Valirx
Bioscience Innovation

MAKING A DIFFERENCE

Annual Report and Accounts
2017

WELCOME TO VALIRX PLC

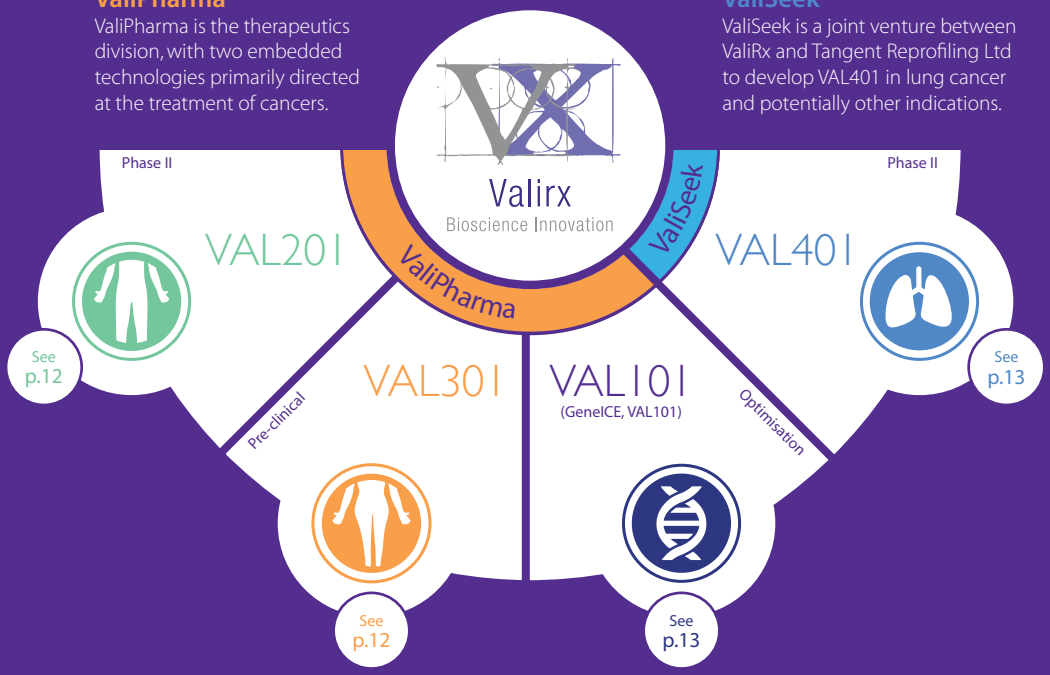
ValiRx Plc (AIM:VAL), a life science company, which focuses on clinical stage cancer therapeutic development, taking proprietary & novel technology for precision medicines towards commercialisation and partnering.

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.

Operational Highlights

- Period of substantive and encouraging development across drug portfolio taking lead compounds to significant value inflection points;
- Phase I/II Clinical Trial of VAL201 has continued to demonstrate high safety and tolerability and has received MHRA approval to extend and expand the scope of the clinical trial to treat prostate cancer;
- Completion of VAL401's Phase II Clinical Trial in patients with lung cancer - with trial data offering palliative stage patients an improvement in symptoms alongside improved survival prospects;
- Period saw the optimized, commercially viable, 2nd generation development of the VAL101 molecule derived from ValiRx's proprietary GeneICE platform to shut down rebellious genes causing cancer and potentially some neurological disorders – preparation is underway for the compound's entry into the clinic;
- VAL301 is in late pre-clinical phase initially for the treatment of the gynaecological condition, endometriosis – a reformulation of VAL201, which pre-clinical studies suggest does not compromise bone density or fertility. Final laboratory tests are underway prior to advancing the VAL301 compound into additional toxicology and then clinical trials;
- Patent protection and portfolio coverage was extended for VAL201 and VAL401 during the period with US patent granted for VAL201 in Q1 2018.

Financial Highlights

- Four Placings during the period raising £3.07m to advance the clinical trial of VAL201 and for the pre-clinical progress of other programmes;
- Marked 36.4% reduction in total comprehensive loss for the year to £3.02m (2016: Loss £4.75m) reflecting decrease in clinical trial expenditure on medicinal products;
- Loss per share from continuing operations of 1.90p (2016: Loss 8.54p);
- Cash and cash equivalents as at 31 December 2017 of £701,410 (2016: £560,763).

Strategic Report

Governance

Financial Statements

View more on our website
www.valirx.com

Strategic Report

CHAIRMAN'S STATEMENT

Looking towards the future

- I am pleased to report that our research, understanding and ambition to find more effective solutions to the treatment of cancer have moved on substantially in 2017.
- The progress of our core clinical products, VAL201 and VAL401 has been substantial and both have reached significant value inflection points. The current momentum and exciting trajectory of both compounds offer potential investors an investable proposition and an attractive offering to joint venture partners.
- A particularly noteworthy achievement by the Company in the reporting period was the successful completion of the VAL401 Phase II clinical study in patients with late stage non-small cell lung cancer, the most common form of lung cancer.
- During the period, we saw consistent progress made with our VAL201 therapeutic, culminating in receiving approval from the UK Medicines and Healthcare Products Regulatory Agency and the Research Ethics Committee to substantially expand and accelerate the trial for locally advanced or metastatic prostate cancer. This gives the trial increased flexibility and speed for reaching therapeutic levels and to reduce disease progression.
- The integration of our clinical in-house team with a board of oncologists and clinical nurse specialists has been providing valuable insight into how we can more rapidly bring safe, efficacious, therapeutic and palliative medicines to cancer patients to meet hitherto unmet needs in rapidly growing markets.
- The Company has also progressed the pre-clinical pipeline. The programmes currently consist of VAL301, which is derived from the formulation of VAL201 and the compound VAL101, which is derived from our GenelCE technology platform. The Company is very much looking forward to taking the next generation of therapeutics into further development and through to the clinic.
- VAL401 and VAL201 have received several major patent grants and the IP portfolio now covers all major areas worldwide.

In my report for the year ended 31 December 2016, I informed our shareholders that we were making important strides in growing our internal R&D capabilities, such that we remain at the forefront of personalised and precision medicine.

I am pleased to report that our research, understanding and ambition to find more effective solutions to the treatment of cancer have moved on further since then. The integration of our in-house team with an advisory board of oncologists and clinical nurse specialists has been providing valuable insight into how we can more rapidly bring safe, efficacious, therapeutic and palliative medicines to cancer patients to meet hitherto unmet needs.

In 2017, we saw consistent progress made with our first therapeutic. VAL201 continued to demonstrate high safety and tolerability, as well as preliminary therapeutic activity throughout the clinical study, culminating in receiving approval from the UK Medicines and Healthcare Products Regulatory Agency and the Research Ethics Committee to substantially raise the dosing level in patients with locally advanced or metastatic prostate cancer in order to reach therapeutic levels and reduce disease progression. This is a testament to the appetite for new drugs devoid of the serious side effects reported with current prostate cancer treatments, in particular complete and general androgen hormone deprivation. We look forward to reporting on the clinical trial as it progresses throughout this current year.

In parallel, we continued to advance the reformulation of VAL201 into VAL301 for the treatment of Endometriosis, a painful and debilitating gynaecological condition with high unmet clinical needs. We have established from our pre-clinical studies that VAL201's specific mode of action also has the potential to provide a potent therapeutic effect to manage the symptoms of this disorder more safely than current treatments, which are widely known to cause a large number of side effects including loss of bone density and/or infertility. Going forward, the Company's focus is to complete laboratory tests before progressing VAL301 to clinical trials.

A particularly noteworthy achievement by the Company in the reporting period was the successful completion of the VAL401 Phase II clinical study in patients with late stage non-small cell lung cancer, the most common form of lung cancer. The data analysed by Ariana, a leading digital health Company, focused on developing advanced therapeutic decision

support systems, has advocated the therapeutic potential for VAL401 as a single therapy in treating this cancer. Ariana has also advocated the compound's therapeutic and palliative potential when combined with both traditional chemotherapies and immune-oncology treatments. Palliative stage patients could expect to see improvements in symptoms with the added benefit of improved survival prospects. The encouraging 60% overall response rate provides a strong foundation for the next stage of clinical testing. The measure of immune competency of the treated patients was also a pleasingly unexpected addition to the results. In sum, we are very excited to see such a good response rate for a condition with huge unmet medical need.

Furthermore, these results came hot on the heels of ValiRx receiving notification that a further method-of-treatment patent has been granted by the US Patent Office covering the use of VAL201 in the treatment of prostate cancer. VAL201 now has five patents families in its portfolio, four of which have been fully granted and with one allowed. VAL201's patent protection now extends across territories that include US, Japan, Australia, Europe and the UK, providing coverage in the world's major markets.

Another important breakthrough during the year was the development of an optimised, commercially viable second generation of the VAL101molecule derived from our proprietary GeneICE platform, which has been shown in earlier studies to shut down rebellious genes causing cancer and potentially some neurological disorders. We can now take VAL101 in to late pre-clinical studies in preparation of the compound's entry into the clinic.

Our financial results show the total comprehensive loss for the year ended 31 December 2017 was £3,019,684, a decrease of 36.40% on the previous year (2016: £4,748,003) and a loss per share from continuing operations of 1.90p (2016: Loss 8.54p). This marked reduction in our loss was attributable to a decrease in clinical trial expenditure as the manufacturing costs for both of the investigational medicinal products, VAL201 and VAL401, that were incurred for their respective trials, were borne during 2016.

