

Scancell Holdings



Scancell Continues to Fire on All Cylinders

Company Update

Objective Capital Research Limited
Token House
11-12 Tokenhouse Yard
London EC2R 7AS
Tel: +44-(0)870-080-2965
Fax: +44-(0)203-137-0076
US toll-free: 1-888-802-7215
editor@objectivecapital.com

Corporate: www.ObjectiveCapital.com
Research: www.ObjectiveCapital.co.uk

Contents

Key Points	3
Update & Overview	5
Strategy Update	10
Financial Review and Update	12
Financial Model & Valuation Analysis	13
Portfolio Update	14

I certify that this report represents my own opinions.

Scott Davidson, CFA
scott@objectivecapital.co.uk

Dr Alan Warrander
alan@objectivecapital.co.uk

This report has been prepared by Objective Capital Research Limited.

Objective Capital is a provider of corporate research. Our research reports provide information, analysis, and estimates and may reference our opinion on the value of highlighted companies. Objective Capital is not registered by any financial authority, and does not provide or purport to provide investment advice or recommendations of any description.

The information in this report is designed to present the opinion of Objective's analysts and what they believe to be the objective prospects of the highlighted company. Where reference is made to estimates of value or relative value of a specific company these are based on standard analysis assuming an "average" investor. There is no guarantee that these estimates are reliable or will eventuate. They should not be relied upon in forming specific investment decisions and readers should seek advice specific to their situation and investment requirements from a person authorized under the Financial Services and Markets Act 2000, before entering into any investment agreement.

Objective Capital's detailed reports are only available to ordinary business investors, market counterparties, high net-worth and sophisticated individual investors.

This report does not constitute an offer or invitation to purchase or acquire any shares in any company or any interest therein, nor shall it form the basis of any contract entered into for the sale of shares in any company.

The information in this report is believed to be correct, but its accuracy or completeness cannot be guaranteed. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise.

Objective Capital (including its Directors, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, subject to restrictions imposed by internal rules. Objective Capital and its analysts are barred from trading in the shares of companies on which Objective Capital provides coverage.

You are reminded that the value of shares in any company may go up or down. Past performance is not necessarily a guide to future performance.

About Objective Capital:

Objective Capital is a leading UK provider of objective corporate research.

We offer investors two levels of insight – a regular survey of the complete small and mid-cap segment, highlighting those stocks where attention should be focused, and our detailed institutional-quality, sponsored research coverage. As always, our research doesn't offer trading recommendations or advice but an objective up-to-date assessment of the prospects, and risks, of the companies we cover.

While the companies we cover sponsor our research, it is always written on behalf of our readers. It is of the essence of our research that it be **independent** — that is opinions, estimates and valuations be solely those of Objective's analyst; **objective** — that is based upon verifiable data; and **transparent** — that is based upon explicit assumptions.

Our research complies with all FSA recommendations as may arise out of CP172 and CP176, i.e., that it be independent of any broking or trading interests; and CP205, i.e., that it comply with standards for objectivity.

Key Points

8 October 2010
Price: 95p

Scancell continues to fire on all cylinders. With a lead drug candidate now in the clinic, a successful fundraising on the books, and heightened visibility in the marketplace, Scancell is positioned well to reward shareholders with a desired exit within the next couple of years.

- **First drug candidate officially in the clinic**

With the first patient enrolled back in June, all three trial sites are now fully approved and up-and-running. The first cohort, consisting of three patients, is in the process of being dosed with SCIB1, Scancell's cancer vaccine for melanoma. As a result, Scancell has officially graduated from development-stage to clinical-stage.

- **Successful funding expected to carry Scancell to exit**

Earlier this year, Scancell raised £2.54 million, before expenses, through an underwritten Open Offer and the placing of new Ordinary Shares. Strong interest in the market enabled the Company to bring in more capital than originally sought. In this environment, selling new shares and bringing in new capital is never a given. This new financing, combined with expected licensing revenues late next year or in early 2012, should preclude Scancell from needing to tap the capital markets for additional funds – always a “feather in the cap” for an early stage biotech company.

- **Spotlight shining on Scancell and industry**

With the entry of SCIB1 into the clinic and the recent move from the PLUS market to the AIM market of the London Stock Exchange, Scancell has heightened its visibility and made its media rounds as a result. The industry has also been in the limelight of late with the U.S. FDA approval of Dendreon's cancer vaccine, Provenge, for prostate cancer earlier this Spring. Media coverage and investor interest, when positive of course, can act as fuel for a Company's stock price as Scancell can attest to over the past few months.

- **Partnerships are piling up**

Scancell has worked hard to add to its stable of development partnerships, inking three deals in just over two months earlier this year. While all of these research collaborations and partnerships hold promise, the initial stages are typically investigative in nature. However, the strategic rationale for these relationships appears sound and acts to potentially enhance the long term potential of the franchise, as evidenced by the recent positive announcement related to the Company's partnership with ImmuneRegen BioSciences.

