuserol, and DACC8
Intradigm	Issued and pending patents on 25nt sequences and target IP in cancer and inflammation	Issued and pending patents on siRNA structural modifications and known as "Zamore Design Rules"	Issued and pending patents on the PolyTran delivery technology, plus applications on novel PEGylation and cellular targeting chemistries

Silence Therapeutics has focused historically on the identification and validation of siRNA targets and sequences and developed AtuPLEX as a specific delivery vehicle targeting the vasculature. Intradigm has focused on building alternative and potentially complementary siRNA delivery technologies. The Directors and Proposed Directors believe that the combination of the complementary and overlapping technologies and competencies of the two companies will enable the Enlarged Group to offer greater "concept to completion" capability.

The combination of these technologies offers opportunities to:

- Attract funding from various sources
- Support and expand existing corporate relationships (for example AstraZeneca, Quark, Pfizer and Dainippon Sumitomo)
- Complete new deals in angiogenesis, hepatic disease and pulmonary diseases
- Become a dominant player in the RNAi therapeutic space and provide pharmaceutical companies with a realistic partnering proposition

By combining the competencies of the two companies, the Directors and Proposed Directors believe that the Enlarged Group will also be able to combine its resources to build a stronger and more credible biotechnology group. In particular, the Directors and Proposed Directors believe the Acquisition could:

- Provide Silence Therapeutics with access to an expanded technology platform and a source of innovative processes

- Provide Silence Therapeutics with access to technology and scientific personnel with capabilities and experience that is applicable to the discovery and development of new delivery technologies for the siRNA sector
- Significantly expand Silence Therapeutics' intellectual property portfolio
- Enhance Silence Therapeutics' access to third party collaborators and partners who could further the development of Silence Therapeutics' existing product and intellectual property portfolio
- Provide Silence Therapeutics with the necessary scientific resource to accommodate further alliances and enhance the novel internal discovery research initiatives
- Significantly improve the Company's profile in the US thereby enhancing the opportunity to gain US analyst support and access to alternative capital markets
- Enable the Company to draw resources from a wider pool of appropriately qualified scientists

## **5. Integration of Silence Therapeutics and Intradigm**

The Enlarged Group will combine its expertise and technologies to position itself as a biotechnology group with international capabilities and an expanded range of innovative product and development opportunities. The Enlarged Group will seek to derive value by focusing on four specific initiatives, comprising:

- Expanding the Group's systemic siRNA delivery platform
- The development of oncology therapeutics for either internal drug development or for collaborative partnerships
- The development of inflammatory therapeutics in collaboration with third parties
- Out-licensing and partnering the Enlarged Group's product portfolio for other therapeutic sectors

The Enlarged Group will concentrate on those projects that the Directors and Proposed Directors believe have the highest chance of technical success and the greatest commercial potential. As a consequence, the Enlarged Group may discontinue, license out or partner certain projects.

The Enlarged Group will maintain its research and development facilities and capabilities in both Berlin and Palo Alto with a head office function in London. As the integration progresses, various functions and capabilities may be transferred between sites to optimise the utilisation of resources.

The Directors and Proposed Directors intend to operate the Enlarged Group under the Silence Therapeutics name and will operate Intradigm as a wholly owned subsidiary. The Enlarged Group will make use of the Intradigm trademarks and trade names where considered appropriate.

## **6. Acquisition Agreement**

The Company has entered into the Acquisition Agreement, which is conditional, *inter alia*, upon approval by Shareholders and the stockholders of Intradigm. The consideration for the Acquisition is the issue of the Consideration Shares to the stockholders and management of Intradigm. The Consideration Shares will, when issued, rank *pari passu* in all respects with the existing Ordinary Shares.

The Acquisition is conditional upon, *inter alia*, the following:

- Approval by Shareholders at the Extraordinary General Meeting
- Requisite approvals by the stockholders of Intradigm
- Admission of the New Ordinary Shares to trading on AIM
- The Lock-Up Agreements becoming effective as of the closing of the Acquisition
- The Employment Agreements becoming effective as of the closing of the Acquisition
- Absence of a material adverse change to the business, operations or financial condition of either the Company or Intradigm

The Acquisition will be structured as a merger of Silence Acquisition Corp, a newly formed wholly-owned US subsidiary of Silence Therapeutics with and into Intradigm, as a result of which Intradigm will continue as the surviving corporation of the merger. As a result of the Acquisition, Intradigm will become a wholly-owned subsidiary of the Company. At the effective time of the Acquisition, each issued and outstanding share of Intradigm capital stock will be converted into the right to receive the Consideration Shares at the exchange rates set forth in the Acquisition Agreement. The holders of Intradigm preferred stock have preferential rights to receive Consideration Shares before holders of Intradigm common stock.

At the closing of the Acquisition, Messrs. Philip Haworth, Michael Riley, Xiao-Dong Yang and Samuel Zalipsky, current employees of Intradigm, will be entitled to receive an aggregate of 2,700,000 New Ordinary Shares (subject to applicable tax withholding requirements) as consideration for the termination of the Intradigm 2009 Change of Control Incentive Plan, which will be terminated at the closing pursuant to the Termination Agreement. Of those entitlements, the Company will withhold a total of 1,359,332 New Ordinary Shares, which shall be comprised in the Placing enabling the Company to utilise the proceeds thereof to meet its employer's tax liability. The aggregate balance of 1,340,668 New Ordinary Shares will be issued to the four named individuals as Consideration Shares. The remaining 78,300,000 Consideration Shares will be issued to the stockholders of Intradigm.

All unexercised Intradigm equity stock options and stock purchase warrants that remain outstanding as of the effective time of the Acquisition will be cancelled. Intradigm stock options that are held by current employees and consultants of Intradigm at the effective time will be exchanged for Silence Therapeutics share options under the Unapproved Scheme, comprising in total options over 2,989,296 Ordinary Shares.

The Acquisition Agreement contains customary representations and warranties of each of the parties thereto. The Company and Intradigm have rights to terminate the Acquisition Agreement upon the occurrence of certain events and each will be entitled to a termination fee of \$500,000 if the other party terminates the Acquisition Agreement in certain circumstances. Further details of the termination fee arrangements are set out in paragraph 5(c) of Part VI of this document.

## **7. Details of the Placing**

Placees will subscribe for the Placing Shares at the Issue Price of 23 pence per Placing Share. The Placing comprises in aggregate 39,884,402 Placing Shares (which represents approximately 29.5 per cent. of Silence Therapeutics' existing issued ordinary share capital) and will therefore raise gross proceeds of £9.2 million. The Placing Shares will represent approximately 14.2 per cent. of the Enlarged Issued Ordinary Share Capital immediately following completion of the Proposals.

The Issue Price represents a 7 per cent. discount to the closing price of 24.75 pence per Ordinary Share on 29 September 2009 (being the date on which the Ordinary Shares were suspended from trading on AIM). The size of the placing discount was determined following discussions with both existing and potential new Shareholders.

The Placing is conditional upon, *inter alia*, the following conditions:

- The passing without amendment of the Resolutions at the Extraordinary General Meeting
- The Placing Agreement not having been terminated in accordance with its terms prior to Admission
- Admission of the Placing Shares becoming effective

Application has been made for the Placing Shares to be admitted to trading on AIM and it is expected that Admission of the Placing Shares will become effective and dealings in the Placing Shares will commence at 8.00 a.m. on 5 January 2010, being the first business day following the EGM.

The Placing Shares will, when issued and fully paid, rank *pari passu* in all respects with the Ordinary Shares, including the right to receive all dividends and other distributions (if any) declared, made or paid by Silence Therapeutics after the date of issue of the Placing Shares.

Nomura Code has agreed that it shall use reasonable endeavours to procure Placees to subscribe for the Placing Shares at the Issue Price pursuant to the Placing and, failing which, Nomura Code has agreed to subscribe itself for the Placing Shares at the Issue Price. Accordingly, the Placing is fully underwritten by Nomura Code pursuant to, and subject to, the terms of the Placing Agreement. The principal terms of the Placing Agreement are summarised in paragraph 7 of Part VI of this document.

## **8. Details of the Subscription**

Subscribers, each of whom (other than AstraZeneca UK Limited) are existing stockholders of Intradigm, have agreed to subscribe for the Subscription Shares at the Issue Price of 23 pence per Subscription Share. The Subscription comprises in aggregate 25,332,990 Subscription Shares (which represents approximately 18.8 per cent. of Silence Therapeutics' existing issued ordinary share capital) and will therefore raise gross proceeds of £5.8 million. The Subscription Shares will represent approximately 9.1 per cent. of the Company's Enlarged Issued Ordinary Share Capital immediately following completion of the Proposals. In aggregate, the Subscription Shares and Placing Shares will represent approximately 23.3 per cent. of the Company's Enlarged Issued Ordinary Share Capital. The Subscription is not being underwritten.

The Subscription is conditional upon, amongst other things, the following conditions:

- The passing without amendment of the Resolutions at the Extraordinary General Meeting
- Admission of the Subscription Shares becoming effective

Application has been made for the Subscription Shares to be admitted to trading on AIM, and it is expected that Admission of the Subscription Shares will become effective and dealings in the Subscription Shares will commence at 8.00 a.m. on 5 January 2010, being the first business day following the EGM.

Certain of the Subscription Shares will be issued to Subscribers in the United States in transactions exempt from the registration requirements of the Securities Act, pursuant to Regulation D thereunder and the requirements of applicable US state securities laws.

The Subscription Shares will, when issued and fully paid, rank *pari passu* in all respects with the Ordinary Shares, including the right to receive all dividends and other distributions (if any) declared, made or paid by Silence Therapeutics after the date of issue of the Subscription Shares.

The effect of the Subscription, taken together with the issue of Consideration Shares pursuant to the Acquisition and the Placing will be to reduce the proportionate ownership and voting interests in the Ordinary Shares of holders of existing Ordinary Shares by 51.8 per cent.

## **9. The Takeover Code**

The terms of the Acquisition, Placing and Subscription give rise to certain considerations under the Takeover Code. Brief details of the Panel, the Takeover Code and the protections they afford are described below.

The Takeover Code has, historically, not had the force of law, but it has been acknowledged by Government and other regulatory authorities that those who seek to take advantage of the facilities of the securities market in the United Kingdom should conduct themselves in matters relating to takeovers in accordance with best business standards and so according to the Takeover Code. In addition to this the Panel has now been designated as being the supervisory authority to carry out certain regulatory functions in relation to takeovers.

The Takeover Code is issued and administered by the Panel. The Takeover Code applies to all takeover and merger transactions where the offeree company is, *inter alia*, a public company which has its registered office, and is considered by the Panel to have its place of central management and control, in the United Kingdom. Silence Therapeutics is such a company and Shareholders are entitled to the protection afforded by the Takeover Code.

Under Rule 9 of the Takeover Code, when any person, or group of persons, acting in concert acquire an interest (as defined in the Takeover Code) in shares which, when taken together with shares in which they are in aggregate already interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Takeover Code, such person or persons is or are normally required to make a general offer (Rule 9 Offer) to all the remaining shareholders in that company to acquire their shares.

Similarly, when any person or persons acting in concert is interested in shares which, in aggregate, carry 30 per cent. of the voting rights of such company but does not hold shares carrying more than 50 per cent. of the voting rights, a Rule 9 offer will normally be required if any further shares are acquired.

A Rule 9 offer must be in cash and at the highest price paid within the preceding 12 months for any interest in shares of the same class in the company by the person required to make the offer, or any person acting in concert with him. A concert party arises where persons acting in concert, pursuant to an agreement or understanding (whether formal or informal) cooperate to obtain or consolidate control of a company. Control means an interest or interests in shares carrying 30 per cent. or more of the voting rights of the company, irrespective of whether such interest or interests give *de facto* control.

The Concert Party, shall, pursuant to the issue of the Consideration Shares and the Subscription Shares, hold 102,364,963 Ordinary Shares in aggregate.

Following completion of the Proposals, the Concert Party's interest will represent 36.6 per cent. of the Enlarged Ordinary Issued Share Capital or 34.4 per cent. on a fully diluted basis.

The Panel has agreed, however, to waive the obligation for the Concert Party to make a Rule 9 Offer that would otherwise arise on the completion of the Proposals and any subsequent exercise of any options held by the Concert Party, subject to the approval of the Independent

Shareholders at the Extraordinary General Meeting voting on a poll. Accordingly, Resolution 4 has been proposed at the Extraordinary General Meeting and, to be passed, it will require the approval of a simple majority of votes cast on the poll.

Following completion of the Proposals, the members of the Concert Party will between them not hold more than 50 per cent. of the Company's voting share capital and individual members of the Concert Party will not be able to increase their percentage interest in Ordinary Shares through or between a Rule 9 threshold without Panel consent.

### *The Concert Party*

	<i>Consideration Shares as % of Enlarged Issued Share Capital</i>	<i>Subscription Shares as % of Enlarged Issued Share Capital</i>	<i>Total Shares as % of Enlarged Issued Share Capital</i>
	<i>Consideration Shares<sup>1</sup></i>	<i>Subscription Shares</i>	<i>Total Shares</i>
Frazier Healthcare V, L.P.	22,817,647	8.15%	5,346,893
ACP IV, L.P.	20,830,297	7.44%	5,346,893
Lilly Ventures, Eli Lilly and Company	11,041,328	3.94%	4,783,261
Roche Finance Ltd.	5,614,234	2.01%	2,432,166
MediBIC Alliance Technology Fund-1	6,719,425	2.40%	818,833
Astellas Venture Fund I L.P.	4,678,528	1.67%	2,026,805
MP Healthcare Venture Management, Inc	3,742,822	1.34%	1,621,444
Novartis Bioventures Ltd.	2,687,760	0.96%	327,531
Xiao-Dong Yang	336,442	0.12%	—
Samuel Zalipsky	335,622	0.12%	—
Phil Haworth	334,302	0.12%	—
Mike Riley	334,302	0.12%	—
WS Investment Company, LLC (2008A)	117,576	0.04%	14,329
WS Investment Company, LLC (2008C)	50,383	0.02%	6,140
Novartis AG	—	—	—
Genentech, Inc	—	—	—
Wilson Sonsini Goodrich and Rosati	—	—	—
<b>Total</b>	<b>79,640,668</b>	<b>28.45%</b>	<b>22,724,295</b>

1 In reference to those persons listed, other than Philip Haworth, Mike Riley, Xiao-Dong Yang and Samuel Zalipsky, the number of Consideration Shares to which they are entitled under the Acquisition Agreement is calculated by reference to the average closing price of an Ordinary Share for the ten trading days immediately preceding the fifth trading day prior to closing of the Acquisition. For the purposes of this table, an illustrative price of 23p per Ordinary Share is used (being the Issue Price). For the avoidance of doubt, the total number of Consideration Shares to be issued pursuant to the Acquisition Agreement (net of any applicable tax withholding as described in paragraph 6 of this Part 1) is fixed at 79,640,668.

### **Description of Concert Party**

For the purposes of considering whether any concert party may exist, it is considered that the group of shareholders which comprises the three principal Intradigm shareholders, namely Alta Partners, Frazier Healthcare Ventures and Lilly each of whom hold board positions as well as their shareholdings together with 9 other corporate Intradigm shareholders; Roche, Astellas, MP Healthcare, MediBIC, Novartis Bioventures Ltd., WS Investment Company LLC, Novartis AG, Genentech, and Wilson Sonsini Goodrich and Rosati constitute a Concert Party (the "Concert Party"). Details of the Concert Party together with their current shareholdings in Intradigm and the expected percentage of the enlarged share capital which they will hold post the proposed transaction (based on a £15 million fundraising) is set out in the table above. These shareholders are distinguished as a Concert Party distinct from the other Intradigm shareholders who merely hold shares in Intradigm, have never had any active involvement in the decision making, or operation of either Intradigm or its investments and/or are private individuals.

### **Roche Finance Ltd.**

Roche Finance Ltd is a member of the Roche group of companies. Headquartered in Basel, Switzerland, Roche Holding AG is a leader in research-focused healthcare with combined strengths in pharmaceuticals and diagnostics. Roche's non-voting equity securities (ROG, VX) and Roche bearer shares (RO.S) are listed on SIX Swiss Exchange and the non-voting equity security is also traded on virt-x in London. Roche is the world's largest biotech company with differentiated medicines in oncology, virology, inflammation, metabolism and CNS. Roche is also the world leader in in-vitro diagnostics, tissue-based cancer diagnostics and a pioneer in diabetes management. Roche's personalised healthcare strategy aims at providing medicines and diagnostic tools that enable tangible improvements in the health, quality of life and survival of patients. In 2008, Roche had over 80,000 employees worldwide and invested almost 9 billion Swiss francs in R&D.

### **Astellas Venture Fund I L.P.**

Astellas Venture Fund I L.P. is one the funds managed by Astellas Venture Management LLC based in California, which is a venture capital vehicle of Astellas Pharma Inc., a global pharmaceutical company originated in Japan. Astellas Venture Fund I L.P. is dedicated to making investments in biotechnology companies located mainly in North America and EU developing their own therapeutics, which are in line with Astellas' R&D policy.

### **Lilly Ventures, Eli Lilly and Company**

Lilly Ventures is the life sciences venture capital arm of Eli Lilly and Company (a pharmaceutical company), based in Indianapolis, investing in North America and Europe. Lilly Ventures currently has \$200 million under management and focuses on biotechnology, medical technology and healthcare IT. Its primary goal is to facilitate the success of companies through early to expansion stage investments and value-adding resources.

### **MP Healthcare Venture Management, Inc**

MP Healthcare Venture Management, Inc is a Boston-based lifesciences venture capital firm investing in seed to late stage companies developing innovative therapeutics, platform technologies and diagnostics, with US\$100 million marked for investment in dynamic bioventures pursuing relevant emerging biotechnologies. It is affiliated with Mitsubishi Tanabe Pharma Corporation and Mitsubishi Chemical Holdings Corporation.

### **ACP IV, L.P.**

ACP IV, L.P. is a Delaware Limited Partnership formed in 2004 to make investments in life sciences companies. ACMP IV, LLC, a Delaware limited liability corporation, is the general partner of ACP IV, L.P. The directors of ACMP IV, LLC are Jean Deleage, Daniel Janney, David Mack and Guy P. Nohra. The directors of ACP IV share voting power of the shares held by ACP IV. David Mack, PhD, is a director of Intradigm and a Proposed Director of Silence. ACP IV is affiliated with Alta Partners, a venture capital firm founded in 1996 which has made investments in over 130 life sciences companies to date.

### **Frazier Healthcare V, L.P.**

Frazier Healthcare V, L.P. ("FH V") is a Delaware limited partnership that was formed in 2004 to make investments in biopharma, medical device and health care service companies. The general partner of FH V is FHM V, L.P., a Delaware limited partnership. The general partner of FHM V, L.P. is FHM V, LLC, a Delaware limited liability company. James Topper, a director of Intradigm and a proposed director of Silence, is a member of FHM V, LLC. FH V is one of several venture capital funds sponsored by the members of FHM V, LLC who operate under the name Frazier Healthcare Ventures. Founded in 1991, Frazier Healthcare Ventures is a leading provider of venture and growth equity capital to emerging biopharma, medical device

and health care service companies. With over \$1.8 billion under management, Frazier Healthcare has invested in over 100 companies across the entire development spectrum.

### **MediBIC Alliance Technology Fund-1**

MediBIC Alliance Technology Fund-1 was jointly established in March 2005 by MediBIC Alliance Co. Ltd, an investment arm of MediBIC group and Daiichi Sankyo Pharmaceuticals. MediBIC Group later assumed the General Partner role for the MATF-1 Fund. Based in Japan, MediBIC group is a unique bio-venture company providing total support for drug development primarily in Asia. MediBIC Alliance Technology Fund-1's purpose is to invest in early stage private biotechnology companies mainly in North America and Europe, focused on RNAi based drug development.

MATF-1 shall mature on 31 December 2009 and the shares distributed among its General Partner (MediBIC Group) and its Limited Partner (Daiichi Sankyo Pharmaceuticals).

### **Novartis Bioventures Ltd.**

A life sciences venture capital firm based in Bermuda, with affiliates around the world, including Switzerland and the USA.

### **WS Investment Company, LLC (2008A) and WS Investment Company, LLC (2008C)**

WS Investments are the investment arms of the partnership at Wilson Sonsini Goodrich and Rosati (described below). These vehicles have been in place for over ten years.

### **Novartis AG**

Novartis provides healthcare solutions that address the evolving needs of patients and societies. Focused solely on healthcare, Novartis offers a diversified portfolio to best meet these needs: innovative medicines, cost-saving generic pharmaceuticals, preventive vaccines, diagnostic tools and consumer health products. Novartis is the only company with leading positions in each of these areas. In 2008, the Group's continuing operations achieved net sales of \$41.5 billion and net income of \$8.2 billion. Approximately \$7.2 billion was invested in R&D activities throughout the Group. Headquartered in Basel, Switzerland, Novartis group companies employ approximately 99,000 full-time-equivalent associates and operate in more than 140 countries around the world.

### **Genentech, Inc**

In March 2009, Genentech became a wholly-owned member of the Roche group. Genentech in South San Francisco, California now serves as the headquarters for Roche pharmaceutical operations in the United States. Genentech Research and Early Development operates as an independent center within Roche.

### **Wilson Sonini Goodrich and Rosati**

Wilson Sonsini Goodrich and Rosati is a legal organisation, which provides legal services to technology, life sciences, and growth enterprises worldwide.

## **10. Current trading and prospects**

Both Silence Therapeutics and Intradigm have incurred net losses in each year since their respective inceptions and the Directors and Proposed Directors expect that the Enlarged Group may continue to incur substantial losses and cash outflows for the foreseeable future. It is expected that the expenditure to be incurred over the next three years will be financed by existing cash reserves, expected revenues and equity finance.

The Directors and Proposed Directors expect that revenues will be generated in the form of research and development fees, milestone payments, license fees and royalties from both existing and new clients, collaborative partners and licensees. In addition, the Enlarged Group will seek further development partners to share development costs, particularly the significant costs typically associated with late stage trials and commercialisation.

The Group is in discussions with a number of potential collaborators and licensees and expects to sign a number of new agreements over the coming years. However, substantial profitability will only be achieved if the technology and product portfolio of the Enlarged Group result in healthcare products achieving regulatory and marketing approval and are commercialised, perhaps in partnerships with major companies.

## **11. Working capital**

Since 30 June 2009, being the date of the most recent unaudited interim accounts of the Company and of the most recent unaudited interim financial information in respect of Intradigm set out in Section B of Part IV of this document, both entities have continued funding their respective research and development programmes out of their existing cash resources. As a result, both entities have reduced their respective cash balances since 30 June 2009.

As at 11 December 2009, being the latest practicable date prior to the date of this document, the Company had cash and short term deposits of £1.5 million. The Placing and Subscription will raise £15 million gross for the Enlarged Group.

The Enlarged Group also has a number of existing relationships and discussions in progress that the Directors and Proposed Directors believe will generate further income in the coming years. In addition, the expanded technology base and capabilities of the Enlarged Group will, in the opinion of the Directors and Proposed Directors, provide enhanced opportunities to enter licencing arrangements with other pharmaceutical and biotechnology companies. In the event that either of these potential revenue streams is delayed or does not come to fruition in the short term, the Board has the ability to compensate for this by delaying, deferring or terminating expenditure programmes in order to reduce the Enlarged Group's burn rate.

The Directors and Proposed Directors are of the opinion that, having made due and careful enquiry, and taking account of the proceeds of the Placing and the Subscription, the working capital available to the Company and the Enlarged Group is sufficient for its present requirements, that is for at least 12 months from the date of Admission.

## **12. Significance of the Proposals**

**Shareholders should be aware that if the Resolutions are not passed at the EGM, the Company will have insufficient resources to trade beyond Q1 2010. In such an event the board of Silence will need to seek alternative sources of finance.**

The Directors and Proposed Directors are of the opinion that, taking into account the proceeds of the Placing and the Subscription, the Enlarged Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of Admission. However, since the Placing and Subscription are proposed in conjunction with the Acquisition as part of the overall Proposals, the Directors consider it prudent to explain to Shareholders the consequences for Silence Therapeutics should the Proposals not proceed.

The proposed Acquisition is the result of analysis of various opportunities available. The Directors believe that Intradigm represents the best of the opportunities that they have reviewed. In the event that the Resolutions are not passed at the Extraordinary General Meeting or Nomura Code exercises its rights to terminate the Placing Agreement prior to Admission, the Proposals will not proceed. In such event, based on current forecasts, the Company would need to consider with some urgency alternative methods to fund the Group's

ongoing requirements. Accordingly, the Directors believe it is in the best interests of the Company for Shareholders to vote in favour of the Resolutions so that the Proposals proceed.

In the event that the Proposals do not proceed, the Directors would be required to continue their search for an alternative acquisition or merger opportunity which they believe would form the basis for a significant fundraising, having regard to the fact that the Company will have declining cash resources. There can be no assurance that any alternative acquisition or merger opportunity would be available on terms that are commercially acceptable to the Company, if at all. Further, any alternative opportunities could result in a fundraising which is significantly more dilutive to Shareholders than the proposed Placing and Subscription. If the Group was unable to agree terms for an alternative fundraising, the Group may have to dispose of certain of its assets on a forced sale basis and potentially on commercially unattractive terms. Any such forced sales could impair the Group's ability to pursue its stated strategy. In the event that the Group was unable to secure alternative financing the Company could potentially face the risk of insolvency and/or be unable to continue trading.

### **13. Directors and Proposed Directors**

Following the Acquisition I will continue as non-executive Chairman. Melvyn Davies will continue as Finance Director with Annette Clancy, Jerry Randall and David U'Prichard remaining as non-executive Directors. Upon completion of the Acquisition Philip Haworth, James Topper and David Mack, all currently directors of Intradigm, will join the Board as Chief Executive Officer and non-executive Directors respectively. James Topper, David Mack, Brian Dunnivant and Mohammad Azab shall resign from the board of Intradigm.

Upon completion of the Acquisition, Peter Reynolds, Bernd Wetzel and Jeremy Curnock Cook, currently non-executive Directors of Silence Therapeutics will resign from the Board. I wish to express my thanks to these retiring Directors for their immense contribution to the progress of the Group.

#### **Current Directors**

##### **Iain Ross**

###### *Chairman*

Iain Ross, aged 55, BSc (Hons) Biochemistry, is an experienced business entrepreneur with more than 30 years' experience in the pharmaceutical and biotechnology sector. Between 1980 and 1995 he held senior commercial positions with companies in the UK and internationally, including Sandoz AG, Fisons plc, Hoffmann-La Roche AG and Celltech Group Plc where he was a main board director from 1991 to 1995. Since 1995 he has undertaken and provided input to a number of biotech turnarounds and start-ups as a board member on behalf of banks and private equity groups. From 1995 to 2000 he was Chief Executive Officer of Quadrant Healthcare plc and in 2001/2002 as chairman and chief executive officer he was responsible for the operational and financial turnaround of Allergy Therapeutics Ltd. Mr. Ross has raised substantial funds both publicly and privately, has been involved in four initial public offerings and has direct experience of mergers and acquisitions both in the UK and USA. Currently Mr. Ross is chairman of Biomer Technology Ltd and is a non-executive director of Powerstax plc. Mr. Ross is a Chartered Director of the UK Institute of Directors, a Trustee of the Breast Cancer Haven and a member of the Council of Royal Holloway College, London University. Mr Ross is the Chairman of Silence Therapeutics' Nomination Committee.