In December 2017, we announced the final conversion of the CLN Agreement with Yorkville – thus resulting in no further obligations existing with Yorkville. Simultaneously, we raised £1.0m of gross proceeds through the issue of 23,529,412 new ordinary shares at a price of 4.25 pence per share for advancing the clinical trial of VAL201 and for the pre-clinical progress of other programmes. As at year-end, the Group had cash and cash equivalents of £701,41 (2016: £560,763).

In conclusion, I believe the Group has seen substantive and encouraging developments across its portfolio during the period to December 2017. The progress of our core clinical products, VAL201 and VAL401 has been substantial and both have reached significant value inflection points. The current momentum and exciting trajectory of both compounds offer 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

5 April 2018

How we manage our company

The Board

At 31 December 2017, the board consisted of three executive and two non-executive directors, who are well respected within their field. The Board sets the overall direction and strategy of the Group, reviews scientific, operational and financial performance, and advises on management appointments. All key operational and investment decisions are subject to Board approval, with the Company Secretary being responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with. The Non-Executive Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the Non-Executive Directors are properly briefed on matters. The Chief Executive Officer has the responsibility for implementing the strategy of the Board and managing the day to day business activities of the Group.

All of the Directors are subject to election by shareholders at the first Annual General Meeting ('AGM') after their appointment to the Board and to re-election by shareholders at least once every three years.

I believe the Group has seen meaningful and encouraging developments across its portfolio during the period to December 2017. The progress of our core clinical products, VAL201 and VAL401 has been substantial and both have reached significant value inflection points. The current momentum and exciting trajectory of both compounds offer potential investors an investable proposition and an attractive offering to joint venture partners."

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 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.

Our Business Model

The Company's business strategy is to license or acquire technologies and early stage therapeutic compounds with solid scientific proofs of concept. The Company develops these programmes and takes them through pre-clinical and then the clinical phases, at which stage, pharmaceutical companies historically look to acquire such programmes and take them through their last clinical trial phases and to market approval.

The pharmaceutical industry is actively looking to fill pipelines and increase its market penetration with novel and innovative drugs and therapeutics, which increasingly originate from specialised biotechnology companies. The directors believe that the Company's development programmes are well placed to meet some of the industry interest in those areas in which the Company operates. The Company's programmes are developed to meet clear unmet medical need in large and growing markets and ValiRx's management is actively in dialogue with key players within the Bio/Pharmaceutical industry.

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.

Develop the potential and Commercialise VAL201, the prostate cancer drug

This drug offers a novel and exciting approach for targeted cancer therapy 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 cancerous cells, 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.

Realise the value and Commercialise VAL 401, the lung cancer drug

The VAL401 molecule is a re-formulation of a generic 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 was able to accelerate directly into a Phase II efficacy trial. During the reporting period, the Company saw the successful completion of the clinical study in patients with late stage non-small cell lung cancer, the most common form of lung cancer.

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 2017

The group has seen meaningful and encouraging developments across its portfolio during the period to December 2017 and the progress of our core clinical products, VAL201 and VAL401 has been substantial and both have reached significant value inflection points.
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

- The VAL201 clinical trials to date have shown a very good safety and tolerability profile as well as preliminary efficacy. Based on these results the Company obtained MHRA and REC approval to substantially expand the trial and to raise the dosing level in patients, in order to accelerate the trials' ability to reach therapeutic levels and to reduce disease progression.
- The Company is developing a pipeline of future clinical drugs so as to ensure the maintenance and continuity of future value creation.

Currently, the pre-clinical portfolio consists of VAL301, which is targeting endometriosis and VAL101, which is targeted at blocking those genes, which contribute to cancerous growth.

- During 2017, the progress of our core clinical products and patent portfolios have been substantial and all have reached significant value inflection points. Given the current trends within the industry, the Company is in an optimum position for having meaningful discussions regarding future partnering and collaborative deals.

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

- The production of positive trial data showed that the VAL401 treatment had a measurable improvement on patient quality of life, in addition to a positive impact on the disease and an extension in the overall survival of patients.

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

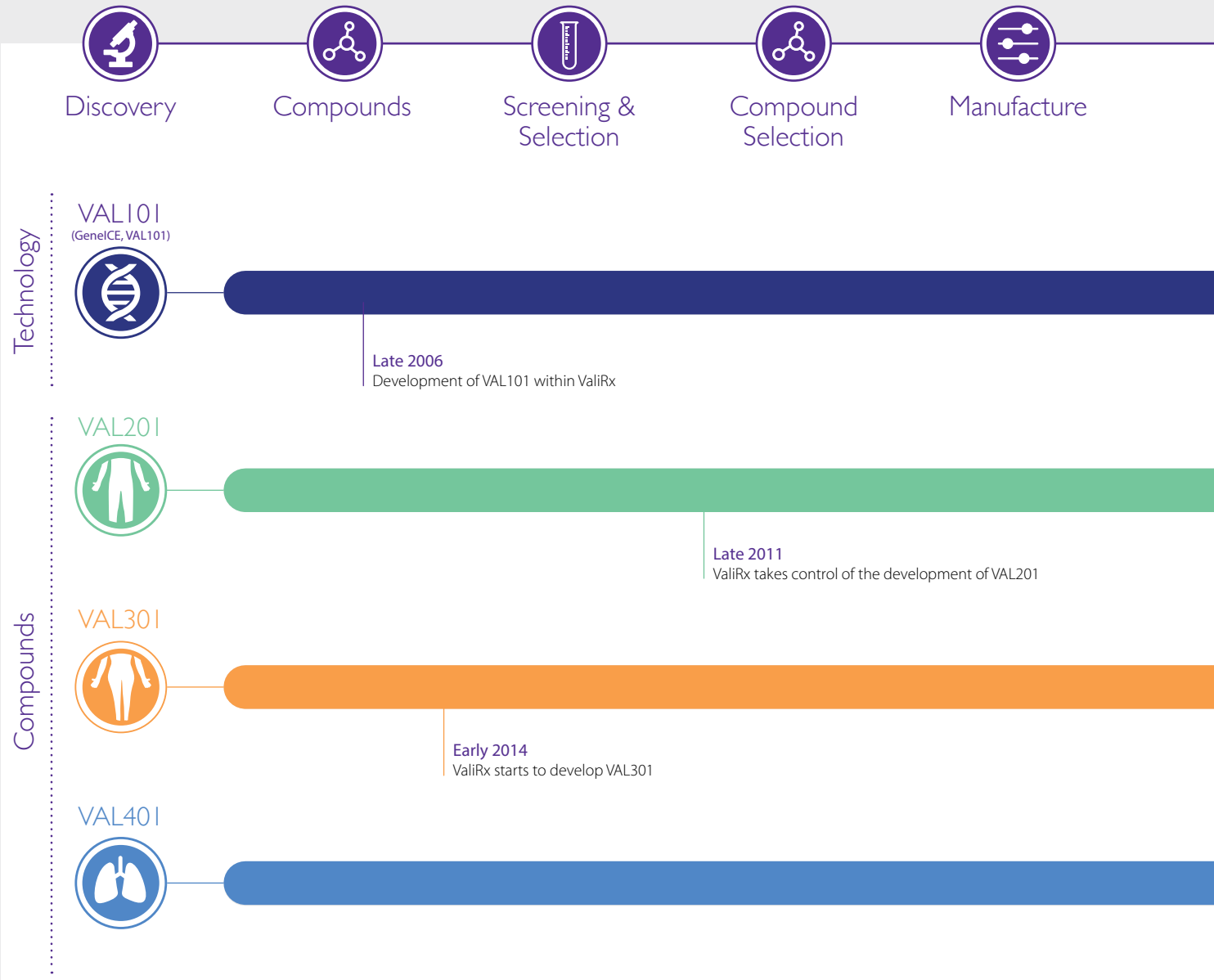
- The GeneICE "rebellious gene" technology continues to show good progress in the pre-clinical phase.
- The compound has been designed against a gene expressing Bcl-2 protein, which has been implicated and associated with various cancers.
- Pre-clinical work is currently being conducted with our partners,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

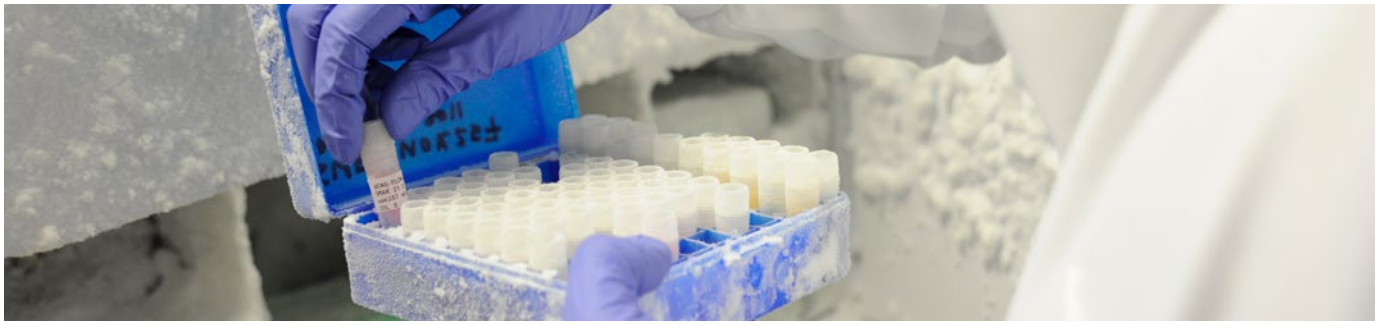
3 Financial risk
5 Intellectual property risk
6 Return on investment

Strategic Report

OUR PRODUCTS

ValiRx was formed in 2006 – here is a brief look at the contribution ValiRx has made to the compounds' and technology's development pathways.