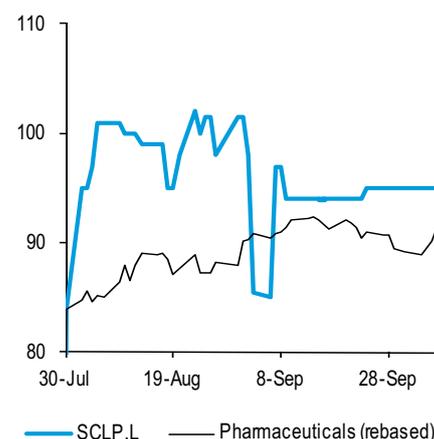
- **Entry into the clinic supports higher target price**

In our model, the evolution of Scancell from a development-stage company to a clinical-stage one has increased the probability of success for SCIB1 and, therefore, driven up the estimated value of the enterprise. With the success other cancer vaccines have had in the clinic, our confidence in the outlook for SCIB1 has gone up and, in turn, our estimation of fair value for Scancell shares has increased to 99 pence per share, up from 59 pence per share in our initiation report last year.

- **Share price reflects execution**

After hitting a yearly low of 40.5 pence per share on March 5th, Scancell's stock has reacted favourably to the avalanche of positive news items that have come out of the Company this summer, sending the shares up close to 135% to a recent close of 95 pence per share. Interim share movements will likely remain volatile as liquidity attempts to build, but as the momentum grows and the Company continues to execute on its business strategy risks will diminish.

Price chart (p)



Current fair value of equity

Expected value	£15.8m
Value per share	£0.99
Optimistic scenario	£27.5m
Value per share	£1.73

Company details

Quote	
Shares	
- AIM	SCLP
Shares issued (m)	15.9
Fully diluted (m)	16.7
Website:	www.scancell.co.uk

Analysts:

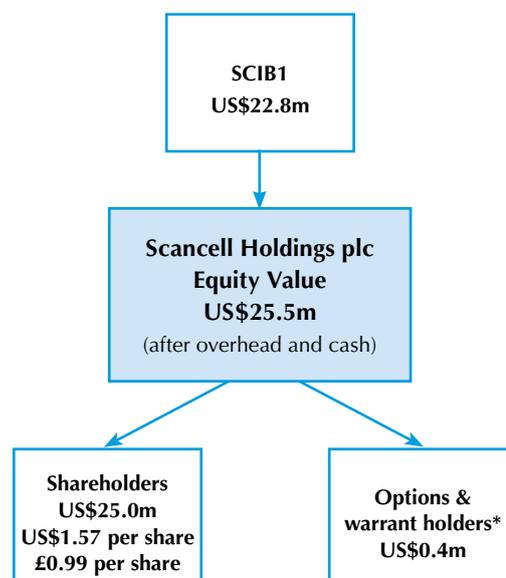
Scott Davidson, CFA
scott@objectivecapital.co.uk

Dr Alan Warrander
alan@objectivecapital.co.uk

Fair value summary (US\$m)

Scenario	Core	Optimistic
Development drugs		
- SCIB1	22.8	41.4
Less: overhead	3.8	3.8
Expected value of pipeline	19.0	37.6
Add: other assets	1.9	1.9
Add: starting cash + new funds	4.5	4.5
Total current value for firm	25.5	44.0
Less: Bank & other debt	0.0	0.0
Total value to equity claims	25.5	44.0
Less: warrants & options	0.4	0.4
Ordinary equity holders	25.0	43.6
Value per share (US\$)	1.57	2.74
Value per share (£)	0.99	1.73

Components of Scancell's entity value



* includes expected value of contingent option claims

Summary of detailed SCIB1 valuation (US\$m)

SCIB1	Core	Optimistic
Royalty revenue*		
EV of royalties	82.5	168.4
Likelihood of success (PoS)	21%	21%
EMV of royalties	17.7	36.0
Add: EMV of upfront payments**	3.1	4.8
Add: EMV of milestone payments**	9.0	12.4
less: EMV of development costs**	0.8	0.8
EMV***	28.9	52.4
per share		
- US\$ ps	1.82	3.29
- £ ps	1.15	2.08
After tax EMV	22.8	41.4

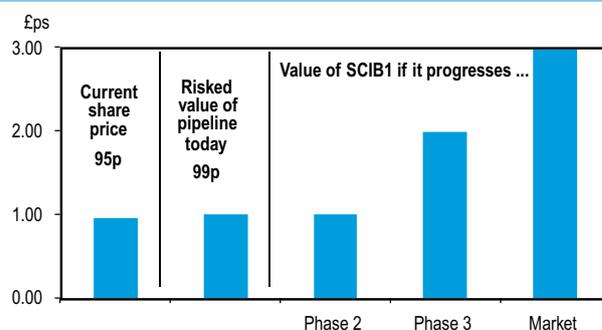
* EV = expected value; EMV = expected monetary value (i.e., risk expected value)

