Valirx
Bioscience Innovation

ONCOLOGICAL AND THERAPEUTIC TECHNOLOGIES AND BIOMARKERS

ValiRx plc Annual Report and Accounts 2016

WELCOME TO VALIRX PLC

ValiRx plc is a biopharmaceutical company developing technologies and products in oncology therapeutics and diagnostics.

The Group operates through the following divisional companies:

It currently has two products in Phase I/II and Phase II clinical trials. Its business model focuses on out-licensing drug candidates after early proof-of-principle and efficacy trials.

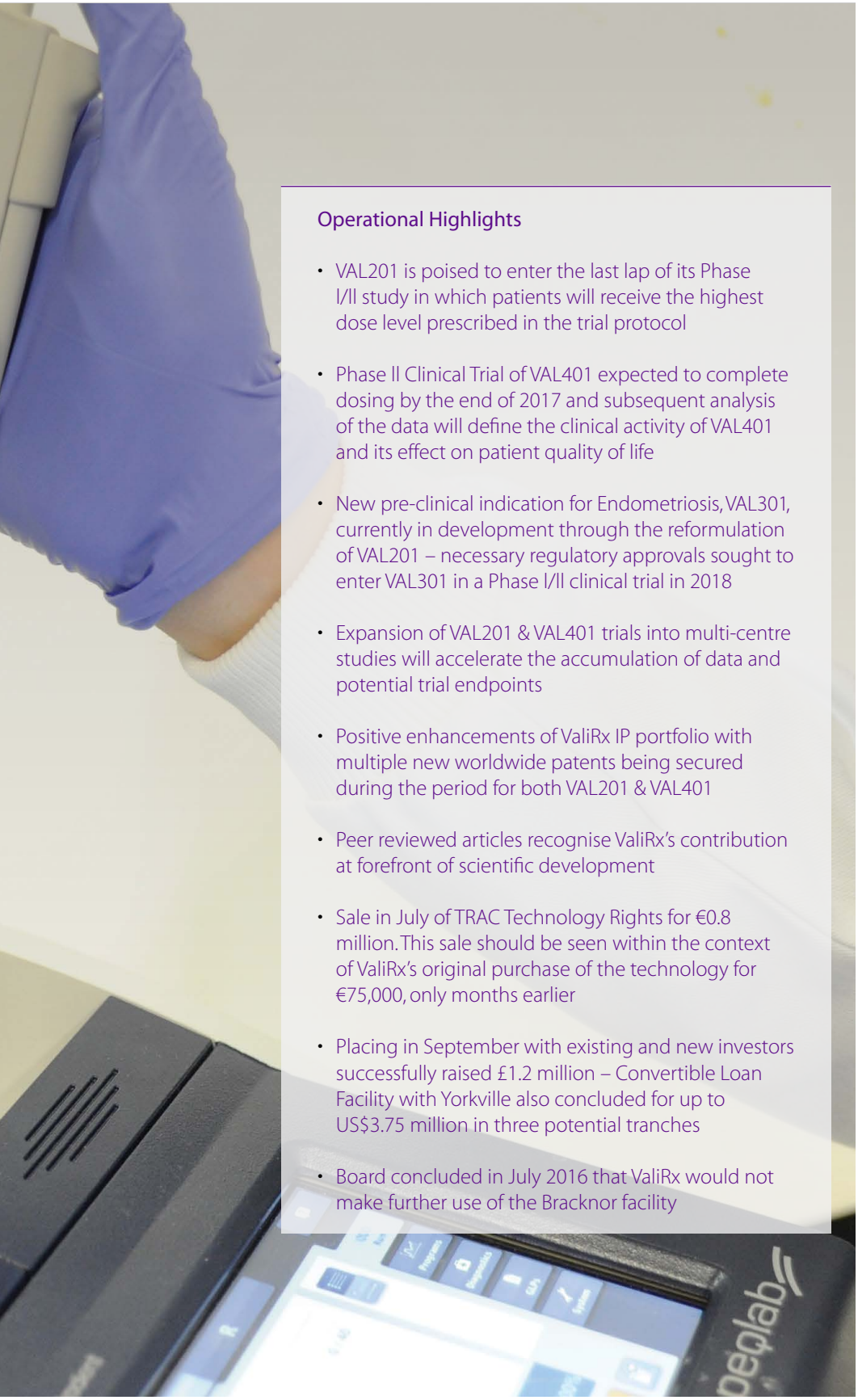
ValiPharma
ValiPharma is the therapeutics division, with two embedded technologies primarily directed at the treatment of cancers.

ValiSeek
ValiSeek is a joint venture between ValiRx and Tangent Reprofiling Ltd to develop VAL401 in lung cancer and potentially other indications.

Our Product Pipeline

We aim to make a significant contribution in "precision" medicine and science, namely to engineer a breakthrough into human health and well-being, through the early detection of cancer and its therapeutic intervention.

- VAL201 Read more on p. 12
- VAL301 Read more on p. 13
- VAL101 (GenelCE, VAL101) Read more on p. 13
- VAL401 Read more on p. 13



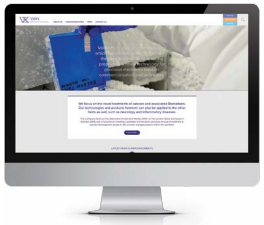
Operational Highlights

- VAL201 is poised to enter the last lap of its Phase I/II study in which patients will receive the highest dose level prescribed in the trial protocol
- Phase II Clinical Trial of VAL401 expected to complete dosing by the end of 2017 and subsequent analysis of the data will define the clinical activity of VAL401 and its effect on patient quality of life
- New pre-clinical indication for Endometriosis, VAL301, currently in development through the reformulation of VAL201 – necessary regulatory approvals sought to enter VAL301 in a Phase I/II clinical trial in 2018
- Expansion of VAL201 & VAL401 trials into multi-centre studies will accelerate the accumulation of data and potential trial endpoints
- Positive enhancements of ValiRx IP portfolio with multiple new worldwide patents being secured during the period for both VAL201 & VAL401
- Peer reviewed articles recognise ValiRx's contribution at forefront of scientific development
- Sale in July of TRAC Technology Rights for €0.8 million. This sale should be seen within the context of ValiRx's original purchase of the technology for €75,000, only months earlier
- Placing in September with existing and new investors successfully raised £1.2 million – Convertible Loan Facility with Yorkville also concluded for up to US$3.75 million in three potential tranches
- Board concluded in July 2016 that ValiRx would not make further use of the Bracknor facility

Strategic Report

Governance

Financial Statements



View more on our website
www.valirx.com

Strategic Report

CHAIRMAN'S STATEMENT

I am pleased to report that in the last 12 months we have made important strides in growing our research and development capabilities, such that we remain at the forefront of personalised and precision medicine and on track to deliver breakthrough drugs that radically improve cancer treatment outcomes.

These advancements led to the Company featuring alongside The Chancellor of the Exchequer, The Rt Hon Philip Hammond, and a small number of outstanding organisations and being invited to appear in the 2015/16 edition of The Parliamentary Review.

During the period under review, we have made substantial progress in further developing the Phase I/II clinical trial of our prostate cancer lead drug VAL201; we have initiated the Phase II study of VAL401 for the treatment of late stage non-small cell lung cancer and we have strengthened our pipeline with the addition of a new indication, VAL301, which is a reformulation of VAL201, for the treatment of Endometriosis.

In the last quarter of the year to the end of December 2016, we announced the grant of patents by both the European and Japanese Patent Offices for VAL201, giving ValiRx patent protection for this asset and exclusive commercial rights in the world's largest markets, including Japan, Europe and the US, with further patents pending in other significant geographies around the world.

VAL201 is poised to enter the last lap of its Phase I/II study in which patients will receive the highest dose level prescribed in the trial protocol. Hitherto, the trial has been conducted at University College London Hospital, however additional trial sites will participate in the final dose-escalating, therapeutically relevant phase of the trial, which remains on track to complete in 2017. VAL201 has thus far consistently demonstrated excellent safety and tolerability and has also shown evidence of disease stabilisation at a lower dose than was predicted by pre-clinical evaluations. We anticipate that by increasing the dosage, we will see a higher level of efficacy, without compromising the safety and tolerability shown to date.

Q4 2016 has also proved a defining period in terms of VAL401's clinical development and the expansion of our drug pipeline. VAL401 is a re-formulation of anti-psychotic drug Risperidone into an orally administered gelatin capsule. The compound has shown pronounced anti-cancer properties in pre-clinical testing and has moved straight into a Phase II efficacy trial involving patients with locally advanced or metastatic non-small cell lung cancer, who have typically 6 – 12 months of life expectancy. First dosing of patients commenced in November 2016. Since then, further patients and clinical trial sites have been recruited and opened respectively, with initial pharmacokinetic analysis showing that the presence and levels of the active drug and known metabolite in blood samples, are as expected. We expect to complete dosing by the end of 2017 and subsequent analysis of the data will define the clinical activity of VAL401 and its effect on patient quality of life.

Our new indication, named VAL301 is derived from our lead compound, VAL201. It is currently in mid-stage pre-clinical development as a non-invasive, effective treatment for the non-cancerous, but hugely debilitating gynaecological condition, Endometriosis. Earlier pre-clinical work on VAL201 has highlighted the compound's potential to protect uterine tissue from the oestrogenic effects that give rise to Endometriosis, with minimal impact on bone density or fertility, which are major drawbacks frequently encountered with the current commonly used drugs for this condition. Our focus now is to complete the pre-clinical package so that the Company obtains the necessary regulatory approvals to enter VAL301 in a Phase I/II clinical trial in 2018.

Our financial results show an increase in the net operating loss for the year to £4,169,638 (2015: £2,702,124) and a loss per share from continuing operations of 8.54p (2015: Loss 5.63p). This rise reflects the substantial increase in clinical activity undertaken during the period and the corresponding 54% increase in Research and Development costs (£2,375,354) in comparison to the prior period (2015: £1,543,441). The rise in R&D costs relates to an escalation in patient recruitment; the ratcheting increase in cost of dosage increments over the period for the Phase I/II clinical trial of VAL201 and the costs incurred surrounding the launch of VAL401 into its Phase IIb clinical trial in Georgia. Administration costs were impacted to a lesser extent, rising 32% to £1,794,284 (2015: £1,362,074).

We announced on 7 July 2016, that ValiRx had sold its subsidiary, ValiRx (Finland) Oy ("ValiFinn"), the company holding its Finnish-based TRAC Technology, to Sovicell Science for Life GmbH, for a cash consideration of €0.8 million. This transaction represented an opportunity to commercialise a part of the Group's portfolio, whilst freeing up resource and management time and the sale reflected a substantial rise in value for TRAC, considering the TRAC Technology had been acquired just under a year earlier for only €75,000. Later that month the Board resolved not to issue any further Convertible Loan Notes ("CLNs") to Bracknor and discontinued the use of the facility. As at 31 December 2016, the Group had cash and cash equivalents of £560,763 (2015: £232,465). After the year-end and at the beginning of March 2017, the Company raised £1.16 million through a placement of shares to fund the further development of its drugs towards key clinical milestones, which the Directors believe will provide significant value inflection points for ValiRx and its shareholders.

In conclusion, I believe the Group has seen some very encouraging developments across its portfolio during the period to December 2016. The progress of our core clinical products, VAL201 and VAL401 is continuing to gain substantive momentum and by so doing, this headway offers potential investors an investable proposition and an attractive offering to joint venture partners. I would like to take this opportunity to express my sincere gratitude to all shareholders, fellow Directors, and every member of the Group for the trust and support accorded to the Board in positioning ValiRx among the frontrunners in the fields of personalised and precision medicine.

Oliver de Giorgio-Miller
Chairman

2 May 2017

Looking towards the future

- The year 2016 has been very satisfactory.
- Our clinical trials have performed well and in line with expectations and the Company is very much looking forward to the next stage of its clinical trials. We are also continuing to develop our next generation therapeutics from our pre-clinical pipeline.
- Based on the positive results of the VAL201 and VAL401 compounds, the ValiRx team continue their discussions concerning late stage clinical studies and regarding potential partnerships and collaborations with pharmaceutical partners.

A Dynamic Portfolio with Products in the Clinic and a Pre-clinical Pipeline

Compounds

VAL201

Read more on p. 12

VAL301

Read more on p. 13

VAL401

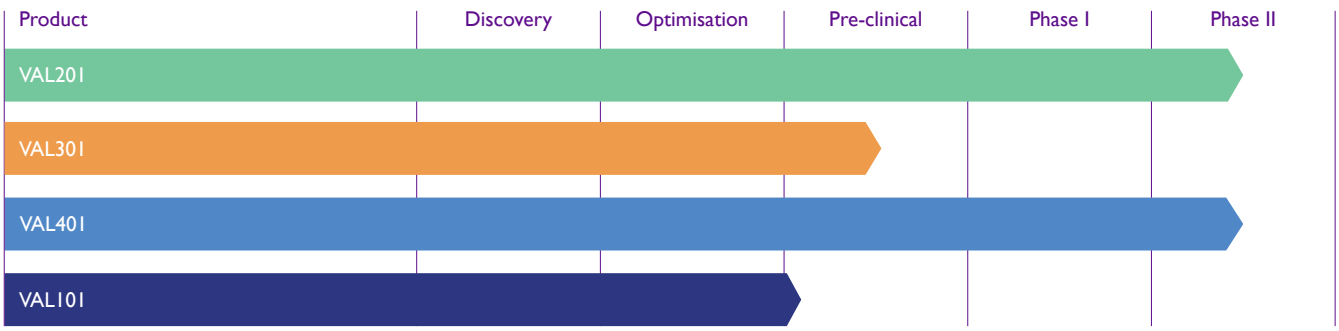
Read more on p. 13

Technology

VAL101 (GeneICE & VAL101)

Read more on p. 13

Product Pipeline



Strategic Report

HOW WE CREATE VALUE

ValiRx is a clinical stage biotechnology company with a focus in cancer and which has three classes of drugs in development with a clear goal to address unmet needs.

Our Business Model

Our business model spreads the risks of life science technology developments by minimising financial exposure and running a set of projects to defined commercial endpoints. This maximises returns to shareholders by adding value at the earlier stages where value increases per investment unit are the greatest.

Vision

Our vision is to make a structural change in science.

Aim

Our aim is to engineer a scientific breakthrough in human health and wellbeing.

How we will achieve

We will achieve these goals through early detection of disease and therapeutic intervention.

1

Reduce risk in new product development through rigorous clinical and commercial due diligence.

2

Select drug candidates and technologies with evidence-based potential to address unmet market needs.

3

Maximise returns to shareholders by adding value at the earlier stages where value increases per investment unit are the greatest.

Our Strategy

We focus on the treatment of cancer and associated Biomarkers, specialising in epigenomic and genetic analysis. We will achieve our goals through early detection of disease and therapeutic intervention.

Commercialise lead VAL201 anti-cancer therapy for prostate cancer

VAL201 is a novel and exciting approach for targeted cancer chemotherapy and is currently in a Phase I/II Clinical Trial in subjects with hormone resistant prostate cancer. The compound selectively halts tumour growth by specifically preventing the proliferation of tumour cells while leaving DNA synthesis unaffected; hence tumour growth is suppressed and metastases are significantly reduced.