Pre-clinical | Phase I | Phase II | Phase III | Approval

2013
Development of VAL401 under ValiRx umbrella

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 currently has a portfolio of clinical and pre-clinical stage therapeutic projects. The Company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange in October 2006.

Strategy and Business Review

The Company's business strategy is to license or acquire technologies and early stage therapeutic compounds with solid scientific proofs of concept. The Company develops these programmes and takes them through pre-clinical and then the clinical phases, at which stage, pharmaceutical companies historically look to acquire such programmes and take them through their last clinical trial phases and to market approval.

The pharmaceutical industry is actively looking to fill pipelines and increase its market penetration with novel and innovative drugs and therapeutics, which increasingly originate from specialised biotechnology companies. The directors believe that the Company's development programmes are well placed to meet some of the industry interest in those areas in which the Company operates. The Company's programmes are developed to meet clear unmet medical need in large and growing markets and ValiRx's management is actively in dialogue with key players within the Bio/Pharmaceutical industry.

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.[1]

1 in 8 men will get prostate cancer in their lifetime.[2]

120

More than 120 men in the UK are diagnosed with prostate cancer a day.[2]

$18.4bn

Global market for prostate cancer therapeutics by 2025.

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 170m 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 170m sufferers globally.

$2bn

Endometriosis expected to surpass $2 billion.

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 1.1m 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] https://www.pharmaceutical-technology.com/features/feature125729/
[2] https://prostatecanceruk.org/prostate-information/about-prostate-cancer

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 £10m from an anonymous donor. The money will go towards the £100m 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.

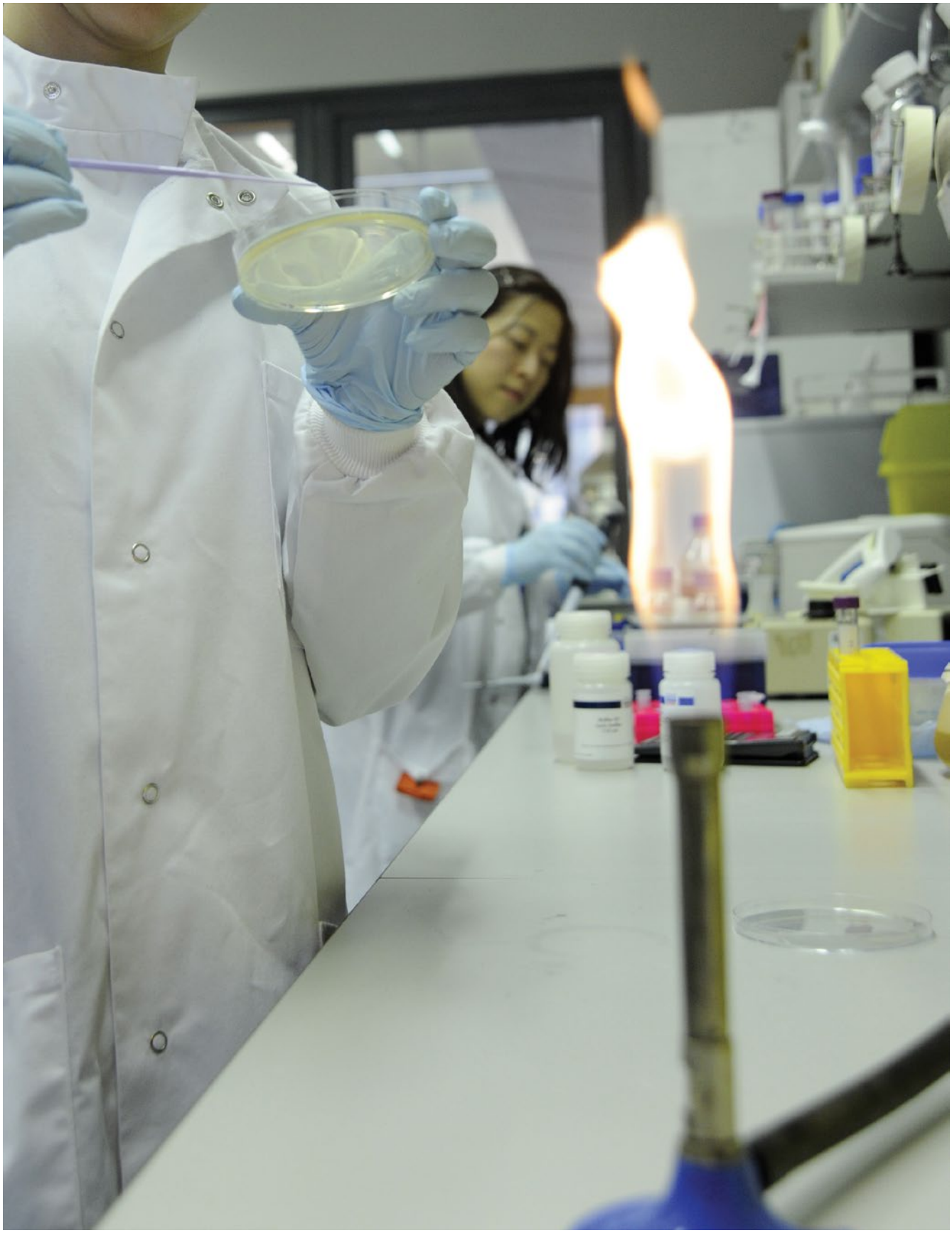
It has a turnover of £882m and contracts with over 70 primary care trust commissioning bodies to provide services. It sees over 950,000 outpatients and admits over 156,000 patients each year.

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

Our portfolio

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

VAL201

Prostate Cancer

The Company's leading anti-cancer therapeutic VAL201is currently in clinical trials for the treatment of prostate cancer and potentially other indications of hormone induced cancers. The compound is targeted specifically at the Src kinase SH3 domain to prevent the proliferation of cancer cells, whilst leaving the other functions of androgen activity intact, including fertility and bone development. Due to its low toxicity profile, the compound may also have a potential for preventative treatment.

The Phase I/II trial has been initiated and VAL201 has been shown to be safe and well tolerated with preliminary signs of anti-cancer efficacy at the doses tested. Following these good results, the VAL201 clinical trial received approval from the UK Medicines and Healthcare Products Regulatory Agency ("MHRA") and the Research Ethics Committee ("REC") for the Company to expand the trial and substantially increase the dose and dosing frequency being administered to patients. This will allow the trial more flexibility and will help the treatment to more speedily reach its full therapeutic potential and to deliver a potential anti-cancer impact. In pre-clinical trials, VAL201 also reduced the prostate cancer model's metastatic growth by up to 50%. This has very important implications for prostate cancer therapeutic treatment and it also offers a potential treatment for other types of metastatic cancers.

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.

$2bn

Global and Endometriosis market is forecast to surpass $2bn by 2023.

176m

Women are affected by Endometriosis globally.

VAL401

Lung cancer and Adenocarcinoma

VAL401 is the reformulation of generic drug Risperidone, 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 other adenocarcinoma types. The compound in its new form specifically targets the energy-providing-enzyme within the cell compartment. Since this enzyme is only found in cancerous cells, the compound leaves normal and healthy cells intact.

VAL401 has successfully completed its Phase II clinical study in patients with late stage non-small cell lung cancer, the most common form of lung cancer. The trial has produced positive data that shows that the VAL401 treatment has had a measurable improvement on patient quality of Life, in addition to a positive impact on the disease and an extension in the overall survival of patients.

Based on these results, the design of the protocol for a Phase III study is underway.

VAL101
(GenelCE, VAL101)

GenelCE

The GenelCE "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 £1.6m for the further development of this technology platform.

GenelCE (Gene Inactivation by Chromatin Engineering) is a novel proprietary gene silencing platform for the efficient silencing of targeted genes. This technology is based on natural mechanisms and has the potential to halt and reverse tumour growth. GenelCE mimics a natural process in cells to silence genes. The technology acts upstream of the gene expression, potentially enabling a better inhibition compared to existing therapeutics acting at the protein or post-transcriptional levels.

VAL101

VAL101 is a novel therapeutic based on the Company's proprietary GenelCE (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 GenelCE technology enables the selective silencing or the shutting down of particular rebellious genes, thereby halting and reversing tumour growth.

Work to generate a commercially viable molecular structure for VAL101 has been completed and pre-clinical studies have shown that the compound reduces the Bcl-2 expression in cancer cells. As such, ValiRx will accelerate VAL101's late pre-clinical studies in preparation for the compound's entry into the clinic.

Strategic Report

CHIEF EXECUTIVE'S REPORT

"The year ending in December 2017 has been of profound importance to ValiRx. Not only did the Company see its two clinical compounds make exciting strides forward through the year, but it also saw those advances culminate towards the end of the period under review."

Dr Satu Vainikka
Founding Director & Chief Executive Officer

The year ending in December 2017 has been of profound importance to ValiRx. Not only did the Company see its two clinical compounds make exciting strides forward through the year, but it also saw those advances culminate towards the end of the period under review.

The conclusion of VAL401's Phase II lung cancer clinical trial and the production of positive trial data showed that the VAL401 treatment has a measurable improvement on patient quality of Life, in addition to a positive impact on the disease and an extension in the overall survival of patients.

The period also saw ValiRx's VAL201 compound showing good safety, tolerability and early efficacy in clinical trials. Following the good results, VAL201's Phase I/II prostate cancer clinical trial received approval from the UK Medicines and Healthcare Products Regulatory Agency ("MHRA") and the Research Ethics Committee ("REC") for the Company to expand and substantial increase the dose being administered to patients. This will allow treatment to more speedily reach its full therapeutic potential and deliver its potential anti-cancer impact.