** net upfront, milestone and development costs have been risked based on probability of being incurred or received

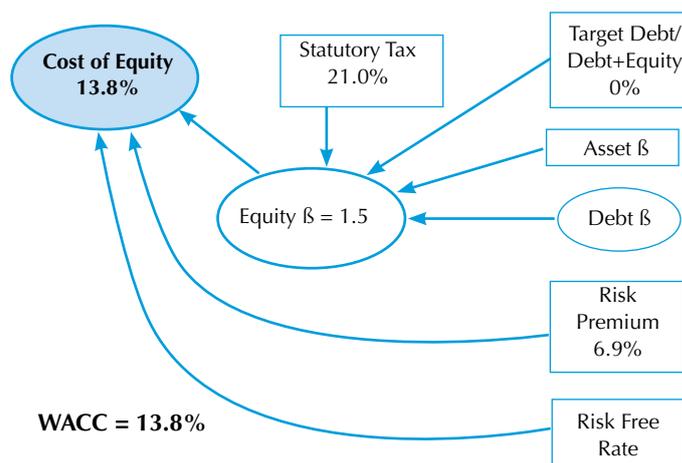
*** royalty, upfront and milestone payments are based on a standalone licencing deal and assume no premium for the technology platform

Note: see page 9 for revenue forecasts and detailed SCIB1 valuation

Current EMV and value if pipeline is successful (£ps)



Weighted cost of capital



Successful fundraising a significant risk-mitigating event

Scancell completed an underwritten Open Offer and placed new Ordinary Shares at 45 pence per share earlier this year, bringing in gross proceeds of £2.54 million. The Company originally went to market seeking between £1.5 million and £2 million, but increased the size of the raise to meet the strong interest from investors. The new funds, in combination with the expected revenues from licensing deals next year, should provide Scancell with the resources necessary to complete its upcoming Phase I and Phase IIa clinical studies for SCIB1. As with almost every early stage biotech company, access to capital is critical and the ability to attain that capital serves as a significant risk-mitigating milestone.

Three institutional investors – Hygea VCT plc, Helium Special Situations Fund Limited and Calculus Capital Limited – participated in the offering. The Helium Fund, managed by David Newton, made an investment in Scancell for the first time in this offering and sports an excellent track record, specialising in small, listed technology enterprises. The issue price on the deal of 45 pence per share represented a 10.89% discount to the closing price of 50.5 pence per share on 4 March 2010, the last business day before the announcement of the Open Offer. With the stock now trading at 95 pence per share, investors have obviously been rewarded for participation in the offering which bodes well should future sponsorship be necessary.

Collaborative partnerships increase the shots on goal

Scancell has continued to bolt on collaborative partnerships that expand the potential of the Company. Just this year, Scancell has inked three partnerships with a collection of biotech groups both in Europe and in the U.S. While these relationships will take time to develop, the deals are structured with minimal capital outlay up front and provide Scancell with a portfolio approach to expanding the potential of the ImmunoBody platform.

In June, Scancell announced that it had forged a strategic collaboration with U.S.-based ImmuneRegen Biosciences, Inc., an early-stage biotech company with an exciting new drug candidate, Homspera. Homspera has shown the ability to enhance the immune response against the same melanoma protein that SCIB1 targets, TRP-2. According to ImmuneRegen, Homspera significantly increased the immune response in early animal studies, reducing the size of tumours by approximately 85% after 3 weeks and increasing the percentage of animals surviving from 0% to 50% after 100 days (the end of the study period). In early September, Scancell announced that an ImmunoBody vaccine in combination with Homspera significantly improved the immune response of the vaccine in an animal model. Further studies are now underway to validate and optimise that response as the two collaborating companies seek a combined drug therapy worthy of clinical development.

Later in June, Scancell announced another research partnership with immatics biotechnologies GmbH to develop novel ImmunoBody vaccines for colorectal cancer. This collaboration provides access to a very promising technology using tumour-associated peptides (TUMAPs) for identifying the most clinically relevant T-cell epitopes for new ImmunoBody vaccines. Additionally, it serves as the Company's first move beyond melanoma and could serve to prove the broad applicability of the ImmunoBody approach. Terms of the deal have not been disclosed, although the assumption is that the initial stages of the partnership are investigative, in nature, and additional details may be finalised as the work between the two companies intensifies.

Finally, in August, Scancell licensed the rights to a human antibody from Cancer Research Technology Ltd., Cancer Research UK's commercialisation and development arm. This antibody, developed by current Scancell CEO Lindy Durrant while she was at Nottingham University, has already shown success in the clinic as a therapeutic treating osteosarcoma and serves as an alternative to the current framework for Scancell's SCIB1 vaccine – a de-immunised mouse antibody. While the current framework has given no indication of safety or efficacy drawbacks, there are still those in the market that maintain that fully humanised antibodies have less immunogenicity than de-immunised mouse antibodies. In that sense, this partnership provides a low cost way of broadening the portfolio and potentially expanding the audience of possible suitors at the time of an asset sale.

Shares graduate to the AIM market

In July, Scancell issued a press release announcing its intention to list its shares on the AIM market of the London Stock Exchange. With this now a reality, the visibility of the Company and its technology has increased considerably, with several articles in the mainstream media and even a mention in David Blackwell's column in the Financial Times. Scancell has made it a goal of the Company to heighten its profile in the investment community in advance of a possible asset sale and it has made significant progress in that effort over the past year. Ultimately, the success or failure of the Company will be borne out in the clinic, obviously, but the sponsorship of investors and the attention of the scientific community can be invaluable in achieving that outcome.