Development of VAL301

The Company continues with the development of VAL301, which is the proposed reformulation of VAL201 for a new indication, Endometriosis. This is a gynaecological condition, characterised by endometrial-like tissue found outside of the uterine cavity. Endometriosis is a chronic and debilitating condition and it represents one of the major causes of female infertility. Pre-clinical data suggests that VAL301 will provide protection from the oestrogenic effects on uterine tissue, whilst maintaining bone density and fertility.

Develop the potential of VAL401

VAL401 is a re-formulation of a generic anti-psychotic drug, in an oral form, which has shown pronounced anti-cancer properties in pre-clinical testing. Due to the safety profile of the active drug, VAL401 is accelerating directly from pre-clinical studies into a Phase 2 efficacy trial in non-small cell lung cancer patients.

Continue promising testing in VAL101

ValiRx's proprietary GeneICE technology enables selective silencing of overzealous, rebellious or inappropriate activity by specific genes, which contribute to many disease states including cancers and inflammatory conditions, Alzheimer's and auto-immune diseases. The specially designed molecule mimics natural mechanisms, with one part of the molecule identifying and targeting the rebellious gene and the other part silencing it.

What we've Achieved in 2016

2016 has been a significant year for ValiRx both in terms of restructuring the capital of the Company and technical advancements made with both therapeutic compounds.

Read more on p. 06 to 07

Our Risk Management

ValiRx is a clinical stage biotechnology company and in common with other companies operating in this field, is subject to a number of risks and uncertainties. The principal risks and uncertainties are indicated below.

Read more on p. 16 to 17

- Our Phase I/II Clinical Trial of VAL201 has confirmed that the compound is well tolerated up to a putative therapeutic dose and that it has shown a high degree of safety, with no significant adverse events being reported in its study to combat metastatic prostate cancer and other advanced solid tumours.
- **Endometriosis** – We have started to design the protocol to test VAL201 for treatment of this debilitating female condition.
- **Biomarker Developments** are being explored with regard to VAL201 for use in clinical trials and beyond.

1 Industry risk
2 Competition risk
5 Intellectual property risk

- VAL301 is currently in mid-stage pre-clinical development as a non-invasive, effective treatment for the non-cancerous, but hugely debilitating gynaecological condition, Endometriosis.
- Earlier pre-clinical work on VAL201 has highlighted the compound's potential to protect uterine tissue from the oestrogenic effects that give rise to Endometriosis, with minimal impact on bone density or fertility, which are major drawbacks frequently encountered with the current commonly used drugs for this condition.
- The Group's focus now is to complete the pre-clinical package so that the Company obtains the necessary regulatory approvals to enter VAL301 in a clinical trial in 2018.

3 Financial risk
5 Intellectual property risk
6 Return on investment

- Q4 2016 has proved a defining period in terms of VAL401's clinical development and the expansion of our drug pipeline.
- First dosing of patients commenced in November 2016. Since then, further patients and clinical trial sites have been recruited and opened respectively, with initial pharmacokinetic analysis showing that the presence and levels of the active drug and known metabolite in blood samples, are as expected.
- We expect to complete dosing by the end of 2017 and subsequent analysis of the data will define the clinical activity of VAL401 and its effect on patient quality of life.

2 Competition risk
4 Clinical and regulatory risk
5 Intellectual property risk

- The GeneICE "rebellious gene" technology continues to show good progress in the pre-clinical phase.
- The compound has been designed against a gene expressing Bcl-2 protein, which has been implicated and associated with various cancers.
- Pre-clinical work is currently being conducted with our partners, DKFZ, Heidelberg and Pharmatest in Finland and the compound continues to be tested to decide the most promising cancer types for further development.

3 Financial risk
5 Intellectual property risk
6 Return on investment

Strategic Report

OUR PROGRESS

ValiRx was formed in 2006 – here is a brief look at our recent development.

2006

ValiRx Finland Acquired

ValiRx acquires Finnish Subsidiary ValiRx Finland. The acquisition will benefit from the favourable environment for regulated medical and clinical studies in the Nordic region.

Successful Collaboration with Oxford University

Successful outcome of a study conducted with Oxford University where VAL201 has proven to prevent cancerous growth in live models with no serious side effects. Followed by a jump in share price due to the announcement.

Exclusive Supplier of SELFCheck

ValiMedix Ltd becomes the exclusive supplier of the SELFCheck brand of Personal Health Screening Tests, which is increasingly available in pharmacies throughout the UK.

2013

ValiRx Granted Patent in Australia

ValiRx has been granted patent protection in Australia for VAL201. The new patent will enable ValiRx to extend its current patent protection and add to its portfolio.

ValiRx Raised £1 million

ValiRx raised £1 million through a placing of 307 million shares with institutional and other investors.

2014

VAL201 Efficacy, NAV3 Biomarker Granted Patent in Australia

Lead Compound ValiRx's drug substance VAL201 has efficacy in prostate, breast and ovarian cancer models and also addresses Endometriosis or hormone-induced abnormal cell growth in women whilst the NAV3 Biomarker receives approval by the Australian patent office. ValiRx and Phamatest Services Limited is also awarded a new Eurostars II grant for further GeneICE development.

ValiSeek Launched

ValiSeek was set up to speed the progress of partner Tangent Reprofiling's lung cancer treatment, now called VAL401, towards Phase II trials.

NAV3 Granted Patent in Japan

ValiRx receives patent approval from the Japanese patent office (JPO) for NAV3.

New Office in Boston

ValiRx opens a new office in Boston, USA. Facilitating greater interactions with the leaders in the field of oncological development.

VAL201 Phase I/II Dose Escalation

Lead drug VAL201 in Phase I/II dose escalation clinical trials in patients with locally advanced or metastatic prostate cancer and other advanced solid tumours at University College London Hospital.

Ethics Committee Approval Received for ValiSeek

ValiSeek has received a positive opinion recommending approval of the trial protocol from the Ethics Committee covering its clinical site in Tbilisi, which is a significant step in the regulatory process prior to patient recruitment and dosing.

European patent granted for lead Therapeutic compound VAL201

The grant of this latest patent to the Company means that it now has patent protection for VAL201 in Japan, Europe and Australia, with further patents pending for the compound in significant markets across the rest of the world, alongside other granted and patents pending for the Group's therapeutic technologies world-wide.

2015

2016

NAV3 Granted Patent in Europe

ValiRx receives European Patent Grant for NAV3 biomarker.

Collaboration with DKFZ

ValiRx enters into a collaboration agreement (the "Agreement") with the DKFZ to further develop GenelCE.

Phase I/II Clinical trial VAL201 Approved

A Phase I/II Clinical trial on VAL201 is approved by the Medicine and Healthcare Products Regulatory Agency ("MHRA").

Collaboration with the German Cancer Research Centre

Detection of GenelCE targeting technologies and compounds accelerating through collaboration with world-renowned R&D institution, the German Cancer Research Centre, to bring personalised cancer treatment from laboratory to bedside.

ValiRx Plc gets go-ahead for trials of lung cancer drug

ValiRx receives encouraging reports from the Clinic in Tbilisi that indicates that the patient dosed is tolerating the treatment well, has experienced no drug-related adverse events and remains enthusiastic about continuing on the trial.

Strategic Report

MARKETPLACE

We focus on the treatment of cancer and associated Biomarkers, specialising in epigenomic and genetic analysis.

Principal activities

The principal activity of the Group continued to be that of an oncology therapeutics and companion diagnostics development company.

The Group has undertaken to develop a novel and ground-breaking class of therapeutics across a number of fields in oncology and has taken its lead compound, VAL201, into Phase I/II clinical trials. The Company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange in October 2006.

Strategy

The Group has a pipeline of other therapeutic drugs, which are currently progressing towards clinical trials. The product focus is in the targeted analysis and treatment of cancer, but the technologies can be applied to other fields as well, such as neurology and inflammatory diseases.

It actively manages projects within its portfolio as a trading company. The ValiRx business model spreads the risks of life science technology development by minimising financial exposure and running a set of projects to defined commercial endpoints. This maximises returns to shareholders by adding value at the earlier stages where value increases per investment unit are the greatest.

Business review

A review of the development and performance of the Group, including important events, progress during the year, and likely future developments, can be found in the Chairman's Statement and the Chief Executive's Report.

Strengthening our Operational and Investor Presence

A new office was opened in Boston, USA in 2015. The operation was formed to encourage and facilitate greater interaction with academic, clinical and business leaders in the field of oncological development.

Prostate Cancer

Prostate cancer is the most common type of cancer in men, generally affecting men over the age of 50. Around 34,000 men in the UK are diagnosed with prostate cancer each year. This cancer begins with an uncontrolled growth of cells and develops slowly, sometimes never causing a problem. However, most cancers will spread, in which case, the patient will need a treatment.

The global market for the prostate cancer therapeutics market is increasing, driven primarily by the growth in the hormone-refractory prostate cancer therapeutics markets. Hormone therapy using a combination of hormone therapies such as LHRH agonists and androgen receptor antagonists is a prominent treatment regime.[3]

120

More than 120 men in the UK are diagnosed with prostate cancer a day[1]

1 in 8 men will get prostate cancer in their lifetime.[1]

$100bn

Global market for cancer therapeutics is expected to cross $100 billion in 2015.[2]

VAL201

Endometriosis

Endometriosis is a gynaecological medical condition in which cells from the lining of the uterus (endometrium) appear and flourish outside the uterine cavity, most commonly on the ovaries. The uterine cavity is lined by endometrial cells, which are under the influence of female hormones. These endometrial-like cells in areas outside the uterus (Endometriosis) are influenced by hormonal changes and respond in a way that is similar to the cells found inside the uterus. Symptoms often worsen with the menstrual cycle. Endometriosis is excessively debilitating, typically seen during the reproductive years and represents one of the major causes of female infertility.

It has been predicted that the global Endometriosis market will reach $1.3 billion by 2017 and Endometriosis remains a common health problem among women, with an estimated 170 million sufferers globally. This estimate is widely considered to be an under estimation of the true situation with respect to this condition.

170m

Endometriosis remains a common health problem among women, with an estimated 170 million sufferers globally.

160,000

Approximately 160,000 people in the UK die of cancer every year.[3]

VAL301 VAL201

Lung Cancer

Whereas lung cancer in men peaked in the late 1980's, with a rate of over 50/100,000 men and falling by about a third thereafter to about 36/100,000 men, the rate in EU women has been growing over the past two decades. Causative factors of lung cancer include smoking, responsible for more than 80% of cases.

NSCLC is defined as a cancer of the lung which is not of the small cell carcinoma type. The term "non-small cell lung cancer" applies to the various types of bronchogenic carcinomas (those arising from the lining of the bronchi) accounting for 80-85% of all lung cancer cases.

The Non-small Cell Lung Cancer market is growing - the Global market is projected to increase from $5.1 billion in 2013 to $7.9 billion in 2020 at a CAGR of 6.6%. This represents about 1.1 million cases estimated in the eight largest markets.

80%

Causative factors of lung cancer include smoking, responsible for more than 80% of cases.

77%

UK lung cancer patients are diagnosed at stage III or IV.

VAL401

1 http://www.macmillan.org.uk/Documents/AboutUs/Research/Keystats/StatisticsFactsheet.pdf
2 Fiercebiotech, 2015
3 http://www.who.int/mediacentre/factsheets/fs297/en/

Strategic Report

LICENSING COLLABORATIONS

Valirx
Bioscience Innovation

Imperial Innovations, London

Licensed technology since: 2006 (GenelCE).

Imperial Innovations Group plc ("Innovations") creates, builds and invests in pioneering technology companies and licensing opportunities developed from outstanding scientific research focusing on the 'Golden Triangle', the geographical region broadly bounded by London, Cambridge and Oxford.

This area has an unrivalled cluster of outstanding academic research and technology businesses, and is home to four of the world's top 10 universities[1], as well as leading research institutions, the cream of the UK's science and technology businesses and many of its leading investors.

Innovations supports scientists and entrepreneurs in the commercialisation of their ideas, through the licensing of intellectual property, by leading the formation of new companies, by recruiting high-calibre management teams and by providing investment and encouraging co-investment.

Cancer Research UK

Licensed technology since: 2010 (VAL201).

Cancer Research UK is a cancer research and awareness charity in the United Kingdom, formed on 4 February 2002 by the merger of The Cancer Research Campaign and the Imperial Cancer Research Fund. Its aim is to reduce the number of deaths from cancer. As the world's largest independent cancer research charity, it conducts research into the prevention, diagnosis and treatment of the disease. Research activities are carried out in institutes, universities and hospitals across the UK, both by the charity's own employees and by its grant-funded researchers. It also provides information about cancer and runs campaigns aimed at raising awareness of the disease and influencing public policy.

Cancer Research UK's work is almost entirely funded by the public. It raises money through donations, legacies, community fundraising, events, retail and corporate partnerships. Over 40,000 people are regular volunteers.

On 18 July 2012 it was announced that Cancer Research UK was to receive its largest ever single donation of £10 million from an anonymous donor. The money will go towards the £100 million funding needed for the Francis Crick Institute in London, the largest biomedical research building in Europe.

University College London Hospital

Out-sourced contractor to run clinical trial since: 2015.

University College London Hospitals NHS Foundation Trust (UCLH) is one of the most complex NHS trusts in the UK, serving a large and diverse population. In July 2004, UCLH was one of the first NHS trusts to achieve Foundation Trust status. It provides academically-led acute and specialist services, to people from the local area, throughout the United Kingdom and overseas. UCLH is committed to delivering top-quality patient care, excellent education and world class research.