The Company's preclinical developments of VAL301 and VAL101 are going ahead with exciting and encouraging results.

During the year, the Company's patent portfolio has been greatly strengthened with patent grants for VAL401 and VAL201 in major territories. This expanding patent protection further supports the Company's business model and gives the Company the basis for meaningful discussions with potential future partners.

These advances are of real significance for the Group and to patients, as ValiRx and its compounds become more attractive to potential partners and take a step forward towards addressing unmet need.

VAL401

Lung cancer

VAL401 is a re-formulation of existing drug Risperidone, into an orally administered gelatin capsule, showing in pre-clinical testing, anti-cancer properties in several oncological models. The period under review has been a defining period for VAL401's clinical development and in Q4 2017, ValiSeek, the joint venture between ValiRx and Tangent Reprofiling Limited, completed the Phase II trial and released pharmacokinetic data. Following analysis, ValiSeek announced positive formal data on the VAL401 compound and of its disease impact. The results clearly demonstrated that the VAL401 treatment had a statistically significant improvement on the overall survival of patients with non-small cell lung cancer compared to those receiving no treatment.

This excellent and very positive breakthrough was boosted after the period end, when further collected data showed that the VAL401 treatment has also measurable improvement on patient's quality of life. Together, the results advocate the potential for VAL401 in treating very late stage cancer patients in the palliative arena. This data also implies the potential for VAL401, in the as yet untested combinations with, both traditional chemotherapies and immune-oncology treatments. Palliative stage patients could expect to see an improvements in symptoms with VAL401 treatment, together with improved survival prospects. The results seen in this first all-comer trial, provides a strong foundation for VAL401's next stage of clinical testing.

With the lung cancer market projected to be valued at USD 7.9 billion in 2020 at a CAGR of 6.6%, the Company continues to be in discussion with a number of large pharmaceutical companies who are looking to fill their pipelines in this important unmet medical therapeutic area.

VAL201

Excellent Safety and tolerability data together with early efficacy data leads to enhancement of the VAL201 Dose Escalation Clinical Study

During 2017, the VAL201 clinical trial has demonstrated an excellent safety and tolerability profile. In addition, the treatments of patients with the compound showed early signs of efficacy with relatively low doses. Based on these results and in December 2017, ValiRx received MHRA approval for the enhancement of its VAL201 dose escalation and expansion clinical trial.

This approval allows for a substantial increase in the amount and frequency of VAL201 being administered to patients, thereby allowing treatment to more speedily reach its full therapeutic potential and potential anti-cancer impact. This represents a pivotal and substantial breakthrough for the VAL201 prostate cancer compound and the Company expects the accelerated study to speed-up the human development of the treatment, saving both time and money.

Additional Clinical Trial Centres

To facilitate the enhancement of the VAL201 trial, ValiRx will continue working with UCLH and also with other oncology clinical sites to participate in this latter part of the trial. Results from this stage can be taken forward by the Company or a partner into subsequent, larger, outcomes-oriented clinical trials. These will establish VAL201's effects as an anti-cancer agent, on overall survival and on the health-related quality of life in patients with prostate cancer.

Prostate cancer

VAL201 is a potentially major breakthrough therapeutic treatment of Advanced Prostate Cancer due to its novel mechanism of action. A number of studies have demonstrated that Src kinase complete inhibition strongly reduces prostate cancer growth but may have side effects. VAL201 specifically targets the association of androgen receptor with Src,SH3 domain, a signal that is important in tumour cell proliferation without suppressing other Src-AR induced activities. This provides an advantage to current therapies, which in addition to abolishing the division signalling pathways, potentially also inhibit the other Androgen Receptor (AR) functions including metabolism.

The readout from the first part of the Phase I/II clinical trial - 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 imaging and a reduction of PSA progression, in the majority of patients. Importantly, the Pre-clinical data has also shown tumour growth suppression and significant reduction of metastatic growth.

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

VAL301

Endometriosis

VAL301 is derived from our lead compound, VAL201 and is currently in late-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 women from Endometriosis, with a minimal impact on bone density or fertility, which are major drawbacks frequently encountered with the current commonly used drugs and therapies for this condition. Our focus now is to complete the pre-clinical package and arrive at the optimal formulation so that the Company obtains the necessary regulatory approvals to enter VAL301 into a clinical trial in 2018.

GeneICE

Our GeneICE "rebellious gene" editing technology has shown continued good progress in its late pre-clinical phase. With the programme currently benefiting from a second Eurostars grant totalling up to €2.6m, this programme has been through scientific, medical and commercial evaluation. Rebellious genes are the ones that are working when/where they should not e.g. in cancers, inflammatory conditions, Alzheimer's and autoimmune diseases. ValiRx's proprietary GeneICE technology enables the design of compounds for selective binding and silencing of these specific genes. The lead 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 during the period under review has been conducted with our partners, DKFZ, Heidelberg and Pharmatest in Finland, to generate a commercially viable molecular structure for VAL101. ValiRx was pleased to report commercially viable efficient manufacturing capabilities for the compounds and preliminary results for the optimised second generation of the VAL101molecule are demonstrating gene silencing. As such, ValiRx intends to accelerate VAL101's late pre-clinical studies in preparation for the compound's entry into the clinic.

Outlook

With the extremely encouraging results from our portfolio development programmes, I believe we are in an excellent position to deliver benefits to patients, as well as generate value for stakeholders. I very much look forward to the future further development of ValiRx and its therapeutic assets.

Dr Satu Vainikka
Founding Director & Chief Executive Officer

5 April 2018

Portfolio of Clinical Patent Families

The table below provides details of patents in the VAL 201 portfolio that have been either fully granted or allowed.

Country	Patent number	Date filed	Granted/Allowed
United States	US 14/575065	14 March 2008	Granted
Europe	EP 08717866.1	14 March 2008	Allowed
Japan	JP 2009–553162	14 March 2008	Granted
Australia	AU 2008228274	14 March 2008	Granted
United Kingdom	GB 1118831.5	01 November 2011	Granted

There are patent applications currently pending in many other territories and covering various aspects of the programme.

The table below provides details of patents in the VAL401 portfolio that have been either fully granted or allowed.

Country	Patent number	Date filed	Date Granted/Allowed
United States	US 9072743	26 September 2013	07 June 2015
United States	US 9375433	08 May 2015	28 June 2016
United States	US 9585887	27 May 2015	07 March 2017
United States	US 9585890	31 May 2016	07 March 2017
United States	To be allocated shorty	27 February 2017	Allowed
Australia	AU 2013322612	26 September 2013	14 September 2017
New Zealand	NZ 706067	26 September 2013	01 November 2016

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 2017, the Group had sufficient cash resources to finance its operational activities until at least Q2 2018.	→

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

Oliver de Giorgio-Miller
Chairman

5 April 2018

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
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.

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.

Governance

REPORT OF THE DIRECTORS
for the year ended 31 December 2017

The Directors present their report and financial statements for the year ended 31 December 2017.

Dividends
No dividends will be distributed for the year ended 31 December 2017.

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 £1,746,808 (2016: £2,375,354) on research and development. Further details on the Group's research and development are included in the Chief Executive's Report on page 14.

Events since the end of the year
Information relating to events since the end of the year is given in the notes to the financial statements.

Directors
The directors shown below have held office during the whole of the period from 1 January 2017 to the date of this report.

K J Alexander
O De Giorgio-Miller
G Desler
Dr G S Morris
Dr S Vainikka
S Makinen – resigned 30 May 2017

The market value of the Company's shares at 31 December 2017 was 4.38p and the high and low share prices during the period were 7.63p and 0.93p respectively.

Financial risk management objectives and policies
Note 29 to the financial statements gives details of the Group's objectives and policies for risk management of financial instruments.

Significant shareholders
As at 5 April 2018, 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.

Statement of directors' responsibilities
The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent financial statements for each financial year. Under that law the Directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and 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 Group and Parent Company and of the profit or loss of the group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. In preparing each of the Group and Parent Company financial statements the Directors are required to:

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement as to disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

Auditors

The auditors, Adler Shine LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board:

Mr G Desler
Director

5 April 2018

Governance

REPORT OF THE INDEPENDENT AUDITORS

to the members of ValiRx plc

Opinion

We have audited the financial statements of Valirx Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 on pages 26 to 54. 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 that we are required to state to them in a Report of the Auditors 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.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw your attention to note 2 to the financial statements, which indicates that the company is reliant on future fund raisings to continue its activities as budgeted. Should future fund raisings be unsuccessful this will impact to the group and company's plans to develop its products. As stated in note 2, this condition indicates that a material uncertainty exists that may cast significant doubt on the group and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified were:

Impairment of goodwill and intangibles

Area of focus

The Group has goodwill of £1.6m and intangible assets of £1.3m.

IAS 36 requires at least annual impairment assessments in relation to goodwill, indefinite-lived intangible assets and intangible assets that are not yet ready for use, with more regular assessment should an impairment trigger be identified.

The determination of recoverable amount, being the higher of value-in-use and fair value less costs of disposal, requires judgement on the part of management in identifying and then estimating the recoverable amount for the relevant CGUs.

Recoverable amounts are based on management's view of future cash flow forecasts and external market conditions such as future pricing and the most appropriate discount rate.

Management engaged an expert to assist them in performing an annual impairment assessment which included the assumptions and estimates around the success of the future development and commercialisation of its products VAL 201, VAL101 and VAL 401. Changes in these assumptions might give rise to a change in the carrying value of intangibles and goodwill.