Validation occurring throughout the industry

Over 50,000 new cases of melanoma are diagnosed in the EU every year and the flow of approved effective therapies for the deadly cancer has been little more than a trickle over the past 30 years, due to the fact that melanoma is so highly resistant to conventional cancer treatments such as chemotherapy and immunotherapy. With such a high need for more advanced therapies, there is significant interest in the pharmaceutical sector in the melanoma market and recent events demonstrate the value placed on this endeavour across the industry. Instead of viewing this increased level of activity as competition to Scancell, we

see this as a validation of the need and, more importantly, as a stable of companies that could become eventual acquirers of the technology or act as counter-parties in a licensing or co-development deal. Additionally, there is a strong likelihood, as demonstrated by numerous clinical trials currently underway, that combination therapy will 'win the day' as the treatment of advanced melanoma.

In the cancer vaccine arena, the regulatory approval earlier this year of Provenge, a cancer vaccine from Dendreon targeted at prostate cancer, was a watershed moment for cancer vaccine developers, serving as the first drug of this type approved for commercial sale in the U.S. Dendreon's stock price shot up on the news, reflecting the potential investors see in this type of therapy. While SCIB1 obviously has additional clinical and regulatory hurdles to attain the development stage of Provenge, its approach of boosting the patient's own immune system versus extracting cells, expanding them and re-injecting them into the patient as is done with the Provenge treatment appears much simpler, less time consuming, and likely much less expensive. The cost of the Provenge therapy is estimated at just under \$100,000 per patient.

Earlier this year, the European Medicines Agency (EMA) and the U.S. Food and Drug Administration (FDA) also granted fast-track status to Denmark's Bavarian-Nordic for its similar approach to treating prostate cancer. The Prostavac-VF vaccine is a combination of two weakened poxviruses that encode prostate specific antigen (PSA) along with three immune-enhancing, co-stimulatory molecules that boost the patient's immune system. A randomised, placebo-controlled Phase II study resulted in median survival of the vaccine group of 24.5 months, compared to 16 months for the control group. With the granted fast-track status, the company now plans to achieve marketing approval for the vaccine with a single global Phase III clinical trial.

Specific to melanoma, Plexxikon's PLX4032 has received considerable media attention after recently releasing its efficacy data from a small Phase I trial of lethal melanoma cases, showing 81% of subjects had tumour shrinkage of at least 30%. This drug is a selective inhibitor of the oncogenic V600E mutant BRAF kinase. Questions of sustainability of its therapeutic effect as well as the ultimate effect of tumour size on survival remain, however.

Separately, researchers also reported in June that over 20% of patients with advanced melanoma were alive two years after treatment with Bristol-Myers Squibb's ipilimumab – more than doubling the life expectancy of patients with this stage of disease. The drug, which targets the immune regulatory molecule cytotoxic T lymphocyte-associated antigen 4 (CTLA4), was recently submitted for U.S. approval. While the drug does demonstrate improved efficacy over standard IL-2 treatment, the side effect profile may prove problematic, with side effects that proved life threatening in the clinical trials and could limit treatment options. Bristol-Myers Squibb also has a programme it gained in its acquisition of

ZymoGenetics that has shown impressive results in a Phase IIa study for metastatic melanoma. The programme, using recombinant Interleukin-21(IL-21) as a single agent, enhances the activity of natural killer cells in the patient's immune system. The Company plans to further explore the potential of this therapy in a randomised Phase 2 study with the selected dose of 30 mcg/kg.

Perhaps most relevant to Scancell was the news in mid-September that immatics biotechnologies, its German-based co-development partner, raised more than US\$70 million in a Series C financing, with roughly half of that amount coming from new investors. Immatics' cancer vaccine is made up of 10 different tumour-associated peptides (TUMAPs), which tend to be over-expressed in patients with the disease. Not only does this announcement obviously provide immatics with considerable resources from which to draw upon in its development efforts, but it also acts as a further validation of the therapeutic potential of cancer vaccines by the investment community.

Cephalon payment a possibility, but not a probability

In December 2006, Scancell sold its pre-clinical pipeline of cytotoxic monoclonal antibodies to Peptech Limited (subsequently known as Arana Therapeutics and ultimately acquired by Cephalon, Inc. in 2009) for an up-front payment of £2m and a contingent payment of £2.85m based upon certain performance criteria. This conditional payment is paid if the antibody programme related to the original Scancell assets enters the clinic within five years of the deal completion. While there is still the possibility of Scancell receiving this payment next year, our research would indicate that the time it would take to manufacture the necessary quantities of antibodies for the Phase I clinical trial would leave little room for any delays. The programme is progressing well, however, and the thought that Cephalon would purposely delay the onset of the trial in order to avoid the milestone payment to Scancell seems unlikely.

Valuation expands, but stock price keeps pace

Our model for Scancell discounts future predicted cash flows using a probability-based assessment of success for SCIB1. We have chosen to increase the industry-standard of success for a Phase I-stage drug candidate based upon our confidence in the safety profile of SCIB1 and its likelihood of progressing on to a Phase IIa trial early next year. With the higher probability of success forecast comes a higher valuation of the asset. However, the increase in the share base resulting from the financing conducted earlier this year at 45 p per share had a significant dilutive effect on the per share valuation of Scancell. The outcome of our model is a core valuation for Scancell shares of 99 pence per share, with a more aggressive, alternative valuation of 173 pence per share that includes a slightly higher royalty rate assumption and a modest increase in presumed milestone payments.