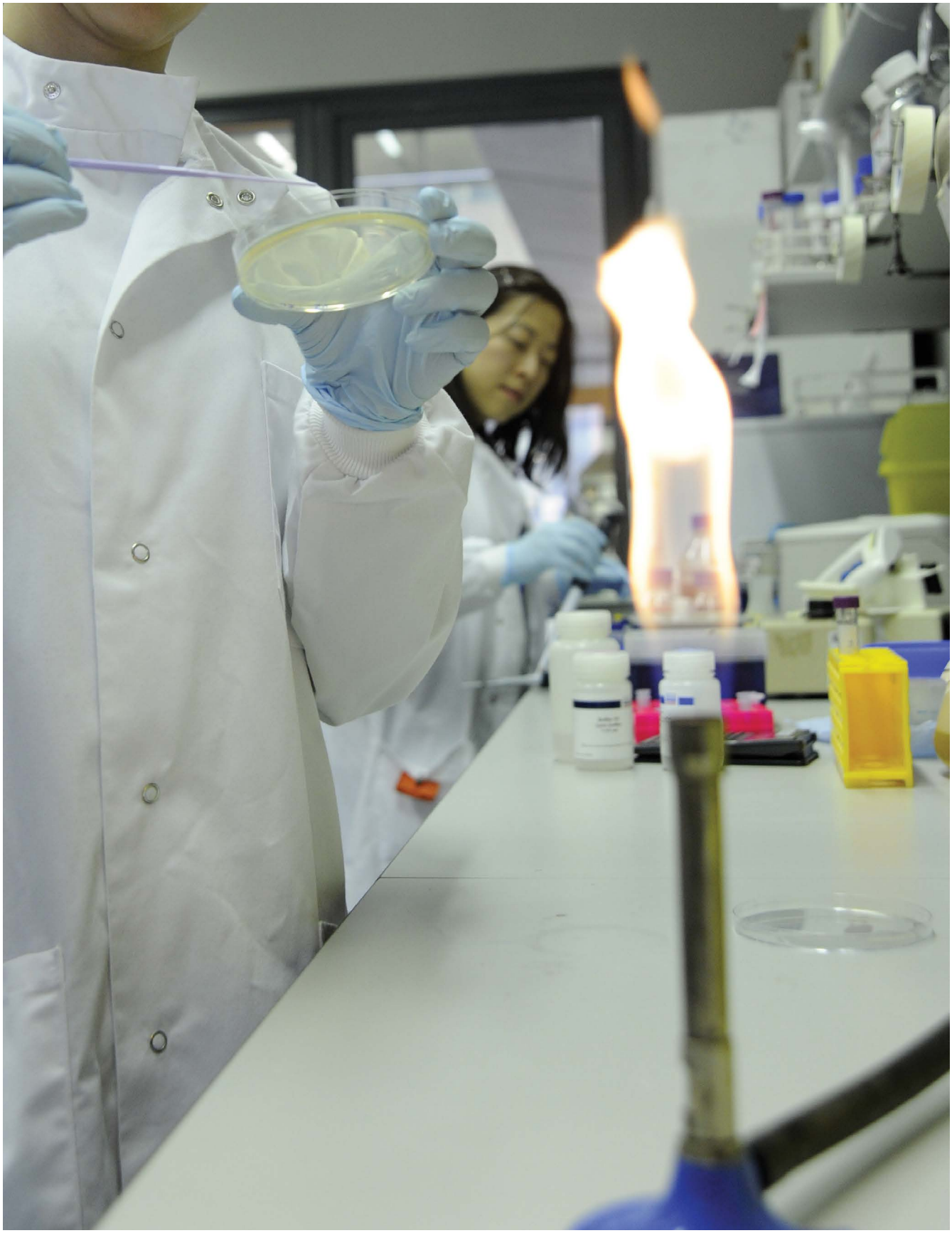
It has a turnover of £882 million and contracts with over 70 primary care trust commissioning bodies to provide services. It sees over 950,000 outpatients and admits over 156,000 patients each year.

It works with the Royal Free and University College Medical School, London South Bank and City universities to offer high-quality training and education.

GenelCE

VAL201

[1] QS World University Rankings 2015/16



Strategic Report

THERAPEUTICS

Two drug candidates in clinical stage development. Others in pre-clinical.

Our portfolio

Compounds

VAL201

Read more on p. 12

VAL301

Read more on p. 13

VAL401

Read more on p. 13

Technology

VAL101 (GeneICE & VAL101)

Read more on p. 13

VAL201

Prostate Cancer

The Company's leading anti-cancer therapeutic VAL201 is currently in clinical trials for the treatment of prostate cancer and potentially other indications of hormone induced unregulated growth including Endometriosis. The compound is targeted specifically to prevent the proliferation of cancer cells, whilst leaving the other functions of androgen activity intact, which includes fertility and bone development. Due to its low toxicity profile, the compound may have potential for preventative treatment. The Phase I/II trial has been initiated and VAL201 was safe and well tolerated at the doses tested. Progressing through the dose escalation and expansion stages, the study is then designed to investigate further details of these aspects as well as efficacy. Particular emphasis will be placed on evaluating the pharmacokinetics, pharmacodynamics and early assessment of anti-tumour activity in response to VAL201, using a variety of measurements.

VAL201 selectively prevents tumour growth by specifically inhibiting the proliferation of tumour cells. As a result, tumour growth is suppressed and metastasis is significantly reduced. The approach is a targeted therapeutic with pre-clinical results that indicate that due to the specific nature of this treatment, this therapy is likely to be less toxic than many other therapeutic options. The VAL201 target is also associated with other cancers and there is significant potential for VAL201 to be used as a treatment for other hormone-induced cancers, such as breast and ovarian cancers and also Endometriosis.

"We anticipate that by increasing the dosage we will show a high level of efficacy without compromising the safety and tolerability shown to date to meet the needs of those patients currently under-served by current therapies. ValiRx is entering a very exciting phase, which should result in the crystallisation of substantial value."

Dr Satu Vainikka
Chief Executive Officer

VAL301

Endometriosis

Endometriosis is a gynaecological medical condition in which cells from the lining of the uterus (endometrium) appear and flourish outside the uterine cavity lined by endometrial cells, which are under the influence of female hormones. These endometrial-like cells in areas outside the uterus (Endometriosis) are influenced by hormonal changes and respond in a way that is similar to the cells found inside the uterus and symptoms often worsen with the menstrual cycle.

The treatments chosen will depend on symptoms, age, and lifestyle plans. VAL201 has been shown though to reduce abnormal endometrial growth, whilst leaving other hormone-induced activities working normally. ValiRx's initial in-vitro results show a reduction in endometrial lesion size directly related to dose and two generations of offspring produced by treated animals.

This strongly suggests that unlike current medications in use to treat the condition, the peptide does not affect fertility. The peptide VAL301 is a reformulation of VAL201 and is currently in pre-clinical development for the non-invasive and better tolerated treatment of Endometriosis. The Company's focus now is to complete laboratory tests before progressing VAL301 to clinical trials.

VAL401

Lung cancer

VAL401 is the reformulation of anti-psychotic drug Risperidone, that has over 20 years of clinical use, into an orally administered gelatin capsule. The re-formulation allows the drug to access previously unexploited anti-cancer activity and pre-clinical evidence suggested anti-cancer activity against adenocarcinoma types. VAL401 is currently in a Phase II clinical trial for the treatment of non-small cell lung cancer.

"I am delighted that VAL401 has progressed according to schedule since being in-licensed to the ValiRx group. We look forward to hearing reports from ValiSeek of further advancement over the coming year."

Dr Satu Vainikka
Chief Executive Officer

GeneICE & VAL101

GeneICE

GeneICE "rebellious gene" technology continues to show good progress in the pre-clinical phase – the programme currently benefits from a second Eurostars grant for up to £1.6 million.

Rebellious genes are genes that are overexpressed when they should not be or are erroneously expressed, e.g., in cancers, inflammatory conditions, Alzheimer's and autoimmune diseases. ValiRx's proprietary GeneICE technology enables the selective silencing of specific genes by targeted histone deacetylation leading to chromatin condensation, this prevents access and silences gene expression. In nature histone deacetylation of a particular gene is brought about by recruitment of a histone deacetylase complex (HDAC) to the gene. GeneICE constructs mimic this natural mechanism by delivery to the nucleus of a dual-module construct comprising: The binding of GeneICE construct to its target gene leads to deacetylation of the histones associated with the gene, localised chromatin condensation and gene silencing.

VAL101

VAL101 is a novel therapeutic based on the Company's proprietary GeneICE (Gene Inactivation by chromatin engineering) platform. It acts to target and switch "OFF" the gene that expresses Bcl-2, a protein that is implicated in about half of all carcinomas. Pre-clinical studies have established VAL101's efficacy in prostate, ovarian and pancreatic cancers, and it may also have anti-tumour activity against orphan oncologic indications. ValiRx's GeneICE technology enables the selective silencing or the shutting down of particular rebellious genes, thereby halting and reversing tumour growth.

ValiRx's proprietary novel NAV3 Cancer Screening Test enables the detection of cancer cells in tissue samples, whether they are primary tumours, metastases or pre-malignant cell, at a stage when tumour development is only about to start. The test is based on the detection of specific changes in the NAV3 gene and the system of tests can be applied to a range of cancers.

Strategic Report

CHIEF EXECUTIVE'S REPORT

"Following on from the Chairman's comprehensive review I will comment on the events and activities that I find most significant and point the way to the future of the Company."

Dr Satu Vainikka
Founding Director & Chief Executive Officer

£560,763
Cash and cash equivalents of £560,763 (2015: £232,465).

£620,104
Grant towards R&D and Government tax credits £620,104 (2015: £594,593)

£3,908,906
Net cash inflow from financing £3,908,906 (2015: £2,681,060)

The year under review has been another exciting and pivotal period of momentum for ValiRx. Our lead compound, VAL201, has performed exceptionally in clinical trials, demonstrating safety, tolerability and early signs of potential efficacy against prostate cancer. Our other re-profiled and reformulated therapeutic drug, VAL401, entered into clinical trials during the year. Both clinical trials have progressed well and have produced positive and exciting results. The pre-clinical pipeline is also progressing well together with our partners.

VAL201

Prostate cancer

The VAL201 compound, unlike most current therapies for prostate cancer, which often include androgen deprivation and the consequent loss of fertility and sex drive, selectively prevents tumour growth by specifically inhibiting the proliferation of tumour cells. VAL201 is intended to target a specific pathway from the androgen receptor, thereby treating the cancer, but without suppressing sexual and other functions and without other debilitating side effects. The approach is a targeted therapeutic, whose pre-clinical results indicate that the therapy is likely to be less toxic than many other therapeutic options.

The Phase I/II clinical trial of VAL201 and its application in subjects with hormone resistant prostate cancer is ongoing at University College Hospital, London. The readout from the first part of the trial – from first in human dosing through to a therapeutically meaningful dose – showed strong safety and tolerability in all trial subjects. Other measurements taken were completely consistent and comparable to the results seen in the pre-clinical studies. Furthermore, the trial has also shown indications of efficacy and disease stabilisation on CT imaging and a reduction of PSA progression, in the majority of patients. Pre-clinical data has shown tumour growth is suppressed and metastasis is significantly reduced.

The VAL201 target is also associated with other cancers and there is significant potential for VAL201 to be used as a treatment for other hormone-induced cancers, such as breast and ovarian and also for the non-cancerous, but very debilitating condition, Endometriosis.

Additional Clinical Trial Centres

Building on these positive results, ValiRx is adding additional clinical sites to participate in the dose-escalating, therapeutically relevant phase of the trial to arrive at the maximum tolerated dose. This can be taken forward by the Company or a partner into subsequent, larger, outcomes-oriented clinical trials to establish its effect on overall survival and on the health-related quality of life in patients with prostate cancer.

VAL401

The Company's VAL401 trial has been registered with the European Union Drug Regulating Authorities Clinical Trials Database (EudraCT). Work is now continuing to advance the regulatory approval process, with a primary trial site and Principal Investigator successfully identified and engaged.

Endometriosis

The VAL201 clinical trial protocol also permits investigation of other solid hormone resistant tumour types and as mentioned earlier, our pre-clinical work has shown promising evidence of the compound's efficacy with respect to the treatment of Endometriosis. On the basis of these results, we have designed and developed the protocol to test VAL201 for Endometriosis and other endometrial conditions and we anticipate this new indication to be an important extension of the compound's therapeutic use. The Company continues with the design of a trial for VAL301 and the associated partnerships - both commercial and technical - are expected to be in place before the final reporting of the current 'safety and tolerability-focused' Phase I/II clinical trial completes.

VAL401

The Company's clinical efficacy trials of the novel cancer treatment drug, VAL401, for the treatment of lung cancer, are ongoing and the trial has been registered with the European Union Drug Regulating Authorities Clinical Trials Database (EudraCT).

Following our announcement on 11 August 2016 that all regulatory approvals had been received for the VAL401 clinical trial in Tbilisi, Georgia, the company is pleased to report that patients have proceeded sufficiently through the dosing phase of the protocol, such that further patients were recruited.

As part of the initial biochemical testing, pharmacokinetic samples have been collected and are being analysed to see the levels of patient exposure to Risperidone displayed by our formulation. Full analysis of this data will be performed after we collect data from up to 20 patients who are to be enrolled into the trial over the coming months.

Since the December 2016 announcement of the approval of the JSC Neo Medi Clinic, in Tbilisi, Georgia, as VAL401's second trial site, a third clinical site, the Research Institute of Clinical Medicine in Tbilisi, has now been initiated. All three sites are now actively recruiting, allowing the differing specialities of clinics and investigators to be combined to provide the optimal team for the VAL401 trial. A preliminary datalock is scheduled when all patients have completed the Day 15 pharmacokinetic analysis and this will enable a mid- trial data release.

TRAC

In February 2015, ValiRx acquired for €75,000 the Finnish gene expression and biomarker technology 'Transcript Analysis with the Aid of Affinity Capture' ("TRAC") for use by its wholly owned subsidiary biomarker unit, ValiRx (Finland) Oy ("ValiFinn"), based in Oulu, Finland . In July 2016, ValiRx then sold this subsidiary to Sovicell Science for Life GmbH for €0.8 million. Going forward, ValiRx retains royalty-free rights to the technology for its own therapeutic developments and in support of its drug pipeline.

GeneICE

GeneICE "rebellious gene" technology continues to show good progress in the pre-clinical phase - the programme currently benefits from a second Eurostars grant for up to €1.6 million. Rebellious genes are genes that are overexpressed when they should not be or are erroneously expressed, e.g. in cancers, inflammatory conditions, Alzheimer's and autoimmune diseases. ValiRx's proprietary GeneICE technology enables the design of compounds for selective silencing of specific genes.

The GeneICE lead compound has been designed against a gene expressing Bcl-2 protein, which has been implicated and associated with various cancers. Pre-clinical work is currently being conducted with our partners, DKFZ, Heidelberg and Pharmatest in Finland and the compound continues to be tested to decide the most promising cancer types for further development.

Patents and Intellectual Property

The company has received several important international patent grants for VAL201 and VAL401 in major territories. ValiRx continues to expand its Intellectual Property ("IP") as its development programmes go forward and it remains open to technology acquisition opportunities, which complement and accelerate the development of the Group's therapeutic portfolio and to grow its value.

Outlook

2016 has been a very satisfactory year. Our clinical trials have performed well, and in line with expectations, and the Company is very much looking forward to the next stage of its clinical trials. We are also continuing to develop our next generation therapeutics from our pre-clinical pipeline. Based on the positive results of the VAL201 and VAL401 compounds, the ValiRx team continue their discussions concerning late stage clinical studies and regarding potential partnerships and collaborations with pharmaceutical partners.

Dr Satu Vainikka
Founding Director & Chief Executive Officer

2 May 2017

Corporate Social Responsibility

Delivering healthcare solutions that reduce complexity, drive efficiency and improve patient wellbeing.

ValiRx recognise the obligation to behave as a responsible corporate citizen and believe that by doing so we will minimise business risk and enhance our reputation.

The Board recognises the potential benefits of corporate social responsibility ("CSR") for the competitiveness of ValiRx and encourages a culture of continuous improvement in CSR-related issues. We have set specific policies that cover key aspects of CSR and strive to operate at the highest level of integrity.

Strategic Report

RISKS AND UNCERTAINTIES

Our risk management framework

The Board is responsible for the systems of internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of these systems annually by considering the risks potentially affecting the Group.