##### **Annette Clancy**

###### *Non-executive Director*

Ms. Clancy, aged 55, has a distinguished career spanning 30 years with GlaxoSmithKline (GSK), where she had 15 years' experience in business development, leading GSK's global transactions and alliance management teams for the past 3 years. During her tenure she and

her team were responsible for concluding a large number of research, development and commercial business collaborations on behalf of GSK. Prior to her role in business development, Ms. Clancy held a number of positions in clinical research, R&D project management and commercialisation. Ms. Clancy has a BSc (Hons) Pharmacology from Bath University. Ms. Clancy is a member of Silence Therapeutics' Nomination Committee

### **Jeremy Curnock Cook**

*Non-executive Director*

Jeremy Curnock Cook, aged 60, is executive chairman of International Bioscience Managers Limited, a corporate and investment advisory company, which he founded in February 2001, following his time at N.M. Rothschild & Sons Limited. During his 13 years at Rothschild, Mr. Curnock Cook created and led the Rothschild Bioscience Unit – the international and multidisciplinary team responsible for the investment advisory and management of a number of funds. Prior to joining Rothschild, Mr. Curnock Cook founded the International Biochemicals Group (IBG) in 1975, and built an 80-person company which he sold to Royal Dutch Shell in 1985. Mr. Curnock Cook has served on more than 30 boards of directors in the life science sector in the UK, Europe, USA, Canada, Japan and Australia and his current directorships include Biocompatibles International plc, Excalibur Group Holdings Ltd and Targeted Genetics Inc (USA). Mr. Curnock Cook is a member of Silence Therapeutics' Audit Committee and Remuneration Committee.

### **Melvyn Davies**

*Finance Director and company secretary*

Melvyn Davies, aged 53, is the Finance Director and company secretary of the Group. Mr. Davies qualified as a Chartered Accountant in 1981 and was a partner with a medium sized firm of London based Chartered Accountants for five years until 1994, specialising in the more complex audit and accounting issues. Mr. Davies has advised the Group since its foundation in 1992 and joined the Board in 1994 to help prepare for its initial public offering in 1995. Since then he has been instrumental in negotiating licensing and collaboration agreements and securing several rounds of fundraising in the process of moving the Group onto AIM and to a full London listing before moving the shares back to AIM in 2004. Following the restructuring of the Group in 2005, his main responsibilities have been to control and direct the Group's governance, financial and taxation affairs.

### **Jerry Randall**

*Non-executive Director*

Mr. Randall, aged 45, is a qualified Chartered Accountant and was until recently chief financial officer of Sinclair Pharma plc which he joined in 2000 as part of a management buy-in team. Previously Mr. Randall worked in corporate finance with Gambit Corporate Finance and had previously been involved in two other buy-ins. He acted as adviser to both private and quoted companies between 1993 and 2000, in both the capacity of nominated adviser and in practice with KPMG. During this period, he was involved in a number of flotations and transactions on the Official List, the Unlisted Securities Market and AIM, as well as raising private equity. Mr. Randall is Chairman of Silence Therapeutics' Audit Committee.

### **Peter Reynolds**

*Non-executive Director*

Peter Reynolds, aged 71, has spent over 30 years as a director of a range of both public and private companies. Currently, he is a director of a number of companies including chairman of Eckoh Technologies plc and a non-executive director of Swallow Ventures Limited. Peter Reynolds is Chairman of Silence Therapeutics' Remuneration Committee and a member of Silence Therapeutics' Audit Committee.

### **Dr. David U'Prichard**

#### *Non-executive Director*

David U'Prichard, aged 61, has served, and continues to serve, on a number of pharmaceutical and biotechnology Boards. He was chief executive officer and a member of the board of directors of 3-Dimensional Pharmaceuticals, Inc., Yardley PA ("3DP") from 1999-2003. During that time he took 3DP public and secured major collaborations with Bristol-Myers Squibb and Johnson & Johnson. In March 2003, 3DP became a part of Johnson & Johnson Pharmaceutical R&D. From 1997 to 1999, Dr. U'Prichard served as chairman of research and development at SmithKline Beecham, where he oversaw the entry of approximately ten compounds into global development; four compounds into Phase III trials and six compounds into early clinical trials. Additionally, he was involved in several major restructuring efforts at the company. Prior to SmithKline Beecham, Dr. U'Prichard worked for ICI/Zeneca from 1986 to 1997, as executive vice president and international research director from 1994 to 1997. Dr. U'Prichard is a member of Silence Therapeutics' Nomination and Remuneration Committee.

### **Prof. Dr. Bernd Wetzel**

#### *Non-executive Director*

Prof. Dr. Bernd Wetzel, aged 65, is a member of the advisory and supervisory board of several biotech companies. Originally trained as a synthetic and theoretical organic chemist, during almost 30 years in the global pharmaceutical industry he has acquired extensive experience in many disease areas and enabling technologies, in strategic research and development and management across functions and sites. Since 1982, Professor Wetzel served in various senior management positions of Boehringer Ingelheim, amongst them chief scientific officer and member of the board of Boehringer Germany. In 1997 he was appointed Head of Worldwide Research and Non-Clinical Development with responsibility for Boehringer's international research sites, a position he held until the end of 2002. In 1990, Bernd Wetzel was appointed Honorary Professor at the Ludwig Maximilian University in Munich, lecturing in Medicinal Chemistry. Bernd Wetzel is a member of Silence Therapeutics' Nomination Committee.

### ***Proposed Directors***

#### **Dr. James Topper**

##### *Non-executive Director*

Dr. Topper, aged 47, became the chairman of the board of Intradigm in May 2006 following a series A financing of Intradigm. Dr. Topper is a general partner at Frazier Healthcare Ventures' Palo Alto office. Since joining Frazier Healthcare in 2003, Dr. Topper has led several biopharma investments including Arête Therapeutics, Cotherix, and MacuSight. Dr. Topper is also an advisory board member to the Harvard-Partners Center for Genetics and Genomics. Prior to joining Frazier Healthcare, he served as head of the cardiovascular research and development franchise at Millennium Pharmaceuticals and ran Millennium San Francisco (formerly COR Therapeutics). Prior to the merger of COR and Millennium, he served as the Vice President of Biology at COR and was responsible for managing all of its research activities.

Dr. Topper received his MD and PhD in Biophysics from Stanford University School of Medicine in 1991. He completed his postgraduate training in Internal Medicine and Cardiovascular Disease at the Brigham and Women's Hospital in Boston and is board certified in both disciplines. While there, he completed a research fellowship in the Vascular Research Division in the department of Pathology. He then joined the faculty of Harvard Medical School from 1997 to 1998, and subsequently Stanford University as an Assistant Professor of

Medicine (Cardiovascular) in July 1998. He has authored over 50 publications and was the recipient of a Howard Hughes Scholars Award while on the faculty at Stanford University. He continues to hold an appointment as a Clinical Assistant Professor of Medicine at Stanford University.

### **Dr. Philip Haworth**

#### *Chief Executive Officer*

Dr. Haworth, aged 54, was appointed chief executive officer of Intradigm in October 2008 after serving as the company's vice president of business development. He came to Intradigm in April 2007 having spent the previous 15 years in senior business development roles at several leading biotechnology companies including Genencor International, COR Therapeutics and Affymax/Affymetrix, among others. In these positions, he led the identification and negotiation of numerous collaborative and licensing agreements with a range of global and regional pharmaceutical companies. He possesses deal-making expertise that spans establishing discovery and development partnerships, technology and product in- and out-licensing, mergers and acquisitions, and financing support.

Dr. Haworth earned his J.D. from Stanford University Law School, US, and his Ph.D. in biochemistry from the University of Manchester, UK. He also received his bachelor's degree with first class honours in physiology and biochemistry from the University of Southampton, UK.

### **Dr. David Mack**

#### *Non-executive Director*

Dr. Mack, aged 48, joined Intradigm's board in May 2006. He joined Alta Partners in 2002 as a director. Dr. Mack led the investment in Angiosyn as a director and acting chief executive officer (acquired by Pfizer in 2005). He is currently on the board of directors of Aerie Pharmaceuticals, aTyr Pharma, Ceregene, Proacta and Sutro Biopharma. Prior to Alta, Dr. Mack co-founded and served as Vice President of Genomics Research at Eos Biotechnology (acquired by Protein Design Labs in 2003). From 1995 to 1997, he served at Affymetrix as Head of Cancer Biology where he oversaw the development and application of DNA array technology in the areas of oncology and inflammation. He was also a pivotal member of the Polymerase Chain Reaction (PCR) invention group at Cetus (now Chiron) in the mid 1980s.

Dr. Mack has co-authored more than 30 scientific articles and reviews, including papers published in Cell, Science and Nature, and he is an inventor on 24 US patents. He was an American Cancer Society postdoctoral fellow at Stanford University School of Medicine in Microbiology and Immunology. Dr. Mack received his Ph.D. in 1992 from the University of Chicago where he was a Howard Hughes fellow in Molecular Genetics and Cell Biology. He holds a Bachelor of Arts in Molecular Biology from University of California, Berkeley.

## **Senior Management**

### **Thomas Christély**

#### *Chief Operating Officer*

Thomas Christély has more than 19 years' experience in finance and corporate and business development. His track record includes multiple financing transactions as well as mergers and acquisitions, divestments and strategic restructurings and more than 9 years in cross-border management at board level. Mr. Christély joined Silence Therapeutics AG (Atugen AG) in 2001 as chief financial officer and became chief operating officer in 2002 prior to being appointed its chief executive officer in 2006. From 1996 to 2000, he held the position of senior vice president and chief financial officer at OXO Chemie AG, a Swiss pharmaceutical company, and founded its subsidiary OXO Chemie Inc. in San Francisco, where he stayed from 1997 to 2000. Mr. Christély was managing partner of the investment firm Löschen &

Partner, Hamburg/Moscow, from 1992 to 1995. He worked in mergers & acquisitions at Enskilda Corporate Finance, London from 1989 to 1992. Mr. Christély has worked for two international accounting and consultancy firms and for the Commission of the European Union in Brussels. After his studies in Hamburg and Geneva, he received degrees in Business Administration (equivalent to an MBA) and Law from the University of Hamburg and was admitted as attorney-at-law.

#### **Dr. Klaus Giese**

##### *Chief Scientific Officer*

Dr. Klaus Giese has over 19 years of relevant experience in both the US and Europe, including the management of more than 20 international collaborations with pharmaceutical and biotech companies and more than 5 years in cross-border management as chief scientific officer. Dr. Giese joined Silence Therapeutics AG in 1999, where he continues his position as chief scientific officer. Prior to Silence Therapeutics, Dr. Giese was group Leader at Chiron Corporation, Emeryville, California from 1994 to 1998 and was responsible for coordinating and managing part of Chiron's obesity and oncology program. His efforts in this program included the development of several different gene expression profiling approaches and the development of a novel high-throughput screening assay to identify inhibitors of HIV-1 transcription. Prior to joining Chiron, Dr. Giese acted as research scientist and postdoctoral fellow at the Howard Hughes Medical Institute, University of California, San Francisco, as well as at the Max-Planck-Institute for Molecular Genetics in Berlin. Dr. Giese studied Biochemistry at the Free University of Berlin, where he also received his Ph.D.

#### **Dr. John Lucas**

##### *General Counsel and Vice President, Intellectual Property*

Dr. John Lucas brings over 18 years of legal, intellectual property and research experience to Silence Therapeutics. Prior to Joining Silence Therapeutics, Dr. Lucas was Vice President of Intellectual Property at Metabasis Therapeutics, a biopharmaceutical company in La Jolla, California. At Metabasis he served as the Company's first in-house counsel and was responsible for a wide range of legal matters including intellectual property, contracts and agreements and corporate compliance. Prior to Metabasis, Dr. Lucas held the position of vice president, intellectual property at Transform Pharmaceuticals of Lexington Massachusetts, which specialized in small molecule drug form and formulation. In addition to his other duties at Transform, he was heavily involved in the company's business strategy which culminated in the acquisition of Transform by Johnson and Johnson. Dr. Lucas also served as vice president, world-wide intellectual property at Genset of Paris, France and as patent examiner with the United States Patent and Trademark Office. Dr. Lucas holds a J.D. from George Washington University and a Ph.D. in molecular genetics from Ohio State University. He also holds a M.S. in microbiology and a B.Ed. from Ohio University. In addition, Dr. Lucas' scientific experience includes a post-doctoral fellowship in cancer research at the National Cancer Institute, National Institutes of Health in Bethesda, Maryland.

#### **14. Share Option Schemes**

The Directors and Proposed Directors believe that the Group's future success is highly dependent on its management and employees. To assist in the recruitment, retention and motivation of high quality key employees, the Group must have an effective remuneration strategy. The Directors and the Proposed Directors consider that an important part of its remuneration strategy will be the ability to award equity incentives in the form of shares or share options to key employees.

The Group currently operates an Inland Revenue Approved Share Option Scheme, an Unapproved Share Option Scheme and an Enterprise Management Investment Scheme, the

provisions of which are set out in paragraph 2 of Part VI of this document. Including options and other subscription rights granted prior to Admission, the Board currently intends that no more than 15 per cent of the Company's issued share capital will be under option from time to time.

As part of the Acquisition, the Silence Therapeutics Remuneration Committee has agreed that all unexercised Intradigm stock options held by current employees and consultants of Intradigm at the effective time of the Acquisition will be exchanged for Silence Therapeutics share options under the Unapproved Scheme. The exercise prices of existing Intradigm stock options currently exceed the value of Intradigm common stock (as valued in the Acquisition), and therefore Silence Therapeutics does not anticipate the exercise of any additional Intradigm stock options prior to the completion of the Acquisition. Therefore, it is anticipated that the replacement with Silence Therapeutics share options will result in the issuance of options over approximately 2,989,296 Ordinary Shares to Intradigm employees and consultants.

### **15. Lock-Up Agreements**

Certain Stockholders and employees of Intradigm and certain directors and employees of Silence Therapeutics have agreed not to dispose of any interests in their Ordinary Shares to be received pursuant to the Acquisition or currently held (amounting in aggregate to 103,489,946 Ordinary Shares) for a period of 12 months following Admission.

Further details of the Lock-Up Agreements are set out in paragraph 7 of Part VI of this document.

### **16. Corporate governance**

The Directors and Proposed Directors will continue to give careful consideration to the principles of corporate governance as set out in the Combined Code, although as a Company whose shares are admitted to AIM it is not required to comply with the Combined Code. The Company is small and it is the opinion of the Directors that not all of the provisions of the Combined Code are either relevant or desirable for a Company of its size.

The Board meets regularly and has ultimate responsibility for the management of the Company and sub-committees comprising of the non-executive Directors meet as and when required to deal with remuneration and audit matters.

The Directors have also considered the guidance published by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull report) concerning the internal control requirements of the Combined Code. The Board will regularly review and manage key business risks in addition to financial risks facing the Company in the operation of its business.

The Company has adopted and will operate a share dealing code for Directors and senior employees on the same terms as the Model Code appended to the Listing Rules of the UKLA.

### **17. Financial information**

The Company's annual report and accounts for the year ended 31 December 2008 were posted to Shareholders on 4 June 2009 and, together with the Company's interim accounts for the six month period ended 30 June 2009, are available at the Company's website [www.silence-therapeutics.com](http://www.silence-therapeutics.com).

Historical financial information on Intradigm for the three years ended 31 December 2008 is set out in Section A of Part IV of this document and unaudited interim financial information on

Intradigm for the six month period ended 30 June 2009 is set out in Section B of Part IV of this document.

A pro forma net asset statement illustrating the hypothetical position of the Company as if the Proposals had occurred on 30 June 2009 is set out in Part V of this document.

## **18. Taxation**

General information regarding UK taxation in relation to the Placing and Admission is set out in paragraph 10 of Part VI of this document. **If you are in any doubt as to your tax position you should consult your own financial adviser immediately.**

## **19. CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant 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.

## **20. Dividend Policy**

The Directors anticipate that, following Admission, earnings will be retained for development of the Group's business and will not be distributed for the foreseeable future. The declaration and payment by the Company of any future dividends and the amount will depend on the results of the Company's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

## **21. Additional Information**

Your attention is drawn to Part III of this document which contains risk factors relating to any investment in the Company and to Parts II and VI of this document which contain further information on the Company.

## **22. Extraordinary General Meeting**

You will find set out at the end of this document the notice convening the Extraordinary General Meeting of the Company to be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on 4 January 2010 at 10.00 a.m. At the EGM, Resolutions will be proposed to approve the Acquisition, to authorise the Directors to allot and issue the New Ordinary Shares and to approve the Panel's waiver of the requirement for the Concert Party to make a Rule 9 Offer.

## **23. Action to be taken**

Shareholders will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. Forms of Proxy should be completed and returned in accordance with the instructions printed thereon so as to arrive at the Company's registrars, Capita Registrars, Proxy Department, PO Box 25, Beckenham, Kent BR3 4TU as soon as possible and in any event not later than 10.00 a.m. on 2 January 2010. Completion and return of a Form of Proxy will not prevent Independent Shareholders from attending and voting at the Extraordinary General Meeting should they so wish.

#### **24. Recommendation**

**The Directors, who have been so advised by Nomura Code, consider the terms of the Proposals described in this document and the waiver of the obligations under Rule 9 of the Takeover Code to be fair and reasonable and in the best interests of the Company and its Shareholders as a whole. In providing advice to the Directors, Nomura Code has taken into account the Board's commercial assessments.**

**The Directors unanimously recommend that Independent Shareholders vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, as they and those connected with them intend to do in respect of their own beneficial holdings of Ordinary Shares which amount to 1,116,883 Ordinary Shares (representing approximately 0.83 per cent. of the voting rights exercisable at the EGM).**

Yours faithfully

A handwritten signature in black ink, appearing to read 'Iain Ross', written in a cursive style.

Iain Ross  
*Chairman*

## PART II

### INFORMATION ON SILENCE THERAPEUTICS PLC

#### **Background to the current Silence Therapeutics business**

Silence Therapeutics is the leading European biotechnology company focused on the development of RNAi interference (“RNAi”) therapeutics and applicable drug delivery systems. The Directors believe RNAi is one of the most exciting areas of drug discovery today with its mode of action giving rise to the potential to create a new class of therapeutic products. RNAi could therefore offer a therapeutic approach to a broad range of diseases (cancer, infectious diseases, inherited diseases), many of which have been regarded as incurable and are not addressed by current therapeutics, thereby providing a large market opportunity.

Silence Therapeutics has developed a platform of novel short interfering RNA (‘siRNA’) molecules, AtuRNAi, which provide a number of advantages over conventional siRNA molecules, including increased stability against nuclease degradation. In addition, the Company has developed three independent proprietary systemic drug delivery systems, “AtuPLEX”, “DACC8” and “Atuserol”.

Silence Therapeutics is based in London and Berlin, Germany where it operates its laboratories. Originally founded in 1994, the Group came into its current form in July 2005 when it acquired Atugen AG (now Silence Therapeutics AG), a company specialising in siRNA.

Silence Therapeutics’ proprietary siRNA technology has been validated through partnerships with AstraZeneca, Pfizer and Quark. Silence Therapeutics is currently in discussions with several pharmaceutical and biotech companies and is confident that it will be able to sign additional significant partnerships over the next two years.

In June 2009, Silence Therapeutics started a Phase I human clinical trial for the systemic treatment of solid cancers with its internal lead product Atu027, a proprietary AtuRNAi molecule formulated with AtuPLEX.

This means that by July 2009, 4 out of the 9 human clinical siRNA programs worldwide used Silence Therapeutics’ AtuRNAi molecules, confirming Silence Therapeutics’ leadership in the field of siRNA therapeutics. Three of these human clinical programmes are developed by Silence Therapeutics’ partners Pfizer and Quark and the fourth programme is being run by Silence Therapeutics itself.

#### **The business strategy of Silence Therapeutics**

Silence Therapeutics aims to become the leading group for providing delivery solutions for siRNA therapeutics. In doing so, the Group will establish a small number of proprietary therapeutics which can be partnered with larger pharmaceutical or biotechnology companies.

The on-going human clinical Phase I trial using Atu027 will provide further insight into the pharmacokinetics and metabolic fate of the constituents of the siRNA/lipid complex. Not only are these data required to satisfy further development and regulatory requirements for more advanced clinical studies, they will also provide valuable information to design future trials for a broader range of disease indications.

These activities should enable Silence Therapeutics to better understand the complex relationship between pharmacodynamic and clinical efficacy, toxicology and ADME properties in man, for lipid complexed siRNA therapeutics aimed at vascular endothelial targets in severe disease states.

The Company has identified potential drug target candidates for further internal cancer programmes as well as for disease indications outside oncology such as acute lung injury.

Silence Therapeutics will:

- Broaden existing partnerships and sign further collaborations with pharmaceutical or biotechnology groups
- Expand the applicability of its proprietary delivery technologies and explore new delivery technologies internally and in partnership
- Broaden its discovery and development capabilities into other therapeutic sectors
- Maximise intellectual property filings on delivery technology and acquire other technologies as appropriate
- Strengthen its core management team and build critical mass to enhance the in-house development and commercial capability

Silence Therapeutics will thus strengthen its position as a siRNA therapeutics company in order to become the premier platform and centre of excellence for the development of siRNA therapeutics and applicable drug delivery systems.

## **Key commercial relationships**

### **Quark**

In 2004, Quark and Silence Therapeutics began a collaboration to discover AtuRNAi lead compounds against RTP801. In this programme, Quark is contributing the disease-specific expertise, while Silence Therapeutics is contributing its siRNA know-how and intellectual property.

In September 2006, Pfizer in-licensed this compound for indications including age-related macular degeneration and diabetic retinopathy. Silence Therapeutics will receive success-based milestone payments of up to \$95 million plus royalties from this transaction. So far milestone payments amounting to \$6 million have been received.

A Phase I clinical trial with RTP801 executed by Quark and Pfizer in age-related macular degeneration and most advanced indication, started in February 2007. A Phase II clinical trial in diabetic macular oedema commenced in July 2008.

In addition, Quark has in-licensed non-exclusive rights to further AtuRNAi molecules for additional targets and indications. One such molecule, AKli-5 entered clinical trials for acute kidney injury in November 2007.

Quark is a US based biopharmaceutical company focused on the development of drugs for unmet medical needs. Based on proprietary targets it has identified, Quark is primarily focused on development of antibodies and siRNA.

### **AstraZeneca**

- (a) In July 2007, Silence Therapeutics signed a multi-target collaboration agreement with AstraZeneca.

The collaboration is designed to discover and develop proprietary siRNA molecules against specific targets chosen by AstraZeneca comprised in up to five different programmes. Silence Therapeutics and AstraZeneca will jointly collaborate in the early phase of identification and optimisation of novel siRNA molecules. AstraZeneca will retain responsibility for the clinical development and commercialisation. The agreement

is primarily in the respiratory field but the collaboration may extend into other disease areas of interest to AstraZeneca.

- (b) In March 2008, a collaboration was signed with AstraZeneca for the development of a range of novel delivery approaches for siRNA molecules. Under the terms of the agreement both Silence Therapeutics and AstraZeneca will be allowed to commercialise the novel delivery systems that the two partners develop together.

AstraZeneca is a major international healthcare business engaged in the research, development, manufacture and marketing of prescription pharmaceuticals and the supply of healthcare services. It is one of the world's leading pharmaceutical companies with healthcare sales of €26.5 billion and leading positions in sales of gastrointestinal, cardiovascular, neuroscience, respiratory, oncology and infection products.

### **Dainippon Sumitomo**

In August 2009 Silence Therapeutics announced a delivery collaboration agreement with Dainippon Sumitomo Pharma Co., Ltd. ("Dainippon") of Japan to demonstrate the functional delivery of Silence Therapeutics' proprietary siRNA molecules to specific targets.

Dainippon is a top ten listed pharmaceutical company in Japan with a diverse portfolio of pharmaceutical, animal health and food and speciality products. The company has a strong research and development presence in the areas of diabetes, inflammation/allergy, CNS and cardiovascular disease.

### **Silence Therapeutics' current trading and prospects**

Silence Therapeutics currently offers to its partners:

- A strong intellectual property position
- A proven technology development with access to state-of-the-art siRNA molecules (AtuRNAi), which is currently applied in approximately 45 per cent. of all clinical human trials worldwide
- Access to three independent systemic drug delivery technologies for siRNA (AtuPLEX, DACC8 and Atuserol)
- 10 years' experience in gene silencing and delivery of oligonucleotides (siRNA, antisense)

The products and platform are derived from original concepts and technologies formulated by the Group's own scientists in innovative areas of medicine. Where potential products or drug candidates have a range of possible therapeutic uses, the Board's intent is to target areas of significant unmet medical need.

The Group's in-house RNAi therapeutic programmes concentrate on systemic cancer indications such as gastro-intestinal and non-small cell lung cancer. The Group intends to advance its own compounds through early phase clinical trials. In parallel, the Company is developing an active partnership programme in order to balance the overall risks associated with its drug discovery and development activities.

The rewards for success in this revolutionary area of medicine are significant, but any drug development programme, especially in novel areas of technology, carries with it a degree of risk in terms of the underlying science, the development and regulatory process, the competition in the industry and the financial and human resources necessary for a successful outcome. The Group focuses on its proprietary, novel technologies in areas where there are few if any competing products on the market or in development. The Group also takes a

tailored approach to licensing and collaboration opportunities, seeking to bring in partners at different stages for the programmes based on the additional benefits those partners bring both technically and financially. The Group seeks collaboration or licensing partners at a relatively early stage for technology areas which are not considered to be part of the core activities or where key development areas can be significantly augmented by a partner. The aim is to retain part of the future potential of those innovations but limit the Group's input, allowing it to target its resources most efficiently.

This balanced approach will allow the creation of maximum value for the Group's Shareholders.

By building for the future, Silence Therapeutics aims to become and then remain a leading RNAi therapeutics company.

### **Financial Highlights from Silence Therapeutics' Interim Report 2009**

- Revenue for the six months ended 30 June 2009 was £856,626 (six months ended 30 June 2008: £124,338)
- Research and Development costs for the six months ended 30 June 2009 were reduced to £2.55 million (six months ended 30 June 2008: £3.1 million) following the completion of the extensive pre-clinical programme for Atu027
- Administrative expenses for the six months ended 30 June 2009 were reduced to £1.92 million (six months ended 30 June 2008: £2.3 million)
- In January 2009, Silence Therapeutics raised £2.65 million via a share placing. The cash position as of 30 June 2009 was £3.1 million (as at 31 December 2008: £3.35 million)

### **Silence Therapeutics' IP Position**

Silence Therapeutics' core AtuRNAi patents have been granted in Europe, US and other territories giving Silence Therapeutics a broad proprietary position on certain compositions of matter for siRNA therapeutics.