How our audit addressed the area of focus

We obtained the report prepared by the expert and gained an understanding of the key assumptions and judgements underlying the assessment. We assessed the appropriateness of the methodology applied and tested the mathematical accuracy of the models.

We obtained an understanding of the stage of product development and management's expected timelines for product commercialisation, including updates on the achievement of expected milestones.

We determined the judgement made by the Directors that no impairment was required and the disclosures made in the financial statements to be reasonable.

Going concern

Area of focus

Refer to Note 2 to the financial statements for the directors' disclosures of related accounting policies, judgements and estimates. The directors have concluded they have a reasonable expectation that the Group will have sufficient cash resources and cash inflows to continue its activities for not less than twelve months from the date of approval of these financial statements and have therefore prepared these financial statements on a going concern basis.

The group has cash and cash equivalents of £701,410 at 31 December 2017 but consumed cash of £3,862,083 before receipt of research and development tax credits of £636,738 and financing of £267,058.

Management produces a cash flow forecast based on the board plans.

The key judgment within the cash flow forecast that we particularly focused on are:

- The continued availability of funding.
- The likely recovery of €other receivables.
- Cash flows expected from research and development tax credits.
- Flexibility of development programme.

How our audit addressed the area of focus

We assessed the reasonableness and support for the judgments underpinning management's forecast, as well as the sensitivity of projections to these judgements.

We reviewed managements financing plans.

We considered the reasonableness of the assumptions within management's proposed cost reduction actions.

Our conclusion on management's use of the going concern basis of accounting is included in the going concern section of the report above.

Governance

REPORT OF THE INDEPENDENT AUDITORS continued
to the members of ValiRx plc

Valuation of warrants
Area of focus
The company granted warrants during the year to shareholders on a placing of ordinary shares and for services provided resulting in a charge of £158,765, against share premium.

Management utilised a Black Scholes option pricing model to calculate the charge which required the use of assumptions and judgements.

How our audit addressed the area of focus.
We obtained a copy of the model used to calculate the share-based payments charge.

We reviewed the documentation in respect of the warrants. We gained an understanding of the key assumptions and judgements underlying the model. We assessed the appropriateness of the methodology applied and tested the mathematical accuracy of the models.

We considered the charge provided in the financial statements of the group and company to be reasonable.

Our application of materiality
Materiality for the group and company was £115,000 (2016: £152,000) based on an average of 5% of adjusted loss before tax and 1% of net assets (2016: based on 5% of adjusted loss before tax and 1% on net assets).

Loss before tax is the key metric, we believe, as it is most commonly used by the shareholders as a body in assessing the Group's performance. In the case of Valirx, the value of its goodwill and assets are also key as the group is still in the development stage. We therefore considered that materiality weighted on the loss for the year but which also considered the net assets of the group to be reasonable.

Other information
The Directors are responsible for the other information. The other information comprises the information in the Group Strategic Report and the Report of the Directors, but does not include the financial statements and our Auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the Report of the Directors.

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.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Our responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

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

5 April 2018

Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Notes	2017 £	2016 £
Continuing operations			
Other operating income		**88,773**	
Research and developments		**(1,746,808)**	(2,375,354)
Administrative expenses		**(1,467,268)**	(1,794,284)
Operating loss		**(3,125,303)**	(4,169,638)
Fair value loss on derivative financial assets	17	**(23,446)**	(1,619,187)
Finance income	6	**489**	17
Fair value gain on derivative liability	21	**44,146**	375,621
Finance costs	6	**(449,868)**	(338,188)
Loss before income tax	7	**(3,553,982)**	(5,751,375)
Income tax credit	8	**416,336**	620,104
Loss after income tax		**(3,137,646)**	(5,131,271)
Discontinued operations			
Profit for the year from discontinued operations	11	**–**	182,750
		(3,137,646)	(4,948,521)
Non-controlling interest		**117,962**	200,518
Total comprehensive loss for the year		**(3,019,684)**	(4,748,003)
Loss per share – basic and diluted	10		
From continuing operations		**(1.90)p**	(8.54)p
From discontinued operations		**N/A**	0.32p

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2017

	Notes	2017 £	2016 £
ASSETS			
Non-current assets			
Goodwill	12	**1,602,522**	1,528,923
Intangible assets	13	**1,325,283**	1,295,690
Property, plant and equipment	14	**–**	10,553
Investments	15	**–**	–
		2,927,805	2,835,166
Current assets			
Trade and other receivables	16	**766,475**	780,942
Tax receivable		**424,094**	644,497
Derivative financial assets	17	**117,229**	140,675
Cash and cash equivalents	18	**701,410**	560,763
		2,009,208	2,126,877
Total assets		**4,937,013**	4,962,043
EQUITY			
Shareholders' equity			
Called up share capital	19	**8,432,708**	8,165,650
Share premium		**16,419,494**	12,998,102
Merger reserve		**637,500**	637,500
Reverse acquisition reserve		**602,413**	602,413
Share option reserve		**464,000**	331,453
Retained earnings		**(23,378,744)**	(20,385,278)
		3,177,371	2,349,840
Non-controlling interests		**(24,744)**	19,619
Total equity		**3,152,627**	2,369,459
LIABILITIES			
Current liabilities			
Trade and other payables	20	**1,394,266**	1,254,139
Borrowings	21	**390,120**	1,294,299
Derivative liabilities	21	**–**	44,146
Total liabilities		**1,784,386**	2,592,584
Total equity and liabilities		**4,937,013**	4,962,043

The notes form part of these financial statements.

The financial statements were approved by the Board of Directors on 5 April 2018 and were signed on its behalf by:

Mr G Desler
Director

Financial Statements

COMPANY STATEMENT OF FINANCIAL POSITION
31 December 2017

	Notes	2017 £	2016 £
ASSETS			
Non-current assets			
Intangible assets	13	**140,000**	160,000
Property, plant and equipment	14	**–**	10,553
Investments	15	**3,617,834**	3,452,442
		3,757,834	3,622,995
Current assets			
Trade and other receivables	16	**2,720,591**	2,256,063
Tax receivable		**372,851**	574,812
Derivative financial assets	17	**117,229**	140,675
Cash and cash equivalents	18	**685,884**	552,529
		3,896,555	3,524,079
Total assets		**7,654,389**	7,147,074
EQUITY			
Shareholders' equity			
Called up share capital	19	**8,432,708**	8,165,650
Share premium		**16,419,494**	12,998,102
Merger reserve		**637,500**	637,500
Share option reserve		**464,000**	331,453
Retained earnings		**(20,218,087)**	(17,564,532)
Total equity		**5,735,615**	4,568,173
LIABILITIES			
Current liabilities			
Trade and other payables	20	**1,528,654**	1,240,456
Borrowings	21	**390,120**	1,294,299
Derivative liabilities	21	**–**	44,146
Total liabilities		**1,918,774**	2,578,901
Total equity and liabilities		**7,654,389**	7,147,074

The notes form part of these financial statements.

The financial statements were approved by the Board of Directors on 5 April 2018 and were signed on its behalf by:

Mr G Desler
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Notes	Share capital £	Share premium £	Merger reserve £	Reverse acquisition reserve £	Share option reserve £	Non-controlling interest £	Retained earnings £	Total £
Balance at 1 January 2016		8,120,736	10,526,862	637,500	602,413	203,519	79,069	(15,637,275)	4,532,824
Changes in equity									
Loss for the year		–	–	–	–	–	(200,518)	(4,748,003)	(4,948,521)
On acquisition of subsidiary		–	–	–	–	–	141,068	–	141,068
Issue of shares		44,914	3,060,507	–	–	–	–	–	3,105,421
Costs of shares issued		–	(589,267)	–	–	–	–	–	(589,267)
Movement in 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
Changes in equity									
Loss for the year		–	–	–	–	–	(117,962)	(3,019,684)	(3,137,646)
On acquisition of subsidiary		–	–	–	–	–	73,599	–	73,599
Issue of shares	19	267,058	3,866,468	–	–	–	–	–	4,133,526
Costs of shares issued		–	(445,076)	–	–	–	–	–	(445,076)
Lapse of share options		–	–	–	–	(26,218)	–	26,218	–
Movement in year		–	–	–	–	158,765	–	–	158,765
Balance at 31 December 2017		**8,432,708**	**16,419,494**	**637,500**	**602,413**	**464,000**	**(24,744)**	**(23,378,744)**	**3,152,627**

The notes form part of these financial statements.

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 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.

The notes form part of these financial statements.

Financial Statements

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Notes	Share capital £	Share premium £	Merger reserve £	Share option reserve £	Retained earnings £	Total £
Balance at 1 January 2016		8,120,736	10,526,862	637,500	203,519	(12,949,330)	6,539,287
Changes in equity							
Loss for the year		–	–	–	–	(4,615,202)	(4,615,202)
Issue of shares		44,914	3,060,507	–	–	–	3,105,421
Costs of shares issued		–	(589,267)	–	–	–	(589,267)
Movement in 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
Changes in equity							
Loss for the year		–	–	–	–	(2,679,773)	(2,679,773)
Issue of shares	19	267,058	3,866,468	–	–	–	4,133,526
Costs of shares issued		–	(445,076)	–	–	–	(445,076)
Lapse of share options		–	–	–	(26,218)	26,218	–
Movement in year		–	–	–	158,765	–	158,765
Balance at 31 December 2017		**8,432,708**	**16,419,464**	**637,500**	**464,000**	**(20,218,087)**	**5,735,615**

The notes form part of these financial statements.

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.