Risk Status Key

- Risk increased
- Risk unchanged
- Risk decreased

Risk	Description	Mitigation	Change
1 Industry risk	The success of the Group's programmes depends upon the quality of the design and the implementation of each programme. The Group utilises a range of external scientific, regulatory and clinical experts to help guide its development programmes. The progress of the development programmes therefore represents the best indicator of the Group's performance. Successful commercialisation of the Group's products is likely to depend on successful progress through clinical studies, licensing and or partnering and registration. Development of product candidates involves a lengthy and complex process and products may not meet the necessary requirements in terms of toxicity, efficacy or safety, or the relevant regulators may not agree with the conclusions of the Group's research and may require further testing or withhold approval altogether.	The Group manages its clinical and regulatory risk by working closely with its external expert scientific, regulatory and clinical advisors and, where appropriate, seeking advice from regulatory authorities on the design of key development plans for its pre-clinical and clinical programmes.	↑
2 Competition risk	ValiRx has products in clinical trials and is dependent on successfully advancing these lead candidates. They include VAL201, to treat hormone induced cancers and abnormal growth and VAL401, a re-purposed compound to treat non-small cell lung cancer, through the Phase II Clinical Trial pathway. The business model is to ensure future partnering of these compounds with larger co-development partners.	Successful commercialisation of ValiRx's products is likely to depend on its successful progress through clinical studies, licensing and/or partnering and registration. Competition that may lead to third parties discovering or developing products earlier or more successfully than ValiRx, may also impair the Company's ability to secure funding, to advance its clinical trials and have a successful relationship with a co-development partner.	↑
3 Financial risk: Cash flow	The Group has a history of operating losses which are anticipated to continue until the Group is able to generate sufficient revenues from its development programmes. However, the Group may need to seek further capital through equity or debt financings in the future and if this is not successful, the financial condition of the Group may be adversely affected.	As at 31 December 2016, the Group had cash resources of £560,763 which the Group considers sufficient to finance its operational activities until at least Q2 2017 and the Group raised further funding of £1.16m in Q1 2017.	→

Risk	Description	Mitigation	Change
4 Clinical and regulatory risk	Successful commercialisation of the Group's products is likely to depend on successful progress through clinical studies and registration. Development of product candidates involves a lengthy and complex process and products may not meet the necessary requirements in terms of toxicity, efficacy or safety, or the relevant regulators may not agree with the conclusions of the Group's research and may require further testing or withhold approval altogether.	The Group manages its clinical and regulatory risk by working closely with its expert regulatory advisors and, where appropriate, seeking advice from bodies on clinical and regulatory risk relevant to the Group's programmes and activities.	
5 Intellectual property risk	The Group's success depends, in part, on its ability to obtain and maintain protection for its intellectual and proprietary information, so that it can stop others from making, using or selling its inventions or proprietary rights. The Group's patent applications may not be granted and its existing patent rights may be successfully challenged and revoked.	The Group invests in maintaining and protecting this intellectual property to reduce risks over the enforceability and validity of the Group's patents. The Group works closely with its legal advisors and obtains where necessary opinions on the intellectual property landscape relevant to the Group's programmes and activities.	
6 Return on investment	The drug development process is inherently risky and is conducted over several years and consequently is costly. Many drug candidates fail in development due to the clinical and regulatory risks, and even in those circumstances where drugs are sold, licensed or partnered prior to or subsequent to potential or actual approval, sales levels can be disappointing due to competition, healthcare regulation and/or intellectual property challenges. As a result, the returns achieved may be insufficient to cover the costs incurred.	The Group looks to mitigate the development and commercial risk by partnering drug candidates for late-stage development and commercialisation. By partnering in this way, part of the risk profile is reduced and the cost to the Company of programme development is minimised.	
7 Environmental matters	The Board is committed to minimising the Group's impact on the environment and ensuring compliance with environmental legislation. The Board considers that its activities have a low environmental impact. The Group strives to ensure that all emissions including the disposal of gaseous, liquid and solid waste products are controlled in accordance with applicable legislation and regulations. Disposal of hazardous waste is handled by specialist agencies.	The Group recognises its responsibility towards the environment and in the way it conducts its business and it works closely with all its expert scientific advisors to ensure its compliance with environmental legislation and to ensure that all emissions including the disposal of gaseous, liquid and solid waste products are controlled in accordance with applicable legislation and regulations.	

On behalf of the board

O de Giorgio-Miller
Chairman

2 May 2017

Governance

BOARD OF DIRECTORS

Our experienced Board of Directors comprises six dedicated members who are all well respected within their field.

Oliver de Giorgio-Miller
Non-executive Chairman

Appointment: Oliver joined the Board of ValiRx plc in May 2011.

Experience and Accreditation: Oliver has a wealth of experience in the management and commercial advancement of life science companies. He has worked for over 30 years with several global pharmaceutical and medical device companies including Schering AG, Hoffman la Roche, Intavent-Orthofix and Photo Therapeutics, a Cancer Research UK company, and he has extensive experience advising a number of other early stage biopharmaceutical and medical device companies.

Since 2002 Oliver has worked as a life sciences analyst in the City, working alongside corporate finance, investor relations and sales teams on a wide range of transactions including IPOs, secondary issues and M&As.

External Appointments: He is a director and investment manager of an offshore fund, Sarum Investment (SICAV) plc, which is exclusively focused on the oncology sector.

Dr Satu Vainikka
Founding Director & Chief Executive Officer

Appointment: Satu joined the Board in October 2006.

Experience and Accreditation: Satu has many years' experience of the biotechnology industry, including extensive first hand experience of equity financing, business management and developing life science technology into commercial enterprises. Prior to her current role as CEO of ValiRx, she was a founder, director and CEO of Cronos Therapeutics Limited.

In her past roles, Dr Vainikka has developed and exited successful business models, negotiated corporate and academic transactions and raised funding for a number of companies.

Dr Satu Vainikka has gained the following qualifications and awards:
- MBA at Imperial College Business School 2000;
- PhD in signal transduction in oncology, University of Helsinki 1996; and
- Prestigious "embo" fellowship for Postdoctoral research at Imperial Cancer Research (now CRC).

Dr George Morris
Founding Director & Chief Operating Officer

Appointment: George joined the Board in October 2006.

Experience and Accreditation: George has over 25 years' experience in biological and medical research and financial services. In the past he has worked for Guy's Hospital Medical School Department of Medicine, King's College and University College London. As a research scientist, he is an author of numerous books and articles on refereed papers, approximately 70 abstracts, short reports and posters, and an inventor of multiple patents.

George was a founding member of the expert advisory panel, the "Biotechnology and Finance Forum", set up jointly between the European Commission and the European Association of Securities Dealers. George is involved in a number of conferences and workshops with the EU research and agricultural directorates and is an "expert" to the Commission and has been invited into several policy discussion groups.

George has worked with a variety of commercial, governmental organisations and financial institutions in the US, Europe and Australia and many consultancy projects covering various biotechnology and financial activities.

External Appointments: He is regularly asked to chair or participate in conferences in his areas of experience, including acting as a "Venture Academy" mentor.

To view our Scientific Advisory Board, visit
www.valirx.com/about-us/scientific-advisory-board

Gerry Desler
Founding Director & Chief Financial Officer

Appointment: Gerry joined the Board in May 2006.

Experience and Accreditation: Gerry is a chartered accountant, who qualified in 1968 with a City firm, before becoming a partner in 1970. Between 1985 to 1990 he was the senior partner. During his time in the City, he has specialised in consultancy work, much of it involving funding and venture capital.

He was involved in one of the first joint ventures in what was then the People's Republic of China in 1980.

External Appointments: Gerry is also the finance director of Prospex Oil & Gas Plc, an AIM listed company and is on the board of a number of private companies.

Kevin Alexander
Non-executive Director

Appointment: Kevin joined the Board in October 2006.

Experience and Accreditation: Kevin is a qualified solicitor in England and an attorney in New York and he was a partner at major law firms in both London and the United States for over 25 years. Since leaving the law, he has been involved in forming and managing various businesses, both private and public. He has an MA in law from Cambridge University.

Seppo Mäkinen
Non-executive Director

Appointment: Seppo joined the Board in October 2013.

Experience and Accreditation: Seppo Mäkinen has more than 25 years executive experience at board level and of venture capital management in life science companies. His special expertise is on biotech/medtech/diagnostics. His career includes ten years as a Director in Life Sciences at Sitra (Finnish Government Fund), followed by thirteen years as co-founder and Managing Partner in Bio Fund Management Oy. His experience also includes five years as President of BioFund A/S, Copenhagen. With €200 million under management, BioFund was one of the biggest European VC funds investing into life sciences. He received his M.Sc. Degree in physical chemistry from University of Jyväskylä in 1979.

External Appointments: Seppo Mäkinen is currently Board Member in five life science/healthcare companies and advisor to Merieux Développement Fund.

Company Information

Directors
Oliver de Giorgio-Miller
Dr Satu Vainikka
Dr George Morris
Gerry Desler
Kevin Alexander
Seppo Mäkinen

Secretary
Kevin Alexander

Company number
03916791

Registered office
3rd floor
16 Upper Woburn Place
London
WC1H 0BS

Auditors
Adler Shine LLP
Chartered Accountants
and Statutory Auditor
Aston House
Cornwall Avenue
London
N3 1LF

Bankers
Royal Bank of Scotland Plc
St Ann Street
Manchester
M50 2SS

Solicitors
Pinsent Masons LLP
30 Crown Place
Earl Street
London
EC2A 4ES

Governance

DIRECTORS' REPORT

for the year ended 31 December 2016

The Directors present their report and financial statements for the year ended 31 December 2016.

Results and dividends

The results for the year are set out on page 23.

The Directors do not recommend payment of an ordinary dividend.

Financial risk management objectives and policies

Note 27 to the financial statements gives details of the Group's objectives and policies for risk management of financial instruments.

Research and development

The Group will continue its policy of investment in research and development. In accordance with International Financial Reporting Standards (IFRS), during the year the Group expensed to the income statement £2,375,354 (2015: £1,543,441) on research and development. Further details on the Group's research and development are included in the Chief Executive's Report on page 14.

Directors

The following Directors have held office since 1 January 2016:

O de Giorgio-Miller
Dr S Vainikka
Dr G Morris
G Desler
K Alexander
S Mäkinen

The market value of the Company's shares at 31 December 2016 was 5.25p and the high and low share prices during the period were 23.00p and 5.25p respectively.

Significant shareholders

As at 13 April 2017, so far as the Directors are aware, there are no parties who are directly or indirectly interested in 3% or more of the nominal value of the Company's share capital.

Directors' insurance

The Directors and officers of the Company are insured against any claims against them for any wrongful act in their capacity as a Director, officer or employee of the Group, subject to the terms and conditions of the policy.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Adler Shine LLP be reappointed as auditors of the Company will be put to the Annual General Meeting.

Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law) including FRS 102 "the Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the group financial statements have been prepared in accordance with IFRS as adopted by the European Union;
- state, with regard to the parent company financial statements, whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Statement of disclosure to auditors

So far as each person serving as a Director of the Company at the date this report is approved is aware:

(a) there is no relevant audit information of which the Company's auditors are unaware, and

(b) each Director hereby confirms that he or she has taken all the steps that he or she ought to have taken as Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board of Directors and signed on its behalf by:

Dr Satu Vainikka
Chief Executive Officer

2 May 2017

Financial Statements

INDEPENDENT AUDITORS' REPORT
to the members of ValiRx plc

We have audited the Group and Parent Company financial statements (the "financial statements") of ValiRx Plc for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position and Parent Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on pages 20 to 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB') Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice – FRS 102; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Darsh Shah (Senior Statutory Auditor)
for and on behalf of Adler Shine LLP
Chartered Accountants and Statutory Auditor
Aston House
Cornwall Avenue
London
N3 1LF

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 £	2015 £
Continuing operations			
Research and development		**(2,375,354)**	(1,543,441)
Administrative expenses		**(1,794,284)**	(1,362,074)
Other operating income	4	**–**	203,391
Operating loss	4	**(4,169,638)**	(2,702,124)
Fair value (loss)/profit on derivative financial assets	15	**(1,619,187)**	463,023
Finance income	5	**17**	1,074
Fair value profit on derivative liability	17	**375,621**	–
Finance costs	6	**(338,188)**	(1,738)
Loss on ordinary activities before taxation from continuing operations		**(5,751,375)**	(2,239,765)
Income tax credit	7	**620,104**	391,202
Loss on ordinary activities after taxation from continuing operations		**(5,131,271)**	(1,848,563)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	9	**182,750**	(327,342)
		(4,948,521)	(2,175,905)
Non-controlling interest		**200,518**	57,570
Loss for the year and total comprehensive income		**(4,748,003)**	(2,118,335)
Loss per share – basic and diluted	8		
From continuing operations		**(8.54)p**	(5.63)p
From discontinued operations		**0.32p**	(1.03)p

There are no recognised gains and losses other than those passing through the Consolidated Statement of Comprehensive Income.

The notes on pages 28 to 45 form part of these statutory accounts.

Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Notes	Share capital £	Share premium £	Merger reserve £	Reverse acquisition reserve £	Share option reserve £	Non-controlling interests £	Retained earnings £	Total £
Balance at 1 January 2015		7,281,806	7,604,732	637,500	602,413	154,144	26,374	(13,518,940)	2,788,029
Changes in equity for 2015									
Loss for the year		–	–	–	–	–	(57,570)	(2,118,335)	(2,175,905)
On acquisition of subsidiary		–	–	–	–	–	110,265	–	110,265
Issue of shares		838,930	3,291,070	–	–	–	–	–	4,130,000
Costs in respect of shares issued		–	(368,940)	–	–	–	–	–	(368,940)
Movement in the year		–	–	–	–	49,375	–	–	49,375
Balance at 31 December 2015		8,120,736	10,526,862	637,500	602,413	203,519	79,069	(15,637,275)	4,532,824
Changes in equity in 2016									
Loss for the year		–	–	–	–	–	(200,518)	(4,748,003)	(4,948,521)
On acquisition of subsidiary		–	–	–	–	–	141,068	–	141,068
Issue of shares	20	44,914	3,060,507	–	–	–	–	–	3,105,421
Costs in respect of shares issued		–	(589,267)	–	–	–	–	–	(589,267)
Movement in the year		–	–	–	–	127,934	–	–	127,934
Balance at 31 December 2016		**8,165,650**	**12,998,102**	**637,500**	**602,413**	**331,453**	**19,619**	**(20,385,278)**	**2,369,459**

Merger reserve
The merger reserve of £637,500 exists as a result of the acquisition of ValiRx Bioinnovation Limited. The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the fair value of ValiRx Bioinnovation Limited at 3 October 2006, the date of acquisition.

Reverse acquisition reserve
The reverse acquisition reserve exists as a result of the method of accounting for the acquisition of ValiRx Bioinnovation Limited and ValiPharma Limited.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	2016 £	2016 £	2015 £	2015 £
ASSETS					
Non-current assets					
Intangible assets	10		**2,824,613**		2,673,363
Property, plant and equipment	11		**10,553**		22,177
			2,835,166		2,695,540
Current assets					
Inventories	13	**–**		43,950	
Trade and other receivables	14	**1,425,439**		686,394	
Derivative financial assets	15	**140,675**		1,463,023	
Cash and cash equivalents		**560,763**		232,465	
		2,126,877		2,425,832	
LIABILITIES					
Current liabilities					
Trade and other payables	16	**1,254,139**		588,548	
Borrowings	17	**1,294,299**		–	
Derivative financial liability	17	**44,146**		–	
		2,592,584		588,548	
Net current (liabilities)/assets			**(465,707)**		1,837,284
Net assets			**2,369,459**		4,532,824
SHAREHOLDERS' EQUITY					
Called up share capital	20		**8,165,650**		8,120,736
Share premium			**12,998,102**		10,526,862
Merger reserve			**637,500**		637,500
Reverse acquisition reserve			**602,413**		602,413
Share option reserve			**331,453**		203,519
Profit and loss account			**(20,385,278)**		(15,637,275)
Total shareholders' equity			**2,349,840**		4,453,755
Non-controlling interests			**19,619**		79,069
Total equity			**2,369,459**		4,532,824

The notes on pages 28 to 45 form part of these statutory accounts.