Silence Therapeutics' intellectual property strategy is to build a position of exclusivity for itself and its licensing partners on the following four levels:

- AtuRNAi IP – issued in the US and Europe (patent EP 1 527 176 B1) covering all siRNA molecules having AtuRNAi structural features, applicable to any siRNA sequence and any intended target. Further information relating to the European Patent Office's recent ruling on patent EP 1 527 176 B1 can be found in the "Risk Factors" section, under the heading "Intellectual Property risk" in Part III of this document.
- Target IP – for certain targets e.g PKN3
- IP On Drug Product – covering specific siRNA sequence in drug
- Delivery IP – multiple proprietary delivery systems including Atuserol and DACC8

The major milestones achieved in intellectual property over the past few years include:

- Core AtuRNAi patent granted in US and Europe
- PKN3 gene patent granted in Europe
- New target patents filed

- Key competitor patents revoked in Europe – EP1 144 623 (Kreutzer Limmer) as to which the proprietor still has the right to appeal and EP1 230 375 (Glover), revocation of which is currently on appeal
- Delivery patents progressed in Europe and US

## PART III

### RISK FACTORS

**The Directors and the Proposed Directors consider the following risks to be the most significant for existing and potential investors in the Company. In addition to the other relevant information set out in this document, these risks should be considered carefully in evaluating an investment in the Company. An investment in the Company may not be suitable for all of its existing or prospective investors. If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000, as amended, who specialises in advising on the acquisition of shares and other securities. It should be noted that the risks described below are not the only risks faced by the Company. There may be additional risks that the Directors and the Proposed Directors currently consider not to be material or of which they are currently unaware. The risks set out below are not presented in any assumed order of priority.**

The Group's principal activity is biotechnology research and development. As with any business in this sector, there are risks and uncertainties relevant to the Group's business. Certain of these risk factors affect the majority of businesses, some are common to businesses in the biotechnology sector and others are more specific to the Group.

#### **Requirement for additional funds**

The Group's business and growth strategies will require additional capital and the Company is undertaking a fundraising contemporaneously with the Acquisition. There can be no guarantee that funds will be available to the Group on satisfactory terms in the future, if required. To the extent that the Group raises additional equity capital, it would have a dilutive effect on existing Shareholders. If adequate funds are not available, the Group will not be able to continue to grow at the planned rate or otherwise achieve certain management objectives. Additionally, the Group would have to reduce significantly its planned research and development, sales and marketing. This would impact deleteriously on the Group's prospects.

#### **Drug Discovery risk**

Silence Therapeutics and Intradigm's products are at an early stage of development and none has yet completed clinical development. These products will require significant additional pre-clinical and clinical development and investment prior to commercialisation. Results of pre-clinical studies are not necessarily indicative of results that may be obtained in human clinical trials. Furthermore, results in early human trials may be different from those obtained later in controlled multi-centre human trials. Adverse or inconclusive results from pre-clinical testing or clinical trials could significantly delay, or ultimately preclude, the introduction or further testing of certain products.

The production and marketing of Silence Therapeutics and Intradigm's products and their ongoing research and development activities are subject to regulation by governmental authorities in the United States, the United Kingdom, the European Community and by regulatory agencies in other countries where the Directors and the Proposed Directors intend to test or market such of the Enlarged Group's products that it may develop or to which it may have rights.

Neither the Directors nor the Proposed Directors expect to apply for regulatory approval for commercial sales of any of the Enlarged Group's therapeutic products for some time. Prior to marketing, any product developed by the Enlarged Group or to which it may have rights must undergo an extensive regulatory approval process. This process can take many years and

require the expenditure of substantial resources. Data obtained from pre-clinical and clinical activities is susceptible to varying interpretations which could delay, limit or prevent regulatory agency approval. In addition, delay or rejections may result from change in regulatory agency policy for product approval during the period of product development. Even after such time and expenditure, regulatory agency approval may not be obtained for any product developed or marketed under licence by the Enlarged Group.

The Group's policy is to enter collaborative agreements to develop and commercialise future products. The Enlarged Group may not be able to negotiate acceptable collaborative agreements. The Group's business environment is characterised by rapid change. There can be no assurance that the Enlarged Group's competitors will not succeed in developing technologies and products that are more effective than any which are being developed by the Enlarged Group or which will render the Enlarged Group's products obsolete and/or non-competitive or which may reach the market first.

If adequate coverage and reimbursement levels are not provided by governments and third party payers for the Enlarged Group's potential products the market acceptance of these products may be adversely effected.

The Group operates in a highly regulated environment which has been characterised by changes in regulation. There can be no assurance that any future regulatory changes will not result in the requirement for further expenditure or the cessation, alteration or suspension of some or all of the Enlarged Group's operations.

#### **Clinical and regulatory risk**

The nature of pharmaceutical development is such that drug candidates may not be successful due to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to the satisfaction of appropriate regulatory bodies, such as the Food and Drug Administration (FDA) in the US and the European Medicines Agency (EMA) in Europe. The Group will have limited control over the type and cost of trial required to obtain regulatory approval.

The Group will rely on third parties to conduct clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the programs of the Group may be delayed or the Group may not be able to obtain regulatory approval for its products. Any failure or delay of projects in development or clinical trials could have an adverse effect on the business.

With the prime focus of the Group being on such a new area of technology, there can be no assurance that the Group's products will receive and maintain regulatory approval and loss of such regulatory approval will have adverse effects on business.

#### **Product development risk**

The Group is involved at the leading edge of a revolutionary technology. Within the pharmaceutical sector more drugs fail in development than progress to market and there is no guarantee that the Group will be able to successfully develop this new technology or bring any of the drug candidates it is developing to market. Further, the drugs that the Group does bring to market may not be commercially successful.

The technology upon which the Group's products and services are based is characterised by rapid evolution and frequent innovations. To succeed, the Group must develop and introduce new or improved techniques. Any delay in the Group's ability to develop and release enhanced or new technologies could seriously harm its business and operating results.

The Group has no track record of successful development and registration of any product and will need to acquire or gain access to relevant additional expertise.

In order to progress the Group's product development plans it may be desirable or necessary to find collaborators on certain projects. The Group cannot guarantee that it will be able to find and maintain suitable collaborators under acceptable terms, or that, once found, such collaborators will devote sufficient resources to the collaboration to make it commercially successful.

The Group's suppliers may encounter unexpected difficulties in the design and construction of manufacturing processes and the scale-up of production to viable commercial levels or may otherwise be unable to supply materials to the Group in a timely manner.

### **Integration, growth and support risk**

To succeed in the implementation of the Enlarged Group's business strategy, the Enlarged Group's management team must rapidly integrate its resources, develop its facilities, seek out new alliances and expand its customer base, while managing anticipated growth. Any growth is likely to place a significant strain on the Enlarged Group's managerial, operational and financial resources and systems. To execute the Enlarged Group's anticipated growth successfully, it must attract and retain qualified personnel and manage and train them effectively. Any failure by the Enlarged Group to manage the integration of the respective business and operations of Silence Therapeutics and Intradigm, and to manage its growth effectively, could have an adverse effect on the Enlarged Group's business.

### **Intellectual Property risk**

The Group may be unable successfully to protect its competitive position through the establishment and enforcement of intellectual property; the lack of sufficient intellectual property protection for the Group's technologies may have a material adverse effect on its commercial success. In particular, there can be no assurance that the Group's patent, and other intellectual property, applications will be granted, or that its granted intellectual property (including any granted in future further to those applications) are or will be valid or of sufficiently broad scope to provide commercially meaningful protection against third party competition. The Group's competitors may also have, or acquire in future, substantially equivalent technologies to those on which the Group does or will depend, or otherwise design around the Group's intellectual property.

Other companies may have or acquire intellectual property that restricts the Group's freedom to operate or imposes high additional costs for the Group in obtaining licences, and there can be no assurance that the Group will be able to design around such intellectual property or obtain relevant licences on commercially acceptable terms, if at all.

The Group may incur substantial costs in enforcing its intellectual property, and in bringing and prosecuting opposition or interference actions to seek to prevent third parties from obtaining patent or other protection. The Group may incur substantial costs in defending against such actions. There can be no guarantee that such actions will be successful for the Group.

The patent landscape in the field of RNAi is complex, and the Group is aware of the issuance and the pendency of patents and patent applications in Europe, the US and in other jurisdictions that are owned by third parties and that purport to cover structurally-defined classes of siRNAs and their uses. This patent landscape is in flux, with ongoing oppositions, litigations, and continuing prosecution before patent offices around the world, and the Directors cannot be certain that siRNA claims that have already issued, or that will later issue, to third parties will not restrict the Group's freedom to operate.

In addition, there are many issued and pending patents that claim various aspects of oligonucleotide chemistry that the Directors may need to apply to the Group's siRNA drug candidates. There are also many issued patents that claim genes or portions of genes that may be relevant for siRNA drugs we wish to develop. There are further many issued and pending patents that claim various aspects of nucleic acid delivery systems that the Directors may need to license in order to deliver the Group's siRNA drug candidates topically or systemically to the appropriate target tissues.

Thus, it is possible that one or more third parties may hold, or later will hold, patent rights to which the Group will need a license. If those parties refuse to grant the Group a license to such patent rights on reasonable terms, the Group may not be able to market products covered by these patents.

Although the Opposition Division of the European Patent Office recently confirmed the validity of the Group's core patent on AtuRNAi structural features, EP 1 527 176 B1 (albeit with claims narrower than upon first issuance), opponents may still file an appeal, and the Directors cannot guarantee that the claims will survive any such appeal in their current form.

The Group also relies on trade secrets, know-how and technology, which are not protected by patents, to maintain its competitive position. If any trade secret, know-how or other technology not protected by a patent were to be disclosed to or independently developed by a competitor, the Group's business and financial condition could be materially adversely affected.

The Group's success will depend in part on the ability of its licensors to obtain, maintain and enforce patent protection for its licensed intellectual property, in particular those patents to which it has secured exclusive rights. The Group's licensors may not successfully prosecute the patent applications to which the Group is licensed. Even if patents are issued in respect of these patent applications, the Group's licensors may fail to maintain these patents; may determine not to pursue litigation against other companies that are infringing these patents; or may pursue such litigation less aggressively than the Group would. Without protection for the intellectual property the Group licenses, other companies might be able to offer substantially identical products for sale, which could adversely affect the Group's competitive business position and harm its business prospects.

### **Profitability risk**

The Group cannot be certain that it will achieve profitability. Any adverse events relating to the Enlarged Group's business or a significant delay or shortfall of revenue in relation to the Enlarged Group's expectations would have an immediate adverse effect on the Group's business, operating results and financial condition. There can be no assurance that the Group will be profitable in any future period. The Enlarged Group is subject to the risks inherent in the operation of a small and growing business. It may not be able to successfully address these risks.

### **Competition risk**

RNAi technology is attracting increased interest and with that is increased competition. Competitors in the sector may have greater financial, human and other resources and more experience to develop competing products or technology.

Many companies are trying to develop competing technologies and one or more of these may restrict the potential commercial success of the Group's products or render them obsolete.

Increasing competition may also have an adverse effect on the timing or scale of commercialisation of the Group's technology.

**Financial risk**

There are very high costs of product development, where products have lead times to market of many years.

The lack of a substantial recurrent revenue stream and the significant resources needed for ongoing investment in its R&D pipeline require the Group to gain access to additional funding from licensing, capital markets or elsewhere. There can be no assurances that such funding will be achieved on favourable terms, if at all.

Additional funding will be required to give the Group time to reach profitability. If the Group is unable to raise those funds, there may be insufficient finance for product development or operations and consequent delay, reduction or elimination of development programmes could result.

The Group has a small portfolio of products. Success or failure with individual products could have a significant impact on the share price. This in turn may make it difficult for the Group to continue funding its development programme.

The Group may be unable to secure adequate insurance at an acceptable cost.

**Retention of key personnel risk**

The Group's success is largely dependent on the personal efforts and abilities of the Group's existing senior management. The loss of key employees or advisers or the inability to attract or retain other qualified employees or advisers could have a material adverse effect on the Group's results of operations and financial condition.

**Government actions**

All governments reserve the right to amend their policies in relation to drug development and biotechnology. These policies are subject to change at any time, in any country and can impact profoundly upon the biotechnology industry as a whole or in part.

**Share price volatility and liquidity**

No assurance can be given that an active market for the Ordinary Shares will develop or be sustained after Admission. Following Admission, approximately 37.0 per cent. of the Enlarged Issued Ordinary Share Capital will be subject to the Lock-Up Agreements referred to in paragraph 7 of Part VI of this document. The market for the Ordinary Shares may be highly volatile and subject to wide fluctuations in price in response to a variety of factors, which could lead to losses for Shareholders. These factors include: announcement of technological innovations, changes in government policies, changes in legislation and economic conditions, the provision of new services by the Enlarged Group or its competitors, fluctuations in the Enlarged Group's operating results, changes in economic performance or market valuations of similar businesses, announcements by the Enlarged Group or its competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments, additions or departures of key personnel, litigation and press, newspaper and other media reports. In addition, the Ordinary Shares may not be traded in sufficient volumes to give share liquidity to Shareholders.

Stock markets have also from time to time experienced extreme price and volume fluctuations, which have affected the market prices of securities and which have often been unrelated to the operating performance of the companies affected. These broad market fluctuations, as well as general economic and political conditions, could adversely affect the market price for the Ordinary Shares.

### **Investment risk and AIM**

The existing Ordinary Shares, the Consideration Shares, the Subscription Shares and the Placing Shares will be quoted on AIM rather than the Official List. The rules of AIM are less demanding than those of the Official List and an investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. On any disposal investors may realise less than the original amount invested.

### **Foreign exchange risk**

The Enlarged Group will have operations in the UK, Germany and the US. The Group will report its financial results in British Pounds and, as a consequence of the international nature of its business, the Enlarged Group will be exposed to risks associated with foreign currency exchange rates.

The Enlarged Group's operations are primarily based in the US and Germany, with the costs being largely denominated in US Dollars and Euros. Future income and equity related financings may be generated in a number of different currencies, although principally in British Pounds, US Dollars or Euros. It is likely that the funds generated in each currency will not match the costs incurred in the same currency and therefore the Enlarged Group will be subject to a foreign exchange risk when re-aligning its cash holdings with the currencies in which costs are incurred. As the results and assets and liabilities of foreign operations which use a functional currency other than British Pounds will be translated into British Pounds at each balance sheet date, movements in foreign currency exchange rates may have a material effect on the Enlarged Group's reported results of operations, financial position, cash flows and the value of its investments.

The proceeds of the Subscription will primarily be received in US Dollars. This may give rise to an exchange rate risk against British Pounds, the Enlarged Group's presentational currency.

Silence Therapeutics' approach to managing this foreign exchange risk will be as far as possible to match its currency of cash holding with the currency of expected expenditure but also to consider entering into derivative contracts, cross-currency swaps and forward sales, to hedge the risk. The effect of this will be to reduce the potential volatility in income and net asset value caused by currency fluctuations.

However, there is no assurance that such hedging transactions will be available at a reasonable cost or will be successful in reducing the foreign exchange risk exposures.

Contracts hedging Silence Therapeutics' net assets would be hedge accounted as net investment hedges. The change in the market value of these hedges would, therefore, be taken direct to equity reserves. Currency contracts entered into as short term cash flow hedges would be matched against equal and opposite hedge positions and the movement in value would be taken to the income statement as the valuation movement usually reverses when the matched contract matures.

**Investors should consider carefully whether an investment in Silence Therapeutics is suitable for them in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.**

**This list should not be considered an exhaustive statement of all potential risks and uncertainties.**

## PART IV

### FINANCIAL INFORMATION ON INTRADIGM

#### SECTION A – ACCOUNTANT’S REPORT AND HISTORICAL FINANCIAL INFORMATION ON INTRADIGM



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W1S 4BS

16 December 2009

Dear Sirs

#### **Intradigm Corporation**

We report on the financial information on Intradigm Corporation set out on pages 46 to 76. This financial information has been prepared for inclusion in the AIM admission document dated 16 December 2009 of Silence Therapeutics plc (the Admission Document) on the basis of the accounting policies set out in note 2 to the financial information.

This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that regulation and for no other purpose.

#### **Responsibilities**

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

As described in note 2 to the financial information on Intradigm Corporation, the Directors and Proposed Directors of Silence Therapeutics plc are responsible for preparing the financial information on Intradigm Corporation on the basis of preparation set out in note 2 to the financial information and in accordance with the applicable financial reporting framework.

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

**Basis of opinion**

We conducted our work in accordance with the 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 the 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.

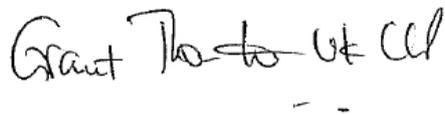
**Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document dated 16 December 2009, a true and fair view of the state of affairs of Intradigm Corporation as at the dates stated and of its results, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 2 and in accordance with the applicable reporting framework as described in note 2.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission 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 Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

A handwritten signature in black ink that reads "Grant Thornton UK LLP". The signature is written in a cursive, slightly slanted style.

GRANT THORNTON UK LLP

## HISTORICAL FINANCIAL INFORMATION ON INTRADIGM CORPORATION

The historical financial information on Intradigm Corporation for the years ended 31 December 2006, 2007 and 2008 set out in this Section A of Part IV has been prepared solely for the purpose of this Admission Document and does not constitute audited statutory accounts within the meaning of the Companies Act 2006.

### Balance Sheets

All amounts presented in US\$

		2006	31 December 2007	2008
	<i>Notes</i>	\$	\$	\$
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property and equipment	5	350,534	785,907	652,340
Intangible assets	6	—	11,004	6,446
Restricted cash		87,670	87,670	87,670
		<u>438,204</u>	<u>884,581</u>	<u>746,456</u>
<b>Current assets</b>				
Accounts receivable	19	166,420	56,460	4,712
Short-term investment	7, 19	—	369,748	—
Cash and cash equivalents	19	1,252,522	3,806,838	9,429,451
Prepaid expenses and other current assets	19	16, 835	101, 994	107, 730
		<u>1,435,777</u>	<u>4,335,040</u>	<u>9,541,893</u>
<b>Total assets</b>		<u><u>1,873,981</u></u>	<u><u>5,219,621</u></u>	<u><u>10,288,349</u></u>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders</b>				
Share capital	11	4,643	5,532	39,835
Capital reserves		2,884,399	3,479,727	12,946,037
Series A convertible preferred shares	12	7,257,066	19,294,871	15,266,664
Fair value and other reserves		—	369,498	—
Retained loss		(13,422,195)	(24,647,741)	(33,758,867)
<b>Total equity</b>		<u><u>(3,276,087)</u></u>	<u><u>(1,498,113)</u></u>	<u><u>(5,506,331)</u></u>

		<i>31 December</i>		
		<i>2006</i>	<i>2007</i>	<i>2008</i>
	<i>Notes</i>	\$	\$	\$
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	9, 19	—	3,724,970	1,927,758
Deferred revenue		676,520	676,520	676,520
Deferred rent		48,443	32,068	15,693
Series B redeemable convertible preferred shares	12, 19	—	—	9,159,579
Preferred shares warrant liability	13, 19	—	—	438,655
Other liabilities	19	—	36,417	275,759
		<u>724,963</u>	<u>4,469,975</u>	<u>12,493,964</u>
<b>Current liabilities</b>				
Trade payables	19	1,156,230	202,283	148,495
Accrued liabilities	8, 19	1,535,754	878,809	1,152,221
Borrowings	9, 19	1,733,121	1,166,667	2,000,000
		<u>4,425,105</u>	<u>2,247,759</u>	<u>3,300,716</u>
<b>Total liabilities</b>		<u>5,150,068</u>	<u>6,717,734</u>	<u>15,794,680</u>
<b>Total equity and liabilities</b>		<u>1,873,981</u>	<u>5,219,621</u>	<u>10,288,349</u>

## Income Statements

All amounts presented in US\$

		<i>For the years ended 31 December</i>		
		2006	2007	2008
	<i>Notes</i>	\$	\$	\$
Revenue		166,545	40,000	—
Research and development costs		(1,932,459)	(8,054,284)	(4,927,053)
<b>Gross loss</b>		<u>(1,765,914)</u>	<u>(8,014,284)</u>	<u>(4,927,053)</u>
Administrative expenses		(2,079,327)	(3,375,989)	(3,312,277)
<b>Operating loss</b>		<u>(3,845,241)</u>	<u>(11,390,273)</u>	<u>(8,239,330)</u>
Interest and other income	4	427,383	293,992	455,810
Finance expense		(96,941)	(129,265)	(1,327,606)
<b>Loss for the year before taxation</b>		<u>(3,514,799)</u>	<u>(11,225,546)</u>	<u>(9,111,126)</u>
Taxation		—	—	—
<b>Loss for the year after taxation</b>		<u><u>(3,514,799)</u></u>	<u><u>(11,225,546)</u></u>	<u><u>(9,111,126)</u></u>

## Statement of Changes in Equity

Period from 1 January 2006 to 31 December 2008

All amounts presented in US\$

	Share Capital \$	Capital Reserves \$	Preferred Share Reserves \$	Fair value and other reserves \$	Retained Loss \$	Total Equity \$
<b>Balance at 1 January 2006</b>	1,080	3,057	2,746,306	—	(9,907,396)	(7,156,953)
Conversion of preferred to common shares	3,563	2,742,743	(2,746,306)	—	—	—
Issuance of Series A-1 convertible preferred shares at \$1.1743 per share for cash, net of issuance costs of \$175,334 in May 2006	—	—	7,257,066	—	—	7,257,066
Recognition of share-based compensation	—	138,599	—	—	—	138,599
Loss for the year ended 31 December 2006	—	—	—	—	(3,514,799)	(3,514,799)
<b>Other comprehensive income:</b>						
Available-for-sale financial assets	—	—	—	—	—	—
– current year gains (losses)	—	—	—	—	—	—
– reclassification to profit or loss	—	—	—	—	—	—
<i>Total comprehensive income for the year</i>	—	—	—	—	(3,514,799)	(3,514,799)
<b>Balance at 31 December 2006</b>	4,643	2,884,399	7,257,066	—	(13,422,195)	(3,276,087)
Issuance of Series A-2 convertible preferred shares at \$1.1743 per share for cash, net of issuance costs of \$399,527 in January 2007	—	—	12,037,805	—	—	12,037,805
Issuance of common shares for services received at \$1.1 per share	522	56,978	—	—	—	57,500
Issuance of common shares for services received at \$1.1743 per share	426	49,574	—	—	—	50,000
Exercise of common shares options at \$1.1 per share	1	136	—	—	—	137
Common shares repurchased at \$1.1 per share	(60)	(6,540)	—	—	—	(6,600)
Issuance of warrants in conjunction with term loan	—	117,394	—	—	—	117,394
Recognition of share-based compensation	—	377,786	—	—	—	377,786
Loss for the year ended 31 December 2007	—	—	—	—	(11,225,546)	(11,225,546)
<b>Other comprehensive income:</b>						
Available-for-sale financial assets	—	—	—	369,498	—	369,498
– current year gains (losses)	—	—	—	—	—	—
– reclassification to profit or loss	—	—	—	—	—	—
<i>Total comprehensive income for the year</i>	—	—	—	369,498	(11,225,546)	(10,856,048)
<b>Balance at 31 December 2007</b>	5,532	3,479,727	19,294,871	369,498	(24,647,741)	(1,498,113)
Equity component of Series B redeemable, convertible shares	—	5,229,315	—	—	—	5,229,315
Issuance of common share warrants	—	36,676	—	—	—	36,676
Conversion of preferred to common shares	34,303	3,993,904	(4,028,207)	—	—	—
Recognition of share-based compensation	—	206,415	—	—	—	206,415
Loss for the year ended 31 December 2008	—	—	—	—	(9,111,126)	(9,111,126)
<b>Other comprehensive income:</b>						
Available-for-sale financial assets	—	—	—	—	—	—
– current year gains (losses)	—	—	—	—	—	—
– reclassification to profit or loss	—	—	—	(369,498)	—	(369,498)
<i>Total comprehensive income for the year</i>	—	—	—	(369,498)	(9,111,126)	(9,480,624)
<b>Balance at 31 December 2008</b>	39,835	12,946,037	15,266,664	—	(33,758,867)	(5,506,331)

## Statements of Cash Flows

All amounts presented in US\$

	Notes	For the years ended 31 December		
		2006 \$	2007 \$	2008 \$
<b>Cash flows from operating activities</b>				
Net Loss		(3,514,799)	(11,225,546)	(9,111,126)
Adjustments to reconcile net loss to net cash used in operating activities:				
Gain on sale of investments	7	—	—	(226,296)
Amortisation of discount on note payable and bridge note	9	—	—	646,887
Depreciation & amortisation	5, 6	42,568	179,438	242,489
Loss (gain) on sale of property and equipment	5	—	2,463	—
Conversion of interest on bridge notes to preferred shares	9	—	—	44,329
Change in fair value of preferred share warrants	13	—	9,031	(172,111)
Share-based compensation	14	138,599	377,786	206,415
Interest expense		23,862	56,564	509,758
Changes in assets and liabilities				
Accounts receivable	19	(162,920)	109,960	51,748
Prepaid expenses and other current assets	19	(9,336)	(85,409)	(5,736)
Accounts payable	19	286,500	(846,447)	(53,788)
Accrued liabilities	8, 19	(455,265)	11,637	273,412
Deferred rent		48,443	(16,375)	(16,375)
Deferred revenue		31,505	—	—
Other long-term liabilities		—	36,417	239,342
Net cash used in operating activities		(3,570,843)	(11,390,481)	(7,371,052)
<b>Cash flows from investing activities</b>				
Purchases of property and equipment	5	(354,148)	(631,333)	(104,364)
Purchases of intangible assets	6	—	(13,675)	—
Proceeds from sale of investments	7	—	—	226,546
Proceeds from sale of property and equipment	5	—	16,730	—
Restricted cash		(87,670)	—	—
Net cash provided (used) in investing activities		(441,818)	(628,278)	122,182
<b>Cash flows from financing activities</b>				
Proceeds from notes payable	9	—	5,000,000	2,348,362
Repayment of notes payable	9	(98,798)	(14,371)	(1,000,000)
Proceeds from issuance of preferred shares, net of issuance costs	12	5,151,095	9,650,473	11,831,503
Repurchase of common shares	11	—	(6,600)	—
Proceeds from issuance of common shares	11	—	137	—
Interest paid		(23,862)	(56,564)	(308,382)
Net cash provided by financing activities		5,028,435	14,573,075	12,871,483
Net increase in cash and cash equivalents		1,015,774	2,554,316	5,622,613
Cash and cash equivalents at beginning of period		236,748	1,252,522	3,806,838
Cash and cash equivalents at end of period		1,252,522	3,806,838	9,429,451
<b>Supplementary disclosure of noncash items:</b>				
Conversion of notes payable to preferred shares	9	1,697,917	1,718,750	2,348,362
Conversion of accrued interest on note payable to preferred shares	9	408,054	668,583	44,329
Issuance of warrants for preferred shares in connection with term loan	9, 13	—	113,163	368,603
Issuance of warrants for common shares included in issuance costs	9	—	—	36,676
Issuance of common shares for services received	11	—	107,500	—
Conversion of preferred shares to common shares	11	3,563	—	34,303

## Notes to the Historical Financial Information

### 1. Intradigm Corporation

Intradigm was incorporated in the state of Delaware on 5 July 2000. Intradigm is a development stage biotechnology entity that is engaged in the discovery, development and delivery of systemic ribonucleic acid interference (RNAi) therapeutics. RNAi is a natural cellular process of gene silencing that works through short interfering RNA (siRNA) to induce sequence-specific silencing of targeted disease genes. Since commencing activities, Intradigm has been engaged primarily in research and development activities, raising capital, and recruiting personnel.