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Notes	2017 £	2016 £
Cash flows from operating activities			
Cash outflow from operations	1	**(2,952,275)**	(4,233,412)
Interest paid		**(35,897)**	(338,188)
Tax credit received		**636,739**	375,926
Net cash outflow from operating activities		**(2,351,433)**	(4,195,674)
Cash flows from investing activities			
Purchase of goodwill		**(73,599)**	(141,066)
Purchase of intangible fixed assets		**(206,727)**	(245,559)
Sale of subsidiary undertaking		**–**	857,136
Sale of tangible fixed assets		**–**	3,470
Non-controlling interests		**73,599**	141,068
Interest received		**489**	17
Net cash from investing activities		**(206,238)**	615,066
Cash flows from financing activities			
New convertible loan notes		**263,704**	2,993,113
Repayment of convertable loan notes		**(347,481)**	–
Costs of convertible loan notes		**–**	(190,846)
Share issue		**3,068,406**	1,695,906
Costs of shares issued		**(286,311)**	(589,267)
Net cash from financing activities		**2,698,318**	3,908,906
Increase in cash and cash equivalents		**140,647**	328,298
Cash and cash equivalents at beginning of year	2	**560,763**	232,465
Cash and cash equivalents at end of year	2	**701,410**	560,763

The notes form part of these financial statements.

Financial Statements

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

1 Reconciliation of operating loss to cash generated from operations

	2017 £	2016 £
Operating loss	**(3,125,303)**	(4,169,638)
Depreciation of property, plant and equipment	**10,553**	10,560
Amortisation of intangible assets	**177,134**	92,275
Decrease in inventory	**–**	11,733
Decrease/(increase) in trade and other receivables	**14,467**	(1,071,548)
Increase in trade and other payables	**54,038**	787,726
Other non-cash movements	**(83,164)**	(22,454)
Share option charge	**–**	127,934
Net cash outflow from operations	**(2,952,275)**	(4,233,412)

2 Cash and cash equivalents

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

Year ended 31 December 2017

	31 December 2017 £	1 January 2017 £
Cash and cash equivalents	**701,410**	**560,763**

Year ended 31 December 2016

	31 December 2016 £	1 January 2016 £
Cash and cash equivalents	560,763	232,465

The notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2017

1 Statutory information
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 W1H 0BS.

The registered number of the Company is 03916791.

The presentation currency of the financial statements is the Pound Sterling (£).

2 Accounting policies
Basis of preparation
The Group financial statements have been prepared in accordance with International Financial Reporting Standard 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.

Going concern
The current economic environment is challenging and the Group has reported an operating loss for the year. These losses will continue in the current accounting year to 31 December 2018.

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.

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. Since the year-end, the Company has raised £1m, before expenses.

Should future fund raisings be lower than anticipated the Directors will reduce expenditure on the Group's research and development programme.

Although the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future the successful completion of future fund raisings constitutes a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

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 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.

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.

Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2017

2 Accounting policies continued

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.

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.

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

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.

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 assets. 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.

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.

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.

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.

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.

2 Accounting policies continued

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.

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.

Foreign currencies

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.

Share capital

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

Pension contributions

The Group operates a defined contribution pension scheme. Contributions payable to the Group's pension scheme are charged to the Income Statement in the period to which they relate.

Government grants

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the Income Statement over the expected useful life of the assets. Grants towards revenue expenditure are released to the Income Statement as the related expenditure is incurred.

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.

Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2017

2 Accounting policies continued

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 3, IFRS 11, IAS 12, IAS 23	Amendments resulting from Annual Improvements 2015-2017 Cycle	01/01/2019
IFRS 4	Amendment – applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	01/01/2018
IFRS 9	Financial instruments – incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition.	01/01/2018
IFRS 9	Amendment – Prepayment features with negative compensation	01/01/2019
IFRS 10/ IAS 28	Amendments – Sale or contribution of assets between an investor and its associate or joint venture	01/01/2018
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
IFRS 17	Insurance contracts	01/01/2021
IAS 19	Amendment – Plan Amendment, Curtailment or Settlement	01/01/2019
IAS 28	Amendments resulting from Annual Improvements 2014-2016 Cycle (clarifying certain fair value measurements)	01/01/2018
IAS 28	Amendment – Long term interests in Associates and Joint Ventures	01/01/2019
IAS 40	Amendment – Transfers of investment property	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.

3 Critical accounting judgements and key sources of estimation uncertainty

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 21 for further disclosures.

4 Turnover and loss on ordinary activities before taxation

The Directors are of the opinion that under IAS 14 – "Segmental Information" the Group operated in two primary business segments in 2016, being drug development and the sale of self-test drug kits. However, in 2017, it only operated in drug development. 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 in 2016 relating to Diagnostics and Europe all relate to discontinued operations.

Class of business	**2017 £**	2016 £
Revenue		
Diagnostics	**–**	101,461
Loss before taxation		
Drug development	**3,553,982**	5,751,375
Diagnostics (2016: profit)	**–**	(182,750)
	3,553,982	5,568,624
Net assets		
Drug development	**3,152,627**	2,369,459
Diagnostics	**–**	–
	3,152,627	2,369,459

Geographical market	**2017 £**	2016 £
Revenue		
Europe	**–**	101,461
Loss before taxation		
UK	**3,553,982**	5,751,375
Europe (2016: profit)	**–**	(182,750)
	3,553,982	5,568,624
Net assets		
UK	**3,152,627**	2,369,459
Europe	**–**	–
	3,152,627	2,369,459

5 Employees and directors

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

Number of employees	**2017 Number**	2016 Number
Directors	**6**	6
Staff	**6**	6
	12	12

Employment costs	**2017 £**	2016 £
Wages and salaries	**780,447**	832,281
Social security costs	**77,799**	81,709
Other pension costs	**22,129**	29,038
Costs of share option scheme	**–**	127,934
	880,375	1,070,962

Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2017

6 Net finance costs

	2017 £	2016 £
Finance income		
Deposit account interest	**10**	17
Other interest receivable	**479**	–
	489	17
Finance costs		
Interest payable	**–**	399
Interest on overdue tax	**1,460**	–
On convertible loan notes	**448,408**	337,789
	449,868	338,188

7 Loss before income tax

The loss before income tax is stated after charging:

	2017 £	2016 £
Other operating leases	**134,397**	138,586
Depreciation – owned assets	**10,553**	10,560
Patents amortisation	**149,935**	105,456
Brands and licences amortisation	**27,199**	5,000
Auditors remuneration	**36,064**	28,270
Foreign exchange differences	**5,240**	28,258

8 Income tax

	2017 £	2016 £
Domestic current year tax		
Tax credits on research and development – current year	**(424,094)**	(644,497)
Tax credits on research and development – prior years	**7,758**	24,393
Current tax credit	**(416,336)**	(620,104)
Factors affecting the tax charge for the year		
Loss before income tax	**(3,553,982)**	(5,568,625)
Loss before income tax multiplied by effective rate of UK corporation tax of 19.25% (2016: 20%)	**(684,142)**	(1,113,725)
Effects of		
Non-deductible expenses	**(2,069)**	277,573
Capital allowances for the year in deficit of depreciation and amortisation	**5,836**	3,060
Tax losses not utilised	**435,714**	583,642
Profit on disposal of subsidiary undertaking	**–**	(108,360)
Research and development expenditure	**(179,433)**	(286,687)
Adjustment to prior years	**7,758**	24,393
Other tax adjustments	**–**	–
	267,806	493,621
Current tax charge	**(416,336)**	(620,104)

No corporation tax arises on the results for the year ended 31 December 2017 due to the losses incurred for tax purposes.

The deferred tax asset, arising from tax losses of £15.4 million (2016: £13.5 million) carried forward, has not been recognised but would become recoverable against future trading profits, subject to agreement with HM Revenue and Customs.

9 Loss of Parent Company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the Parent Company is not presented as part of these financial statements. The Parent Company's loss for the financial year was £2,679,773 (2016: £4,615,202).

10 Loss per ordinary share

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

	2017	2016
Continuing operations		
Loss for the financial period from continuing operations	**(3,137,646)**	(5,131,271)
Non-controlling interest	**117,962**	200,518
	(3,019,684)	(4,930,753)
Discontinued operations		
Profit for the period from discontinued operations	**–**	182,750
Basic		
Weighted average number of shares	**151,071,019**	57,743,223
Loss per share – continuing operations	**(1.90p)**	(8.54p)
Earnings per share – discontinued operations	**N/A**	0.32p

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 26) would have the effect of reducing the loss per share and would therefore not be dilutive under IAS 33 "Earnings per Share".

11 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 was therefore classified as discontinued operations and its results for the period to disposal are presented as follows. There are no figures for 2017.