Approved by the Board and authorised for issue on 2 May 2017.

Dr Satu Vainnikka
Director

Company Registration No. 03916791

Financial Statements

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016

	2016		2015	
	£	£	£	£
Net cash outflow from operating activities		**(4,233,412)**		(2,977,116)
Returns on investments and servicing of finance				
Interest received	**17**		1,074	
Interest paid	**(338,188)**		(1,793)	
Net cash (outflow)/inflow for returns on investments and servicing of finance		**(338,171)**		(719)
Taxation		**375,926**		387,747
Capital expenditure				
Payments to acquire intangible assets	**(386,625)**		(389,926)	
Payments to acquire tangible assets	**–**		(31,670)	
Receipts from sales of tangible assets	**3,470**		–	
Net cash outflow for capital expenditure		**(383,155)**		(421,596)
Acquisitions and disposals				
Sale of subsidiary undertakings (net of cash acquired)	**857,136**		–	
Non-controlling interest	**141,068**		110,265	
Net cash inflow for acquisitions and disposals		**998,204**		110,265
Financing				
Issue of ordinary share capital	**1,695,906**		3,050,000	
Cost of share issue	**(589,267)**		(368,940)	
New convertible loan notes	**2,993,113**		–	
Costs of convertible loan notes issued	**(190,846)**		–	
Net cash inflow from financing		**3,908,906**		2,681,060
Increase/(decrease) in cash in the year		**328,298**		(220,359)
Cash and cash equivalents at beginning of period		**232,465**		452,824
Cash and cash equivalents at end of period		**560,763**		232,465

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2016

1 Reconciliation of operating loss to net cash outflow from operating activities

	2016 £	2015 £
Operating loss	**(4,169,638)**	(3,029,411)
Depreciation of tangible assets	**10,560**	10,906
Amortisation of intangible assets	**92,275**	91,831
Decrease/(increase) in stocks	**11,733**	(32,800)
(Increase)/decrease in debtors	**(1,071,548)**	94,663
Increase/(decrease) in creditors within one year	**787,726**	(166,527)
Other non-cash movements	**(22,454)**	4,847
Share option charge	**127,934**	49,375
Net cash outflow from operating activities	**(4,233,412)**	(2,977,116)

2 Analysis of net funds

	1 January 2016 £	Cash flow £	Other non-cash changes £	31 December 2016 £
Net cash				
Cash at bank and in hand	232,465	328,298	–	**560,763**
	232,465	328,298	–	**560,763**

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1 Principal accounting policies
The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

1.1 Basis of preparation
ValiRx Plc is a company incorporated in the United Kingdom under the Companies Act 1985, which is listed on the AIM market of the London Stock Exchange Plc. The address of its registered office is 16 Upper Woburn Place, London WC1H 0BS.

The registered number of the Company is 03916791.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The Group financial statements have been prepared under the historical cost convention or fair value where appropriate.

1.2 Going concern
The current economic environment is challenging and the Group have reported an operating loss for the year. These losses will continue in the current accounting year to 31 December 2017.

The Company carries out regular fund-raising exercises in order that it can provide the necessary working capital for the Group. Further funds will be required to finance the Group's work programme. As detailed in note 26, since the year end, the Group has raised £1.16 million before expenses through two issues of new ordinary shares.

The Board expects to continue to raise additional funding as and when required to cover the Group's development, primarily from the issue of further shares.

As such the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

1.3 Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and all its subsidiaries ("the Group"). Subsidiaries include all entities over which the Group has the power to govern financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control commences until the date that control ceases. Intra-group balances and any unrealised gains and losses on income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

On 3 October 2006, ValiRx Bioinnovation Limited ("Bioinnovation") acquired 60.28% of the issued share capital of ValiPharma Limited ("ValiPharma") in exchange for shares in Bioinnovation. Concurrently, the Company, ("ValiRx"), acquired the entire issued share capital of Bioinnovation in a share for share transaction. As a result of these transactions, the former shareholders of ValiPharma became the majority shareholders in ValiRx. Accordingly, the substance of the transaction was that ValiPharma acquired ValiRx in a reverse acquisition. Under IFRS 3 "Business Combinations", the acquisition of ValiPharma has been accounted for as a reverse acquisition.

In May 2008 the Company acquired the remaining 39.72% of the issued share capital of ValiPharma, which is now wholly owned by the Group. This acquisition was accounted for using the acquisition method of accounting.

In August 2011, the Company acquired for a nominal amount, the outstanding equity of a Finnish non-trading company – ValiRx Finland OY ("ValiFinn") – that it had jointly established with local partners in 2008. As a result of the acquisition, ValiFinn became a wholly owned subsidiary of the Company. In October 2016, the Company sold the whole of its shareholding in ValiFinn.

In November 2013 Valiseek Limited was formed to enable the Company to enter into a joint venture agreement. The Company has a 55.5% holding in the issued share capital of Valiseek.

The assets and liabilities of the Group's foreign operations are expressed in pounds sterling using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rate for the period. Material exchange differences arising are classified as equity. The translation differences are recognised in the period in which the foreign operation is disposed of.

Intra-group transactions, profits and balances are eliminated in full on consolidation.

1.4 Goodwill
Goodwill on acquisition of subsidiaries represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired. Identifiable assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested annually, or when trigger events occur, for impairment and is carried at cost less accumulated impairment losses.

1 Principal accounting policies continued

1.5 Other intangible assets

Acquired licences, trademarks and patents are capitalised at cost and are amortised on a straight-line basis over their useful life. Patents are amortised over 16 years and licences over 16-20 years.

1.6 Research and development

Research expenditure is recognised as an expense and is charged to the income statement in the year in which it is incurred.

Development expenditure is recognised as an expense in the same way unless it meets the recognition criteria of IAS 38 "Intangible Assets". Regulatory and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from product launch.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation.

Depreciation is provided at the following rates per annum to write off the cost of property, plant and equipment, less estimated residual value, on a straight line basis from the date on which they are brought into use:

Plant and machinery	33% per annum straight line
Computer equipment	33% per annum straight line

1.8 Impairment of assets

The carrying value of property, plant and equipment and intangibles is reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.9 Inventories

Work in progress is valued at the lower of cost and net realisable value.

1.10 Financial assets

The Company classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

Management determines the classification of its investments at initial recognition.

1.11 Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The principal financial assets of the Company are loans and receivables, which arise principally through the provision of goods and services to customers (e.g. trade receivables) but also incorporate other types of contractual monetary asset. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets.

The Group's loans and receivables are recognised and carried at the lower of their original amount less an allowance for any doubtful amounts. An allowance is made when collection of the full amount is no longer considered possible.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

1.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity of three months or less. The Company considers overdrafts (repayable on demand) to be an integral part of its cash management activities and these are included in cash and cash equivalents for the purposes of the cash flow statement.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

1 Principal accounting policies continued

1.13 Derivative financial instruments
Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently carried at fair value with the changes in fair value recognised in the Income Statement.

1.14 Financial liabilities
The Group does not have any financial liabilities that would be classified as fair value through the profit or loss. Therefore all financial liabilities are classified as other financial liabilities as follows.

The Group's trade and other payables are recognised at their original amount.

1.15 Convertible debt
The convertible loan is designated as "at fair value through profit or loss" and so is presented on the Statement of Financial Position at fair value with all gains and losses, including the write-off of transaction costs, recognised in the Statement of Comprehensive Income. The debt component of the convertible loan is recognised as a liability in the Statement of Financial Position net of transaction costs. The conversion option has been recognised as an embedded derivative and has been valued at inception and the balance sheet date using a Black-Scholes Method. The interest charge in respect of the coupon rate on the loan has been recognised within the underlying component of net financing costs on an accruals basis. Refer to Note 17 for further details.

1.16 Share capital
Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary and deferred shares are classified as equity instruments.

1.17 Retirement benefits: Defined contribution schemes
Contributions to defined contribution pension schemes are charged to the Consolidated Statement of Comprehensive Income in the year to which they relate.

1.18 Taxation
The taxation charge represents the sum of current tax and deferred tax.

The tax currently payable is based on the taxable profit for the period using the tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised of the deferred tax liability is settled.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

1.19 Foreign currency translation
Transactions in currencies other than Sterling, the presentational and functional currency of the Company, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity, where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas entities (none of which has the currency of a hyper-inflationary economy) are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

1.20 Government grants
Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

1.21 Revenue recognition
Revenue represents sales and services to third party customers in the health sector, stated net of any applicable value added tax. Revenue is recognised when the goods and services have been provided.

1 Principal accounting policies continued

1.22 Share-based payments

IFRS 2 "Share-based Payments" requires that an expense for equity instruments granted is recognised in the financial statements based on their fair values at the date of the grant. This expense, which is in relation to employee share options, is recognised over the vesting period of the scheme. The fair value of employee services is determined by reference to the fair value of the awarded grant calculated using the Black-Scholes model.

At the year end date, the Group revises its estimate of the number of share incentives that are expected to vest. The impact of the revisions of original estimates, if any, is recognised in the Statement of Comprehensive Income, with a corresponding adjustment to equity, over the remaining vesting period.

1.23 New standards and interpretations

As at the date of approval of these financial statements, the following standards were in issue but not yet effective. These standards have not been adopted early by the Company as they are not expected to have a material impact on the financial statements other than requiring additional disclosure or alternative presentation.

		Effective date (period beginning on or after)
IFRS 1	Amendments resulting from Annual Improvements 2014-2016 Cycle (removing short-term exemptions).	01/01/2018
IFRS 2	Amendments – Classification and measurement of share-based payments transactions.	01/01/2018
IFRS 4	Amendment – applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts".	01/02/2018
IFRS 9	Financial instruments – incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition.	01/01/2018
IAS 28	Amendments – Sale or contribution of assets between an investor and its associate or joint venture.	01/01/2018
IFRS 12	Amendments resulting from Annual Improvements 2014-2016 Cycle (clarifying scope).	01/01/2017
IFRS 15	Revenue from contracts with customers, and the related clarifications.	01/01/2018
IFRS 16	Leases – recognition, measurement, presentation and disclosure.	01/01/2019
IAS 7	Statement of cash flows – Amendments resulting from the disclosure initiative.	01/01/2017
IAS 12	Income taxes – Amendments regarding recognition of deferred tax assets for unrealised losses.	01/01/2017
IAS 28	Amendments resulting from Annual Improvements 2014-2016 Cycle (clarifying certain fair value measurements).	01/01/2018
IAS 40	Transfers of investment property – Amendment.	01/01/2018

The International Financial Reporting Interpretations Committee has also issued interpretations which the Company does not consider will have a significant impact on the financial statements.

2 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The material areas in which estimates and judgements are applied as follows:

Goodwill impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Share-based payments

The estimates of share-based payments costs require that management selects an appropriate valuation model and makes decisions on various inputs into the model, including the volatility of its own share price, the probable life of the options before exercise, and behavioural consideration of employees.

Deferred tax assets

Deferred taxation is provided for using the liability method. Deferred tax assets are recognised in respect of tax losses where the Directors believe that it is probable that future profits will be relieved by the benefit of tax losses brought forward. The Board considers the likely utilisation of such losses by reviewing budgets and medium-term plans for each taxable entity within the Group. If the actual profits earned by the Group's taxable entities differ from the budgets and forecasts used then the value of such deferred tax assets may differ from that shown in these financial statements.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Black-Scholes model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 17 for further disclosures.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

3 Turnover and loss on ordinary activities before taxation

The Directors are of the opinion that under IAS 14 – "Segmental Information" the Group operates in two primary business segments, being drug development and the sale of self-test drug kits. The secondary segment is geographic. The Group's geographical segments are determined by location of operations. The Group's revenues and net assets by both primary and secondary business segments are shown below.

The information below relating to Diagnostics and Europe all relate to discontinued operations.

Class of business	2016 £	2015 £
Revenue		
Diagnostics	**101,461**	82,603
Loss before taxation		
Drug development	**5,751,374**	2,236,471
Diagnostics	**(182,750)**	330,636
	5,568,624	2,567,107
Net assets		
Drug development	**2,154,962**	4,384,768
Diagnostics	**–**	148,056
	2,154,962	4,532,824

Geographical market	2016 £	2015 £
Revenue		
Europe	**101,461**	82,603
Loss before taxation		
UK	**5,751,374**	2,239,765
Europe	**(182,750)**	327,342
	5,568,624	2,567,107
Net assets		
UK	**2,154,962**	4,384,823
Europe	**–**	148,001
	2,154,962	4,532,824

4 Operating loss

	2016 £	2015 £
Operating loss is stated after charging		
Amortisation of intangible assets	**92,275**	91,831
Depreciation of tangible assets	**10,560**	10,906
and after crediting		
Government grants	**–**	(203,391)
(Profit)/loss on foreign exchange transactions	**28,258**	12,725
Auditors' remuneration		
Fees payable to Company auditors for the audit of the Company and consolidated accounts	**14,000**	14,000
– The audit of Company's subsidiaries pursuant to legislation	**13,000**	13,000
– Auditor's fees for review of interim accounts	**1,270**	1,270

5 Finance income

	2016 £	2015 £
Bank interest	**17**	1,074

6 Finance costs

	2016 £	2015 £
On other loans wholly repayable within five years	**–**	1,636
On convertible loan notes	**337,789**	–
On overdue tax	**–**	102
Other interest	**399**	–
	338,188	1,738

7 Taxation

	2016 £	2015 £
Domestic current year tax		
Tax credits on research and development – current year	**(644,497)**	(391,202)
Tax credits on research and development – prior years	**24,393**	–
Current tax charge	**(620,104)**	(391,202)
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	**(5,568,625)**	(2,567,107)
Loss on ordinary activities before taxation multiplied by effective rate of UK corporation tax of 20.00% (2015: 20.25%)	**(1,113,725)**	(519,839)
Effects of		
Non deductible expenses	**277,573**	16,370
Capital allowances for the year in (excess)/deficit of depreciation and amortisation	**3,060**	(3,350)
Tax losses not utilised	**583,642**	602,751
Profit on disposal of shares in subsidiary	**(108,360)**	–
Research and development expenditure	**(286,687)**	(393,372)
Adjustment for prior year	**24,393**	–
Other tax adjustments	**–**	(93,762)
	493,621	128,637
Current tax charge	**(620,104)**	(391,202)

No corporation tax arises on the results for the year ended 31 December 2016 due to the losses incurred for tax purposes.

The deferred tax asset, arising from tax losses of £13.5 million (2015: £12.3 million) carried forward, has not been recognised but would become recoverable against future trading profits, subject to agreement with HM Revenue and Customs.

8 Loss per ordinary share

The earnings and number of shares used in the calculation of loss per ordinary share are set out below:

	2016	2015
Continuing operations		
Loss for the financial period from continuing operations	**(5,131,271)**	(1,848,563)
Non controlling interest	**200,518**	57,570
	(4,930,753)	(1,790,993)
Discontinued operations		
Profit/(loss) for the year from discontinued operations	**182,750**	(327,342)
Basic		
Weighted average number of shares	**57,743,223**	31,789,529
Loss per share – continuing operations	**(8.54)p**	(5.63)p
Earnings/(loss) per share – discontinued operations	**0.32p**	(1.03)p

The loss and the weighted average number of shares used for calculating the diluted loss per share are identical to those for the basic loss per share. The outstanding share options and share warrants (note 19) would have the effect of reducing the loss per share and would therefore not be dilutive under IAS 33 "Earnings per Share".