SCIB1 market and revenue projections

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Worldwide incidence of melanoma (# patients in 000s)	149	153	158	163	168	173	178	183	189	194	200	206	212
Addressable market (25%) in 000s	37	38	40	41	42	43	44	46	47	49	50	52	53
Yearly cost of anticipated therapy (US\$)	25,000	25,500	26,010	26,530	27,061	27,602	28,154	28,717	29,291	29,877	30,475	31,084	31,706
Estimated WW market size (in US\$m)	\$931	\$978	\$1,028	\$1,080	\$1,135	\$1,192	\$1,252	\$1,316	\$1,382	\$1,452	\$1,526	\$1,603	\$1,684

Our SCIB1 revenue estimate

Core view

Estimated market penetration											10.0%	20.0%	25.0%	
Estimated sales (in US\$m)												\$153	\$321	\$421

Optimistic view

Estimated market penetration												15.0%	30.0%	40.0%
Estimated sales (in US\$m)												\$0	\$0	\$0
												\$0	\$0	\$0
												\$229	\$481	\$674

Source: Objective Capital estimates, cancer population estimates from World Health Organization

Expected value of SCIB1 (pre-corporate tax)

Summary of valuation (pre corp tax)

Scenario (\$m)	Core	Alternative
EV of royalties	82.5	168.4
Likelihood of success (PoS)	21%	21%
EMV of royalties	17.7	36.0
Add: EMV of upfront payments	3.1	4.8
Add: EMV of milestone payments	9.0	12.4
less: EMV of development costs	0.8	0.8
EMV of SCIB1	28.9	52.4
per share		
- £ ps	1.82	3.29

Key market & licence assumptions

Indication/Market	Route to Market	Royalty Rate*/Effective Margin	Approx Date	Price Impact	Impact of Generics
Global	Licensed	7%	2028	-25%	

Sensitivity to change in ...

Impact of generics (+ % price decline)	-20.0%	-10.0%	+0.0%	+10.0%	+20.0%
Value (\$m)	30.3	29.6	28.9	28.2	27.5
Change in Value	5%	2%	0%	-2%	-5%

Increase in royalty/margin (+%)

	-10%	-5%	0%	5%	10%
Value (\$m)	11.3	16.3	28.9	41.5	54.1
Change in Value	-61%	-44%	0%	44%	87%

Components of core valuation (pre-corp tax)

Core scenario

Expected value of royalties/revenue (\$ millions)					
Indication/Market	EV of cashflow	Current Stage of Dev	PoS	EMV	% of Val.
Global	82.5	Phase I	21%	17.7	
Total	82.5		21%	17.7	

Alternative view

Expected value of royalties/revenue (\$ millions)					
Indication/Market	EV of cashflow	Current Stage of Dev	PoS	EMV	% of Val.
Global	168.4	Phase I	21%	36.0	
Total	168.4		21%	36.0	

Expected Monetary Value of SCIB1
US\$28.9m
US\$1.82 per share

EMV of Upfront payments
US\$3.1m

EMV of Milestone Payments
US\$9.0m

Strategy Update

The corporate strategy at Scancell is on track and unwavering. The plan is to deliver a unique and exciting new cancer vaccine technology through Phase I/IIa clinical trials. The ultimate goal is to, at that point, license the technology or completely sell the Company. The focus this year was three-fold. One, raise the necessary funds to allow the Company, together with anticipated future revenues, to position itself properly for a possible exit. Two, enter SCIB1 into the clinic. And, three, continue to advance the science and enhance the portfolio by partnering with leading colleagues in the field. In all three cases, Scancell has succeeded in meeting its goal.

As with practically any pre-revenue company, the attainment of outside funding is a critical exercise in the development of the Company and one that typically has to occur multiple times. With its latest financing earlier this year, Scancell has drained a considerable amount of risk out of the story by bringing in an amount that, in combination with licensing revenue projected next year, is expected to carry the Company through its Phase I/IIa clinical trials for SCIB1. With financing risk significantly lowered, clinical risk is now at the forefront. Scancell's strategic vision is to prove the ImmunoBody concept by delivering convincing data on SCIB1 from these early stage trials, bring SCIB2 through the proof-of-concept stage in animal trials, and then sell out, handing off future development of the asset to a well-funded biotech or pharma company.

In positioning the SCIB1 candidate for the clinic, Scancell successfully licensed two necessary melanoma antigens – TRP-2 and gp100 – from the National Institutes of Health (NIH). The process was painstaking, but required in order to commercialise SCIB1 worldwide. While the terms of the agreement were not disclosed, we believe that the dollars involved are nominal and should have little to no impact on the valuation of the Company. We estimate that the total upfront and milestone payments associated with the deal total in the hundreds of thousands of dollars over multiple years, with the bulk of those payments occurring years into the future and associated with the commercialisation phase of SCIB1.