	2016 £
Revenue	101,461
Cost of sales	(152,271)
Gross (loss)/profit	(50,810)
Expenses	(307,772)
Operating loss	(358,582)
Finance costs	(465)
Loss before taxation from discontinued operations	(359,047)
Profit arising on the disposal of the subsidiary	541,797
Profit for the period from discontinued operations	182,750

Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2017

11 Discontinued operations continued

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 acquisition 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

12 Goodwill

Group

	£
Cost	
At 1 January 2016	1,398,607
Additions	141,066
Disposals	(10,750)
At 1 January 2017	1,528,923
Additions	73,599
At 31 December 2017	**1,602,522**
Net book value	
At 31 December 2017	**1,602,522**
At 31 December 2016	1,528,923

The goodwill arising on the acquisitions of ValiRx Bioinnovation Limited, ValiPharma Limited, 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 Bioinnovation Limited	394,613
Valimedix Limited	–
Valiseek Limited	435,680

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

13 Intangible assets

Group

	Patents £	Brands and licences £	Total £
Cost			
At 1 January 2016	1,274,738	375,000	1,649,738
Exchange differences	41,223	–	41,223
Additions	245,559	–	245,559
Disposals	(231,187)	–	(231,187)
At 31 December 2016	1,330,333	375,000	1,705,333
Additions	206,727	–	206,727
At 31 December 2017	**1,537,060**	**375,000**	**1,912,060**
Amortisation			
At 1 January 2016	308,107	66,875	374,982
Exchange differences	10,764	–	10,764
Amortisation for year	105,456	5,000	110,456
Disposals	(86,559)	–	(86,559)
At 31 December 2016	337,768	71,875	409,643
Amortisation for year	149,935	27,199	177,134
At 31 December 2017	**487,703**	**99,074**	**586,777**
Net book value			
At 31 December 2017	**1,049,357**	**275,926**	**1,325,283**
At 31 December 2016	992,565	303,125	1,295,690

Company

	Brands and licences £
Cost	
At 1 January 2016 and 31 December 2016 and 2017	**200,000**
Amortisation	
At 1 January 2016	35,000
Amortisation for year	5,000
At 31 December 2016	40,000
Amortisation for year	20,000
At 31 December 2017	**60,000**
Net book value	
At 31 December 2017	**140,000**
At 31 December 2016	160,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2017

14 Property, plant and equipment

Group

	Plant and machinery £
Cost	
At 1 January 2016	37,525
Exchange differences	517
Disposals	(2,877)
At 31 December 2016 and 2017	**35,165**
Depreciation	
At 1 January 2016	15,348
Exchange differences	312
Disposals	(1,851)
Charge for the year	10,803
At 31 December 2016	**24,612**
Charge for the year	10,553
At 31 December 2017	**35,165**
Net book value	
At 31 December 2017	**–**
At 31 December 2016	10,553

Company

	Computer equipment £
Cost	
At 1 January 2016, and 31 December 2016 and 2017	**31,670**
Depreciation	
At 1 January 2016	10,557
Charge for year	10,560
At 31 December 2016	21,117
Charge for the year	10,553
At 31 December 2017	**31,670**
Net book value	
At 31 December 2017	**–**
At 31 December 2016	10,553

15 Investments

Group

	Unlisted investments £
Cost	
At 1 January 2017 and 31 December 2017	**1,333,770**
Provisions	
At 1 January 2017 and 31 December 2017	**1,333,770**
Net book value	
At 31 December 2017	**–**
At 31 December 2016	–

The Group and the Company owns 5.5% (2016: 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.

Company

	Shares in group undertakings £	Unlisted investments £	Totals £
Cost			
At 1 January 2017	3,452,442	1,333,770	4,786,212
Additions	165,392	–	165,392
At 31 December 2017	**3,617,834**	**1,333,770**	**4,951,604**
Provisions			
At 1 January 2017 and 31 December 2017	**–**	**1,333,770**	**1,333,770**
Net book value			
At 31 December 2017	**3,617,834**	**–**	**3,617,834**
At 31 December 2016	3,452,442	–	3,452,442

Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2017

15 Investments continued

Company

The Company's investments at the Statement of Financial Position date in the share capital of companies include the following:

Subsidiaries

ValiRx Bioinnovation Limited
Registered: England & Wales
Nature of business: Intermediate holding company

	%
Class of shares:	holding
Ordinary shares	100.00

Valipharma Limited
Registered: England & Wales
Nature of business: Therapeutic research & development

	%
Class of shares:	holding
Ordinary shares	100.00

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

Valisrc Limited (formerly Valimedix Limited)
Registered: England & Wales
Nature of business: Dormant

	%
Class of shares:	holding
Ordinary shares	100.00

Valiseek Limited
Registered: England & Wales
Nature of business: Therapeutic research & development

	%
Class of shares:	holding
Ordinary shares	55.50

16 Trade and other receivables

	Group		Company	
	2017 £	2016 £	**2017 £**	2016 £
Current				
Amounts owed by group undertakings	**–**	–	**1,961,472**	1,500,610
Other debtors	**637,945**	549,254	**630,744**	547,034
Rent deposit	**26,590**	22,289	**26,590**	22,289
VAT	**55,041**	150,746	**54,959**	134,482
Called up share capital not paid	**73**	73	**–**	–
Prepayments and accrued income	**46,826**	58,580	**46,826**	51,648
	766,475	780,942	**2,720,591**	2,256,063

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

17 Derivative financial assets

	Group		Company	
	2017 £	2016 £	**2017 £**	2016 £
Derivative financial assets	**117,229**	140,675	**117,229**	140,675

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 £1.45m 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. £1m. 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 2016	22.75p	6,430,872	1,463,023
Consideration paid	–	(3,751,342)	296,839
Loss on revaluation of derivative financial assets	–	–	(1,619,187)
Value of derivative financial assets at 31 December 2016	5.25p	2,679,530	140,675
Loss on revaluation of derivative financial assets	–	–	(23,446)
Value of derivative financial assets at 31 December 2017	**4.38p**	**2,679,530**	**117,229**

Both parties to the Swap Agreement agreed to defer the remaining 5 settlements under the Agreement.

18 Cash and cash equivalents

	Group		Company	
	2017 £	2016 £	**2017 £**	2016 £
Bank accounts	**701,410**	560,763	**685,884**	552,529

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2017

19 Called up share capital

	2017 Number	2016 Number	2017 £	2016 £
Allotted, called up and fully paid				
Ordinary shares of 0.1p each	**350,310,449**	83,253,312	**350,311**	83,253
Deferred shares of 0.5p 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
			8,432,708	8,165,650

In December 2016, Yorkville elected to convert US$150,000 of its Convertible Loan Notes ("CLNs") (plus accrued interest of US$15,840) into 2,393,788 ordinary shares at a conversion price of 5.625p per share. The shares were admitted to AIM in January 2017.

In March 2017, the Company raised £1.16 million, before expenses, through the placing of 46,509,015 new ordinary shares at a price of 2.5 pence per share. The net proceeds of the placing were to be used for the clinical development of VAL401; the dose expansion of the VAL201 trial in a multi-centre study; supporting the opening of additional trial centres to aid recruitment and completion of the clinical trials for VAL401 and VAL201, and for general working capital purposes and business development.

In March 2017, certain directors of the Company subscribed £30,000 through the issue of 1,200,000 new ordinary shares at a price of 2.5 pence per share.

In June 2017, Yorkville elected to convert US$250,000 of its CLN (plus accrued interest of US$22,724) into 10,453,630 ordinary shares at a conversion price of 2.0292p per share.

In August 2017, Yorkville elected to convert US$250,000 of its CLN (plus accrued interest of US$5,241) into 10,149,193 ordinary shares at a conversion price of 1.9171p per share.

In September 2017, the Company raised £0.5 million, before expenses, through the issue of 50,000,000 new ordinary shares at a price of 1p per share. The funds were to be used for advancing the clinical dose escalation of VAL201 and for further progressing the late pre-clinical development of GenelCE and general working capital purposes.

In November 2017, Yorkville elected to convert US$40,105 of its CLN (plus accrued interest of US$920) from Tranche 1 and US$10,000 of its CLN (plus accrued interest of US$101,892) from Tranche 2 into 12,446,476 ordinary shares at a conversion price of 0.9271p per share.

In December 2017, the Company raised £1.0 million, before expenses, through the placing of 80,000,000 new ordinary shares at a price of 1.25 pence per share. The funds were to be used for advancing the clinical trial of VAL201 and for the preclinical progress of other programmes.

In December 2017, Yorkville elected to convert US$696,203 of its CLN (plus accrued interest of US$10,531) from Tranche 2 into 47,765,035 ordinary shares at an agreed conversion price of 1.25p per share.

In December 2017, the Company received notifications of the exercise of warrants over 3,000,000 ordinary shares at an exercise price of 1p and over 1,000,000 ordinary shares at an exercise price of 5p in the Company, providing the Company with gross proceeds of £80,000.

In December 2017, the Company received notification of the exercise of warrants over 740,000 ordinary shares at an exercise price of 5p in the Company, providing the Company with gross proceeds of £37,000.

In December 2017, the Company received notification of the exercise of warrants over 400,000 ordinary shares at an exercise price of 5p in the Company, providing the Company with gross proceeds of £20,000.

In December 2017, the Company received notification of the exercise of warrants over 1,000,000 ordinary shares at an exercise price of 5p in the Company, providing the Company with gross proceeds of £50,000.

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.

20 Trade and other payables

	Group		Company	
	2017 £	2016 £	**2017 £**	2016 £
Current:				
Trade creditors	**1,210,675**	1,126,820	**1,062,605**	821,098
Amounts owed to group undertakings	**–**	–	**300,670**	300,670
Social security and other taxes	**72,764**	58,835	**61,899**	53,204
Other creditors	**18,450**	–	**18,450**	–
Accruals and deferred income	**51,347**	68,484	**44,000**	65,484
Directors' current accounts	**41,030**	–	**41,030**	–
	1,394,266	1,254,139	**1,528,654**	1,240,456

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

21 Financial liabilities – borrowings

	Group		Company	
	2017 £	2016 £	**2017 £**	2016 £
Current:				
Convertible loan notes	**390,120**	1,294,299	**390,120**	1,294,299
Derivative financial liability	**–**	44,146	**–**	44,146
	390,120	1,338,445	**390,120**	1,338,445

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.

Repayment

During the reporting period, the Company issued 83,708,122 (2016: 6,575,254) fully paid Ordinary Shares following receipt of conversion notices for the exercise of conversion rights in respect of US$1,553,339 (including accrued interest) of the Notes. Repayments of US$82,135, other than by conversion to ordinary shares also occurred.