Following the issue of 46,509,015 ordinary shares of 0.1p each in 2017, and a further 1,200,000 ordinary shares of 0.1p each in 2017, the number of allotted ordinary shares of 0.1p each in issue was 130,962,327.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

9 Discontinued operations

On 31 October 2016, the Company sold its subsidiary, ValiRx (Finland) OY ("Valifinn") for a cash consideration of €800,000, according to a payment schedule, whilst retaining a licence to use the TRAC Technology in its therapeutic development.

Valifinn has therefore been classified as discontinued operations and its results for the period to disposal are presented below.

	2016 £	2015 £
Revenue	**101,461**	82,603
Cost of sales	**(152,271)**	(77,875)
Gross (loss)/profit	**(50,810)**	4,728
Expenses	**(307,772)**	(332,015)
Operating loss	**(358,582)**	(327,287)
Finance costs	**(465)**	(55)
Loss before taxation from discontinued operations	**(359,047)**	(327,342)
Profit arising on the disposal of the subsidiary	**541,797**	–
Profit/(loss) for the period from discontinued operations	**182,750**	(327,342)

The net assets disposed of in relation to Valifinn were as follows:

	2016 £
Assets	
Intangible assets	**141,158**
Property plant and equipment	**1,026**
Inventory	**32,217**
Debtors	**65,303**
Cash and short term deposits	**7,452**
	247,156
Liabilities	
Creditors	**(85,417)**
Net assets of Valifinn at date of sale	**161,739**
Goodwill arising on acqquisition of Valifinn	**10,750**
Group net assets of Valifinn at date of sale	**172,489**
Sales proceeds (€800,000)	**714,286**
Group profit on disposal of Valifinn	**541,797**

The net cash flows incurred by Valifinn are as follows:

	2016 £
Operating	**6,662**
Financing	**(465)**
Capital expenditure	**(122)**
	6,075

10 Intangible fixed assets

	Patents £	Goodwill £	Brands and licences £	Total £
Cost				
At 1 January 2015	1,001,853	1,288,343	375,000	2,665,196
Additions	279,662	110,264	–	389,926
Exchange differences	(6,777)	–	–	(6,777)
At 31 December 2015	1,274,738	1,398,607	375,000	3,048,345
Exchange differences	41,223	–	–	41,223
Additions	245,559	141,066	–	386,625
Disposal	(231,187)	(10,750)	–	(241,937)
At 31 December 2016	**1,330,333**	**1,528,923**	**375,000**	**3,234,256**
Amortisation				
At 1 January 2015	230,175	–	55,000	285,175
Exchange differences	(2,024)	–	–	(2,024)
Charge for the year	79,956	–	11,875	91,831
At 31 December 2015	308,107	–	66,875	374,982
Exchange differences	10,764	–	–	10,764
Disposals	(86,559)	–	–	(86,559)
Charge for the year	105,456	–	5,000	110,456
At 31 December 2016	**337,768**	**–**	**71,875**	**409,643**
Net book value				
At 31 December 2016	**992,565**	**1,528,923**	**303,125**	**2,824,613**
At 31 December 2015	966,631	1,398,607	308,125	2,673,363

The goodwill arising on the acquisitions of ValiRx Bioinnovation Limited, ValiPharma Limited, ValiRx Finland OY and Valiseek Limited is not being amortised but will be reviewed on an annual basis for impairment, or more frequently if there are indications that goodwill might be impaired. The impairment review comprises a comparison of the carrying amount of the goodwill with its recoverable amount (the higher of fair value less costs to sell and value in use). ValiRx Plc has used the value in use method, applying a 15% discount rate.

Goodwill per cash generating unit:	£
Valipharma Limited	772,229
ValiRx Bioinnovations Limited	394,613
Valimedix Limited	–
Valiseek Limited	362,081

Sensitivity analysis is not required as a reasonably possible change in assumptions would not result in an impairment.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

11 Property, plant and equipment

	Plant and machinery £
Cost	
At 1 January 2015	27,758
Exchange differences	(148)
Additions	31,670
Disposals	(21,755)
At 31 December 2015	37,525
Exchange differences	517
Disposals	(2,877)
At 31 December 2016	**35,165**
Depreciation	
At 1 January 2015	26,251
Exchange difference	(54)
On disposals	(21,755)
Charge for the period	10,906
At 31 December 2015	15,348
Exchange differences	312
On disposals	(1,851)
Charge for the year	10,803
At 31 December 2016	**24,612**
Net book value	
At 31 December 2016	**10,553**
At 31 December 2015	22,177

12 Financial assets – available-for-sale investments

	Unlisted investments £
Cost	
At 1 January 2016 & at 31 December 2016	**1,333,770**
Provisions for diminution in value	
At 1 January 2016 & at 31 December 2016	**1,333,770**
Net book value	
At 31 December 2016	**–**
At 31 December 2015	–

The Group owns 5.5% (2015: 5.5%) (on a fully diluted basis) of the issued share capital of Morphogenesis Inc., a company incorporated in USA. Morphogenesis Inc. is a private company in which ValiRx Plc holds a minority interest.

13 Inventories

	2016 £	2015 £
Finished goods and goods for resale	**–**	43,950

14 Trade and other receivables

	2016 £	2015 £
Trade receivables	–	33,290
Tax recoverable	**644,497**	400,319
Called up share capital not paid	**73**	73
Other receivables	**722,289**	195,939
Prepayments and accrued income	**58,580**	56,773
	1,425,439	686,394

Amounts falling due after more than one year and included in the receivables above are:

	2016 £	2015 £
Other receivables	–	21,967

In the Directors' opinion the carrying amount of receivables is considered a reasonable approximation of fair value.

15 Derivative financial assets

	2016 £	2015 £
Due within one year	**140,675**	1,463,023

In September 2015, the Company issued 8,161,637 new shares of 0.1p per share at a price of 30.018p per share to YA Global Master SPV Ltd ("Yorkville") with a notional value of £2.45 million. On subscription, the Company received £1.45 million less costs of £167,500.

At the same time, the Company entered into an equity swap agreement with Yorkville for 6,430,872 of these shares with a notional price of 15.55p per share i.e. £1 million. Yorkville have hedged the consideration they pay for shares in the Company against the performance of the Company's share price over a 12 month period.

All 8,161,637 shares were allotted with full rights on the date of the transaction.

At each swap settlement, the Company will receive greater or lower consideration calculated on pro-rata basis depending on whether the applicable Market Price for the previous month was greater or less than the Benchmark Price (34.21p per share).

As the amount of the consideration receivable by the Company from Yorkville will vary subject to the change in the Company's share price and will be settled in the future, the receivable has been treated as a derivative financial asset and has been designated at fair value through profit or loss.

The fair value of the derivative financial assets has been determined by reference to the Company's share price and has been estimated as follows:

	Share price	Notional number of shares outstanding	Fair value £
Value of derivative financial assets at 1 January 2015			
Value recognised on inception (notional)	15.55p	6,430,872	1,000,000
Gain on revaluation of derivative financial asset			463,023
Value of derivative financial assets at 31 December 2015	22.75p	6,430,872	1,463,023
Consideration paid		(3,751,342)	296,839
Loss on revaluation of derivative financial asset			(1,619,187)
Value of derivative financial assets at 31 December 2016	**5.25p**	**2,679,530**	**140,675**

Both parties to the Swap Agreement agreed to defer the remaining 5 settlements under the Agreement, with the next settlement now due to occur on 30 April 2017.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

16 Trade and other payables

	2016 £	2015 £
Trade payables	**1,126,820**	447,639
Other taxes and social security costs	**58,835**	18,074
Other payables	**–**	5,040
Accruals and deferred income	**68,484**	117,795
	1,254,139	588,548

In the Directors' opinion the carrying amount of payables is considered a reasonable approximation of fair value.

17 Borrowings

Bracknor Convertible Loan Notes

In March 2016, the Company entered into an agreement with Bracknor Fund Ltd ("Bracknor"), a private mutual fund incorporated in the British Virgin Islands ("BVI"), pursuant to which Bracknor agreed to subscribe for convertible loan notes with an aggregate principal amount of up to £4 million ("CLNs"). As part of the agreement, the Company agreed to issue warrants to Bracknor ("CLN Warrants").

In both April 2016 and May 2016, the Company issued two Tranches of the CLN at £0.5 million per Tranche, receiving in total £1m. Between April 2016 and August 2016, the Company received conversion notices from Bracknor in respect of the full amount of the CLNs and in accordance with the agreement, the Company issued 13,901,874 ordinary shares of 0.1p each to Bracknor in settlement of the CLNs (note 20). In July 2016, the Company resolved not to issue any further CLNs to Bracknor in exchange for a fee of £75,000 paid to Bracknor.

In accordance with the CLN agreement, the Company issued 14,970,996 warrants to Bracknor to subscribe for 1 new ordinary share of 0.1p for each warrant held at a price of 9p per share (note 19).

Yorkville Convertible Loan Notes

On 1 September 2016, the Company entered into an agreement with YA Global Master SPV Ltd ("Yorkville") in which it has agreed to subscribe for Convertible Loan Notes ("Notes") with an aggregate principal amount of up to US$3.75 million in 3 Tranches of up to US$1.25 million each. The Notes are unlisted, unsecured and convertible with a twelve month maturity date from the date of drawdown. Interest is accrued at 9% per annum and payable upon conversion, or maturity, of the Notes in United States dollars or in ordinary shares in the Company at Yorkville's discretion.

Conversion terms

On 1 September 2016 and 1 December 2016, the Company issued the first two Tranches totalling US$2.50 million of Notes, before expenses.

In the 30 day period from 1 September 2016, the outstanding Notes could be converted at a price representing 130% of the closing price as of 1 September 2016.

Thereafter, Yorkville may elect to convert varying amounts of the Notes at the lower of (1) 130% of the closing price as of 2 September 2016 and (2) a price represented by 95% of the average of the 5 daily Volumes Weighted Average Price ("VWAP") of Yorkville's choosing from the 15 daily VWAPs immediately preceding the date of the conversion notice from Yorkville.

During the reporting period, the Company issued 6,575,254 fully paid ordinary shares following receipt of conversion notices for the exercise of conversion rights in respect of US$501,567 of the Notes at a price of 6p per share. Subsequent to the end of the reporting period, the Company issued a further 2,393,788 fully paid ordinary shares following receipt of a further conversion notice in respect of US$150,000 (plus accrued interest of US$15,840) under the terms of the Notes at a price of 5.625p per share.

17 Borrowings continued

Conversion terms continued

The Notes have been recognised as a liability, net of transaction costs in accordance with IAS 32 – Financial Instruments as the instrument provides an obligation to the Company to either settle the liability via a cash payment or via the issue of a variable number of shares. As the liability is denominated in US dollars, it has been converted at the year-end exchange rate and the profit or loss arising from the conversion is recognised in the Statement if Comprehensive Income. The conversion option represents an embedded derivative, and has been valued at inception and the year-end date using the Black-Scholes Method, full details of which are set out below.

	Tranche 1		Tranche 2	
	Issue date	Year end	Issue date	Year end
Issue date	01/09/2016		01/12/2016	
Date of maturity	01/03/2017		01/12/2017	
Issue date share price	8.25p	N/A	6.75p	N/A
Year end share price	N/A	5.25p	N/A	5.25p
Expected volatility	18%	18%	18%	18%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	0.08%	–0.09%	–0.03%	–0.09%
Fair value	1.69p	0.15p	0.88p	0.15p

At the balance sheet date there is no balance outstanding on the Bracknor CLNs. The Yorkville Notes recognised in the Statement of Financial Position is calculated as follows:

	Yorkville Notes		**2016 £**	2015 £
Issue date	01/09/2016	01/12/2016		
Repayment date	01/03/2017	01/12/2017		
	£	£		
Value on issue of Notes	964,730	1,028,383	**1,993,113**	–
Total transaction costs	(106,720)	(84,126)	**(190,846)**	–
Derivative financial liability at date of issue	(265,048)	(154,720)	**(419,768)**	–
	592,962	789,537	**1,382,499**	–
Interest expense (note 6)	297,574	40,215	**337,789**	–
Interest accrued	(21,718)	(7,766)	**(29,484)**	–
Conversion of Notes to ordinary shares	(394,515)	–	**(394,515)**	–
Exchange difference at year end exchange rates	11,992	(13,982)	**(1,990)**	–
	486,295	808,004	**1,294,299**	–

	Yorkville Notes		**2016 £**	2015 £
Issue date	01/09/2016	01/12/2016		
Repayment date	01/03/2017	01/12/2017		
Derivative financial liability				
Derivative financial liability at date of issue	265,047	154,720	**419,767**	–
Profit on revaluation of derivative financial liability	(248,514)	(127,107)	**(375,621)**	–
	16,533	27,613	**44,146**	–

18 Retirement benefits

The Group operate defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds.

Defined contribution

	2016 £	2015 £
Contributions payable by the Company for the year	**29,038**	53,389

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

19 Share-based payments

Equity-settled share option scheme

At 31 December 2016 outstanding awards to subscribe for ordinary shares of 0.1p each in the Company, granted in accordance with the rules of the ValiRx share option schemes, were as follows:

2015		Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	2,571,840	–	52.09
Granted	1,221,560	–	51.00
Carried forward	3,793,400	8.54	51.74

2016		**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**3,793,400**	**–**	**51.74**
Granted	**–**	**–**	**–**
Carried forward	**3,793,400**	**7.53**	**51.74**

All options were exercisable at the year end. No options were exercised or lapsed during the year.

The following equity-settled share options were in existence during the current and prior years.

Options	Number	Expiry date	Exercise price	Fair value at grant date
1. Granted 23 November 2007	3,440	23/11/2017	1312.50p	193.75p
2. Granted 17 September 2009	20,400	17/09/2019	125.00p	90.00p
3. Granted 8 July 2011	292,000	08/07/2021	93.75p	12.50p
4. Granted 19 January 2014	1,064,000	19/01/2024	43.13p	5.00p
5. Granted 21 October 2014	1,192,000	21/10/2024	45.00p	3.75p
6. Granted 26 June 2015	1,221,560	26/06/2025	51.00p	4.04p

The fair value of the remaining share options has been calculated using the Black-Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

Options	Grant date share price	Exercise price	Expected volatility	Expected option life	Risk-free interest rate
1. Granted 23 November 2007	1312.50p	1312.50p	35.00%	3.50	4.36%
2. Granted 17 September 2009	262.50p	125.00p	40.00%	4.00	2.50%
3. Granted 8 July 2011	80.00p	93.75p	52.00%	3.00	1.24%
4. Granted 19 January 2014	43.13p	43.13p	17.00%	3.00	0.99%
5. Granted 21 October 2014	45.00p	45.00p	17.00%	3.00	1.00%
6. Granted 26 June 2015	50.50p	51.00p	16.00%	3.00	0.38%

The fair value has been calculated assuming that there will be no dividend yield.

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a three year period to grant date. All of the above options are equity settled and the charge for the year is £nil (2015: £49,375).

19 Share-based payments continued

Warrants

At 31 December 2016 outstanding warrants to subscribe for ordinary shares of 0.1p each in the Company, granted in accordance with the warrant instruments issued by ValiRx, were as follows. There were no warrants outstanding during 2015 and therefore no comparative has been given.