Attaining the licenses for these two antigens set the stage for the initiation of the Phase I trial for SCIB1. The Gene Therapy Advisory Committee (GTAC) and Medicines and Healthcare Products Regulatory Agency (MHRA) Medicines Division granted approval to initiate the clinical trial back in May. In addition, Scancell's partner ICHOR Medical Systems obtained the required parallel approval from the regulatory authorities to use its electroporation delivery device to administer SCIB1 to patients participating in the trial. The site initiations at Nottingham, Manchester and Newcastle occurred in May and early June, with the first patient receiving treatment in mid-June. The trial is designed to evaluate the safety and tolerability of SCIB1 in patients with late stage melanoma.

With the trial underway, Scancell has continued to expand its potential platform technology with a number of exciting partnerships. These collaborations, detailed in an earlier section of this report, contribute opportunities for added value with limited up-front cost. While the ImmunoBody technology has performed exceedingly well to date, the transition from animals to humans is always one that can deliver unexpected results. With a cadre of exploratory co-development agreements in place, Scancell is positioning itself to have alternatives should the data provide opportunities for improvement or possibly fall short of expectations.

In our view, the path that Scancell has taken and the manner in which it has executed its milestones has been very impressive. The Company has shown itself to be a prudent steward of investor capital and delivered on its promises. Although the objective is far from met at this point, we do believe that Scancell's corporate strategy, both from a financial and an operational standpoint is fully intact and gives us confidence in the outlook for the business.

The Company has now graduated from a development- stage company to a clinical-stage company. With its recent transition to the AIM market of the London Stock Exchange, more people are becoming aware of Scancell and the potential of its technology. Across the industry, further advances in cancer vaccine approaches, in general, should help fuel continued investor interest in the sector and maintain the momentum experienced of late in Scancell shares.

Financial Review and Update

A review of the fiscal 2010 year-end financials focused on the cash balance. As with most pre-revenue companies, the attainment of cash and its subsequent preservation is king. This year, with the build-up required to enter the clinic with SCIB1, Scancell was able to complete an equity financing as its required expenses exceeded those in prior years. The expectation is still to explore various exit strategies late next year and into 2012 without the need for additional capital.

In combination with licensing revenue expected late next calendar year or early on in 2012, Scancell intends to retain sufficient levels of cash to successfully negotiate an exit for its shareholders later on in 2012, with positive clinical data in hand on SCIB1 and proof-of-principle animal data from its SCIB2 development effort. We have included £500,000 in licensing revenue in our model in FY2012 as our confidence in the ability to do such a deal has risen with the entry of SCIB1 into the clinic. In addition, however, we have also bumped up our estimated administrative expenses in FY2011 and FY2012 to better reflect the level of expenses incurred in the previous period. If expenses drift over budget or licensing revenues do not materialise, Scancell will assuredly look to tap the capital markets for a bridge financing to maintain leverage in its negotiations with possible suitors.

Significant Shareholders and Directors' Interests

	No of Ordinary Shares	% of Issued Share Capital
Calculus Capital Ltd EIS Fund 8	1,527,778	9.62%
Hygea VCT plc	1,483,973	9.35%
Professor Lindy Durrant	1,048,365	6.58%
Helium Special Situations Fund Ltd	1,034,194	6.52%
Share Nominee Ltd	996,468	6.28%
JG Helfenstein	885,400	5.58%
Oxford Technology VCT plc	883,330	5.24%
Dr Richard Goodfellow	664,384	4.17%
David Evans	510,000	3.20%
T Walthie	509,988	3.20%

Source: Scancell

With the equity financing earlier this year, the shareholder base has changed a bit. As mentioned earlier, three institutional investors – Hygea VCT plc, Helium Special Situations Fund Limited and Calculus Capital Limited – participated in the offering and now represent the three largest holders of stock in Scancell. The Helium Fund, well-regarded in the industry, made an investment in Scancell for the first time in this offering and represents a significant validation in the potential of the Company.

Scancell announced in May its non-exclusive licensure of two melanoma antigens from the NIH in the U.S. While the terms of the agreement were not disclosed, our conversations with management indicate that the dollars involved are relatively small and should have little to no impact on the valuation of the Company. In turn, we have decided not to include these payments in our model, assuming that the amounts would be spread over multiple years and end up non-material in nature.

In late June, Scancell announced that it had reached an agreement with ICHOR Medical Systems, its delivery system partner, relative to the options granted as part of an earlier agreement. In return for various supply and licensing opportunities related to the TriGrid electroporation system, Scancell granted ICHOR options for 796,246 ordinary shares at 45 pence per share. The options vest in three tranches: 159,231 options vest upon regulatory approval to start clinical trials in the UK (which has already occurred); 318,462 options vest upon initiation of the first Phase II clinical trial; and 318,463 options vest on the completion of the first Phase II clinical trial. The options expire on 13 July 2014. Our understanding is that ICHOR has not sold any shares to date and intends to be a long-term holder of the stock.

Our model for Scancell utilises significant probability-based discounts based upon industry standard development-based probabilities of success. The model further discounts the expectation for cash inflows to the Company using a standard discounted cash flow approach. With a drug candidate entering into a Phase I clinical trial, the probability of commercial development for SCIB1, using the study of success probabilities by Kanji, Lamarche and Sasseville, is pegged at just over 13%.