### 2. Summary of Principal Accounting Policies

#### Basis of Preparation

The historical financial information is prepared on a going concern basis, under the historical cost convention and applicable accounting standards. This information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU) except in respect of the following matters:

- The historical financial information does not constitute a set of general purpose financial statements under paragraph 3 of IAS 1 (Presentation of Financial Statements) and consequently does not make an explicit and unreserved statement of compliance with IFRS as contemplated by paragraph 14 of IAS 1. A company is only permitted to apply the first-time adoption rules of IFRS 1 in its first set of financial statements where such an unreserved statement of compliance has been made. Although such a statement has not been made here, the historical financial information has been prepared as if the date of transition to IFRS was 1 January 2006, the beginning of the first period presented, and the requirements of IFRS 1 have been applied since that date.
- Reconciliations to previous GAAP have not been presented as this financial information does not constitute a set of general purpose financial statements.

Intradigm has not adopted the following new International Financial Reporting Standards and International Accounting Standards that have been issued but are not yet effective:

	<i>Effective from:</i>
IFRS 2: Share-based payments (as amended)	1 January 2009
IFRS 3: Business combinations (revised 2008)	1 July 2009
IFRS 8: Operating segments	1 January 2009
IFRS 9: Financial Instruments	1 January 2013
IAS 1: Presentation of financial statements (revised 2007)	1 January 2009
IAS 23: Borrowing costs (revised 2007)	1 January 2009
IAS 27: Consolidated and separate financial statements (revised 2008)	1 July 2009
IAS 32: Financial instruments: Presentation (as amended)	1 January 2009
IFRIC 17: Distribution of non-cash assets to owners	1 July 2009

None of these are expected to have a significant impact on the historical financial information.

The significant accounting policies that have been used in the preparation of this historical financial information are summarised below.

The historical financial information has been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The historical financial information is presented in US Dollars, being the currency of the primary economic environment in which Intradigm operates.

The Directors and Proposed Directors of Silence Therapeutics plc are responsible for the historical financial information of Intradigm and the contents of the AIM admission document in which it is included.

### **Revenue Recognition**

Research and development fees from commercial collaboration agreements are generally recognised as revenue on a straight-line basis over the life of the collaboration agreement or as the research work is performed. Any amounts received in advance of performance, or with ongoing obligations still present, are deferred until performance has been completed and such obligations have been met.

Revenue from government grants are recorded as earned based on actual cost incurred. All revenues recognised to date under grant agreements are nonrefundable.

Intradigm may enter into revenue arrangements that include multiple deliverables. Such arrangements are divided into separate units of accounting if certain criteria are met, including whether the delivered item has value to the customer on a stand-alone basis and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration Intradigm receives is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units. Milestone fees are recognised upon completion of specified milestones according to contract terms.

### **Property and Equipment**

Intradigm holds no property assets (land and buildings).

All property and equipment is stated in the accounts at its cost of acquisition less a provision for depreciation.

Depreciation is charged to write off the cost less estimated residual values of property and equipment on a straight line basis over their estimate useful lives. All plant and equipment is estimated to have useful lives of between three and five years. Estimated useful lives and residual values are reviewed each year and amended if necessary.

Maintenance and repairs are charged to operations as incurred, and improvements and betterments are capitalised.

When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the balance sheet and any resulting gain or loss is reflected in operations in the period realised.

Borrowing costs that are directly attributable to the acquisition, production or construction of a qualifying asset can either be capitalised or expensed as incurred. Intradigm has no qualifying assets and as such no related borrowing costs have been capitalised.

### **Intangible Assets and Research and Development Activities**

#### *Software*

The computer software licenses have finite useful lives estimated to be 3 years from date of initial acquisition, over which period the assets are amortised on a straight line basis. The charge for amortisation is included within research and development costs in the income statements.

### *Capitalisation of research and development costs*

Research and development costs include, but are not limited to, payroll and personnel expenses, laboratory supplies, consulting costs and allocated overhead, including rent, equipment, depreciation and utilities.

Costs associated with research activities are treated as an expense in the period in which they are incurred.

Costs that are directly attributable to the development phase of an internal project will only be recognised as intangible assets provided they meet the following requirements:

- An asset is created that can be separately identified,
- The technical feasibility exists to complete the intangible asset so that it will be available for sale or use and Intradigm has the intention and ability so to do,
- It is probable that the asset created will generate future economic benefits either through internal use or sale,
- Sufficient technical, financial and other resources are available for completion of the asset, and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Careful judgement by Intradigm's management is applied when deciding whether recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date.

To date, no development costs have been capitalised in respect of the internal projects on the grounds that the costs to date are either for the research phase of the projects or, if relating to the development phase, then the work so far does not meet the recognition criteria set out above.

### **Impairment Testing of Intangible Assets and Property and Equipment**

At each balance sheet date, Intradigm assesses whether there is any indication that the carrying value of a long-lived asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intradigm's estimate of fair value is based on the net present value of expected future cash flows attributable to the asset.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation.

There was no impairment loss recognised in 2006, 2007 or 2008.

### **Financial Instruments**

Financial assets and financial liabilities are recognised in Intradigm's balance sheet when Intradigm becomes party to the contractual provisions of the instrument.

Financial assets can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-

maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the instruments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Derecognition of financial instruments occurs when the rights to receive cash flows from investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

### **Fair Value of Financial Instruments**

Carrying amounts of Intradigm's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities, and market interest rates, if applicable.

### **Cash and Cash Equivalents**

Cash and cash equivalents include money market funds and various deposit accounts that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. The deposits held at bank are treated as cash equivalents under the definitions of IAS 7, Cash Flow Statements. Intradigm considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

### **Restricted Cash**

Intradigm has \$87,670 in restricted cash, related to the deposit for the facility lease started in 31 December 2006. Also see note 15.

### **Investment**

Intradigm classifies its investment as an available-for-sale financial asset and it is measured initially at fair value. Then, the financial asset is measured at fair value at the end of each reporting period, with gains and losses being recorded in other comprehensive income until the point of sale when gains and losses are recycled to the income statement.

### **Loans and Accounts Receivable**

Loans and accounts receivable are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised as an allowance and the expense is recorded in profit and loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at an effective interest rate computed at initial recognition.

### **Financial Liabilities and Equity**

Financial liabilities and equity instruments issued by Intradigm are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. A financial liability is a contractual obligation to either deliver cash or another financial asset to another entity or to exchange a financial asset or financial liability with another entity, including obligations which may be settled by Intradigm using its equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of Intradigm after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

## **Financial Liabilities**

At initial recognition, financial liabilities are measured at their fair value net, if appropriate, of any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method.

## **Equity**

Equity instruments issued by Intradigm are recorded at the proceeds received net of direct issuance costs

## **Operating Leases**

All leases are operating leases and the payments made under them are charged to profit and loss on a straight line basis over the lease term. See operating facility lease at note 15.

## **Provisions**

Provisions are recognised when Intradigm has a present obligation as a result of a past event and it is probable that Intradigm will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

## **Share-based Payments**

Intradigm issues equity-settled share-based payments to certain employees, directors and advisors. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value so determined is expensed on a "graded vesting attribution method," which allocates expense on a straight-line basis over the requisite service period for each separately vested portion of the award as if the award was, in substance, multiple awards. This is based on Intradigm's estimate of the number of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured using the Black-Scholes options valuation model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioral considerations.

## **Equity**

Share capital is determined using the par value of shares that have been issued.

The capital reserves account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from the capital reserves account.

Equity-settled share-based payments are credited to the capital reserves account as a component of equity until related options or warrants are exercised.

The preferred share reserves account includes the equity component of the Series A preferred shares issued by Intradigm. The equity component of Series B redeemable convertible preferred shares are included within the capital reserves account.

Retained loss includes all current and prior period results as disclosed in the statement of operations.

Other comprehensive income includes unrealised gains on short-term investments that are reported as a separate component within the statement of changes in equity.

## **Stock Split**

In September 2008, Intradigm initiated a 10 for 1 reverse stock split, all shares and per share amounts in this historical financial information have been retroactively adjusted to give effect to the reverse stock split. According to the Articles of Incorporation, Intradigm is not allowed to issue fractional shares.

## **Taxation**

Intradigm accounts for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realised.

## **Use of Estimates and Risks and Uncertainties**

The preparation of historical financial information in conformity with Intradigm's accounting policies requires management to make estimates and assumptions that have an affect on the amounts recognised and reported in the historical financial information. Such estimates include the accrual for liabilities and the value of Intradigm's shares. Although these estimates are based on management's best knowledge of current events and actions, actual result could differ from those estimates.

Intradigm is subject to all of the risks inherent in an early stage company developing a new biopharmaceutical technology. These risks include, but are not limited to:

- Product development activities using unproven technologies related to both RNAi and to the delivery of siRNAs to the relevant cell tissue.
- Building and maintaining a strong intellectual property portfolio.
- Developing and maintaining successful strategic alliances to further the development process.
- Raising additional funds to further the development process.
- Attracting and retaining qualified key management and scientists, staff consultants and advisors.

Intradigm's operating results may be materially affected by the foregoing factors.

Intradigm may require licenses from third parties for commercialisation of its products. Intradigm cannot guarantee that such license(s) will be available on commercially reasonable terms. If such license(s) cannot be obtained or cannot be obtained on commercially reasonable terms, it may have a significant negative impact on Intradigm.

Intradigm's products will require approvals from the Food and Drug Administration and international regulatory agencies prior to commercial sales. There can be no assurance that Intradigm's products will receive any of these required approvals. If Intradigm was denied such approvals or such approvals were delayed, it would have a materially adverse impact on Intradigm.

Intradigm has classified its Series A convertible preferred shares as equity instruments. Although technically they are compound instruments with both equity and liability components, Intradigm has valued the conversion feature at nil, thus treating the entire instrument as equity. Intradigm has also issued warrants for Series A preferred shares. Intradigm has classified these warrants, like the underlying instrument, as equity.

Intradigm has classified its Series B redeemable, convertible preferred shares as compound instruments with both equity and liability components. The financial liability component of the Series B shares is valued at the redemption amount discounted to present value using an implied interest rate estimated by Intradigm's rate of borrowing. The difference between the initial value of the financial liability component and the consideration on issue has been treated as equity. Intradigm has also issued warrants for Series B preferred shares. Because the underlying instruments in these warrants are classified as a liability, the warrants are also classified as financial liabilities.

### 3. Staff Costs

Staff costs during the year were as follows:

	<i>For the Years Ended 31 December</i>		
	2006	2007	2008
	\$	\$	\$
Wages and salaries	1,438,646	3,710,641	3,605,052
Employer paid payroll taxes	62,555	163,573	196,180
Total staff costs	<u>1,501,201</u>	<u>3,874,214</u>	<u>3,801,232</u>

The average number of employees was 12, 24 and 18 for the years ended 31 December 2006, 2007 and 2008, respectively.

Management remuneration paid and other benefits supplied during the year were as follows:

	<i>For the Years Ended 31 December</i>		
	2006	2007	2008
	\$	\$	\$
Wages and salaries	817,134	1,312,840	1,575,628
Compensation for loss of office	165,000	677,500	482,664
Employer paid payroll taxes	42,705	87,800	112,008
Share-based compensation	60,865	304,058	170,542
	<u>1,085,704</u>	<u>2,382,198</u>	<u>2,340,842</u>

### 4. Interest and Other Income

	<i>For the Years Ended 31 December</i>		
	2006	2007	2008
	\$	\$	\$
Bank interest income	124,051	279,724	57,003
Gain on sale of investments	—	—	226,296
Settlement with employee	303,332	—	—
Gain on sale of assets	—	14,268	—
Revaluation of warrants	—	—	172,511
Total interest and other income	<u>427,383</u>	<u>293,992</u>	<u>455,810</u>

## 5. Property and Equipment

	<i>Leasehold Improvements</i> \$	<i>Laboratory Equipment</i> \$	<i>Office Equipment &amp; Furniture</i> \$	<i>Total</i> \$
<b>Cost</b>				
At 1 January 2006	—	206,534	14,662	221,196
Additions	28,732	219,601	105,809	354,142
At 31 December 2006	28,732	426,135	120,471	575,338
Additions	16,768	566,075	48,490	631,333
Disposals	—	(164,324)	(14,662)	(178,986)
At 31 December 2007	45,500	827,886	154,299	1,027,685
Additions	—	104,364	—	104,364
At 31 December 2008	45,500	932,250	154,299	1,132,049
<b>Depreciation</b>				
At 1 January, 2006	—	168,071	14,165	182,236
Charge for the year	—	33,414	9,154	42,568
At 31 December 2006	—	201,485	23,319	224,804
Charge for the year	13,304	118,751	44,712	176,767
Eliminated on Disposal	—	(145,131)	(14,662)	(159,793)
At 31 December 2007	13,304	175,105	53,369	241,778
Charge for the year	15,166	171,331	51,434	237,931
At 31 December 2008	28,470	346,436	104,803	479,709
<b>Net book value</b>				
At 31 December 2006	28,732	224,650	97,152	350,534
At 31 December 2007	32,196	652,781	100,930	785,907
At 31 December 2008	17,030	585,814	49,496	652,340

## 6. Intangible Assets

	<i>Software Licenses</i>
<b>Cost</b>	<b>\$</b>
At 1 January 2006	—
Additions	—
At 31 December 2006	—
Additions	13,675
At 31 December 2007	13,675
Additions	—
At 31 December 2008	<u>13,675</u>
<b>Amortisation</b>	
At 1 January 2006	—
Charge for the year	—
At 31 December 2006	—
Charge for the year	2,672
At 31 December 2007	2,672
Charge for the year	4,557
At 31 December 2008	<u>7,229</u>
<b>Net book value</b>	
At 31 December 2006	—
At 31 December 2007	<u>11,004</u>
At 31 December 2008	<u>6,446</u>

## 7. Investments

As partial consideration for a license and collaboration agreement, Intradigm received shares of common stock in a privately held company. In early 2007, the shares became available to the public. At 31 December 2007, the shares were valued at the fair value and were classified as available-for-sale. The unrealised gain on investment at 31 December 2007 of \$369,498 was included in other comprehensive income. In 2008 the shares were sold and a net realised gain of \$226,296 was recognised in the earnings for the year to 31 December 2008.

## 8. Accrued Liabilities

	<i>For the Years Ended 31 December</i>		
	<i>2006</i>	<i>2007</i>	<i>2008</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>
Accrued severance	—	351,355	321,776
Accrued interest	674,667	27,254	—
Accrued salaries and related expenses	543,078	12,524	273,905
Accrued vacation	22,915	69,574	75,153
Other accrued liabilities	295,094	418,102	481,387
Total accrued liabilities	<u>1,535,754</u>	<u>878,809</u>	<u>1,152,221</u>

Accrued liabilities principally comprise amounts outstanding for trade purchases and continuing costs. Management considers that the carrying amount of accrued liabilities approximates fair value. Fair value has been calculated by discounting cash flows at prevailing interest rates.

## 9. Notes Payable

On 13 September 2002 and 25 July 2005, Intradigm entered into two promissory notes amounting to \$30,000 and \$100,562. The promissory notes carried 5 per cent. and 8 per cent. interest rates per annum, respectively. These promissory notes were paid in full in February 2007 and December 2006, respectively.

On 25 July 2003, Intradigm signed a 10 per cent. convertible promissory note with a lending institution for \$100,000. Interest was accrued at a rate of 10 per cent. per annum. The principal and accrued interest was due on 25 July 2004. On 28 April 2006, the note was transferred to another lending institution in the amount of \$130,182 for all rights and obligations on the note, including the repayment obligation and the right to convert the principal and interest into shares of Intradigm stock. The note and accrued interest were converted to Series A convertible preferred shares in May 2006 and January 2007.

On 17 February 2003 and 10 February 2005, Intradigm signed two convertible promissory notes with a lending institution amounting to \$100,000 each carrying an interest rate of 12 per cent. per annum on both. The full amount of these notes and accrued interest was converted to Series A convertible preferred stock in May 2006 and January 2007.

During the period from June 2002 to November 2003, Intradigm signed senior convertible promissory notes (“the Notes”) with a lending institution for \$2,050,000. On 19 November 2004, Intradigm signed an amended and restated senior convertible promissory note, which consolidated the existing Notes entered during June 2002 to November 2003 into a single note and increased the principal by \$200,000. The maturity date for the amended note was 30 June 2005. Interest was accrued at a rate of 12 per cent. per annum. Intradigm extended the maturity date to 31 May 2006. The Notes and accrued interest were converted to Series A convertible preferred shares in May 2006 and January 2007.

On 29 November 2005, Intradigm signed a senior convertible promissory note with a lending institution for \$666,667. Interest was accrued at rate of 6 per cent. per annum. The principal and accrued interest was due on 31 March 2006. The note contained a conversion election whereby the lending institution had the right to convert the unpaid principal and unpaid interest into Intradigm’s equity securities sold in financing before the maturity date of the note. The note and accrued interest were converted to Series A convertible preferred shares in May 2006.

## **Bridge Financings**

In April 2008 and July 2008, Intradigm signed convertible promissory notes in favour of several existing investors aggregating to a total of \$1,248,362 and \$1,100,000, respectively. As consideration for purchasing the notes, the note holders were entitled to warrants for preferred shares calculated as a percentage of the note principal amount. The notes accrued interest at a rate of 8 per cent. per annum. The notes and the accrued interest balances automatically converted to preferred shares upon the close of the Series B redeemable convertible preferred share financing. In connection with the bridge financings, Intradigm issued warrants to the lenders to purchase Series B redeemable convertible preferred shares. See also note 13.

## **Term Loan**

On 26 September 2007, Intradigm entered into a loan and security agreement with a financial institution under which Intradigm could draw a total of \$5 million. The entire amount was drawn by Intradigm in 2007. Under the terms of the agreement, borrowings bear interest at the rate of the 36 month Treasury plus 2.30 per cent. (5.42 per cent. at 31 December 2007 and 3.3 per cent. at 31 December 2008). Further, Intradigm is required to pay 5.5 per cent. of the loaned amount at the end of the term in addition to the 30 equal monthly installments of principal plus interest. The loan matures on 31 December 2010. The amount outstanding was \$5,000,000 at 31 December 2007 and \$4,000,000 of 31 December 2008.

In connection with the loan, Intradigm issued warrants to the lending institution to purchase Series A convertible preferred stock. See also note 13.

The borrowings under the term loan are collateralised by all assets, claims, and property of Intradigm of every kind, whether presently existing or hereafter created or acquired and wherever located excluding copyrights, patents, trademark, servicemarks (collectively called "Intellectual Property").

Under the terms of the loan agreement, Intradigm is required to submit the management financials with 30 days of the end of each month to the bank. Further, the annual audited financials are required to be submitted to the financial institution within 210 days of the end of each fiscal year. As of 31 December 2008, Intradigm was not in compliance with this covenant; however, a written waiver for this covenant was obtained from the financial institution.

Under the terms of the loan agreement, Intradigm is also required to promptly report any pending or threatened legal action which could reasonably be expected to result in damages or cost aggregated to \$250,000. As of 31 December 2007 and 31 December 2008, no such legal action exists.

Aggregate annual payments due under the above loans are as follows:

	2006	31 December 2007	2008
	\$	\$	\$
<b>Year Ending 31 December:</b>			
2007	1,733,121	—	—
2008	—	1,601,682	—
2009	—	2,268,408	2,197,813
2010	—	1,953,306	2,344,454
	<u>1,733,121</u>	<u>5,823,396</u>	<u>4,542,267</u>
Less: Amount representing interest	—	(823,396)	(542,267)
	<u>1,733,121</u>	<u>5,000,000</u>	<u>4,000,000</u>
Less: Unamortised discount	—	(108,363)	(72,242)
	<u>1,733,121</u>	<u>4,891,637</u>	<u>3,927,758</u>
Less: Current portion	(1,733,121)	(1,166,667)	(2,000,000)
	<u>—</u>	<u>3,724,970</u>	<u>1,927,758</u>

## 10. Deferred Taxation

The components of net deferred tax assets are as follows:

	2006	31 December 2007	2008
	\$	\$	\$
<b>Deferred tax assets</b>			
Net operating loss carryforwards	3,933,000	8,470,000	11,977,000
Tax credit carryforwards	236,000	649,000	863,000
Allowances and other	763,000	454,000	855,000
Depreciation and amortisation	13,000	13,000	28,000
	<u>4,945,000</u>	<u>9,586,000</u>	<u>13,723,000</u>
Less: Valuation allowance	(4,945,000)	(9,586,000)	(13,723,000)
Net deferred tax assets	<u>—</u>	<u>—</u>	<u>—</u>

Intradigm has established a full valuation allowance against its deferred tax assets due to the uncertainty surrounding the realisation of such assets.

Intradigm has net operating loss carryforwards of approximately \$10,150,000 and \$10,242,000 for federal and state income tax purposes, respectively, at 31 December 2006, \$21,580,000 and \$21,665,000 at 31 December 2007 and \$30,339,000 and \$30,402,000 at 31 December 2008. If not utilised, these federal and state carryforwards will begin to expire in the years 2020 and 2016, respectively. Intradigm also has research and development tax credit carryforwards of approximately \$213,000 and \$35,000 for federal and state income tax purposes at 31 December 2006, \$457,000 and \$291,000 at 31 December 2007, and \$627,000 and \$356,000 at 31 December 2008. If not utilised, the federal carryforwards will expire in various amounts beginning in 2020, although the state credits can be carried forward indefinitely. The Tax Reform Act of 1986 limits the use of net operating loss carryforwards in certain situations where changes occur in the share ownership of a company. In the event Intradigm has had a change in ownership, utilisation of the carryforwards could be limited.

## 11. Share Capital

On 22 September 2008, the Board of Directors of Intradigm approved a 10:1 reverse stock split for all common and preferred stock. The par value is also adjusted from \$0.001 per share to \$0.01 per share. All share data have been restated in this historical financial information to reflect this stock split.

	2006 \$	31 December 2007 \$	2008 \$
<b>Common shares</b>			
Authorised: 195,286,160 shares at 31 December 2008 (2007 – 23,000,000; 2006 – 23,000,000), \$0.01 par value	<u>230,000</u>	<u>230,000</u>	<u>1,952,862</u>
Issued and outstanding: 3,983,529 shares at 31 December 2008 (2007 – 553,224; 2006 – 464,250)	<u>4,643</u>	<u>5,532</u>	<u>39,835</u>
Number of shares in issue at 1 January, 2006			108,000
Shares issued during 2006			
– upon conversion of preferred shares to common shares			356,250
<b>Number of shares in issue at 31 December 2006</b>			<u>464,250</u>
Shares issued during 2007			
– issue of shares for services at \$1.1 per share		52,271	
– issue of shares for services at \$1.1743 per share		42,578	
– upon the exercise of shares options at \$1.1 per share		125	
– repurchase of shares from shareholders at \$1.1 per share		<u>(6,000)</u>	
Total issued in the year			<u>88,974</u>
<b>Number of shares in issue at 31 December 2007</b>			<u>553,224</u>
Shares issued during 2008			
– upon conversion of preferred shares to common shares			3,430,305
<b>Number of shares in issue at 31 December 2008</b>			<u>3,983,529</u>

The common shares outstanding are subject to stock restriction agreements (the Restriction Agreements). Pursuant to the Restriction Agreements, a stockholder shall not sell, assign, transfer or otherwise dispose of any shares except to Intradigm or as expressly provided in the “Stock Restriction Agreement”.

At 31 December 2008, outstanding options to purchase common shares were 3,018,725 (2007 – 2,561,109; 2006 – 1,052,772) and at 31 December 2008 outstanding warrants to purchase common stock were 1,294,686 (2007 – nil; 2006 – nil).

Details of the common share options outstanding are as follows:

<b>Exercise date:</b>	<i>At 31 December 2006</i>		<i>At 31 December 2007</i>		<i>At 31 December 2008</i>	
	<i>Number</i>	<i>Exercise price</i>	<i>Number</i>	<i>Exercise price</i>	<i>Number</i>	<i>Exercise price</i>
At any time up to 15 February 2009	—	—	—	—	9,283	\$1.10
At any time up to 2 July 2011	3,000	\$2.00	3,000	\$2.00	3,000	\$2.00
At any time up to 8 October 2011	19,000	\$2.00	7,500	\$2.00	7,500	\$2.00
At any time up to 13 December 2011	8,200	\$2.00	8,200	\$2.00	8,200	\$2.00
At any time up to 13 December 2011	2,000	\$2.50	2,000	\$2.50	2,000	\$2.50
At any time up to 11 February 2012	1,500	\$2.50	1,000	\$2.50	1,000	\$2.50
At any time up to 15 April 2012	2,000	\$2.50	2,000	\$2.50	2,000	\$2.50
At any time up to 30 July 2012	1,000	\$2.50	1,000	\$2.50	—	—
At any time up to 24 October 2012	38,000	\$2.50	38,000	\$2.50	38,000	\$2.50
At any time up to 25 November 2012	8,900	\$2.50	8,900	\$2.50	5,500	\$2.50
At any time up to 15 January 2013	1,000	\$2.50	1,000	\$2.50	1,000	\$2.50
At any time up to 28 July 2013	1,500	\$2.50	1,500	\$2.50	1,500	\$2.50
At any time up to 8 March 2014	4,000	\$2.50	4,000	\$2.50	4,000	\$2.50
At any time up to 28 April 2014	12,400	\$2.50	12,400	\$2.50	12,400	\$2.50
At any time up to 30 June 2014	13,000	\$2.50	13,000	\$2.50	13,000	\$2.50
At any time up to 2 September 2014	800	\$2.50	800	\$2.50	800	\$2.50
At any time up to 20 September 2014	2,000	\$2.50	2,000	\$2.50	2,000	\$2.50
At any time up to 26 September 2014	800	\$2.50	800	\$2.50	800	\$2.50
At any time up to 24 November 2014	7,600	\$2.50	6,400	\$2.50	6,400	\$2.50
At any time up to 25 January 2015	9,000	\$2.50	9,000	\$2.50	9,000	\$2.50
At any time up to 9 March 2015	1,200	\$2.50	1,200	\$2.50	1,200	\$2.50
At any time up to 2 June 2015	400	\$2.50	400	\$2.50	400	\$2.50
At any time up to 9 August 2015	4,050	\$2.50	4,050	\$2.50	4,050	\$2.50
At any time up to 19 June 2016	811,026	\$1.10	549,488	\$1.10	527,488	\$1.10
At any time up 14 December 2016	100,396	\$1.10	97,396	\$1.10	94,394	\$1.10
At any time up 7 March 2017	—	—	1,265,941	\$1.10	1,161,551	\$1.10
At any time up 7 June 2017	—	—	170,007	\$1.10	129,507	\$1.10
At any time up 13 June 2017	—	—	25,000	\$1.10	25,000	\$1.10
At any time up 18 September 2017	—	—	102,500	\$1.10	99,000	\$1.10
At any time up 4 December 2017	—	—	222,627	\$1.10	222,627	\$1.10
At any time up 7 March 2018	—	—	—	—	65,625	\$1.10
At any time up 23 June 2018	—	—	—	—	560,500	\$1.10
	<u>1,052,772</u>		<u>2,561,109</u>		<u>3,018,725</u>	

In January 2007, Intradigm issued 522,727 common shares to its landlord in exchange for rent. The fair value of the shares were \$0.11 per share for a total value of \$57,500. Also, in January 2007, Intradigm issued 425,786 common shares in exchange for services received. The fair value of the shares were valued at \$0.11743 per share for a total value of \$50,000. The total value of the shares issued was determined by measuring the value of the services received. The total stock-based compensation expense of \$107,500 was immediately expensed to operations in 2007.