	2016	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	–	–	–
Granted	**36,970,996**	–	**8.84**
Carried forward	**36,970,996**	**2.96**	**8.84**

All warrants were exercisable at the year end.

The following warrants were in existence during the current year. None were in existence prior to 2016.

Warrants	Number	Expiry date	Exercise price	Fair value at grant date
1. Granted 7 April 2016	4,926,741	31/03/2021	9p	0.92p
2. Granted 22 April 2016	1,710,922	31/03/2021	9p	0.67p
3. Granted 12 July 2016	8,333,333	12/07/2021	9p	0.36p
4. Granted 16 September 2016	2,000,000	16/09/2021	6p	0.78p
5. Granted 16 September 2016	20,000,000	16/09/2018	9p	0.13p

The fair value of the remaining warrants has been calculated using the Black-Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

Warrants	Grant date share price	Exercise price	Expected volatility	Expected option life	Risk-free interest rate
1. Granted 7 April 2016	9.30p	9p	17.00%	3.00	0.48%
2. Granted 22 April 2016	8.60p	9p	17.00%	3.00	0.62%
3. Granted 12 July 2016	7.60p	9p	18.00%	3.00	0.23%
4. Granted 16 September 2016	6.50p	6p	18.00%	3.00	0.14%
5. Granted 16 September 2016	6.50p	9p	18.00%	2.00	0.14%

The fair value has been calculated assuming that there will be no dividend yield.

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a three year period to grant date. All of the warrants are equity settled and the charge for the year is £127,934 (2015: £nil).

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

20 Share capital

	2016 Number	2015 Number	2016 £	2015 £
Allotted, called up and fully paid				
Ordinary share of 0.1p each	**83,253,312**	38,338,851	**83,253**	38,339
Deferred shares a of 5p each	**58,378,365**	58,378,365	**2,918,918**	2,918,918
Deferred shares of 0.9p each	**157,945,030**	157,945,030	**1,421,505**	1,421,505
Deferred shares of 12.4p each	**30,177,214**	30,177,214	**3,741,974**	3,741,974
			8,165,650	8,120,736

In February 2016, the Company raised £502,480, before expenses, through the issue of 4,187,333 new ordinary shares of 0.1p each at 12p per share. The net proceeds of this fundraising will be used for clinical trial activity and for general working capital purposes.

In April 2016, the Company received a Conversion Notice from Bracknor Fund Limited ("Bracknor") in respect of £90,000 of its Convertible Loan Note ("CLN"). The Company issued 1,184,211 new ordinary shares of 0.1p each at 7.60p per share.

In April 2016, the Company received a Conversion Notice from Bracknor in respect of £120,000 of its CLN. The Company issued 1,621,622 new ordinary shares of 0.1p each at 7.40p per share.

In April 2016, the Company received a Conversion Notice from Bracknor in respect of £200,000 of its CLN. The Company issued 2,702,703 new ordinary shares of 0.1p each at 7.40p per share.

In April 2016, the Company received a Conversion Notice from Bracknor in respect of £90,000 of its CLN. The Company issued 1,184,211 new ordinary shares of 0.1p each at 7.60p per share.

In May 2016, the Company received a Conversion Notice from Bracknor in respect of £250,000 of its CLN. The Company issued 3,164,557 new ordinary shares of 0.1p each at 7.90p per share.

In July 2016, the Company received a Conversion Notice from Bracknor in respect of £70,000 of its CLN. The Company issued 1,093,750 new ordinary shares of 0.1p each at 6.40p per share.

In August 2016, the Company received a Conversion Notice from Bracknor in respect of £180,000 of its CLN. The Company issued 2,950,820 new ordinary shares of 0.1p each at 6.10p per share.

On 21 September 2016, the Company raised £1.2m before fees and expenses by way of a Placing of 20 million new ordinary shares of 0.1.pence each at 6.0p per share.

In September 2016, the Company issued 250,000 new ordinary shares of 0.1p each at 6.0p per share to settle an outstanding liability of £15,000.

In October 2016, the Company received a Conversion Notice from YA Global Master SPV Ltd ("Yorkville") in respect of US$501,567 of its CLN. The Company issued 6,575,254 new ordinary shares of 0.1p each at 6.00p per share.

The deferred shares have no rights to vote, attend or speak at general meetings of the Company or to receive any dividend or other distribution and have limited rights to participate in any return of capital on a winding-up or liquidation of the Company.

21 Financial commitments

At 31 December 2016 the Company was committed to making the following payments under non- cancellable operating leases in the year to 31 December 2017:

	Land and buildings	
	2016 £	2015 £
Operating leases which expire:		
Within one year	**43,765**	42,764

22 Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the Group, and are all Directors of the Company.

	2016 £	2015 £
Salaries and other short-term employee benefits	**253,136**	302,256
Salaries and other short-term employee benefits – research & development	**209,250**	311,250
Post-employment benefits	**24,038**	23,796
	486,424	637,302

Salaries and fees	Salary, bonus and fees £	Benefits in kind £	Post-employment benefits £	2016 £	2015 £
S Vainikka	166,250	1,089	9,038	**176,377**	210,046
G Morris	126,000	2,309	15,000	**143,309**	173,500
K Alexander	30,000	–	–	**30,000**	53,000
G Desler	65,600	–	–	**65,600**	82,100
O de Giorgio-Miller	41,000	–	–	**41,000**	61,000
S Mäkinen	30,138	–	–	**30,138**	53,000
	458,988	3,398	24,038	**486,424**	632,646

The number of Directors for whom retirement benefits are accruing under money purchase pension schemes amounted to two (2015: two).

The Directors interests in share options as at 31 December 2016 are as follows:

Director	Options at 31 December 2016	Exercise price	Date of grant	First date of exercise	Final date of exercise
S Vainikka	8,000	125.00p	17.09.09	17.09.13	17.09.19
S Vainikka	80,000	93.75p	08.07.11	08.07.11	08.07.21
S Vainikka	192,000	43.125p	19.01.14	19.01.14	19.01.24
S Vainikka	192,000	45.00p	21.10.14	21.10.14	21.10.24
S Vainikka	222,000	51.00p	26.06.15	26.06.15	25.06.25
G Morris	6,000	125.00p	17.09.09	17.09.13	17.09.19
G Morris	48,000	93.75p	08.07.11	08.07.11	08.07.21
G Morris	176,000	43.125p	19.01.14	19.01.14	19.01.24
G Morris	176,000	45.00p	21.10.14	21.10.14	21.10.24
G Morris	191,000	51.00p	26.06.15	26.06.15	25.06.25
K Alexander	3,200	125.00p	17.09.09	17.09.13	17.09.19
K Alexander	48,000	93.75p	08.07.11	08.07.11	08.07.21
K Alexander	160,000	43.125p	19.01.14	19.01.14	19.01.24
K Alexander	160,000	45.00p	21.10.14	21.10.14	21.10.24
K Alexander	173,800	51.00p	26.06.15	26.06.15	25.06.25
G Desler	1,040	1312.50p	23.11.07	23.05.09	23.11.17
G Desler	3,200	125.00p	17.09.09	17.09.13	17.09.19
G Desler	48,000	93.75p	08.07.11	08.07.11	08.07.21
G Desler	176,000	43.125p	19.01.14	19.01.14	19.01.24
G Desler	176,000	45.00p	21.10.14	21.10.14	21.10.24
G Desler	189,760	51.00p	26.06.15	26.06.15	25.06.25
O de Giorgio-Miller	24,000	93.75p	08.07.11	08.07.11	08.07.21
O de Giorgio-Miller	160,000	43.125p	19.01.14	19.01.14	19.01.24
O de Giorgio-Miller	160,000	45.00p	21.10.14	21.10.14	21.10.24
O de Giorgio-Miller	211,000	51.00p	26.06.15	26.06.15	25.06.25
S Mäkinen	64,000	43.125p	19.01.14	19.01.14	19.01.24
S Mäkinen	160,000	45.00p	21.10.14	21.10.14	21.10.24
S Mäkinen	105,000	51.00p	26.06.15	26.06.15	25.06.25

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

23 Staff costs

Number of employees

The average monthly number of employees (including Directors) during the year was:

	2016 Number	2015 Number
Directors	**6**	8
Staff	**6**	4
	12	12

Employment costs

	2016 £	2015 £
Wages and salaries	**832,281**	609,161
Social security costs	**81,709**	70,022
Other pension costs	**29,038**	53,389
Costs of share option scheme	**127,934**	49,375
	1,070,962	781,947

24 Control

The Directors consider that there is no ultimate controlling party.

25 Related party transactions

During the year the Director, G Desler, provided the Company and its subsidiaries with bookkeeping services totalling £18,000 (2015: £33,577).

During the year the Director O de Giorgio-Miller invoiced the Company £64,609 (2015: £70,745) for research and development work.

At the year end, the amounts owed to Directors included in trade payables and relating to directors remuneration and expenses to be reimbursed were as follows:

	2016 £	2015 £
G Desler	**–**	86
O de Giorgio-Miller	**–**	–
G Morris	**–**	488
S Vainikka	**–**	–
K Alexander	**–**	–
S Mäkinen	**–**	–

26 Post balance sheet events

In March 2017, the Company raised £1.16 million, before expenses, through the issue of 46,509,015 new ordinary shares of 0.1p each at 2.5p per share. The net proceeds of this fundraising will be used for ongoing drug development and for general working capital purposes.

On the same day, certain directors of the Company subscribed for £30,000 through the issue of 1,200,000 new ordinary shares of 0.1p each at a price of 2.5p per share.

27 Financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

- derivative financial assets;
- trade and other receivables;
- cash and cash equivalents; and
- trade and other payables.

The main purpose of these financial instruments is to finance the Group's operations. The fair value measurement of the derivative financial assets is as follows:

	Fair value measurement		
	Level 1 £	Level 2 £	Level 3 £
At 31 December 2016	**–**	**140,675**	**–**
At 31 December 2015	–	1,463,023	–

A summary of the financial instruments held by category is provided below:

Financial assets	**2016 £**	2015 £
Loans and receivables		
Trade and other receivables	**722,362**	229,302
Derivative financial assets	**140,675**	1,463,023
Cash and cash equivalents	**560,763**	232,465
Total loans and receivables	**1,432,800**	1,924,790
Total financial assets	**1,432,800**	1,924,790

Financial liabilities	**2016 £**	2015 £
Trade and other payables	**2,533,749**	570,474

The Directors consider that the carrying value for each class of financial asset and liability, approximates to their fair value.

Financial risk management

The Group's activities expose it to a variety of risks, including market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group manages these risks through an effective risk management programme and, through this programme, the Board seeks to minimise potential adverse effects on the Group's financial performance.

The Board provides written objectives, policies and procedures with regards to managing currency and interest risk exposures, liquidity and credit risk including guidance on the use of certain derivative and non-derivative financial instruments

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its receivables and its cash deposits. It is Group policy to assess the credit risk of new customers before entering contracts. The credit risk on liquid funds is limited because the counterparties are banks with high credit- ratings assigned by international credit-rating agencies.

Liquidity risk and interest rate risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Board regularly receives cash flow projections for a minimum period of twelve months, together with information regarding cash balances monthly.

The Group is principally funded by equity and invests in short-term deposits, having access to these funds at short notice. The Group's policy throughout the period has been to minimise interest rate risk by placing funds in risk free cash deposits but also to maximise the return on funds placed on deposit.

All cash deposits attract a floating rate of interest. The benchmark rate for determining interest receivable and floating rate assets is linked to the UK base rate.

Foreign currency risk

The Group has an entity which operates in Europe and is therefore exposed to foreign exchange risk arising from currency exposure to the Euro, the functional currency of that subsidiary. The overseas subsidiary operates a separate bank account that is used solely for that subsidiary, thus managing the currency in that country. The Group's net assets arising from the overseas subsidiary are exposed to currency risk resulting in gains or losses on retranslation into Sterling. Given the levels of materiality, the Group does not hedge its net investments in overseas operations as the cost of doing so is disproportionate to the exposure.

Financial Statements

COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	2016 £	2016 £	2015 £	2015 £
Fixed assets					
Intangible assets	2		**160,000**		165,000
Tangible fixed assets	4		**10,553**		21,113
Investments	3		**3,452,442**		3,362,635
			3,622,995		3,548,748
Current assets					
Debtors	5	**2,830,875**		2,017,188	
Derivative financial asset	7	**140,675**		1,463,023	
Cash at bank and in hand		**552,529**		216,339	
		3,524,079		3,696,550	
Current liabilities					
Trade and other payables	8	**1,240,456**		706,011	
Borrowings	9	**1,294,299**		–	
Derivative financial instruments	9	**44,146**		–	
		2,578,901		706,011	
Net current assets			**945,178**		2,990,539
Total assets less current liabilities			**4,568,173**		6,539,287
Capital and reserves					
Called up share capital	11		**8,165,650**		8,120,736
Share premium account			**12,998,102**		10,526,862
Merger reserve			**637,500**		637,500
Share option reserve			**331,453**		203,519
Profit and loss account			**(17,564,532)**		(12,949,330)
Total equity			**4,568,173**		6,539,287

The financial statements were approved by the Board of Directors and authorised for issue on 2 May 2017

Signed on its behalf by:

Dr S Vainikka
Director

Company Registration No. 03916791

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Share capital £	Share premium account £	Merger reserve £	Share option reserve £	Retained earnings £	Total £
Balance at 1 January 2015	7,281,806	7,604,732	637,500	154,144	(11,060,076)	4,618,106
Changes in equity for 2014						
Loss for the year	–	–	–	–	(1,889,254)	(1,889,254)
Issue of share capital	838,930	3,291,070	–	–	–	4,130,000
Cost of shares issued	–	(368,940)	–	–	–	(368,940)
Movement in the year	–	–	–	49,375	–	49,375
Balance at 31 December 2015	8,120,736	10,526,862	637,500	203,519	(12,949,330)	6,539,287
Changes in equity for 2015						
Loss for the year	–	–	–	–	(4,615,202)	(4,615,202)
Issue of share capital	44,914	3,060,507	–	–	–	3,105,421
Costs of share issue	–	(589,267)	–	–	–	(589,267)
Movement in the year	–	–	–	127,934	–	127,934
Balance at 31 December 2016	**8,165,650**	**12,998,102**	**637,500**	**331,453**	**(17,564,532)**	**4,568,173**

Share capital
Represents the nominal value of the issued share capital.

Share premium account
Represents amounts received in excess of the nominal value on the issue of share capital less any costs associated with the issue of shares.

Merger reserve
Represents the difference between the nominal value of the share capital issued by the Company and the fair value of ValiRx Bioinnovations at the date of acquisition.

Share option reserve
Represents the fair value of the share-based payment, determined at the grant date, and expensed over the vesting period.

Retained earnings
Represents accumulated comprehensive income for the year and prior periods.

Financial Statements

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2016

1 Accounting policies

Company Information

Valirx Plc is a company limited by shares incorporated in England and Wales. The registered office is 16 Woburn Place, London WC1H 0BS.

1.1 Accounting convention

The balance sheet and the associated notes have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption in FRS 102 from the requirement to produce a cash flow statement on the basis that it is a qualifying entity and the company's cash flows are included in its own consolidated financial statements. The consolidated accounts of ValiRx Plc are available to the public and may be obtained from 16 Woburn Place, London WC1H 0BS.