However, our confidence is high that safety and tolerability will be achieved in the Phase I trial for SCIB1 and, therefore, we have chosen to increase the probability of success variable in our model by 8% to 21%. Our early feedback from the current Phase I trial indicates that the dosed patients are tolerating the therapy well and no problems with the electroporation delivery mechanism have arisen.

We should also note that the probability of success for candidates entered into a Phase II trial is 21%, according to the Kanji, et al results. While SCIB1 is not assured to progress to a Phase IIa trial next year, the recent clinical success of other cancer vaccines in the industry provides additional support for increasing the probability of eventual commercial success of SCIB1 to 21%.

While the increased probability of success increases the value of the SCIB1 programme, the recent financing significantly increased the share base. With just over 5.7 million new shares issued in the placements earlier this year at 45 pence per share, the share base has swelled to just under 16 million shares outstanding. Although our model takes into account the cash brought into the Company as a result of the financing, the increased share count had a dilutive effect on our assessment of Scancell's value. Helping to counteract that dilutive effect in addition to the higher probability of success discussed above, however, is a slight uptick in the value of the U.S. dollar versus the British pound from the date of the initiation report. The two percent relative increase in value for the U.S. dollar added two pence to our valuation assessment of Scancell shares.

Overheads have also increased modestly as Scancell seeks to raise its profile and broaden its portfolio. The listing on AIM along with an expectation to expand the headcount modestly has caused us to bump up the expectation of operating costs over the next couple of years. While costs are slightly higher, we continue to believe that the key assumptions in our model, namely the royalty rate and milestone payments expected in a licensing deal, remain conservative.

With clinical successes occurring within the industry with other cancer vaccines, the interest level in this technology is undoubtedly increasing and, with a growing number of possible suitors, so is the potential value. CEOs at major pharma groups, including Sanofi Aventis and Eli Lilly have recently made public statements pegging the cancer market as a key area of organisational focus going forward. With cash levels at public pharma and biotech companies increasing over the past year, the environment is improving for a possible asset sale for Scancell within the next two years or so. All eyes will be on the clinical performance of SCIB1 over the next year to eighteen months. With success of the drug candidate will come a host of attractive options for Scancell.

Portfolio Update

SCIB1 trial initiation and update

On June 15th, Scancell announced the enrolment and treatment of the first patient in its Phase I clinical trial of SCIB1. Subsequent to that press release, the trial has enrolled and dosed one additional patient and should dose the third patient by the end of the month. These three patients make up the first cohort and receive a 0.4 mg dose of the vaccine. A safety committee meets after the last patient in each cohort has received three injections, or approximately six weeks after the first injection. Using this timeline, Scancell would expect to move to dosing its second cohort of three patients with 2.0 mg of vaccine in December. Once again, the safety committee would then meet after the second cohort has been fully dosed and would need to give permission to proceed to the final dose (4.0 mg).

Phase I-II trial in stage IV/III melanoma

Start: 2Q 2010
Study Report: 2012

Primary Objective:

- Y To demonstrate safety and tolerability

Secondary Objective

- Y To demonstrate cellular immune response (high avidity T-cells) and tumour response

Phase One

- 9 patients
- 3 subjects per cohort; 0.4mg, 2.0mg or 4.0mg
- Progression only if adequate safety demonstrated at previous dose

Phase Two

- 13 patients
- Subjects to receive maximum tolerated dose provided no clear evidence of improved efficacy at lower doses

Source: Scancell

Phase IIa of the trial consists of 13 subjects, each receiving the maximum tolerated dose assuming that no clear evidence of improved efficacy was observed at lower doses in the Phase I portion of the trial. Phase IIa of the study is expected to include less severely ill patients than Phase I. With the additional immune response data accumulated in the Phase IIa study, a positive outcome should provide the clinical validation for both SCIB1 and the ImmunoBody Platform to solidly position Scancell for its desired exit strategy.

Scancell does not have to wait for the completion of Phase I before beginning the Phase IIa trial. We anticipate that the Phase IIa study will start in Q2 of CY2011 while the Phase I study will likely not end until Q3 of CY2011. The complete analysis and write-up of the results from the Phase I trial should be ready for dissemination in late Q3 of CY2011.

SCIB2 development effort

Scancell continues to make progress in its development work on SCIB2. While investors should not expect to receive regular updates on the status of the SCIB2 programme, all indications from our conversations with management are that the programme is progressing well. By the time that Scancell has clinical validation in SCIB1, the goal is to have proof-of-principle data in animal studies from the SCIB2 programme.

The expectation is that SCIB2 will be a next generation DNA cancer vaccine in a different cancer indication. Scancell has piled up a number of collaborative arrangements with other biotech companies in the arena and there is a good chance that the SCIB2 candidate selected for the clinic incorporates technology from one or more of these partnerships. The key is to select the right epitopes, antigens and targets that deliver the best therapeutic response. Additionally, an alternative delivery mechanism to electroporation is also a possibility that will undoubtedly be explored.