## 12. Preferred Shares

### Terms of Preferred Shares

Preferred shares at 31 December 2006 consists of the following:

Series	Shares		Liquidation	Issuance	Proceeds
	Authorised	Outstanding	Amount	Costs	Net of
			\$	\$	Issuance
					Costs
					\$
Series A convertible preferred shares	18,200,000	6,329,216	7,432,398	175,332	7,257,066
	<u>18,200,000</u>	<u>6,329,216</u>	<u>7,432,398</u>	<u>175,332</u>	<u>7,257,066</u>

At 31 December 2006, under Intradigm's amended and restated Certificate of Incorporation, Intradigm was authorised to issue 41,200,000 shares, 23,000,000 shares of which were designated as common and 18,200,000 as preferred. Of the authorised preferred shares, 6,700,000 shares were designated Series A-1 convertible preferred shares.

Preferred shares at 31 December 2007 consists of the following:

Series	Shares		Liquidation	Issuance	Proceeds
	Authorised	Outstanding	Amount	Costs	Net of
			\$	\$	Issuance
					Costs
					\$
Series A convertible preferred shares	18,200,000	16,920,489	19,869,730	574,859	19,294,871
	<u>18,200,000</u>	<u>16,920,489</u>	<u>19,869,730</u>	<u>574,859</u>	<u>19,294,871</u>

At 31 December 2007, under Intradigm's amended and restated Certificate of Incorporation, Intradigm was authorised to issue 41,200,000 shares, 23,000,000 shares of which were designated as common and 18,200,000 as preferred. Of the authorised preferred shares, 6,700,000 shares were designated Series A-1 convertible preferred shares and 11,500,000 were designated Series A-2 convertible preferred shares.

Preferred shares at 31 December 2008 consists of the following:

Series	Shares		Liquidation	Issuance	Proceeds
	Authorised	Outstanding	Amount	Costs	Net of
			\$	\$	Issuance
					Costs
					\$
Series A convertible preferred shares	33,860,000	13,490,185	15,841,524	574,860	15,266,664
Series B redeemable convertible preferred shares	111,000,000	72,367,151	14,980,000	792,482	14,187,518
	<u>144,860,000</u>	<u>85,857,336</u>	<u>30,821,524</u>	<u>1,367,342</u>	<u>29,454,182</u>

At 31 December 2008, under Intradigm's amended and restated Certificate of Incorporation, Intradigm was authorised to issue 340,146,160 shares, 195,286,160 shares of which were designated as common and 144,860,000 as preferred. Of the authorised preferred shares,

6,700,000 shares were designated Series A-1 convertible preferred shares, 13,160,000 were designated Series A-2 convertible preferred shares, 14,000,000 shares were designated Series A-3 convertible preferred shares and 111,000,000 shares were authorised as Series B redeemable convertible preferred shares.

The rights, preferences and privileges of the preferred shares are as follows:

### ***Dividends***

The holders of the Series B redeemable convertible preferred shares in preference to the holders of Series A convertible preferred shares and common shares are entitled to receive, when and if declared by the Board of Directors of Intradigm, a noncumulative dividend at the annual rate of 8 per cent. of the original issue price. No dividends have been declared to date.

### ***Conversion Rights***

Each Series A convertible preferred share and Series B redeemable convertible preferred share is convertible, at the option of the holder, at any time, into common shares determined by dividing the original issue price of \$1.1743 and \$0.207, respectively, by the conversion price. The initial conversion price per share of the Series A convertible preferred shares and Series B redeemable convertible preferred shares is the original issue price. The conversion price is subject to adjustment. As of 31 December 2008, the conversion price of Series A preferred shares was adjusted to \$0.40 per share.

Each Series A convertible preferred share will automatically convert into common shares at the then effective conversion price for each such share (a) at any time upon the affirmative election of the holders of a least a majority of the outstanding shares of the Series A convertible preferred shares, or (b) Intradigm's sale of its common shares in a firm commitment of an underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, the public offering price in which the per share price is at least \$0.62 as adjusted for share splits, dividends, and recapitalisations and gross proceeds to Intradigm before underwriting discounts, commissions and fees of at least \$30,000,000.

Each Series B redeemable convertible preferred share will automatically convert into shares of common shares at the then effective conversion price for each share (a) at any time upon the affirmative election of 55 per cent. of the outstanding shares of Series B redeemable convertible preferred shares, or (b) Intradigm's sale of its common shares in a firm commitment of an underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, the public offering price in which the per share price is at least \$0.62, as adjusted for share splits, dividends, and recapitalisations and gross proceeds to Intradigm before underwriting discounts, commissions, and fees of at least \$30,000,000.

In the event that any holder of Series A convertible preferred shares does not participate by purchasing such holders full share in the second tranche closing of the Series B redeemable convertible preferred shares, each share of the nonparticipating Series A convertible preferred shares will be automatically converted into common shares at the Series A convertible preferred share conversion rate in effect immediately prior to the consummation of the second tranche closing of the Series B redeemable convertible preferred shares.

### ***Liquidation Rights***

Upon any liquidation, dissolution, or winding up of Intradigm, the holders of the Series B redeemable convertible preferred shares shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of Intradigm to the holders of shares of Series A convertible preferred shares and common shares, an amount equal to \$0.207 per share, plus any declared but unpaid dividends on such share (Liquidation Preference Series B redeemable convertible preferred shares). After the full satisfaction of the Liquidation

Preference Series B redeemable convertible preferred shares and before any distribution or payment is made to the holders of common shares, the holders of the Series A convertible preferred shares shall be entitled to be receive an amount equal to \$1.1743 per share plus any declared but unpaid dividends on such share (Liquidation Preference of Series A convertible preferred shares). Upon the full satisfaction of Liquidation Preference Series B redeemable convertible preferred shares and Liquidation Preference Series A convertible preferred shares, the remaining assets of Intradigm shall be distributed ratably to the holders of common shares, Series B redeemable convertible preferred shares, and Series A convertible preferred shares on an as-if-converted basis.

### ***Voting***

Each share of Series A convertible preferred shares and Series B redeemable convertible preferred shares has voting rights equal to an equivalent number of common shares into which it is convertible and votes together as one class with the common shares.

As long as at least any Series B redeemable convertible preferred shares remain outstanding, Intradigm must obtain approval by vote from 55 per cent. of the then outstanding holders of Series B redeemable convertible preferred shares in order to increase or decrease the total number of authorised shares of Series B redeemable convertible preferred shares, alter or change the rights and preferences of Series B redeemable convertible preferred shares, or create a new series of securities with rights, privileges or preferences that are senior to or similar to those of Series B redeemable convertible preferred shares.

As long as 38 million Series B redeemable convertible preferred shares remain outstanding, Intradigm must obtain approval by vote from 55 per cent. of the then outstanding holders of Series B redeemable convertible preferred shares in order to increase or decrease the total number of authorised shares, alter or change the rights and preferences of common shares or any series of securities, authorise a dividend or distribution on the capital shares of Intradigm, effect a merger, consolidation or sale of assets where the existing shareholders retain less than 50 per cent. of the voting shares of the surviving entity, increase the authorised members of the board, amend, alter or repeal any provision of the articles of incorporation, create any new share option plan or issue restricted shares.

For so long as 4 million shares of Series B redeemable convertible preferred shares remain outstanding, the holders of the Series B redeemable convertible preferred shares, voting as a separate class, shall be entitled to elect two directors. For so long as 1 million shares of Series A convertible preferred shares remain outstanding, the holders of the Series A convertible preferred shares, voting as a separate class, shall be entitled to elect two directors. The holders of common and preferred shares, voting as a single class, shall be entitled to elect the remaining directors.

### ***Redemption Rights***

At any time after 22 September 2013 and at the election of the holders of at least 55 per cent. of the then outstanding Series B redeemable convertible preferred shares, Intradigm shall redeem all outstanding shares of Series B redeemable convertible preferred shares which have not been converted into common shares in three equal annual installments. Intradigm shall redeem the shares of Series B redeemable convertible preferred shares by paying in cash an amount per share equal to \$0.207 per share plus all declared and unpaid dividends thereon.

## **13. Warrants**

In connection with the term loan closed in September 2007, Intradigm issued warrants to the lending institution to purchase up to 149,025 shares of Series A convertible preferred shares

at an exercise price of \$1.1743 per share. The fair value of the warrant at the issuance date was determined to be \$117,394 using the Black-Scholes valuation model with the following inputs: volatility of 81.3 per cent., risk-free interest rate of 4.02 per cent., a fair value of Series A convertible preferred shares of \$0.096 per share and term of ten years. The Series A warrants are recorded in equity.

In connection with the bridge financings in April and July 2008, Intradigm issued warrants to the lenders to purchase up to 3,863,147 shares of Series B redeemable convertible preferred shares at an exercise price of \$0.207. The fair value of the warrants at the issuance dates was determined to be \$610,766 using the Black-Scholes valuation model with the following inputs: volatility 82 per cent. to 84.7 per cent., risk-free interest rate of 3.29 per cent. to 3.56 per cent., a fair value of Series B redeemable convertible preferred shares of \$0.207 per share and a term of seven years. The fair value of the warrants was recorded as a debt discount cost and was fully amortised to interest expense upon conversion of the bridge loan to Series B redeemable convertible preferred stock. The warrants are recognised as liability and revalued at each balance sheet date. The change in fair value during 2008 amounting to \$172,111 is recorded in earnings for the year to 31 December 2008. As of 31 December 2008, all the warrants were outstanding and were valued at \$438,655.

In connection with the Series B redeemable convertible preferred share financing in September 2008, Intradigm issued a warrant to an investment banker to purchase up to 1,294,686 shares of common stock at an exercise price of \$0.05. The fair value of the warrant at the issuance date was determined to be \$36,676 using the Black-Scholes valuation model with the following inputs: volatility 96.1 per cent., risk-free interest rate of 1.87 per cent., a fair value of common stock of \$0.05 per share and a term of seven years. The fair value of the warrants was recorded as an issuance cost related to the Series B redeemable convertible preferred shares and is recorded in equity.

#### **14. Equity-Settled Share-Based Payments**

In 2001, Intradigm established its 2001 Stock Option Plan (the "2001 Plan") which provides for the granting of share options to directors, advisory board members, officers, other employees and service providers. Options granted under the 2001 Plan may be either incentive stock options ("ISOs") or nonqualified stock options ("NSOs"). Share appreciation rights and restricted shares may also be granted under the 2001 Plan.

In 2007, Intradigm established its 2007 Stock Option Plan (the "2007 Plan") which provides for the granting of ISOs and NSOs to employees, directors and consultants. Stock purchase rights and restricted stock may also be granted under the 2007 Plan.

Intradigm has reserved 18,911,668 common shares at 31 December 2008 (2007 – 18,136,510; 2006 – 775,158) for issuance under the Plans, of which 15,892,819 shares remain available for grant at 31 December 2008.

Options under both the 2001 and 2007 Plans may be granted for a term of up to ten years. The exercise price of an ISO and NSO shall not be less than 100 per cent., and the exercise price of an NSO no less than 85 per cent., respectively, of the estimated fair value of the shares on the date of grant. The exercise price of an ISO and NSO granted to a 10 per cent. shareholder shall not be less than 110 per cent. of the estimated fair value of the shares on the date of grant, respectively, as determined by the Board of Directors of Intradigm. Options become exercisable as determined by the compensation committee of the Board of Directors of Intradigm.

Intradigm also issues equity instruments, consisting of share options, to consultants that are valued based on the fair value of the instruments granted using the Black-Scholes valuation model. The valuation is based on the instruments granted rather than the services received

because the fair value of the services received could not be reliably measured. The measurement of share based compensation is subject to periodic adjustments as the underlying equity instruments vest.

Details of the share options and warrants outstanding are as follows:

	<i>Number</i>	<i>Weighted average exercise price \$</i>
<i>Common Share Options</i>		
<b>At 31 December 2006:</b>		
Outstanding at the beginning of the year	141,350	2.39
Granted during the year	913,422	1.10
Lapsed during the year	2,000	1.10
Exercised during the year	—	—
Outstanding at the year end	1,052,772	1.27
Exercisable at the year end	148,389	2.30
<b>At 31 December 2007:</b>		
Outstanding at the beginning of the year	1,052,772	1.27
Granted during the year	2,185,472	1.10
Lapsed during the year	677,010	1.11
Exercised during the year	125	1.10
Outstanding at the year end	2,561,109	1.17
Exercisable at the year end	674,208	1.35
<b>At 31 December 2008:</b>		
Outstanding at the beginning of the year	2,561,109	1.13
Granted during the year	635,125	1.10
Lapsed during the year	177,509	1.20
Exercised during the year	—	—
Outstanding at the year end	3,018,725	1.15
Exercisable at the year end	1,595,679	1.20
	<i>Number</i>	<i>Weighted average exercise price \$</i>
<i>Common Share Warrants</i>		
<b>At 31 December 2008:</b>		
Outstanding at the beginning of the year	—	—
Granted during the year	1,294,686	0.05
Lapsed during the year	—	—
Exercised during the year	—	—
Outstanding at the year end	1,294,686	0.05
Exercisable at the year end	1,294,686	0.05

<i>Preferred Share Warrants</i>	<i>Number</i>	<i>Weighted average exercise price</i> \$
<b>At 31 December 2007:</b>		
Outstanding at the beginning of the year	—	—
Granted during the year	149,025	1.17
Lapsed during the year	—	—
Exercised during the year	—	—
Outstanding at the year end	149,025	1.17
Exercisable at the year end	149,025	1.17
<b>At 31 December 2008:</b>		
Outstanding at the beginning of the year	149,025	1.17
Granted during the year	3,863,147	0.21
Lapsed during the year	—	—
Exercised during the year	—	—
Outstanding at the year end	4,012,172	0.24
Exercisable at the year end	4,012,172	0.24

Share options outstanding at 31 December 2006 are summarised as follows:

<i>Options Outstanding and Exercisable</i>			<i>Options Vested</i>		
<i>Exercise Price</i> \$	<i>Number of Options</i>	<i>Weighted Average Remaining Contractual Life (Years)</i>	<i>Weighted Average Exercise Price</i> \$	<i>Number of Options</i>	<i>Weighted Average Remaining Contractual Life (Years)</i>
1.10	911,422	9.53	1.10	10,156	9.53
2.00	30,200	4.8	2.00	30,200	4.8
2.50	111,150	6.74	2.50	108,033	6.74
	<u>1,052,772</u>			<u>148,389</u>	

Share options outstanding at 31 December 2007 are summarised as follows:

<i>Options Outstanding and Exercisable</i>			<i>Options Vested</i>		
<i>Exercise Price</i> \$	<i>Number of Options</i>	<i>Weighted Average Remaining Contractual Life (Years)</i>	<i>Weighted Average Exercise Price</i> \$	<i>Number of Options</i>	<i>Weighted Average Remaining Contractual Life (Years)</i>
1.10	2,432,959	9.13	1.10	547,425	9.19
2.00	18,700	3.81	2.00	18,700	3.81
2.50	109,450	5.73	2.50	108,083	5.73
	<u>2,561,109</u>			<u>674,208</u>	

Share options outstanding at 31 December 2008 are summarised as follows:

<i>Options Outstanding and Exercisable</i>			<i>Options Vested</i>		
<i>Exercise Price</i>	<i>Number of</i>	<i>Weighted</i>	<i>Weighted</i>	<i>Number of</i>	<i>Weighted</i>
<i>\$</i>	<i>Options</i>	<i>Average</i>	<i>Average</i>	<i>Options</i>	<i>Average</i>
		<i>Remaining</i>	<i>Exercise</i>		<i>Remaining</i>
		<i>Contractual</i>	<i>Price</i>		<i>Contractual</i>
		<i>Life (Years)</i>	<i>\$</i>		<i>Life (Years)</i>
1.10	2,894,975	8.41	1.10	1,472,296	8.34
2.00	18,700	2.81	2.00	18,700	2.81
2.50	105,050	4.77	2.50	104,683	4.77
	<u>3,018,725</u>			<u>1,595,679</u>	

The average intrinsic value for options outstanding and exercisable and options vested is nil for the year ended 31 December 2008.

### **Valuation and Amortisation Method**

Intradigm estimated the fair value of share options using Black-Scholes options valuation model. The fair value so determined is expensed on a “graded vesting attribution method,” which allocates expense on a straight-line basis over the requisite service period for each separately vested portion of the award as if the award was, in substance, multiple awards. This is based on Intradigm’s estimate of the number of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. Variables to be determined include expected volatility, estimated term, and risk-free interest rate.

### **Expected Term**

Intradigm computed expected term of 5.8 years for awards granted in 2008 based on the vesting terms of the options.

### **Expected Volatility**

Intradigm estimates volatility for option grants by evaluating the average historical volatility of peer group companies for the period immediately preceding the option grant for a term that is approximately equal to the option’s expected term.

### **Risk-Free Interest Rate**

Intradigm bases the risk-free interest rate that it uses in the option pricing model on US Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

### **Expected Dividend**

Intradigm does not anticipate paying any cash dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero in the option-pricing model. Intradigm uses the following weighted-average assumptions to determine share-based compensation expense:

	2006	2007	2008
Expected volatility	76% – 77%	77%	95%
Risk free rate	3.51 % – 5.2%	4.54% – 5.15%	2.6% – 3.7%
Expected dividend yield	Nil	Nil	Nil
Expected forfeiture rate	0.43%	2.10%	2.17%
Expected term (in years)	5.0 – 6.3	5.0 – 6.3	5.8

Intradigm recognised total charges of \$138,599, \$377,786 and \$206,415 for the years ended 31 December 2006, 2007 and 2008, respectively, related to equity-settled share-based payment transactions.

### 15. Commitments under Operating Leases

Intradigm leases office space under a noncancellable operating lease, expiring on 31 December 2009. Rent expense was approximately \$232,000, \$452,000 and \$575,558 for the years ended 31 December 2006, 2007 and 2008, respectively.

In October 2006, Intradigm obtained a letter of credit from a bank in the amount of \$87,670 as required by the operating lease for office space. If Intradigm defaults under the terms of the lease, the lessor will be entitled to draw upon the letter of credit in the amount necessary to cure the default. The letter of credit will expire on 1 March 2010.

Future minimum lease payments under noncancellable operating leases are as follows:

	<i>31 December</i>		
	<i>2006</i>	<i>2007</i>	<i>2008</i>
<i>Operating Leases:</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
No later than one year	407,878	426,613	426,096
Later than one year and no later than five years	852,709	426,096	—
Total minimum lease payments	<u>1,260,587</u>	<u>852,709</u>	<u>426,096</u>

In conjunction with a 27 July 2006 Letter of Intent between Intradigm and the lessor, the lessor was granted the right, but not the obligation, to purchase up to \$250,000 of Intradigm securities, initially defined as New Series A convertible preferred stock as may be hereafter amended. The terms and price may not be less favorable than those offered to any other investor. The rights terminate at the earlier of termination of the lease, initial public offering, or asset transfer or acquisition.

Intradigm entered into a sale/financing advisory engagement with an investment banker in May 2008. Under the terms of the agreement, upon the successful close of the financing, the investment banker would be entitled to a fee based on a percentage of the total new investor money raised in addition to a warrant for common shares. The first tranche of the financing closed in 2008 and the resulting first tranche fee and warrant were netted from proceeds in 2008.

### 16. Capital Commitments

There were no capital commitments at 31 December 2006, 2007 or 2008.

### 17. Contingent Liabilities

There were no contingent liabilities at 31 December 2006, 2007 or 2008.

### 18. Collaborative and Licensing Agreements

On 2 June 2005, Intradigm executed a cross license and collaboration agreement with a third party. Per the agreement Intradigm has granted royalty bearing exclusive license rights to certain patents. Further, both parties agreed to work together to research and develop the Topical siRNA and subsequent commercialisation. Intradigm received license and research fees as agreed in the agreement amounting to \$450,000. The term of the license agreement was 20 years.

## Grant Awards

On 12 May 2004, Intradigm was awarded a small business innovation research grant through the National Institute of Health (“NIH”) in support of a project entitled “Targeted Delivery of siRNA to Inhibit Tumor Growth.”

On 28 May 2004, Intradigm was awarded a small business technology transfer grant through the National Institute of Health in support of a project entitled “Inhibition of Intracerebral Gliomas with DNazymes.”

On 21 June 2004, Intradigm was awarded a small business innovation research grant through the National Institute of Health in support of a project entitled “RNAi Therapeutics for Eye Neovascularization Diseases.”

On 29 July 2005, Intradigm was awarded a small business innovation research grant through the National Institute of Health in support of a project entitled “HK Polymers as Transfection Reagents for siRNA Delivery.”

Certain preconditions and other obligations of Intradigm with respect to grants awarded by the NIH to Intradigm may not have been satisfied by Intradigm. As a result, the revenue associated with these grants, a total of \$224,020, has been deferred. If Intradigm is unable to demonstrate that these obligations were met, the NIH may be able to recoup some of the deferred revenue.

## Other Collaboration Licensing Agreements

Intradigm entered into collaborative licensing agreements with various third parties. Under the terms of the license agreements, Intradigm will be required to pay an upfront license fee, make milestone payments and royalty payments based upon a percentage of net sales of any products developed from the licensed technology. Intradigm paid an aggregate upfront license fee of \$290,000 on execution of these agreements. The upfront license payment was immediately expensed to research and development as the patents and technology had not yet reached technological feasibility and had no alternative future uses. In 2003, Intradigm also issued 125,000 shares of Series B convertible preferred shares as an upfront fee which was converted to common shares in 2006.

## 19. Financial Instruments and Risk Management

Intradigm’s financial instruments comprise primarily of cash and cash equivalents, accounts receivable, prepayments and various trade debtors which arise directly from its operations. The main purpose of these financial instruments is to provide working capital for Intradigm’s operations.

### Financial Asset by Category

The categories of financial assets (as defined by International Accounting Standards 39, Financial Instruments: Recognition and Measurement (IAS 39)) are included in the balance sheet as follows:

	31 December		
	2006	2007	2008
	\$	\$	\$
<b>Assets</b>			
Loans and receivables	1,523,447	4,052,962	9,629,563
Available-for-sale financial assets	—	369,748	—
	<u>1,523,447</u>	<u>4,422,710</u>	<u>9,629,563</u>

All amounts are short term other than restricted cash of \$87,670 which is related to the deposit for the facility lease, see note 15. No amounts of financial assets are past due.

### Financial Liability by Category

The categories of financial liabilities (as defined by IAS 39) are included in the balance sheet as follows:

	31 December		
	2006	2007	2008
	\$	\$	\$
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss	—	—	438,655
Other financial liabilities	4,425,105	6,009,146	14,663,812
	<u>4,425,105</u>	<u>6,009,146</u>	<u>15,102,467</u>

### Credit Risk

The maximum exposure to credit risk at the reporting dates by class of financial asset was:

	31 December		
	2006	2007	2008
	\$	\$	\$
Cash and cash equivalents	1,252,522	3,806,838	9,429,451
Accounts receivables	166,420	56,460	4,712
	<u>1,418,942</u>	<u>3,863,298</u>	<u>9,434,163</u>

Financial instruments that potentially subject Intradigm to a concentration of credit risk consist of cash and cash equivalents and accounts receivable. Substantially all Intradigm's cash and cash equivalents are held by one financial institution. Management believes the financial institutions are of high credit quality. Such deposits may, at times, exceed federally insured limits. In respect of accounts receivables, Intradigm is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

### Market Risk

Intradigm's policy is to minimise interest rate cash flow risk exposures on its long-term financing. Longer-term borrowings are therefore usually at fixed rates.

### Liquidity Risk

Intradigm manages its liquidity needs by carefully monitoring scheduled debt payments for long-term financial liabilities as well as cash-outflows due in its day-to-day business. Liquidity needs are monitored in various time schedules, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

Intradigm maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding with regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

At 31 December 2006, Intradigm's financial liabilities had contractual maturities which are summarised below:

	<i>Due within 1 year</i>	<i>Due between 1 – 5 years</i>	<i>Due beyond 5 years</i>	<i>Total</i>
	\$	\$	\$	\$
Borrowings	1,733,121	—	—	1,733,121
Trade payables	1,156,230	—	—	1,156,230
Accrued liabilities	1,535,754	—	—	1,535,754
	<u>4,425,105</u>	<u>—</u>	<u>—</u>	<u>4,425,105</u>

At 31 December 2007, Intradigm's financial liabilities had contractual maturities which are summarised below:

	<i>Due within 1 year</i>	<i>Due between 1 – 5 years</i>	<i>Due beyond 5 years</i>	<i>Total</i>
	\$	\$	\$	\$
Borrowings	1,166,667	3,724,970	—	4,891,637
Trade payables	202,283	—	—	202,283
Accrued liabilities	878,809	—	—	878,809
Other liabilities	—	36,417	—	36,417
	<u>2,247,759</u>	<u>3,761,387</u>	<u>—</u>	<u>6,009,146</u>

At 31 December 2008, Intradigm's financial liabilities had contractual maturities which are summarised below:

	<i>Due within 1 year</i>	<i>Due between 1 – 5 years</i>	<i>Due beyond 5 years</i>	<i>Total</i>
	\$	\$	\$	\$
Borrowings	2,000,000	1,927,758	—	3,927,758
Trade payables	148,495	—	—	148,495
Accrued liabilities	1,152,221	—	—	1,152,221
Other liabilities	—	275,759	—	275,759
Preferred shares warrant liability	—	—	438,655	438,655
Series B redeemable convertible preferred shares	—	2,943,357	6,216,223	9,159,580
	<u>3,300,716</u>	<u>5,146,874</u>	<u>6,654,878</u>	<u>15,102,468</u>

## 20. Related Party Transactions

On 3 March 2003 and 21 November 2003, Intradigm signed two senior convertible promissory notes with the then Chief Scientific Officer of Intradigm, in the amount of \$25,000 and \$50,000, respectively. Interest was accrued at the rate of 12 per cent. per annum on both promissory notes. The notes carried a conversion election whereby the holder had the right to convert the unpaid principal and interest accrued into the most senior equity securities sold in the next financing. The principal and accrued interest on the promissory notes were converted to Series A convertible preferred shares in May 2006 and January 2007.

On 3 March 2003 and 30 October 2003, Intradigm signed two promissory notes with the then Chief Executive Officer of Intradigm, in the amount of \$25,000 and \$100,000, respectively. Interest was accrued at the rate of 12 per cent. per annum on both promissory notes. The notes carried a conversion election whereby the holder had the right to convert the unpaid principal and interest accrued into the most senior equity securities sold in the next financing.