1.2 Investments in associates and subsidiaries

Fixed asset investments are stated at cost less provision for diminution in value.

1.3 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Computer equipment	33% per annum straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.4 Intangible assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Development Costs	20 years, straight line

1.5 Impairment of tangible and intangible assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

1 Accounting policies continued

1.6 Financial assets

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

1.7 Financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value though profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.8 Compound instruments

The component parts of compound instruments issued by the company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity net of income tax effects and is not subsequently remeasured.

Financial Statements

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

1 Accounting policies continued

1.9 Equity instruments
Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.10 Derivatives
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

1.11 Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

1.12 Share-based payments
Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black-Scholes model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. A corresponding adjustment is made to equity.

1.13 Grants
Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

A grant that specifies performance conditions is recognised in income when the performance conditions are met. Where a grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable. A grant received before the recognition criteria are satisfied is recognised as a liability.

1.14 Profit and loss account
The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company alone. A loss of £4,615,202 is attributable to shareholders for the financial year ended 31 December 2016 (2015: £1,889,254).

1.15 Financial instruments
Full details of the Company's policy in relation to financial instruments and management of financial risk are set out in note 27 to the Group financial statements. The Company does not hold any derivatives and there is no material difference in the fair value and carrying value of any financial instruments held by the Company.

2 Intangible fixed assets

	Development costs £
Cost	
At 1 January 2016	200,000
At 31 December 2016	**200,000**
Amortisation/impairment	
At 1 January 2016	35,000
Charge for the year	5,000
At 31 December 2016	**40,000**
Carrying amount	
At 31 December 2016	**160,000**
At 31 December 2015	165,000

3 Investments

	Fixed assets	
	2016 £	2015 £
Investments in subsidiaries (note 13)	**3,452,442**	3,362,635

Movements in fixed asset investments

	Shares £
Cost or valuation	
At 1 January 2016	3,362,635
Additions	318,976
Disposals	(229,169)
At 31 December 2016	**3,452,442**
Impairment	
At 1 January 2016 & 31 December 2016	–
Carrying amount	
At 31 December 2016	**3,452,442**
At 31 December 2015	3,362,635

In October 2016, the Company sold its subsidiary, ValiRx (Finland) OY ("Valifinn") for a cash consideration of €800,000, according to a payment schedule, whilst retaining a licence to use the TRAC Technology in its therapeutic development. Full details of the disposal are set out in note 9 to the Group financial statements.

4 Tangible fixed assets

	Computer equipment £
Cost	
At 1 January 2016 and 31 December 2016	31,670
Depreciation and impairment	
At 1 January 2016	10,557
Depreciation charged in the year	10,560
At 31 December 2016	**21,117**
Carrying amount	
At 31 December 2016	**10,553**
At 31 December 2015	21,113

Financial Statements

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

5 Debtors

	Due within one year	
	2016 £	2015 £
Loans and other receivables	**569,323**	63,268
Corporation tax recoverable	**574,812**	380,147
VAT recoverable	**134,482**	106,657
Amounts due from subsidiary undertakings	**1,500,610**	1,426,933
Prepayments and accrued income	**51,648**	40,183
	2,830,875	2,017,188

6 Financial instruments

	2016 £	2015 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	**2,069,933**	1,490,201
Equity instruments measured at cost less impairment	**3,452,442**	3,362,635
Instruments measured at fair value through profit or loss	**140,675**	1,463,023
Carrying amount of financial liabilities		
Measured at fair value through profit or loss		
– Other financial liabilities	**(44,146)**	–
Measured at amortised cost	**(1,187,252)**	(691,610)

7 Derivative financial assets

	2016 £	2015 £
Due within one year	**140,675**	1,463,023

In September 2015, the Company issued 8,161,637 new shares of 0.1p per share at a price of 30.018p per share to YA Global Master SPV Ltd ("Yorkville") with a notional value of £2.45 million. On subscription, the Company received £1.45 million less costs of £167,500.

At the same time, the Company entered into an equity swap agreement with Yorkville for 6,430,872 of these shares with a notional price of 15.55p per share i.e. £1 million. Yorkville have hedged the consideration they pay for shares in the Company against the performance of the Company's share price over a 12 month period.

All 8,161,637 shares were allotted with full rights on the date of the transaction.

At each swap settlement, the Company will receive greater or lower consideration calculated on pro-rata basis depending on whether the applicable Market Price for the previous month was greater or less than the Benchmark Price (34.21p per share).

As the amount of the consideration receivable by the Company from Yorkville will vary subject to the change in the Company's share price and will be settled in the future, the receivable has been treated as a derivative financial asset and has been designated at fair value through profit or loss.

The fair value of the derivative financial assets has been determined by reference to the Company's share price and has been estimated as follows:

	Share price	Notional number of shares outstanding	Fair value £
Value of derivative financial assets at 1 January 2015			–
Value recognised on inception (notional)	15.55p	6,430,872	1,000,000
Gain on revaluation of derivative financial asset			463,023
Value of derivative financial assets at 31 December 2015	22.75p	6,430,872	1,463,023
Consideration paid		(3,751,342)	296,839
Loss on revaluation of derivative financial asset			(1,619,187)
Value of derivative financial assets at 31 December 2016	**5.25p**	**2,679,530**	**140,675**

Both parties to the Swap Agreement agreed to defer the remaining 5 settlements under the Agreement with the next settlement now due to occur on 30 April 2017.

8 Creditors

	Due within one year	
	2016 £	2015 £
Taxation and social security	**53,204**	14,401
Trade creditors	**821,098**	325,385
Amounts due to subsidiary undertakings	**300,670**	300,670
Accruals	**65,484**	60,515
Other creditors	**–**	5,040
	1,240,456	706,011

9 Borrowings and derivative financial liability

Full details of the convertible loan notes and the derivative financial liability are set out in note 17 to the Group financial statements.

10 Share-based payment transactions

At 31 December 2016 outstanding awards to subscribe for ordinary shares of 0.1p each in the Company, granted in accordance with the rules of the ValiRx share option schemes, were as follows:

	2015	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	2,571,840	–	52.09
Granted	1,221,560	–	51.00
Carried forward	3,793,400	8.54	51.74

	2016	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**3,793,400**	**–**	**51.74**
Granted	**–**	**–**	**–**
Carried forward	**3,793,400**	**7.53**	**51.74**

All options were exercisable at the year end. No options were exercised or lapsed during the year.

The following share-based payment arrangements were in existence during the current and prior years

10 Share-based payment transactions

Options	Number	Expiry date	Exercise price	Fair value at grant date
1. Granted 23 November 2007	3,440	23/11/2017	1312.50p	193.75p
2. Granted 17 September 2009	20,400	17/09/2019	125.00p	90.00p
3. Granted 8 July 2011	292,000	08/07/2021	93.75p	12.50p
4. Granted 19 January 2014	1,064,000	19/01/2024	43.13p	5.00p
5. Granted 21 October 2014	1,192,000	21/10/2024	45.00p	3.75p
6. Granted 26 June 2015	1,221,560	26/06/2025	51.00p	4.04p

Financial Statements

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued
for the year ended 31 December 2016

10 Share-based payment transactions continued

The fair value of the remaining share options has been calculated using the Black-Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

Options	Grant date share price	Exercise price	Expected volatility	Expected option life	Risk-free interest rate
1. Granted 23 November 2007	1312.50p	1312.50p	35.00%	3.50	4.36%
2. Granted 17 September 2009	262.50p	125.00p	40.00%	4.00	2.50%
3. Granted 8 July 2011	80.00p	93.75p	52.00%	3.00	1.24%
4. Granted 19 January 2014	43.13p	43.13p	17.00%	3.00	0.99%
5. Granted 21 October 2014	45.00p	45.00p	17.00%	3.00	1.00%
6. Granted 26 June 2015	50.50p	51.00p	16.00%	3.00	0.38%

The fair value has been calculated assuming that there will be no dividend yield.

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a 3 year period to grant date. All of the above options are equity settled and the charge for the year is £nil (2015: £49,375).

Warrants

At 31 December 2016 outstanding warrants to subscribe for ordinary shares of 0.1p each in the Company, granted in accordance with the warrant instruments issued by ValiRx, were as follows. There were no warrants outstanding during 2015 and therefore no comparative has been given.

	2016	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	–	–	–
Granted	**36,970,996**	–	**8.84**
Carried forward	**36,970,996**	**2.96**	**8.84**

All warrants were exercisable at the year end.

The following warrants were in existence during the current year. None were in existence prior to 2016.

Warrants	Number	Expiry date	Exercise price	Fair value at grant date
1. Granted 7 April 2016	4,926,741	31/03/2021	9p	0.92p
2. Granted 22 April 2016	1,710,922	31/03/2021	9p	0.67p
3. Granted 12 July 2016	8,333,333	12/07/2021	9p	0.36p
4. Granted 16 September 2016	2,000,000	16/09/2021	6p	0.78p
5. Granted 16 September 2016	20,000,000	16/09/2018	9p	0.13p

The fair value of the remaining warrants has been calculated using the Black-Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

Warrants	Grant date share price	Exercise price	Expected volatility	Expected option life	Risk-free interest rate
1. Granted 7 April 2016	9.30p	9p	17.00%	3.00	0.48%
2. Granted 22 April 2016	8.60p	9p	17.00%	3.00	0.62%
3. Granted 12 July 2016	7.60p	9p	18.00%	3.00	0.23%
4. Granted 16 September 2016	6.50p	6p	18.00%	3.00	0.14%
5. Granted 16 September 2016	6.50p	9p	18.00%	2.00	0.14%

The fair value has been calculated assuming that there will be no dividend yield.

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a 3 year period to grant date. All of the warrants are equity settled and the charge for the year is £127,934 (2015: £nil).

11 Share capital

	2016 £	2015 £
Ordinary share capital		
Issued and fully paid		
83,253,312 Ordinary shares of 0.1p each	**83,253**	38,339
58,378,365 Deferred shares of 5p each	**2,918,918**	2,918,918
157,945,030 Deferred share of 0.9p each	**1,421,505**	1,421,505
30,177,214 Deferred shares of 12.4p each	**3,741,974**	3,741,974
	8,165,650	8,120,736

Full details of shares issued during the year are set out in note 20 to the Group financial statements.

12 Related party transactions

Remuneration of key management personnel

Full details of remuneration of key management personnel are given in note 22 to the Group financial statements.

Other transactions with related parties

The company has taken advantage of the exemption available in accordance with Financial Reporting Standard 102, Section 33, not to disclose transactions entered into between two or more members of a group, as the company is the ultimate parent undertaking of the group to which it is party to the transactions.

During the year, G Desler, director, provided the Company with bookkeeping services totalling £9,000 (2015: £9,000).

During the year, O de Giorgio-Miller, director, invoiced the Company £64,609 (2015: £70,745) for research and development work.

At the year end, the amounts owed to the Directors included in creditors and relating to directors' remuneration and expenses to be reimbursed were as follows:

	2016 £	2015 £
G Desler	**–**	86
G Morris	**–**	488

13 Subsidiaries

These financial statements are separate company financial statements for Valirx Plc.

Details of the company's subsidiaries at 31 December 2016 are as follows:

	Country of incorporation (or residence)	Proportion of ownership interest (%)	Proportion of voting power held (%)	Nature of business
ValiRx Bioinnovations Limited	England & Wales	100.00%	100.00%	Intermediate holding company
Valipharma Limited*	England & Wales	100.00%	100.00%	Therapeutic research & development
Valimedix Limited	England & Wales	100.00%	100.00%	Dormant
Valiseek Limited	England & Wales	55.50%	55.50%	Therapeutic research & development
ValiRx OY Corporation	Finland	100.00%	100.00%	Dormant

* 60.28% is owned by Valirx Bioinnovation Limited and 39.72% by the Company.

Financial Statements

NOTES

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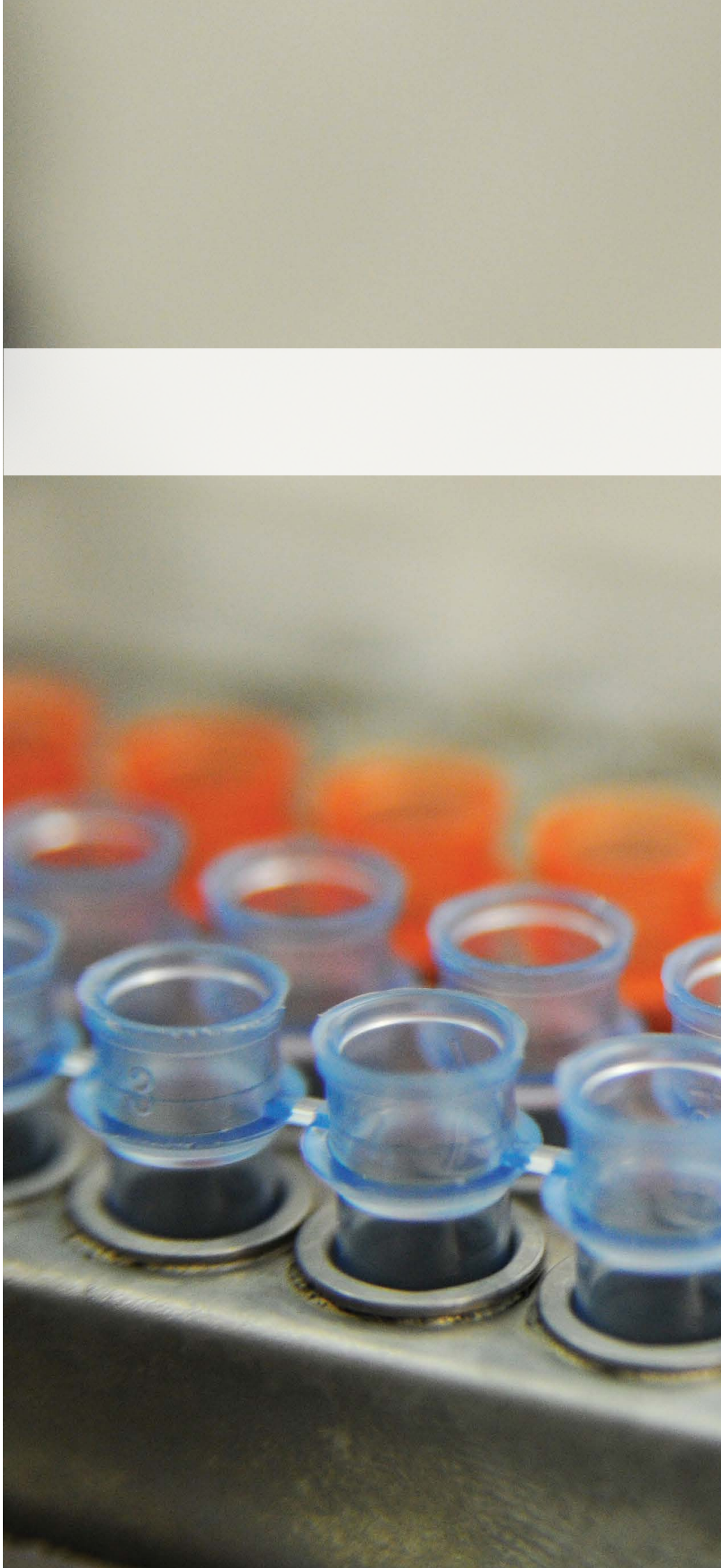

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