While the science behind the SCIB2 programme is too early to be assessed, the strategy is sound. Scancell is creating a broad menu of approaches and has the flexibility to assess various combinations over the coming quarters. Additional announcements are also likely and will serve to only enhance the potential of the Company's follow-on drug candidate.

Profit & Loss				
Year ending April (£000's)	2009A	2010A	2011E	2012E
Revenues				
Upfront payments	0	0	0	0
Milestone payments	0	0	0	0
Licensing/royalty revenues	0	0	0	500
Net revenues	0	0	0	500
Development costs	648	1,069	650	500
Other development costs	0	0	121	133
Gross profits	(648)	(1,069)	(771)	(133)
Administrative expenses	428	751	851	751
Other income	213	38	0	0
Depreciation	27.77	22.649	23.0	23.3
Profit from operations	(891)	(1,805)	(1,645)	(908)
Interest income	57	2	2	1
Pretax income	(834)	(1,803)	(1,643)	(907)
Tax	—	—	—	—
Tax credit	(48)	(66)	(50)	(50)
Net tax	(48)	(66)	(50)	(50)
Net income	(786)	(1,737)	(1,593)	(857)
EPS (p)	(9.4)	(16.2)	(10.0)	(5.4)

Balance Sheet				
Year ending April (£000's)	2009A	2010A	2011E	2012E
Non-current assets				
Property plant & equipment	82	132	134	135
Goodwill	3,415	3,415	3,415	3,415
Total	3,497	3,547	3,549	3,551
Current assets				
Debtors	405	123	123	123
Cash & equivalents	1,519	2,830	1,235	377
Total	1,924	2,953	1,358	499
Total assets	5,421	6,500	4,907	4,050
Current liabilities				
Creditors	167	452	452	452
Total	167	452	452	452
Net assets	5,254	6,048	4,455	3,598
Shareholder's equity				
Total equity	5,254	6,048	4,455	3,598

Cashflow				
Year ending April (£000's)	2009A	2010A	2011E	2012E
Operating profit (loss)	(891)	(1,828)	(1,645)	(908)
Depreciation charges	28	23	23	23
Govt Grants & Decrease/(Increase) in debtors	(312)	141	0	0
Increase in creditors	78	160	0	0
Net cash from operations	(1,098)	(1,504)	(1,622)	(884)
Cashflow from investing				
Property plant & equipment purchases	(23)	(72)	(25)	(25)
Taxation	39	190	50	50
Returns on investments and servicing of finance	57	2	2	1
Acquisitions	880	0	0	0
Net cash from investing activities	952	121	27	26
Cashflow from financing activities				
Net issue of ordinary shares	1,665	2,695	0	0
Net cash from financing	1,665	2,695	0	0
Net increase (decrease) in cashflow	1,519	1,311	(1,595)	(859)
Opening cash equivalents	0	1,519	2,830	1,235
Closing cash equivalents	1,519	2,830	1,235	377

Source: Objective Capital

We are pleased to bring you this report on **Scancell**.



Objective was founded so that issuers can ensure that the market and their investors always have access to quality research through sponsoring indepth, proactive coverage.

While our research is sponsored by the companies we cover, it is always written on behalf of our readers. We offer you an objective, independently prepared view of the opportunity, the risks and what the value might be to an average investor in the companies we cover.

As we are unconflicted by corporate finance or PR/IR agendas, our analysts are always free to give their true opinion of the businesses we cover.

As always, I welcome your comments and feedback on our research!

Gabriel Didham, CFA
Objective Capital

Scott Davidson, CFA

Scott has worked in the equity research industry for over ten years, focusing on the life sciences arena for the past eight years. He has previously work for Allen & Company, FAC Equities in New York. Scott is a graduate from Harvard University.

Dr Alan Warrander

Alan has over 25 years wide-ranging experience in the Pharmaceutical Industry providing advice and expert scientific opinion on Partnering, Strategic Planning and Drug Development. Alan was previously Senior Vice President, Life Sciences at Wood Mackenzie, the global consultancy firm. Prior to this he was a Director of Global Licensing with AstraZeneca and previously led a Drug Metabolism/Pharmacokinetics Unit at ICI/ Zeneca Pharmaceuticals.

About our relationship with Scancell

Objective Capital has been sponsored by the company to provide research coverage of Scancell.

Objective will provide proactive, indepth coverage for a period of one year. The typical fee for the quality and level of coverage offered by Objective is £25,000 per annum. Objective does not accept payment in any form of equity.

Unless otherwise noted, the opinions expressed in our reports are entirely those of our analysts. Objective's analysts are contractually protected to be able to always provide their opinion on the businesses they write on.

Objective Corporate Research

Call us today to find out
how our sponsored research
can benefit you

Objective Capital Research Limited

Tel: +44-(0)870-080-2965
Fax: +44-(0)203-137-0076
sales@objectivecapital.com

Internationally:
Phone: +44-20-7754 5994

US Toll-Free:
1-888-802-7215

For Marketing & Sales:
Token House
11-12 Tokenhouse Yard
London EC2R 7AS

Corporate: www.ObjectiveCapital.com
Research: www.ObjectiveCapital.co.uk