The principal and accrued interest on the promissory notes were converted to Series A convertible preferred shares in May 2006 and January 2007.

## **21. Subsequent Events**

On 29 January 2009, the Board of Directors of Intradigm authorised a further 10:1 reverse stock split of Intradigm's preferred and common shares.

On 14 October 2009, the Board of Directors of Intradigm approved an amendment to the operating lease for the office space extending the term until 31 December 2010. Intradigm has the right to terminate the lease anytime after 30 June 2010 with 90 days prior written notice.

## SECTION B – UNAUDITED INTERIM FINANCIAL STATEMENTS FOR INTRADIGM

### Balance Sheets

All amounts presented in US\$

	<i>30 June</i>	
	2008	2009
	\$	\$
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property and equipment	791,434	533,894
Intangible assets	8,725	4,167
Restricted cash	87,670	87,670
	<u>887,829</u>	<u>625,731</u>
<b>Current assets</b>		
Accounts receivable	1,615	505
Short-term investment	97,334	—
Cash and cash equivalents	851,282	4,746,209
Prepaid expenses and other current assets	90,128	104,250
	<u>1,040,359</u>	<u>4,850,964</u>
<b>Total assets</b>	<u><u>1,928,188</u></u>	<u><u>5,476,695</u></u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to equityholders</b>		
Share capital	5,532	3,989
Capital reserves	3,601,994	13,291,784
Series A convertible preferred shares	19,294,871	15,266,664
Fair value and other reserves	97,211	—
Retained loss	(29,019,628)	(37,964,051)
<b>Total equity</b>	<u>(6,020,020)</u>	<u>(9,401,614)</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	2,909,698	945,818
Deferred revenue	676,520	676,520
Deferred rent	23,880	7,505
Series B redeemable convertible preferred shares	—	9,571,386
Preferred shares warrant liability	188,138	438,655
Other liabilities	106,183	215,893
	<u>3,904,419</u>	<u>11,855,777</u>
<b>Current liabilities</b>		
Trade payables	388,479	128,005
Accrued liabilities	541,503	894,527
Borrowings	3,113,807	2,000,000
	<u>4,043,789</u>	<u>3,022,532</u>
<b>Total liabilities</b>	<u>7,948,208</u>	<u>14,878,309</u>
<b>Total equity and liabilities</b>	<u><u>1,928,188</u></u>	<u><u>5,476,695</u></u>

## Income Statements

All amounts presented in US\$

	<i>For the Six Months ended 30 June</i>	
	<i>2008</i>	<i>2009</i>
	<i>\$</i>	<i>\$</i>
Revenue	—	—
Research and development costs	(2,813,295)	(2,354,360)
<b>Gross loss</b>	<b>(2,813,295)</b>	<b>(2,354,360)</b>
Administrative expenses	(1,395,798)	(1,272,182)
<b>Operating loss</b>	<b>(4,209,093)</b>	<b>(3,626,542)</b>
Interest and other income	158,796	7,313
Finance expense	(321,590)	(585,955)
<b>Loss for the period before taxation</b>	<b>(4,371,887)</b>	<b>(4,205,184)</b>
Taxation	—	—
<b>Loss for the period after taxation</b>	<b>(4,371,887)</b>	<b>(4,205,184)</b>

## Statement of Changes in Equity

For the Period from 1 January 2008 to 30 June 2008

All amounts presented in US\$

	Share Capital \$	Capital Reserves \$	Preferred Share Reserves \$	Fair-value and other reserves \$	Retained Loss \$	Total Equity \$
<b>Balance at 1 January 2008</b>	5,532	3,479,727	19,294,871	369,498	(24,647,741)	(1,498,113)
Recognition of share-based compensation	—	122,267	—	—	—	122,267
Loss for the period ended 30 June 2008	—	—	—	—	(4,371,887)	(4,371,887)
<b>Other comprehensive income:</b>						
Available-for-sale financial assets						
– current year gains (losses)	—	—	—	—	—	—
– reclassification to profit or loss	—	—	—	(272,287)	—	(272,287)
<i>Total comprehensive income for the year</i>	—	—	—	(272,287)	(4,371,887)	(4,644,174)
<b>Balance at 30 June 2008</b>	<u>5,532</u>	<u>3,601,994</u>	<u>19,294,871</u>	<u>97,211</u>	<u>(29,019,628)</u>	<u>(6,020,020)</u>

For the Period from 1 January 2009 to 30 June 2009

All amounts presented in USD\$

	Share Capital \$	Capital Reserves \$	Preferred Share Reserves \$	Fair-value and other reserves \$	Retained Loss \$	Total Equity \$
<b>Balance at 1 January 2009</b>	39,835	12,946,037	15,266,664	—	(33,758,867)	(5,506,331)
Reclassification of share capital to share premium as a result of 10:1 reverse split	(35,851)	35,851	—	—	—	—
Exercise of common share options at \$0.50 per share for cash	5	287	—	—	—	292
Recognition of share-based compensation	—	309,609	—	—	—	309,609
Loss for the period ended 30 June 2009	—	—	—	—	(4,205,184)	(4,205,184)
<b>Other comprehensive income:</b>						
Available-for-sale financial assets						
– current year gains (losses)	—	—	—	—	—	—
– reclassification to profit or loss	—	—	—	—	—	—
<i>Total comprehensive income for the year</i>	—	—	—	—	(4,205,184)	(4,205,184)
<b>Balance at 30 June 2009</b>	<u>3,989</u>	<u>13,291,784</u>	<u>15,266,664</u>	<u>—</u>	<u>(37,964,051)</u>	<u>(9,401,614)</u>

## Statements of Cash Flows

All amounts presented in US\$

	<i>For the Six Months ended 30 June</i>	
	<i>2008</i>	<i>2009</i>
	<i>\$</i>	<i>\$</i>
<b>Cash flows from operating activities</b>		
Net Loss	(4,371,887)	(4,205,184)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of investments	(127,074)	—
Issuance of warrants in connection with debt	188,138	—
Depreciation & amortisation	120,070	122,910
Change in fair value of preferred shares warrants	—	—
Share-based compensation	122,267	309,609
Finance expense	160,888	526,480
Changes in assets and liabilities		
Accounts receivable	54,845	4,206
Prepaid expenses and other current assets	11,867	3,478
Accounts payable	186,196	(20,490)
Accrued liabilities	(384,034)	(299,497)
Deferred rent	(8,188)	(8,188)
Net cash used in operating activities	<u>(4,046,912)</u>	<u>(3,566,676)</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(123,318)	(2,185)
Proceeds from sale of investments	127,200	—
Net cash provided (used) in investing activities	<u>3,882</u>	<u>(2,185)</u>
<b>Cash flows from financing activities</b>		
Proceeds from notes payable	1,248,362	—
Repayment of notes payable	—	(1,000,000)
Proceeds from issuance of common shares	—	292
Interest paid	(160,888)	(114,673)
Net cash provided by financing activities	<u>1,087,474</u>	<u>(1,114,381)</u>
Net increase in cash and cash equivalents	(2,955,556)	(4,683,242)
Cash and cash equivalents at beginning of period	3,806,838	9,429,451
Cash and cash equivalents at end of period	<u>851,282</u>	<u>4,746,209</u>

## **Notes to Interim Financial Statements as at 30 June 2009 and 2008**

All amounts presented in US\$

### **1. Basis of preparation**

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and using the same accounting policies as in the preparation of the historical financial information for the years ended 31 December 2006, 2007 and 2008.

The information relating to the six months ended 30 June 2009 is neither audited nor reviewed.

### **2. Reverse Split**

On 29 January 2009, the Board of Directors of Intradigm authorised a 10:1 reverse share split of Intradigm's preferred and common shares. Share capital was adjusted to reflect fewer shares at a par value of \$0.01 per share.

### **3. Capital movements to 30 June 2009**

On 12 February 2009, an employee exercised an option to buy 583 common shares at the option price of \$0.50 per share for cash.

## **PART V**

### **UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF NET ASSETS OF THE ENLARGED GROUP**

Set out below is an unaudited pro forma statement of net assets based on the consolidated net assets of Silence Therapeutics as at 30 June 2009 and the net assets of Intradigm as at 30 June 2009, together with other adjustments as described in the notes below. This unaudited pro forma statement of net assets is provided for illustrative purposes only to show the effect on Silence Therapeutics of the Acquisition, Placing and Subscription as if they had occurred on 30 June 2009.

Because of the nature of pro forma information, this information addresses a hypothetical situation and does not therefore represent the actual financial position or results of the Enlarged Group.

The Enlarged Group will adopt Silence Therapeutics' accounting policies.

## Balance Sheets

	<i>Silence Therapeutics</i>	<i>Intradigm</i>	<i>Intradigm</i>		<i>Enlarged Group</i>
	30 June 2009	30 June 2009	30 June 2009	<i>Adjustments</i>	30 June 2009
	£'000	\$'000	£'000	£'000	£'000
	Note 1	Note 2	Note 2	Notes 3 & 4	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property and equipment	396	534	324	—	720
Goodwill	7,704	—	—	18,248	25,952
Intangible assets	734	4	3	—	737
Restricted cash	—	88	53	—	53
	<u>8,834</u>	<u>626</u>	<u>380</u>	<u>18,248</u>	<u>27,462</u>
<b>Current assets</b>					
Accounts receivable	613	1	1	—	614
Cash and cash equivalents	3,057	4,746	2,883	12,600	18,540
Prepaid expenses and other current assets	111	104	63	—	174
	<u>3,781</u>	<u>4,851</u>	<u>2,947</u>	<u>12,600</u>	<u>19,328</u>
<b>Total assets</b>	<u><u>12,615</u></u>	<u><u>5,477</u></u>	<u><u>3,327</u></u>	<u><u>30,848</u></u>	<u><u>46,790</u></u>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	—	946	575	—	575
Deferred revenue	—	677	411	—	411
Deferred rent	—	7	5	—	5
Series B redeemable convertible preferred shares	—	9,571	5,815	(5,815)	—
Preferred shares warrant liability	—	439	266	(266)	—
Other liabilities	—	216	131	—	131
	<u>—</u>	<u>11,856</u>	<u>7,203</u>	<u>(6,081)</u>	<u>1,122</u>
<b>Current liabilities</b>					
Trade payables	338	128	78	300	716
Deferred revenue	86	—	—	—	86
Accrued liabilities	405	895	543	—	948
Borrowings	—	2,000	1,215	—	1,215
	<u>829</u>	<u>3,023</u>	<u>1,836</u>	<u>300</u>	<u>2,965</u>
<b>Total liabilities</b>	<u>829</u>	<u>14,879</u>	<u>9,039</u>	<u>(5,781)</u>	<u>4,087</u>
<b>Net assets/(liabilities)</b>	<u><u>11,786</u></u>	<u><u>(9,402)</u></u>	<u><u>(5,712)</u></u>	<u><u>36,629</u></u>	<u><u>42,703</u></u>

**Notes:**

1. The financial information in respect of Silence Therapeutics as at 30 June 2009 has been extracted, without material adjustment, from the unaudited interim financial statements of Silence Therapeutics plc as at 30 June 2009, as previously announced.
2. The financial information in respect of Intradigm as at 30 June 2009 has been extracted, without material adjustment, from the unaudited interim financial information on Intradigm as at 30 June 2009 as set out in Section B of Part IV of this document. The financial information in respect of Intradigm has been translated from US dollars to British Pounds using the foreign exchange rate as at 30 June 2009, being US\$1.646:£1.
3. The pro forma net asset statement has been prepared on the basis that the consideration payable pursuant to the Acquisition of Intradigm will be settled by the issue of ordinary shares in Silence Therapeutics. Under the terms of the Acquisition agreement, Silence Therapeutics will issue 79,640,668 Consideration Shares and assume a tax liability of circa £0.3 million to acquire Intradigm. At a price of 23p per Ordinary Share, this implies a total consideration of £18.617 million.

The transaction is being treated as an acquisition for accounting purposes and goodwill has been calculated as the difference between the fair value of the consideration given and the net assets of Intradigm acquired, adjusted to eliminate the liability balances in Intradigm relating to Series B redeemable convertible preferred shares and preferred share warrants which are either being acquired or otherwise lapse or are extinguished, pursuant to the Acquisition Agreement.

No fair value adjustments have been made to the net assets of Intradigm in the pro forma financial information.

4. In order to enhance the reader's understanding of the Enlarged Group, an adjustment has been made to reflect the Placing and Subscription carried out by Silence Therapeutics contemporaneously with the Acquisition. Silence Therapeutics has sought shareholder approval to issue 39,884,402 Placing Shares and 25,332,990 Subscription Shares at an issue price of 23p per share to raise £15 million gross. Costs associated with the Acquisition and Placing estimated at £2.4 million have been deducted from the gross funds received for the purpose of arriving at the pro forma net assets of the Enlarged Group.
5. The pro forma financial information does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006.
6. Apart from the matters set out above, no other adjustments have been made to reflect any trading, changes in working capital or other movements in the financial position of Silence Therapeutics or Intradigm since 30 June 2009.

## PART VI

### STATUTORY AND GENERAL INFORMATION

#### 1. Responsibility

The Directors and Proposed Directors, whose names appear on page 4 of this document, accept individual and collective responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge of the Directors and Proposed 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 contains no omission likely to affect the import of such information.

For the purpose of Rule 19.2 of the Takeover Code only, each member of the Concert Party accepts responsibility for the information contained in this document relating to that member of the Concert Party. To the best of their knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this document for which each member of the Concert Party is responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. The Company, its share capital and subsidiaries

(a) The Company was incorporated in England and Wales on 18 November 1994 as a public limited company under the Companies Act 1985 with registered number 2992058. On 21 June 1999 the name of the Company was changed from Stanford Rook Holdings plc to SR Pharma plc and on 26 April 2007 to Silence Therapeutics plc.

(b) The principal legislation under which the Company operates is the Act and regulations made thereunder. The liability of members is limited.

(c) The registered office of the Company is 22 Melton Street, London NW1 2BW and its principal place of business in the United Kingdom is The Royal Institution, 21 Albemarle Street, London W1S 4BS.

(d) As at the date of this document the issued share capital of the Company is as follows:

	<i>Issued and fully paid</i>	
	<i>Number</i>	<i>£</i>
Ordinary Shares	135,033,392	1,350,334

(e) On completion of the Proposals the issued share capital of the Company will be as follows:

	<i>Issued and fully paid</i>	
	<i>Number</i>	<i>£</i>
Ordinary Shares	279,891,452	2,798,915

(f) The Directors are generally and unconditionally authorised for the purposes of section 551 of the Act to exercise all powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares up to an aggregate nominal value of £135,033 such authority (unless previously revoked or varied) to expire on the earlier of the annual general meeting of the Company to be held in 2010 or 14 March 2011 save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to be granted after such expiry.

- (g) The provisions of section 561(1) of the Act which confer on Shareholders rights of pre-emption in respect of the allotment of securities for cash do not apply to the allotment of Ordinary Shares up to an aggregate nominal value of £135,034 until the earlier of the annual general meeting of the Company to be held in 2010 and 14 March 2011. Subject to certain limited exceptions, unless the approval of Shareholders in general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to existing Shareholders on a pro rata basis.
- (h) Options have been granted to Directors pursuant to the EMI Scheme and under the Unapproved Scheme as follows:

<i>Director</i>	<i>Scheme Type</i>	<i>Number</i>	<i>Exercise price</i>	<i>Date from which exercisable</i>	<i>Latest expiry date</i>
I G Ross	Unapproved Scheme	500,000	27p	28/05/04	27/05/14
	Unapproved Scheme	1,000,000	23p	25/07/05	24/07/15
	Unapproved Scheme	1,000,000	23p	25/07/06	24/07/15
	Unapproved Scheme	1,000,000	23p	25/07/07	24/07/15
	Unapproved Scheme	1,000,000	23p	25/07/08	24/07/15
	Unapproved Scheme	150,000	43p	24/11/07	23/11/16
	Unapproved Scheme	125,000	43p	24/11/08	23/11/16
	Unapproved Scheme	125,000	43p	24/11/09	23/11/16
	Unapproved Scheme	366,667	20p	5/12/09	4/12/18
	Unapproved Scheme	366,667	20p	5/12/10	4/12/18
	Unapproved Scheme	366,666	20p	5/12/11	4/12/18
J M Davies	EMI Scheme	200,000	27p	28/05/07	28/05/14
	Unapproved Scheme	250,000	23p	25/07/05	24/07/15
	Unapproved Scheme	300,000	23p	25/07/06	24/07/15
	Unapproved Scheme	350,000	23p	25/07/07	24/07/15
	Unapproved Scheme	400,000	23p	25/07/08	24/07/15
	Unapproved Scheme	75,000	43p	24/11/07	23/11/16
	Unapproved Scheme	62,500	43p	24/11/08	23/11/16
	Unapproved Scheme	62,500	43p	24/11/09	23/11/16
	Unapproved Scheme	250,000	20p	5/12/09	4/12/18
	Unapproved Scheme	250,000	20p	5/12/10	4/12/18
	Unapproved Scheme	250,000	20p	5/12/11	4/12/18
J L Curnock Cook	Unapproved Scheme	50,000	23p	25/07/05	24/07/15
	Unapproved Scheme	60,000	23p	25/07/06	24/07/15
	Unapproved Scheme	70,000	23p	25/07/07	24/07/15
	Unapproved Scheme	70,000	23p	25/07/08	24/07/15
	Unapproved Scheme	116,667	20p	5/12/09	4/12/18
	Unapproved Scheme	116,667	20p	5/12/10	4/12/18
	Unapproved Scheme	116,666	20p	5/12/11	4/12/18

<i>Director</i>	<i>Scheme Type</i>	<i>Number</i>	<i>Exercise price</i>	<i>Date from which exercisable</i>	<i>Latest expiry date</i>
H R P Reynolds	Unapproved Scheme	200,000	27p	28/05/04	27/05/14
	Unapproved Scheme	50,000	23p	25/07/05	24/07/15
	Unapproved Scheme	60,000	23p	25/07/06	24/07/15
	Unapproved Scheme	70,000	23p	25/07/07	24/07/15
	Unapproved Scheme	70,000	23p	25/07/08	24/07/15
	Unapproved Scheme	166,667	20p	5/12/09	4/12/18
	Unapproved Scheme	166,667	20p	5/12/10	4/12/18
	Unapproved Scheme	166,666	20p	5/12/11	4/12/18
D C U'Prichard	Unapproved Scheme	50,000	23p	25/07/05	24/07/15
	Unapproved Scheme	60,000	23p	25/07/06	24/07/15
	Unapproved Scheme	70,000	23p	25/07/07	24/07/15
	Unapproved Scheme	70,000	23p	25/07/08	24/07/15
	Unapproved Scheme	166,667	20p	5/12/09	4/12/18
	Unapproved Scheme	166,667	20p	5/12/10	4/12/18
	Unapproved Scheme	166,666	20p	5/12/11	4/12/18
B O Wetzel	Unapproved Scheme	50,000	23p	25/07/05	24/07/15
	Unapproved Scheme	60,000	23p	25/07/06	24/07/15
	Unapproved Scheme	70,000	23p	25/07/07	24/07/15
	Unapproved Scheme	70,000	23p	25/07/08	24/07/15
	Unapproved Scheme	166,667	20p	5/12/09	4/12/18
	Unapproved Scheme	166,667	20p	5/12/10	4/12/18
	Unapproved Scheme	166,666	20p	5/12/11	4/12/18
A Clancy	Unapproved Scheme	200,000	29.5p	26/09/08	25/09/18
J Randall	Unapproved Scheme	200,000	29.5p	26/09/08	25/09/18
Total		<u>11,450,000</u>			

Options have also been granted to employees of the Company pursuant to the Unapproved Scheme and Approved Scheme. Details of the options outstanding are as follows:

<i>Exercise date:</i>	<i>Number</i>	<i>Exercise Price</i>
At any time up to 24 July 2015	2,550,000	23.0p
At any time up to 25 July 2016	801,412	12.75p
At any time up to 23 November 2016	600,000	43.0p
At any time up to 29 May 2017	70,000	109.0p
Between 31 March 2010 and 29 May 2017	10,000	109.0p
At any time up to 26 July 2017	668,000	127.0p
Between 26 July 2010 and 26 July 2017	332,000	127.0p
At any time up to 14 December 2017	386,669	67.75p
Between 14 December 2010 and 14 December 2017	193,331	67.75p
At any time up to 6 May 2018	36,667	41.5p
Between 7 May 2010 and 6 May 2018	36,667	41.5p
Between 7 May 2011 and 6 May 2018	61,666	41.5p
At any time up to 25 September 2018	5,000	29.5p
Between 26 September 2010 and 25 September 2018	5,000	29.5p
Between 26 September 2011 and 25 September 2018	5,000	29.5p
At any time up to 4 December 2018	833,334	20.0p
Between 5 December 2010 and 4 December 2018	1,633,347	20.0p
Between 5 December 2011 and 4 December 2018	1,233,318	20.0p
Total	<u>9,461,411</u>	

As part of the fee structure in respect of the acquisition of Silence Therapeutics AG and the subsequent fundraising in mid-2005, the Group issued warrants to its advisers which could be exercised at any time within five years from the date of issue. The outstanding warrants are:

Exerciseable up to 24 July 2010	925,926	27.0p
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The total numbers of options and warrants outstanding are:

Options to Directors	11,450,000
Options to staff	9,461,411
Warrants	925,926
Total	<u>21,837,337</u>

The following is a summary of the terms of the EMI Scheme:

Options may be granted under the EMI Scheme only to employees who fulfill the qualification criteria laid down by Schedule 14 of the Finance Act 2000. Options are granted at an exercise price equivalent to the market price at the date of grant. The options may be exercised at any time between the third and tenth anniversaries of the grant of the options. The options will lapse within 40 days of the employee ceasing to fulfill the relevant criteria or of any other disqualifying event laid down by statute, or within one year of the employee's death. The maximum amount of options that may be granted to any one individual or to members of the EMI Scheme in aggregate is stipulated in the above legislation, as amended from time to time. The EMI Scheme is open to key employees within the group.

The following is a summary of the terms of the Approved Scheme:

Options may only be granted under the Approved Scheme in circumstances that comply with Schedule 9 of the Income and Corporation Taxes Act 1988. Options are granted at an exercise price equivalent to the market price at the date of grant. The options may be exercised at any time between the third and tenth anniversaries of the grant of the options. The options will normally lapse within six months of the employee leaving the company, or within one year of the employee's death. The maximum number of options that may be granted to any one individual is restricted by statute such that the aggregate exercise price of all options held by an individual within the Approved Scheme does not exceed £30,000. The maximum aggregate number of Ordinary Shares that may be issued pursuant to the exercise of options under the Approved Scheme is restricted to five per cent. of the issued share capital of the Company. The Approved Scheme is open to all employees.

The following is a summary of the terms of the Unapproved Scheme:

The Unapproved Scheme is used in circumstances where the EMI Scheme or Approved Scheme are either not available or not suitable for the employee concerned. The Unapproved Scheme is open to all employees. The rules of the Unapproved Scheme allow for the exercise price of the options to be set at the date of grant. In practice, all options granted to date have been issued with an exercise price equal to the market value of the shares as at the date of grant. All options granted under the Unapproved Scheme must be exercised within ten years of the date of grant or six months from the employee ceasing to be an eligible employee or within one year of the employee's death. The rules of the Unapproved Scheme allow for the date from which the options can be exercised to be set at the date of grant.

- (j) No shares in the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.
- (k) Except as stated in this document:
  - (i) the Company does not have in issue any securities not representing share capital;
  - (ii) there are no outstanding convertible securities issued by the Company;
  - (iii) no share capital of the Company is under option or has been granted conditionally or unconditionally to be put under option;
  - (iv) the Company has no present intention to issue any of the authorised but unissued share capital of the Company; and
  - (v) none of the Directors nor members of their families (as such expression is defined in the AIM Rules) has a related financial product referenced to the Ordinary Shares.

A number of employees of Intradigm currently hold options over Intradigm stock which are exercisable at \$0.50. As part of the Proposals such options shall be cancelled and options over Ordinary Shares which shall be exercisable at the higher of (i) the Issue Price and (ii) the market value of an Ordinary Share on the date on which the options over Ordinary Shares are granted, shall be issued to those Intradigm employees. Such options will be substituted on a 1 for 1 basis, resulting in the grant of options over an aggregate of 2,989,296 Ordinary Shares under the Unapproved Scheme.

### 3. Directors and their interests

- (a) The directorships (other than of the Company) and partnerships held by each of the Directors and Proposed Directors at the date of this document and in the past five years preceding the date of this document are as follows:

#### *Directors*

##### **Iain Ross**

###### *Current Directorships/Partnerships*

Silence Therapeutics AG  
Stanford Rook Limited  
Biomer Technology Limited  
Breast Cancer Haven  
Gladstone Partners Limited  
Powerstax plc  
Yellowcross Limited

###### *Previous Directorships/Partnerships*

Angle plc  
Eden Biopharma Group Limited  
Eden Biodesign Limited  
Ozone Industries Limited  
Procognia Limited  
ULive plc  
Hansard Group plc  
Metabometrix Limited  
Phadia AB

##### **Peter Reynolds**

###### *Current Directorships/Partnerships*

Charter Systems Limited  
Swallow Ventures Limited  
Waltech Limited  
Vialogy plc

###### *Previous Directorships/Partnerships*

Eckoh plc  
Maidborough Limited  
Sterling Designs Limited<sup>1</sup>  
Sterling Kitchens Limited  
Wilshaw plc  
Wilshaw International Limited  
Withnell Unit Assembly Limited

##### **Melvyn Davies**

###### *Current Directorships/Partnerships*

Silence Therapeutics AG  
Stanford Rook Limited  
Innopeg Limited  
Melvyn Davies & Co,  
Chartered Accountants  
Melvyn Davies & Co, Limited

###### *Previous Directorships/Partnerships*

Cotterell Davies Limited

##### **Annette Clancy**

###### *Current Directorships/Partnerships*

None

###### *Previous Directorships/Partnerships*

None

##### **Jerry Randall**

###### *Current Directorships/Partnerships*

Kinneir Dufort Design Limited  
Kinneir Dufort Limited  
Avantis (UK) Limited

###### *Previous Directorships/Partnerships*

Maggiore Ventures Limited  
Operation Smile (UK) Limited  
Sinclair Pharma plc  
Tracey Malone Originals Limited  
Lubatti Limited

<sup>1</sup> Sterling Designs Limited entered voluntary liquidation for creditors in 2008.

**Jeremy Curnock Cook***Current Directorships/Partnerships*

Biocompatibles International plc  
IB Managers PTY Ltd  
Osteologix Inc  
Aegera Therapeutics Inc.  
Topigen Pharmaceuticals Inc.  
Eacom Timber Co Inc  
Targeted Genetics Inc  
Silence Therapeutics AG  
Excalibur Group Holdings Ltd  
International Bioscience Managers Limited

*Previous Directorships/Partnerships*

Bioscience Managers Limited  
Q-Chip Limited  
BML Canada Ltd  
Amrad Corporation  
Sirna Therapeutics Inc

**David U'Prichard***Current Directorships/Partnerships*

Life Technologies Inc.  
Cyclacel Inc.  
Oxagen Limited  
Red Abbey LLC

*Previous Directorships/Partnerships*

Cyclacel Limited  
Cogenesys  
Lynx Therapeutics  
Alpharma  
Apax Partners  
Guilford Pharmaceuticals  
Atugen AG

**Bernd Wetzel***Current Directorships/Partnerships*

Biofrontera AG  
Develogen AG

*Previous Directorships/Partnerships*

Direvo AG  
Biovertis AG

*Proposed Directors***James Newman Topper***Current Directorships/Partnerships*

Amicus Therapeutics Inc.  
Arete Therapeutics Inc.  
Calistoga Therapeutics Inc.  
Intradigm Corporation  
Alnara Pharma Inc.  
AnaptysBio Inc.

*Previous Directorships/Partnerships*

La Jolla Pharmaceutical Company  
Zelos Therapeutics Inc.

**Philip Haworth***Current Directorships/Partnerships*

Intradigm Corporation

*Previous Directorships/Partnerships*

None

**David Mack**

*Current Directorships/Partnerships*

Aerie Pharmaceuticals Inc  
aTyr Pharma Inc  
Ceregene Inc  
Intradigm Corporation  
Proacta Inc.  
Sutro Biopharma Inc

*Previous Directorships/Partnerships*

Angiosyn Inc  
Vitra Bioscience Inc<sup>1</sup>  
Humane Society Silicon Valley

- (b) Save as disclosed above, none of the Directors or Proposed Directors has:
- (i) any unspent convictions relating to indictable offences;
  - (ii) had a bankruptcy order made against him or entered into any individual voluntary arrangements with his creditors;
  - (iii) been a director of a company or limited liability partnership which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into 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 at the time of, or within the 12 months preceding, such events;
  - (iv) been a partner of a partnership which has been placed in compulsory liquidation or administration or which has entered into a partnership voluntary arrangement whilst he was a partner of that firm at the time of, or within twelve months preceding, such events;
  - (v) had any asset belonging to him which has been the subject of a receivership or been a partner of a partnership whose assets have been placed in receivership whilst he was a partner at the time of, or within twelve months preceding, such receivership; or
  - (vi) been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or ever been disqualified by a court from acting as a director of a company or limited liability partnerships or from acting in the management or conduct of the affairs of any company or limited liability partnerships.

<sup>1</sup> Vitra entered voluntary liquidation for creditors in 2005

- (c) The interests (all of which are beneficial unless otherwise stated) of the Directors and Proposed Directors in the share capital of the Company are, as at the date of this document and as expected to be immediately following Admission, as follows:

	<i>Current</i>		<i>Following completion of the Proposals</i>	
	<i>Number of Ordinary Shares</i>	<i>% of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>% of enlarged issued share capital</i>
Iain Ross	345,801	0.26	345,801	0.12
Peter Reynolds	384,550	0.28	384,550	0.14
Melvyn Davies	112,125	0.08	112,125	0.04
Annette Clancy	—	—	—	—
Jerry Randall	50,000	0.04	50,000	0.02
Bernd Wetzel	22,720	0.02	22,720	0.01
Jeremy Curnock Cook	151,687	0.11	151,687	0.05
David U'Prichard	50,000	0.04	50,000	0.02
Philip Haworth	—	—	334,302	0.12
David Mack	—	—	—	—
Jamie Topper	—	—	—	—

Save as disclosed above none of the Directors or Proposed Directors has any interest whether beneficial or non beneficial in the share capital of the Company.

- (d) The following are particulars of Melvyn Davies' service agreement:

Melvyn Davies is employed as the Company's Finance Director under the terms of a service agreement dated 2 April 2003 and subsequent letter of amendment dated 27 November 2006. Mr. Davies' employment may be terminated by either party giving to the other not less than 12 months' written notice. His current salary is £135,200 per annum. Mr. Davies is entitled to participate in any executive performance scheme implemented by the Board or any performance related bonus at the discretion of the Board. The Company pays contributions to Mr. Davies' personal pension scheme at the rate of 17.5 per cent. of the lower of his basic annual salary or £100,000 (or such higher earnings cap set by the Remuneration Committee from time to time). Mr. Davies receives private medical insurance, life assurance, health insurance and company sick pay by way of additional benefits. In addition, on completion of the Acquisition, he will be entitled to receive a cash bonus of £100,000.

- (e) The following are particulars of the Non-executive Directors' letters of appointment:

- (i) On 2 October 2007 Iain Ross signed a letter of appointment with the Company in respect of the provision of his services as non-executive Chairman. The appointment commenced on 2 October 2007 for an initial term of 12 months following which his reappointment will be reviewed annually on 30 September each year (or earlier) or upon the date that he reaches the age of 60 subject to earlier termination by either party giving six months' written notice. The annual fee payable to Mr. Ross is £60,000 per annum. In addition to his duties as Chairman, since January 2008 Mr. Ross has provided executive support and advice on a consultancy basis. Currently he is paid £15,000 per month for these additional consultancy services. Upon completion of the Acquisition he will continue as non-executive Chairman on the same terms but cease to provide ongoing executive

support. Mr Ross will be paid six months consultancy fees in lieu of notice and will be entitled to receive a cash bonus of £125,000.

- (ii) On 28 May 2004, Peter Reynolds signed a letter of appointment with the Company in respect of the provision of his services as a non-executive Director. The appointment commenced on 21 June 2004 for an initial term of three years subject to early termination by either party giving six months' written notice. The annual fee payable to Mr. Reynolds is £30,000.
  - (iii) On 25 July 2005, Jeremy Curnock Cook, David U'Prichard and Bernd Wetzel each signed letters of appointment with the Company. Their appointments commenced on 25 July 2005 for an initial term of six months following which their reappointments will be reviewed annually on 30 June each year (or if earlier) or upon the date that they reach the age of 60. Either party may give six months' written notice of termination of appointment. They are paid an annual fee of £30,000 each.
  - (iv) On 12 June 2008, each of Jerry Randall and Annette Clancy signed a letter of appointment with the Company in respect of the provision of their services as non-executive Directors. Their appointments commenced on 1 July 2008 for an initial term of 12 months following which their reappointments will be reviewed annually on 30 June each year or (if earlier) upon the date that they reach the age of 60. Either party may give six months' written notice of termination of appointment. They are paid an annual fee of £30,000 each.
- (f) The following are particulars of the Proposed Directors' service agreements or letters of appointment:
- (i) On or prior to Admission, Philip Haworth shall sign a service agreement with the Company in respect of the provision of his services as Chief Executive Officer of the Company. His appointment shall commence on Admission and shall be subject to a 12 months notice period or a payment in lieu of it (save in specific circumstances). He shall be paid an annual fee of \$30,000.  
  
In addition he shall enter into a service agreement with Intradigm under which he will serve as Chief Executive Officer of Intradigm. His appointment shall commence on Admission and shall be terminable at will. A severance payment of 12 months' salary, pro-rated bonus, medical plan premiums for 12 months and accelerated vesting apply to termination in certain circumstances. He shall be paid an annual fee of \$300,000 and will be eligible to receive an annual bonus of up to 50 per cent. of salary and to participate in the employee benefit plans.
  - (ii) On or prior to Admission, each of David Mack and James Topper shall sign a letter of appointment with the Company in respect of the provision of their services as Non-executive Directors. Their appointments shall commence on Admission and are on an "at will" basis but its envisaged they shall be for an initial term of 12 months following which their reappointments will be reviewed annually on 1 January each year or (if earlier) upon the date that they reach the age of 65. They shall be paid an annual fee of £30,000 each.
- (g) Other than as set out above, there have been no changes to Directors' service agreements or letters of appointment in the last six months.
- (h) It is estimated that the aggregate remuneration of the Directors and Proposed Directors (including benefits in kind and pension contributions) in the current financial year ending 31 December 2009 is expected to amount to £999,615 under arrangements in force at

the date hereof. The aggregate remuneration (including benefits in kind and pension contributions) for the prior financial year of the Company being for the 12 months to 31 December 2008 was £900,046.

- (i) Save as referred to in paragraphs (d) and (e) above, there are no service agreements in existence between any of the Directors and the Company which cannot be determined by the Company without payment of compensation (other than statutory compensation) within one year.

*Other interests*

- (j) At 15 December 2009 (the latest practicable date prior to the date of this document) and following Admission other than interests disclosed in paragraph (c) above, the Directors and Proposed Directors are aware of the following holdings which represent an interest (within the meaning of Part 22 of the Act), directly or indirectly, jointly or severally, in three per cent., or more of the issued share capital of the Company:

	<i>Current</i>		<i>Following completion of the Proposals</i>	
	<i>Number of Ordinary Shares</i>	<i>% of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>% of enlarged issued share capital</i>
Credit Agricole				
Chevreux Ltd	6,429,329	4.76	6,429,329	2.30
Fidelity International Ltd	5,786,931	4.29	18,830,409	6.73
Gartmore				
Investment Ltd	8,000,000	5.92	16,695,652	5.97
HBOS plc	6,691,977	4.96	6,691,977	2.39
Insight Investments Ltd	6,753,852	5.00	8,406,025	3.00
WAM Strategy Portfolio (EUR)	4,105,270	3.04	4,105,270	1.47

Save as disclosed above, the Company is not aware of any person who, immediately following Admission will, directly or indirectly, be interested in three per cent. or more of the issued share capital of the Company, or who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

**4. Interests and dealings**

- (a) *References*

The following definitions and terms apply throughout this paragraph 4:

“**acting in concert**” has the meaning attributed to it in the Takeover Code;

“**arrangement**” includes any indemnity or option arrangements, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing;

“**associate**” of any company means:

- (i) its parent, subsidiaries and fellow subsidiaries, their associated companies, and companies of which such companies are associated companies (for this purpose, ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status) (a “**company associate**”);

- (ii) its connected advisers and persons controlling, controlled by or under the same control as such connected advisers;
- (iii) its directors and the directors of any company covered in (i) above (together in each case with their close relatives and related trusts); and
- (iv) its pension funds or the pension funds of a company covered in (i) above;

“**connected adviser**” has the meaning attributed to it in the Takeover Code;

“**connected person**” has the meaning attributed to it in section 252 of the Companies Act;

“**control**” means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or aggregate holding gives *de facto* control;

“**dealing**” or “**dealt**” includes:

- (i) the acquisition or disposal of relevant securities, of the right (whether conditional or absolute) to exercise or direct the exercise of voting rights attached to relevant securities, or of general control of relevant securities;
- (ii) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a trade option contract) in respect of any relevant securities;
- (iii) subscribing or agreeing to subscribe for relevant securities;
- (iv) the exercise or conversion of any relevant securities carrying conversion or subscription rights (whether in respect of new or existing securities);
- (v) the acquisition or disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to relevant securities;
- (vi) entering into, terminating or varying the terms of any agreement to purchase or sell relevant securities; and
- (vii) any other action resulting, or which may result, in an increase or decrease in the number of relevant securities in which a person is interested or in respect of which he has a short position;

“**derivative**” includes any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security;

“**disclosure date**” means 15 December 2009, being the latest practicable date prior to the posting of this document;

“**disclosure period**” means the period commencing on 16 December 2008, being the date 12 months prior to the date of the posting of this document and ending on the disclosure date;

“**exempt principal trader**” or “**exempt fund manager**” have the meanings attributed to them in the Takeover Code;

being “**interested**” in relevant securities includes where a person:

- (i) owns relevant securities;

- (ii) has a right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to relevant securities or has general control of them;
- (iii) by virtue of any agreement to purchase, option or derivative, has the right or option to acquire relevant securities or call for their delivery or is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
- (iv) is party to any derivative whose value is determined by reference to their price and which results, or may result, in his having a long position in them;

**“related trust”** means any trust under which a director or any member of his immediate family is an actual or potential beneficiary or a trustee:

**“relevant securities”** means Ordinary Shares and securities convertible into, or rights to subscribe for, Ordinary Shares, options (including traded options) in respect thereof and derivatives referenced thereto;

**“short position”** means any short position (whether conditional or absolute and whether in the money or otherwise) including any short position under a derivative, agreement to sell or any delivery obligation or right to require any other person to purchase or take delivery.

(b) *Novartis Bioventures Ltd. interest in Silence Therapeutics*

The relevant interests in Silence Therapeutics and its maximum potential controlling position, now and following completion of the Proposals, will be as follows:

Name	Current		Following completion of the Proposals	
	Number of Existing Ordinary Shares	% holding in Silence Therapeutics	Number of New Ordinary Shares	% holding in Silence Therapeutics
Novartis Bioventures Ltd.	2,766,683	2.05	5,781,975	2.07

For the purposes of the Proposals Novartis Bioventures Ltd. has been excluded from the voting on Resolution 4 as it is not an Independent Shareholder.

(c) *Market dealings in relevant Silence Therapeutics securities by Novartis Bioventures Ltd.*

No dealings have taken place during the disclosure period in relevant Silence Therapeutics securities by Novartis or any other person acting in concert with Novartis.

(d) *Concert Party interests and dealings*

As at the close of business on the disclosure date, and save as disclosed in paragraphs (a) and (b) above and paragraph 9 of Part I of this document:

- (i) the Concert Party had no interest in or right to subscribe for, nor had any short position in relation to, any relevant securities, nor had they dealt in any relevant securities during the disclosure period;
- (ii) none of the Concert Party’s directors, where relevant, had an interest in or a right to subscribe for, or had any short position in relation to, any relevant securities, nor had any such person dealt in any relevant securities during the disclosure period;

- (iii) no person acting in concert with the Concert Party had an interest in or a right to subscribe for, or had any short position in relation to, any relevant securities, nor had any such person dealt in any relevant securities during the disclosure period;
- (iv) there were no arrangements which existed between the Concert Party, or any person acting in concert with the Concert Party, and any other person; and
- (v) neither the Concert Party nor any person acting in concert with the Concert Party has borrowed or lent any relevant securities, save for any borrowed shares which have either been on-lent or sold.

(e) *Silence Therapeutics interests and dealings*

As at the close of business on the disclosure date, save as disclosed in paragraph 3 of this Part VI:

- (i) none of the Directors had an interest in or a right to subscribe for, or had any short position in relation to, any relevant securities;
- (ii) no company associate of Silence Therapeutics had any interest in, or right to subscribe for, or had any short position in relation to, any relevant securities;
- (iii) no pension fund of Silence Therapeutics or of a company associate of Silence Therapeutics had any interest in or right to subscribe for, or had any short position in relation to, any relevant securities;
- (iv) no employee benefit trust of Silence Therapeutics or of a company associate of Silence Therapeutics had any interest in or right to subscribe for, or had any short position in relation to, any relevant Silence Therapeutics securities;
- (v) no connected adviser to Silence Therapeutics or to a company associate of Silence Therapeutics or to a person acting in concert with Silence Therapeutics, nor any person controlling, controlled by or under the same control as any such connected adviser (except for an exempt principal trader or exempt fund manager) had any interest in or right to subscribe for, or had any short position in relation to, any relevant securities;
- (vi) Silence Therapeutics has not redeemed or purchased any relevant securities during the disclosure period;
- (vii) there were no arrangements which existed between Silence Therapeutics or any associate of Silence Therapeutics and any other person; and
- (viii) neither Silence Therapeutics nor any person acting in concert with Silence Therapeutics has borrowed or lent any relevant securities, save for any borrowed shares which have either been on-lent or sold.

**5. Additional disclosure required by the Takeover Code**

- (a) Save as disclosed in this document, neither the Concert Party nor any persons acting in concert with it have entered into agreements, arrangements or understandings (including any compensation arrangement) with any of Silence Therapeutics' Directors, recent directors, Shareholders, recent shareholders or any person interested or recently interested in Ordinary Shares which are connected with or dependent upon the outcome of the Proposals. No member of the Concert Party has entered into any agreement, arrangement or understanding to transfer any Ordinary Shares to any person.
- (b) The Concert Party currently intends to allow Silence Therapeutics and the Enlarged Group to be managed and run in line with the Company's proposed strategy, as detailed

further in paragraph 9 of Part I of this document. As such, it does not have any intentions regarding Silence Therapeutics' business that would affect:

- (i) the strategic plans of the Company;
- (ii) the employment of Silence Therapeutics personnel, including the continued employment of, or the conditions of employment of, any of the Group's management; or
- (iii) the locations of Silence Therapeutics' business or operating subsidiaries.

The Concert Party does not have any immediate intentions to dispose of or otherwise change the use of any of the fixed assets within the Silence Therapeutics Group.

- (c) As referred to in paragraph 6 of Part I of this document, as an inducement to each party to complete the Acquisition, the Acquisition Agreement contains break fee provisions which entitle each party to a termination fee of \$500,000 if the other party terminates the Acquisition Agreement in certain circumstances. The \$500,000 break fee is payable by Silence Therapeutics if (i) the Acquisition Agreement is terminated in the event that either the EGM has not taken place or the Resolutions to be proposed thereat have not been passed, but only if, prior to such termination, there has been an offer (or public announcement relating to an offer) to acquire all or substantially all of the Company's assets or more than 50 per cent. of the Ordinary Shares, and (ii) within 12 months of such termination a definitive agreement relating to such offer is entered into by the Company or otherwise completes. Due to the fact that the termination fees referred to above are payable in the context of a transaction requiring a Panel waiver, the provisions of the Takeover Code relating to inducement fees apply. Accordingly, the Directors and Nomura Code have confirmed to the Panel that in the opinion of the Directors and Nomura Code, in its capacity as a competent independent adviser to Silence Therapeutics, the termination fee arrangements referred to above are in the best interests of the Shareholders.

## **6. Articles of Association**

The Articles of Association (which are available for inspection at the Company's website [www.silence-therapeutics.com](http://www.silence-therapeutics.com)) contain provisions, *inter alia*, to the following effect:

### **(a) Share capital**

Any share in the Company may be issued with such rights (including preferred, deferred or other special rights) or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

Subject to the provisions of the Act, the Uncertificated Securities Regulations 2001 and every other statute or subordinate legislation for the time being in force concerning companies affecting the Company ("Statutes"), any shares may be issued which are to be redeemed or are liable to be redeemed at the option of the Company or the shareholder on such terms and in such manner as may be provided by the Articles.

Subject to the provisions of the Statutes, the Company may purchase any of its own shares (including any redeemable shares).

### **(b) Variation of rights**

If at any time the share capital is divided into different classes of shares, the rights attached to any class or any of such rights may, subject to the provisions of the Statutes,

whether or not the Company is being wound up, be abrogated or varied with the consent in writing of the holders of at least three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

To every such separate general meeting the provisions of Chapter 3 of part 13 of the Act (excluding sections 303 to 306) and the provisions of the Articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons holding or representing by proxy at least one third in nominal value of the issued shares of the relevant class (excluding any shares of that class held as treasury shares) and at an adjourned meeting one person holding shares of the class or his proxy and any holder of shares of that class in question present in person or by proxy may demand a poll.

The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of the shares of that class or by the terms upon which such shares are for the time being held, be deemed not to be abrogated or varied by the creation or issue of further shares ranking *pari passu* therewith.

(c) *Restriction on shares*

If any shareholder, or any other person appearing to the Directors to be interested in any shares in the capital of the Company held by such shareholder, has been duly served with a notice under section 793 of the Act and is in default for the period of 14 days from the date of service of the notice under the said section 793 in supplying to the Company the information thereby required, then the Company may (at the absolute discretion of the Directors) at any time thereafter by notice (a "restriction notice") to such shareholder direct that, in respect of the shares in relation to which the default occurred and any other shares held at the date of the restriction notice by the shareholder, or such of them as the Directors may determine from time to time (the "restricted shares" which expression shall include any further shares which are issued in respect of any restricted shares), the shareholder shall not, nor shall any transferee to which any of such shares are transferred other than pursuant to a permitted transfer, be entitled to be present or to vote on any question, either in person or by proxy, at any general meeting of the Company or separate general meeting of the holders of any class of shares of the Company, or to be reckoned in a quorum.

Where the restricted shares represent at least 0.25 per cent. in nominal value of the issued shares of the same class as the restricted shares (excluding any shares of that class held as treasury shares) the restriction notice may in addition direct, *inter alia*, that any dividend or other money which would otherwise be payable on the restricted shares shall be retained by the Company without liability to pay interest; where the Company has offered the right to elect to receive shares instead of cash in respect of any dividends any election by such member of such restricted shares will not be effective; and no transfer of any of the shares held by the shareholder shall be registered unless the shareholder is not himself in default in supplying the information requested and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that none of the shares which are the subject of the transfer are restricted shares.

(d) *Voting rights*

Shareholders shall have the right to receive notice of, to attend and to vote at all general meetings of the Company. Save as otherwise provided in the Articles, on a show of

hands each holder of shares present in person and entitled to vote shall have one vote and upon a poll each such holder who is present in person or by proxy and entitled to vote shall have one vote in respect of every share held by him.

No member shall be entitled to vote at any general meeting if any call or other sum presently payable by him in respect of shares remains unpaid or if a member has been served by the Directors with a restriction notice in the manner described above.

(e) *Transfer of shares*

The instrument of transfer of any certificated share in the Company shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, shall also be signed by or on behalf of the transferee). In relation to the transfer of any share (whether a certificated or an uncertificated share) the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

Subject to the Articles, the Directors may, in their absolute discretion and without assigning any reason therefore, refuse to register any transfer of any share which is not a fully-paid share (whether certificated or uncertificated) provided that, where any such shares are admitted to the Official List of the Financial Services Authority or admitted to AIM such discretion may not be exercised in a way which the Financial Services Authority or the London Stock Exchange regards as preventing dealings in the shares of the relevant class or classes from taking place on an open and proper basis. The Directors may likewise refuse to register any transfer of a share (whether certificated or uncertificated), whether fully-paid or not, in favour of more than four persons jointly. In relation to a certificated share, the Directors may decline to recognise any instrument of transfer unless (i) the instrument of transfer is left at the registered office, or at such other place as the Directors may from time to time determine, accompanied by the certificate(s) of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do); and (ii) the instrument of transfer is in respect of only one class of share.

(f) *General Meetings*

An annual general meeting and a meeting called for the passing of a special resolution shall be called by not less than 21 clear days' notice, and a meeting of the Company other than an annual general meeting or a meeting for the passing of a special resolution shall be called by not less than 14 clear days' notice. The notice shall specify the place, the day and time of meeting and, in the case of any special business, the general nature of that business. A notice calling an annual general meeting shall specify the meeting as such and a notice convening a meeting to pass an extraordinary resolution or a special resolution as the case may be shall specify the intention to propose the resolution as such.

The accidental omission to give notice of a meeting, or of a resolution intended to be moved at a meeting, or to issue an invitation to appoint a proxy with a notice where required by the Articles, to any one or more persons entitled to receive notice, or the non-receipt of notice or of such a resolution of a meeting or of an invitation to appoint a proxy by any such person, shall not invalidate the proceedings at that meeting.

All shareholders present in person or by duly appointed corporate representative, and their duly appointed proxy or proxies shall be entitled to attend all general meetings of the Company.

(g) *Directors*

- (i) Unless and until the Company in general meeting shall otherwise determine, the number of Directors shall be not more than fifteen and not less than two. A Director shall not be required to hold any shares in the capital of the Company. A Director who is not a member shall nevertheless be entitled to receive notice of and attend and speak at all general meetings of the Company and all separate general meetings of the holders of any class of shares in the capital of the Company.
- (ii) Subject to the provisions of the Statutes, a Director may hold any other office or place of profit with the Company, except that of auditor, in conjunction with the office of Director and may act by himself or through his firm in a professional capacity for the Company (otherwise than as auditor), and in any such case on such terms as to remuneration and otherwise as the Directors may decide. Any such remuneration shall be in addition to any remuneration provided for by any other Article. No Director or intending Director shall be disqualified by his office from entering into, or being otherwise interested in, any of the foregoing, or any other contract, transaction or arrangement with the Company or in which the Company has a (direct or indirect) interest. Subject to the provisions of statutes and save as therein provided no such contract, transaction or arrangement shall be liable to be avoided on the grounds of the Director's interest, nor shall any Director be liable to account to the Company for any remuneration or other benefit which derives from any such contract, transaction or arrangement or interest by reason of such Director holding that office or of the fiduciary relationship thereby established, but he shall declare the nature of his interest in accordance with the statutes.
- (iii) A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
  - (A) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
  - (B) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (C) any proposal concerning an offer of securities of or by the Company or any of its subsidiary undertakings in which offer he is, or may be entitled to, participate as a holder of securities or in the underwriting or sub underwriting of which he is to participate;
  - (D) any contract, arrangement, transaction or other proposal concerning any other body corporate in which he, or any other person connected with him (within the meaning of section 252 to 255 of the Act), is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he or any person connected with him do not hold an interest (within the meaning of sections 820 to 825 of the Act) in one per cent. or more of any class of the equity share capital of such body corporate or of the voting rights available to members of the relevant body corporate;
  - (E) any contract, arrangement, transaction or other proposal for the benefit of employees of the Company which does not accord him any privilege or

benefit not generally accorded to the employees to whom the scheme relates;

- (F) any contract, arrangement or transaction concerning any insurance which the Company is to purchase and/or maintain for, or for the benefit of, any Directors or persons including Directors;
- (G) the giving of an indemnity pursuant to the Articles; and
- (H) the provision of funds to any Director to meet, or the doing of anything to enable a Director to avoid incurring, expenditure of the nature described in section 205(1) or 206 of the Act.

If any question shall arise at any meeting as to an interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to any Director other than himself shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed.

A Director shall not vote or be counted in a quorum in respect of any contract, arrangement or transaction whatsoever in which he has an interest which is to his knowledge a material interest otherwise than by virtue of interests in shares or debentures or other securities of or otherwise in or through the Company.

The Directors shall be paid out of the funds of the Company by way of fees for their services as Directors such sums (if any) as the Directors may from time to time determine (not exceeding in the aggregate an annual sum (excluding amounts payable under any other provision of these Articles) of £10,000,000 or such larger amount as the Company may by ordinary resolution determine) and such remuneration shall be divided among them in such proportions and manner as the Directors determine and, in default of a determination within a reasonable period, equally, except that any Director holding office for less than a year or other period for which remuneration is paid shall rank in the division in proportion to the fraction of the year or other period during which he has held office. Such remuneration shall be deemed to accrue from day to day.

There shall be no age limit for Directors.

Each Director shall have the power at any time to appoint as an alternate Director either (i) another director or (ii) any other person approved for that purpose by a resolution of the Directors, and, at any time, to terminate such appointment.

At every annual general meeting, there shall retire from office any Director who shall have been a Director at each of the preceding two annual general meetings and who was not appointed or re-appointed by the Company in general meeting at, or since, either such meeting. A retiring Director shall be eligible for re-appointment. A Director retiring at a meeting shall, if he is not re-appointed at such meeting, retain office until the meeting appoints someone in his place, or if it does not do so, until the conclusion of such meeting.

The Directors may exercise all the powers of the Company to give or award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowances or benefits to, *inter alia*, any Directors, ex-directors, employees or ex-employees of the Company or of any body corporate which is or was a subsidiary undertaking or a parent undertaking of the Company or another subsidiary undertaking of a parent undertaking of the Company or otherwise associated with the Company or any such body corporate, or a predecessor in business of the Company or any such body corporate, or to the

wives, widows, children, other relations and dependants of any such person and may establish, maintain, support, subscribe to and contribute to all kinds of schemes, trusts and funds (whether contributory or non-contributory) for the benefit of any such persons and so that any Director or former Director shall be entitled to receive and retain for his own benefit any such pension, annuity, gratuity, allowance or other benefit (whether under any such trust, fund or scheme or otherwise).

(h) *Borrowing Powers*

The Directors may, save as the Articles otherwise provide, exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, or any part thereof, and, subject to the provisions of the Statutes to issue debentures, debenture stock, and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all monies borrowed by the Group and for the time being owing to persons outside the Group shall not at any time, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed a sum equal to 5 times the aggregate of (A) the amount paid up on the issued share capital of the Company and (B) the total of the capital and revenue reserves of the Group (including any share premium account, capital redemption reserve and credit balance on the profit and loss account) in each case, whether or not such amounts are available for distribution, all as shown in the latest audited and consolidated balance sheet of the Group but after such adjustments and deductions (including any amounts attributable to intangibles) as are specified in the relevant Article.

(i) *Dividends and distributions on liquidations to shareholders*

The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors. Subject to the provisions of the statutes, the Directors: (i) may from time to time pay such interim dividends as they think fit; (ii) may also pay the fixed dividends payable on any shares of the Company half-yearly or otherwise on fixed dates.

If the Directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer in consequence of the payment of an interim dividend on any shares having non-preferred or deferred rights.

Subject to the statutes, and to the rights of persons, if any, entitled to shares with any priority, preference or special rights as to dividend, all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for the purpose of this Article as paid up on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as if paid up in full or in part from a particular date, whether past or future, such share shall rank for dividend accordingly.

Any dividend unclaimed for a period of 12 years after it became due for payment shall be forfeited and shall revert to the Company.

On a liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the statutes, divide amongst the members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out.

(j) *Non-United Kingdom Shareholders*

There are no limitations in the Articles on the rights of non-United Kingdom Shareholders to hold, or to exercise voting rights attached to, the shares. However, non-United Kingdom Shareholders are not entitled to receive notices unless they have given an address in the United Kingdom to which such notices may be sent. Notwithstanding the foregoing, such a Member shall not be entitled to receive any notice or other documents or information from the Company even if he has supplied an address for the purpose of receiving notices or other documents or information in electronic form.

**7. Material contracts**

(a) The following contracts have been entered into by the Group, otherwise than in the ordinary course of business, during the two years preceding the date of this document, and are or may be material:

(i) *Acquisition Agreement*

The Acquisition Agreement, details of which are set out in paragraph 6 of Part I of this document.

(ii) *Lock-Up Agreements*

Each of Philip Haworth, Mike Riley, Xiao-Dong Yang, Samuel Zalipsky, ACP IV, L.P., Frazier Healthcare V, L.P., Lilly Ventures, Eli Lilly and Company, Iain Ross, Melvyn Davies, Jerry Randall, David U'Prichard, Annette Clancy, Bernd Wetzels, Peter Reynolds, John Lucas, Jeremy Cook, Klaus Giese and Thomas Christély has agreed not to offer, dispose of, or agree to offer or otherwise dispose of directly or indirectly, conditionally or unconditionally, whether for consideration or not, any of the Ordinary Shares (in which he or it is legally or beneficially entitled to following Admission) for a period of 12 months following Admission (the "Restricted Period"). Philip Haworth has further agreed to prohibit any such disposal as aforesaid except through the Company's brokers for a further 6 months following the Restricted Period.

The restrictions are subject to a number of standard carve-outs such as where there has been an acceptance of an offer for the entire issued share capital of the Company, the giving of an irrevocable undertaking to accept an offer or transfers by the covenantor (in the case of a corporate entity) to its ultimate holding company.

(iii) *Placing Agreement*

Pursuant to the Placing Agreement, Nomura Code has agreed, conditionally on, amongst other things, Admission taking place not later than 8.00 am on 5 January 2010 or such later date as shall be agreed in writing between the Company and Nomura Code, but in any event not later than 8.00 am on 8 January 2010, to use its reasonable endeavours, as agent on behalf of the Company, to procure placees for the Placing Shares at the Issue Price and, if, and to the extent that placees are not so procured, itself, as principal, to subscribe for such Placing Shares at the Issue Price.

The Company will pay to Nomura Code a commission of 4 per cent. of the aggregate value of the Placing Shares at the Issue Price and a corporate finance fee of £200,000.

Additionally, the Company has agreed to pay all of Nomura Code's costs and expenses (including any applicable VAT) of the Placing, including the legal and other professional fees and expenses of Nomura Code.

The Company, the Directors and the Proposed Directors has given certain customary warranties to Nomura Code regarding the accuracy of the information contained in this document and other matters relating to the Group and its business and the Acquisition. The Company has also given an indemnity in customary terms against certain losses arising from *inter alia* Admission and the Placing.

Nomura Code may terminate the Placing Agreement if certain events of *force majeure* occur prior to Admission or there is a breach of any of the warranties contained in the Placing Agreement which Nomura Code, acting reasonably, considers to be material.

(iv) *Subscription Agreements*

Each of the following, being existing shareholders of Intradigm, have entered into subscription agreements, pursuant to which they have irrevocably undertaken to subscribe and pay for, in cash, an aggregate of 22,724,295 Subscription Shares, at the Issue Price: Roche Finance Ltd., Astellas Venture Fund I L.P., Lilly Ventures, MP Healthcare Venture Mangement, Inc, ACP IV, L.P., Frazier Healthcare V, L.P., MediBIC Alliance technology Fund-1, Novartis Bioventures Ltd., WS Investment Company, LLC (2008A) and WS Investment Company, LLC (2008C).

Under the terms of the Subscription Agreements described above, the Subscription for such shares is conditional upon closing of the Acquisition and upon Admission of the Subscription Shares becoming effective. The Subscription is not underwritten, and as security for payment each of the Subscribers has deposited in escrow a cash amount equivalent to their subscription monies. Such Subscription Agreements provide that, to the extent any Ordinary Shares are issued by way of capitalisation of the Promissory Notes referred to in paragraph (a)(vi) below, the number of Subscription Shares to be issued thereunder shall be reduced accordingly.

In addition, AstraZeneca UK Limited has entered into a subscription agreement, pursuant to which it has undertaken to subscribe and pay for, in cash, 2,608,695 Subscription Shares at the Issue Price, conditional upon closing of the Acquisition and upon Admission of the Subscription Shares becoming effective.

(v) *Termination Agreement (the "Termination Agreement")*

Silence Therapeutics, Intradigm and the Key Service Providers (described in paragraph (b)(ii) below) have entered into a Termination Agreement pursuant to which Intradigm and the Key Service Providers who had been awarded grants pursuant to the 2009 Plan (described in paragraph (b)(iii) below) agreed to terminate the 2009 Plan and waive all rights thereunder. The 2009 Plan provided the Key Service Providers with the right to receive certain consideration in the event of a change of control of Intradigm. Under the Termination Agreement and in exchange for the termination 2009 Plan, Silence Therapeutics will issue 2,700,000 New Ordinary Shares to the Key Service Providers at completion of the Acquisition, subject to applicable tax withholding requirements. The Termination Agreement will be effective upon Admission.

(vi) *Bridge Loan ("Bridge Loan")*

Silence Therapeutics and Intradigm have agreed that if the Acquisition has not completed on or before 15 December 2009, the board of directors of Intradigm will be entitled to draw down from escrow, the first tranche of the Bridge Loan provided by certain investors of Intradigm (the "Investors"), by requesting an amount of up to

\$500,000 from the escrow agent and, if the Acquisition has not been completed on or before 31 December 2009, the board of directors of Intradigm will be entitled to draw down from escrow the second tranche of the Bridge Loan provided by the Investors, by requesting a further amount of up to \$500,000 from the escrow agent. The escrow agent will remit the amount to an account designated by Intradigm for use by Intradigm for working capital purposes. The Investors, who are Subscribers for the purpose of the Subscription, will fund the Bridge Loan on a pro rata basis based on their participation in the Subscription. In consideration for the Bridge Loan, the Investors will receive convertible promissory notes from Intradigm (the "Promissory Notes"). The Promissory Notes provide that the Bridge Loan may not be used to fund employee bonuses, salary increases or the costs of third-party advisors. The Promissory Notes will be novated to Silence Therapeutics at the completion of the Acquisition, following which they will be capitalised into Ordinary Shares at the Issue Price.

(b) In addition to the contracts mentioned above, the following contracts have been entered into by Intradigm, otherwise than in the ordinary course of business, during the two years preceding the date of this document, and are or may be material:

(i) *Note and Warrant Purchase Agreement*

On 18 April 2008, Intradigm entered into a Note and Warrant Purchase Agreement with certain existing investors, pursuant to which it issued \$1,248,362 of convertible promissory notes ("Notes") and \$249,672 of related warrants ("Warrants"). The principal amount and accrued interest owing under the Notes were convertible into series B preferred stock ("Series B Preferred Stock"), and the Warrants to subscribe Series B Preferred Stock became exercisable, at Intradigm's next equity financing of at least \$15,000,000 (including the conversion of the Notes) if completed prior to the maturity date of the Notes. The Notes were converted into Series B Preferred Stock at, and the Warrants became exercisable to subscribe for an aggregate of 120,613 Series B Preferred Stock upon the closing of, the Series B Preferred Stock Financing on 23 September 2008 (described in paragraph (b)(v) below).

(ii) *Change of Control Incentive Plan ("2008 Plan")*

On 23 June 2008, Intradigm's board entered into a change of control incentive plan pursuant to which individuals designated by an administrator would enter into participation agreements further to which they would be designated "Key Service Providers". The 2008 Plan created an acquisition pool based on a percentage of the net proceeds received by Intradigm in a change in control. The administrator would designate the percentage of an acquisition pool each Key Service Provider would be entitled to upon a change of control. The 2008 Plan terminated upon the close of Intradigm's Series B Preferred Financing on 23 September 2008 (as described in paragraph (b)(v) below).

(iii) *Further Change of Control Incentive Plan ("2009 Plan")*

On 22 July 2009, Intradigm entered into a second change of control incentive plan. The 2009 Plan was drafted on the same terms as the 2008 Plan. Under the 2009 Plan 50 per cent. of the acquisition pool was awarded under participation agreements (12.5 per cent. for each of the four senior management). The 2009 Plan is set to be terminated by Intradigm upon completion of the Acquisition Agreement in the terms set out in the Termination Agreement.

(iv) *Amended and Restated Note and Warrant Purchase Agreement (“Amended and Restated Agreement”)*

On 31 July 2008, Intradigm entered into the Amended and Restated Agreement which amended and restated the Note and Warrant Purchase Agreement it entered into on 18 April 2008. Pursuant to the Amended and Restated Agreement, Intradigm issued an additional \$1.1 million of Notes and \$550,000 of Warrants to certain existing investors. The principal amount and accrued interest owing under the Notes were convertible into Series B Preferred Stock, and the Warrants to subscribe Series B Preferred Stock became exercisable, at Intradigm’s next equity financing of at least \$15,000,000 (including the conversion of Notes) if completed prior to the maturity date of the notes. The Notes were converted into Series B Preferred Stock at, and the Warrants became exercisable to purchase an aggregate of 265,698 Series B Preferred Stock upon the closing of, the Series B Preferred Stock Financing on 23 September 2008 (described in paragraph (b)(v) below.

(v) *Series B Preferred Stock Purchase Agreement (“Series B SPA”)*

On 23 September 2008, Intradigm entered into the Series B SPA, pursuant to which it sold and issued shares of Series B Preferred Stock to Lilly Ventures and certain existing investors (the “Series B Preferred Stock Financing”). Intradigm sold and issued an aggregate of 62,560,388 Series B Preferred Stock at a purchase price of \$0.207 per share in an initial closing on 23 September 2008 and an aggregate of 26,811,593 Series B Preferred Stock at a purchase price of \$0.207 per share in a second closing on 14 November 2008. Pursuant to the Series B SPA, Intradigm issued shares of Series B Preferred Stock at the initial closing to certain of the purchasers in full satisfaction of certain outstanding Notes held.

(vi) *Montgomery Warrant*

On 31 March 2009, Intradigm issued a warrant to Montgomery & Co., LLC, to subscribe 129,468 of common stock pursuant to an engagement agreement between the Intradigm and Montgomery dated 26 May 2008 in connection with the Series B Preferred Stock Financing.

## **8. Litigation**

No company in the Group is engaged in any litigation or arbitration and, so far as the Directors are aware, has no litigation or claim pending or threatened against it which has, has had or may have, a significant effect on the Company’s financial position in the 12 months preceding this document.

Intradigm is not engaged in any litigation or arbitration and, so far as the Proposed Directors are aware, has no litigation or claim pending or threatened against it which has, has had or may have, a significant effect on its financial position in the 12 months preceding this document.

## **9. Group structure**

At the date of this document the Company has three wholly owned subsidiaries, Silence Therapeutics AG, Stanford Rook Limited and Innopeg Limited.

## **10. Taxation**

**The following information is intended only as a general guide to the position under current United Kingdom law and what is understood to be the current practice of Her Majesty’s Revenue & Customs as at the date of this document for shareholders who are the absolute beneficial owners of Ordinary Shares, resident and, in the case of**

**individuals, ordinarily resident in the United Kingdom for tax purposes (except where otherwise stated) and who hold their Ordinary Shares as an investment and is not a substitute for the investors obtaining professional advice before buying shares. Its applicability will depend upon the particular circumstances of individual Shareholders. The summary is not addressed to certain categories of shareholders who are subject to special rules, such as dealers in securities and Shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment. The summary is not exhaustive and does not generally consider tax reliefs or exemptions.**

(a) *United Kingdom Residents*

(i) *Taxation on chargeable gains*

If a Shareholder disposes of all or any of the Ordinary Shares acquired under the Placing he or she may, depending on the Shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

Companies which are within the charge to United Kingdom corporation tax and which hold shares as investments may be entitled to an indexation allowance to reduce the gain chargeable.

(ii) *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

Except in relation to agreements made by certain categories of person, including market makers, brokers, dealers and persons connected with depository arrangements or clearance services, where special rules apply, the following statements summarise the current position and are intended as a general guide only to Stamp Duty and SDRT:

(aa) No Stamp Duty or SDRT will be payable on the issue of the Ordinary Shares pursuant to the Placing; and

(bb) The transfer or sale of Ordinary Shares for value will normally be subject to ad valorem stamp duty (rounded up to the nearest £5) at the rate of one-half of one per cent. of the consideration paid (although stamp duty only applies where such consideration is £1,000 or more). However, if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer, stamp duty reserve tax will be payable, normally at the rate of one-half of one per cent. of the consideration paid. A liability to SDRT will be cancelled and any SDRT already paid will be repaid, generally with interest, where an instrument of transfer is executed in pursuance of an agreement to transfer and stamp duty is paid on that instrument within six years of the date on which the liability to SDRT arises. Stamp Duty and SDRT are normally the liability of the purchaser or transferee.

(iii) *Taxation of dividends and distributions*

Under current United Kingdom tax legislation, no withholding tax will be deducted from dividends paid by the Company to its Shareholders.

An individual Shareholder who is resident in the United Kingdom for tax purposes and who receives a dividend from the Company will generally be entitled to a tax credit in respect of the dividend and will be liable to income tax on the aggregate of the net dividend received and the tax credit (such aggregate being the "gross dividend"). The value of the tax credit is currently one ninth of the net dividend (or 10 per cent. of the "gross dividend"). The gross dividend is treated as the top slice of such individual's income. An individual so resident who is not liable to income tax in respect of the gross dividend (or for whom the tax credit exceeds his tax liability) and other UK resident shareholders who are not liable to United Kingdom tax

on dividends (including pension funds and charities) will not be able to claim repayment of the tax credit attaching from HM Revenue & Customs.

In the case of an individual so resident who is not liable to income tax at a rate greater than the basic rate, the tax credit will discharge his liability to income tax in respect of the gross dividend in full and there will be no further tax to pay and no right to claim any repayment of the tax credit from Her Majesty's Revenue. In the case of an individual so resident who is liable to income tax at the higher rate on dividends (currently 32.5 per cent.) the tax credit will be set against his tax liability in respect of the gross dividend and, accordingly, he will have to pay additional tax at the rate of 22.5 per cent., of the gross dividend, to the extent that the gross dividend falls above the threshold for higher rate income tax.

The Finance Act 2009 includes legislation which provides for a new rate of income tax (the "additional rate") to apply with effect from 6 April 2010, to taxable income over £150,000. A new 42.5 per cent. rate of tax will apply to (gross) taxable dividend income above £150,000 from that date. If the new rate is applied in the same way as the existing rates, in the case of an individual so resident who is liable to income tax at the additional rate on dividends the tax credit will be set against his tax liability in respect of the gross dividend and, accordingly, he will have to pay additional tax at the rate of 32.5 per cent., of the gross dividend, to the extent that the gross dividend falls above the threshold for additional rate income tax.

United Kingdom tax resident shareholders who are within the charge to corporation tax will generally not be subject to corporation tax on dividends received from the Company in respect of their Ordinary Shares, provided that the dividends fall within one or more of the classes of dividend which qualify for exemption. Such shareholders would not be able to claim repayment of tax credits attaching to dividends.

#### *Non-United Kingdom Residents*

##### *(i) Taxation on Chargeable Gains*

An individual shareholder who has ceased to be resident or ordinarily resident in the United Kingdom for tax purposes for a period of less than five years of assessment and who disposes of all or any of the Ordinary Shares acquired under the Placing during that period of temporary non-residence may be liable on his return to the United Kingdom to United Kingdom taxation of chargeable gains arising during the period of absence, subject to any available exemption or relief.

A shareholder who is not resident or ordinarily resident for tax purposes in the United Kingdom will not otherwise generally be subject to United Kingdom taxation of chargeable gains on the disposal of all or any of the Ordinary Shares unless the shareholder is carrying on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a corporate shareholder, a permanent establishment) in connection with which the Ordinary Shares are held.

##### *(ii) Taxation of Dividends*

Subject to certain specific exemptions, shareholders who are not resident in the United Kingdom are not generally entitled to claim any part of the tax credit. Such shareholders may also be subject to tax on dividend income any law to which they are subject outside the United Kingdom. Shareholders who are not resident in the United Kingdom should consult their own tax advisers concerning their liabilities to tax (in the United Kingdom and any other country) on dividends received from the Company, and if so, the procedure for doing so and whether any double taxation relief is available in any country in which they are subject to tax under the terms of any double taxation treaty between the United Kingdom and that other country.

**Any person who is in any doubt as to his or her tax position, who requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom should consult an appropriate professional adviser.**

#### **11. Working capital**

The Directors and Proposed Directors are of the opinion that, having made due and careful enquiry, and taking account of the proceeds of the Placing and the Subscription, the working capital available to the Company and the Enlarged Group is sufficient for its present requirements, that is for at least 12 months from the date of Admission.

#### **12. Intellectual property**

In the opinion of the Directors based on the Company's present business model the following patents, intellectual property rights or contracts are or may be of fundamental importance to the Company's business:

Filed patent families related to "Further Novel from interfering RNA modules", "Interfering RNA molecules", "Lipids, lipid complexes and use thereof", "coated lipid complexes and their use", "Endothelium specific formulation", "Further use of protein kinase N beta", "means for inhibiting the expression of protein 3" and "Lipids compositions controlling such lipid, lipid complex and use thereof".

#### **13. Miscellaneous**

- (a) The total costs and expenses payable by the Enlarged Group in connection with or incidental to the Proposals are estimated to amount to approximately £2.4 million excluding VAT.
- (b) The historical financial information on Intradigm Inc for the relevant accounting periods set out in Section A of Part IV of this document does not constitute statutory accounts of Intradigm Inc within the meaning of section 435 of the Act.
- (c) No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received directly or indirectly from the Company within the 12 months preceding the application for Admission to trading on AIM, being the latest practicable date prior to the date of this document or entered into contractual arrangements for (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following: (i) fees totalling £10,000 or more; (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- (d) Save as disclosed in this document, no exceptional factors have influenced the Company's activities.
- (e) The Company's accounting reference date is 31 December.
- (f) The Company has no significant investments in progress.
- (g) Grant Thornton UK LLP has given and not withdrawn its written consent to the issue of this document and the inclusion therein of its report contained in Section A of Part IV and references thereto in the form and context in which they appear.
- (h) Nomura Code Securities Limited has given and not withdrawn its written consent to the issue of this document with the inclusion therein of references to its name in the form and context in which it appears.

- (j) Save as set out in this document, there are no arrangements, nor are there intended to be any arrangements, for there to be dealings in the Ordinary Shares.
- (k) Save as disclosed in paragraph 11 of Part I of this document, there has been no significant change in the financial or trading position of the Company and its subsidiary undertakings since 30 June 2009, being the date to which the latest unaudited interim financial statements of the Company have been prepared.
- (l) Save as disclosed in paragraph 11 of Part I of this document, there has been no significant change in the financial or trading position of Intradigm since 30 June 2009, being the date to which the latest unaudited interim financial statements of Intradigm, set out in Section B of Part IV of this document, have been prepared.

#### **14. Documents on display**

Copies of the following documents may be inspected at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA during usual business hours on any business day up to and including 4 January 2010 and will also be available for inspection at the Extraordinary General Meeting for at least 15 minutes prior to and during the meeting:

- (a) the memorandum and articles of the Company;
- (b) the audited consolidated accounts of the Company for the two financial years ended 31 December 2008;
- (c) the service contracts and letters of appointment referred to in paragraph 13 of Part VI of this document;
- (d) the consent letters referred to in paragraph 13 of Part VI of this document;
- (e) the material contracts referred to in paragraph 7 of Part VI of this document; and
- (f) this document.

#### **15. Middle market quotations**

The following table sets out the closing middle market quotations for an Ordinary Share for the first business day in each of the six months immediately preceding the date of this document and for 15 December 2009 (being the latest practicable date prior to the date of this document):

1 July 2009	25.50p
3 August 2009	22.25p
1 September 2009	21.00p
1 October 2009	24.75p
2 November 2009	24.75p
1 December	24.75p
15 December 2009	24.75p

#### **16. Availability of this document**

Copies of this document will be available free of charge from the Company at its registered office between the hours of 9.00 a.m. and 5.00 p.m. Monday to Friday (excluding UK public holidays) for a period of not less than one month from the date of Admission.

Dated 16 December 2009

# SILENCE THERAPEUTICS PLC

*Registered in England & Wales No. 2992058*

## NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Silence Therapeutics plc (the “**Company**”) will be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on 4 January 2010 at 10:00 a.m. to consider and, if thought fit to pass, the following resolutions, of which resolution 4 will be conducted on a poll.

1. That the acquisition by the Company of Intradigm Corporation on the terms of the Acquisition Agreement (as defined and described in the admission document pertaining to the Company dated 16 December 2009 (the “Admission Document”)), be and is hereby approved, subject to such minor amendments as may be approved by the Directors.
2. That subject to the passing of resolution 1 above the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the “Act”), to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares:
  - (a) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the Act) of £2,381,552; and
  - (b) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the Act) of £1,865,943 (such amount to be reduced by any allotments or grants made under (a) above) in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever,these authorisations to expire on the earlier of the next following annual general meeting of the Company and 14 March 2011 (save that the Company may before such expiry make any offer or agreement that would or might require shares to be allotted or rights to be granted, after such expiry and the directors may allot shares, or grant rights to subscribe for or to convert any security into shares in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired).
3. That subject to the passing of resolution 2 above, the directors be and are hereby given power pursuant to sections 570 and 573 of the Companies Act 2006 (the “Act”) to:
  - (a) allot equity securities (as defined in section 560 of the Act) of the Company for cash pursuant to the authorisations conferred by that resolution; and
  - (b) sell ordinary shares (as defined in section 560(1) of the Act) held by the Company as treasury shares for cash,

as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited to the allotment of equity securities for cash and the sale of treasury shares:

- (i) in connection with or pursuant to an offer or invitation (but in the case of the authorisation granted under resolution 2(b), by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment or sale (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal regulatory or practical difficulties which may arise under the laws of or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and
- (ii) in the case of the authorisation granted under resolution 2(a) above, and otherwise than pursuant to paragraph (i) of this resolution, up to an aggregate nominal amount of £279,891,

and shall expire on the earlier of the next following annual general meeting of the Company and 14 March 2011 (save that the Company may before such expiry make any offer or agreement that would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the directors may allot equity securities, or sell treasury shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired).

4. That the waiver granted by the Panel on Takeovers and Mergers of the obligation that would otherwise arise on the Concert Party to make a general offer to the shareholders of the Company under Rule 9 of City Code on Takeovers and Mergers on the receipt of their Consideration Shares and Subscription Shares which would result in their holding 36.6 per cent. of the Enlarged Issued Ordinary Share Capital (following the completion of the Proposals) be and is hereby approved (and for the purposes of this resolution capitalised terms shall have the meaning ascribed to them in the Admission Document).

BY ORDER OF THE BOARD

**J M Davies**  
*Company Secretary*

16 December 2009

*Registered Office:*

22 Melton Street, London NW1 2BW  
Registered in England and Wales No 2992058

**NOTES:**

1. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the Extraordinary General Meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company at 6.00 p.m. on 15 December 2009 or, in the event of any adjournment, at 6.00 p.m. on the date which is two days before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
2. A member is entitled to appoint another person as his proxy to exercise all or any of his rights to attend, to speak and to vote at the Extraordinary General Meeting. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the

rights attached to a different share or shares held by him. A proxy need not be a member of the Company. A form of proxy for the meeting is enclosed.

To be valid any proxy form or other instrument appointing a proxy must be received by post or by hand (during normal business hours only) by our registrar Capita Registrars at Proxy Department, PO Box 25, Beckenham, Kent BR3 4TU in each case no later than 10.00 a.m. on 2 January 2010. If you are a CREST member, see note 3 below.

Completion of a form of proxy, or other instrument appointing a proxy or any CREST Proxy Instruction will not preclude a member attending and voting in person at the meeting if he/she wishes to do so.

3. Alternatively, if you are a member of CREST, you may register the appointment of a proxy by using the CREST electronic proxy appointment service. Further details are contained below.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Extraordinary General Meeting and any adjournment(s) thereof by using the procedures, and to the address, described in the CREST Manual subject to the provisions of the Company's articles of association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK and Ireland (formerly CRESTCo) specifications and must contain the information required for such instructions, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST participant ID RA10) by 18.00 p.m. on 2 January 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK and Ireland (formerly CRESTCo) does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

4. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
5. Any member attending the Extraordinary General Meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.
6. Voting on Resolution 4 will be conducted on a poll of Independent Shareholders to comply with the requirements of the Panel on Takeovers and Mergers.
7. Copies of executive directors' service agreements, copies of the terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours from the date of this notice until the close of the Extraordinary General Meeting (Saturdays, Sundays and public holidays excepted) and will be available for inspection at the place of the meeting for at least 15 minutes prior to and during the meeting.
8. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at [www.silence-therapeutics.com](http://www.silence-therapeutics.com).
9. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice of Meeting (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