US$400,000 of Tranche 3 was drawn-down in August 2017, and was fully repaid by early October 2017 by bank transfers. Interest of £34,466 was charged to the Income Statement in respect of this Tranche. The total interest charged to the Statement of Comprehensive Income for the year for all three Tranches was £448,408 (note 6).

Following the repayment of Tranche 3 in October 2017, both parties agreed that Tranche 3 would close, with no further drawdown being possible.

On 27 December 2017, Yorkville elected to convert all remaining US$520,000 of its CLN (plus accrued interest of US$1,666.85) from Tranche 2 into 25,222,857 ordinary shares at a conversion price of 1.5429p per share. These shares were to be admitted to AIM on 3 January 2018. As the shares were not issued by the year end, the amount of the conversion, US$521,666.85, is the balance carried on the Statement of Financial Position.

Following this conversion, all amounts in respect of the CLNs will have been repaid.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
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21 Financial liabilities – borrowings continued

Yorkville Convertible Loan Notes continued

Repayment 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 of 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	
	2017	2016	Issue date	Year end
Issue date	01/09/2016		01/12/2016	
Date of maturity	01/03/2017		01/12/2017	
Year end share price	**N/A**	5.25p	N/A	5.25p
Expected volatility	**N/A**	18%	N/A	18%
Expected dividend yield	**N/A**	0%	N/A	0%
Risk-free interest rate	**N/A**	–0.09%	N/A	–0.09%
Fair value	**N/A**	0.15p	N/A	0.15p

	Yorkville Notes		**2017 £**	2016 £
Issue date	01/09/2016	01/12/2016		
Repayment date	01/03/2017	01/12/2017		
	£	£		
Value brought forward	486,295	808,004	**1,294,299**	–
Value on issue of notes	–	–	**–**	1,993,113
Total transaction costs	–	–	**–**	(190,846)
Derivative financial liability on issue	–	–	**–**	(419,768)
	486,295	808,004	**1,294,299**	1,382,499
Interest expense	122,288	291,683	**413,971**	337,789
Interest accrued	(7,178)	(78,911)	**(86,089)**	(29,484)
Conversion of notes to ordinary share	(535,865)	(529,255)	**(1,065,120)**	(394,515)
Repayment of loan notes	(43,964)	(18,313)	**(62,277)**	–
Exchange difference at year end rate	(21,576)	(83,088)	**(104,664)**	(1,990)
	–	390,120	**390,120**	1,294,299

	Yorkville Notes		**2017 £**	2016 £
Issue date	01/09/2016	01/12/2016		
Repayment date	01/03/2017	01/12/2017		
Derivative financial liability				
Balance brought forward	16,533	27,613	**44,146**	–
Derivative financial liability on issue	–	–	**–**	419,767
(Loss)/profit on revaluation	(16,533)	(27,613)	**(44,146)**	(375,621)
	–	–	**–**	44,146

22. Other financial commitments

At 31 December 2017, the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2018:

	Land and buildings	
	2017 £	2016 £
Operating leases which expire:		
Within one year	**133,087**	43,765
1-2 years	110,906	–

23 Related party disclosures

During the year the Director, G Desler, provided the Company and its subsidiaries with bookkeeping services totalling £18,450 (2016: £18,000). He also provided the Company with various loans totalling £202,624 of which £41,030 was outstanding at the year end. This was repaid in January 2018.

During the year the Director O de Giorgio – Miller invoiced the Company £49,500 (2016: £64,609) for research and development work.

At the year end, the amounts owed to Directors were as follows:

	2017 £	2016 £
G Desler	**41,030**	–
O de Giorgio-Miller	**–**	–
G Morris	**–**	–
S Vainikka	**–**	–
K Alexander	**–**	–

24 Events after the reporting period

On 2 January 2018, the Company issued 23,529,412 new ordinary shares at 4.25p per share, raising £1m before expenses. The Company also agreed to grant placees a total of 11,764,706 warrants to subscribe for shares at an exercise price of 8 pence at a ratio of one warrant per two Placing Shares issued. The warrants may be exercised at any time in the period expiring on the first anniversary of the date of Admission of the Placing Shares.

The Company agreed to grant Beaufort Securities Limited. a warrant to subscribe for 1,882,353 shares at an exercise price of 4.25 pence per share. The warrants may be exercised at any time in the period expiring on the third anniversary of the date of Admission of the Placing Shares.

On 3 January 2018, the Company, received notifications of the exercise of warrants over 8,000,000 ordinary shares at an exercise price of 1.25p and over 400,000 ordinary shares at an exercise price of 5p in the Company, providing the Company with gross proceeds of £120,000.

On 1 March 2018, the Company awarded options to directors and key management. The options may be exercised at a price of 4 pence per share at any time up until 7 February 2028.

Name of Director

	Number of Existing Options	**Options Award**	**Total Number of Options**
Oliver deGiorgio-Miller	555,000	2,750,000	3,305,000
Dr Satu Vainikka	694,000	3,625,000	4,319,000
Dr George Morris	597,000	3,125,000	3,722,000
Gerry Desler	592,960	3,000,000	3,592,960
Kevin Alexander	545,000	2,500,000	3,045,000
Others	429,000	2,300,000	2,729,000
Total	**3,412,960**	**17,300,000**	**20,712,960**

25 Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
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26 Share-based payment transactions

At 31 December 2017, 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:

	2016	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought and carried forward	3,793,400	7.53	51.74

	2017	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**3,793,400**	**7.53**	**51.74**
Lapsed	**(332,440)**	**–**	**60.00**
Carried forward	**3,460,960**	**6.50**	**50.98**

All options were exercisable at the year end. No options were exercised during the year. 332,440 options lapsed during the year.

The following share-based payment arrangements were in existence at the year end.

Options	Number	Expiry date	Exercise price	Fair value at grant date
1. Granted 17 September 2009	20,400	17/09/2019	125.00p	90.00p
2. Granted 8 July 2011	292,000	08/07/2021	93.75p	12.50p
3. Granted 19 January 2014	1,000,000	19/01/2024	43.13p	5.00p
4. Granted 21 October 2014	1,032,000	21/10/2024	45.00p	3.75p
5. Granted 26 June 2015	1,116,560	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 (years)	Risk-free interest rate
1. Granted 17 September 2009	262.50p	125.00p	40.00%	4.00	2.50%
2. Granted 8 July 2011	80.00p	93.75p	52.00%	3.00	1.24%
3. Granted 19 January 2014	43.13p	43.13p	17.00%	3.00	0.99%
4. Granted 21 October 2014	45.00p	45.00p	17.00%	3.00	1.00%
5. 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.
All of the above options are equity settled and the charge for the year is £nil (2016: £nil).

26 Share-based payment transactions continued

Warrants

At 31 December 2017, 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:

	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

	2017	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**36,970,996**	**2.96**	**8.84**
Granted	**54,209,015**	**–**	**4.45**
Exercised	**(6,140,000)**	**–**	**3.05**
Carried forward	**85,040,011**	**2.34**	**6.46**

All warrants were exercisable at the year end.

3,140,000 warrants granted on 15 March 2017 and 3,000,000 granted on 25 September 2017 were exercised at 5p and 1p per share respectively during the year.

The following warrants were in existence at the year end.

Warrants	Number	Expiry date	Exercise price	Fair value at grant date
1. Granted 7 April 2016	4,926,741	31/03/2021	9.00p	0.92p
2. Granted 22 April 2016	1,710,922	31/03/2021	9.00p	0.67p
3. Granted 12 July 2016	8,333,333	12/07/2021	9.00p	0.36p
4. Granted 16 September 2016	2,000,000	16/09/2021	6.00p	0.78p
5. Granted 16 September 2016	20,000,000	16/09/2021	9.00p	0.13p
6. Granted 15 March 2017	43,369,015	15/03/2019	5.00p	0.36p
7. Granted 14 December 2017	4,700,000	14/12/2020	1.25p	3.14p

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 (years)	Risk-free interest rate
1. Granted 7 April 2017	9.30p	9.00p	17.00%	3.00	0.48%
2. Granted 22 April 2016	8.60p	9.00p	17.00%	3.00	0.62%
3. Granted 12 July 2016	7.60p	9.00p	18.00%	3.00	0.23%
4. Granted 16 September 2016	6.50p	6.00p	18.00%	3.00	0.14%
5. Granted 16 September 2016	6.50p	9.00p	18.00%	2.00	0.14%
6. Granted 15 March 2017	2.50p	5.00p	N/A	N/A	N/A
7. Granted 14 December 2017	4.40p	1.25p	158.19%	3.00	0.52%

The warrants granted on 15 March 2017 fall outside the scope of IFRS and as such no charge is made.

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.

With the exception of the warrants granted on 15 March 2017, all of the warrants are equity settled and the charge for the year is £158,765 (2016: £127,935). As the warrants relating to the charge were all in consideration of shares issued during the year, it has been taken directly to equity and charged against the share premium as costs in respect of the issue of shares.

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for the year ended 31 December 2017

28 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.

	2017 £	2016 £
Salaries and other short-term employee benefits	**280,008**	253,136
Salaries and other short-term employee benefits – research & development	**209,250**	209,250
Post-employment benefits	**13,881**	24,038
	503,139	486,424

	Salary, bonus and fees £	Benefits in kind £	Post-employment benefits £	**2017 £**	2016 £
S Vainikka	185,780	1,329	5,131	**192,240**	176,377
G Morris	144,525	2,707	8,750	**155,982**	143,309
K Alexander	26,125	–	–	**26,125**	30,000
G Desler	82,115	–	–	**82,115**	65,600
O de Giorgio-Miller	36,000	–	–	**36,000**	41,000
S Makinen (resigned 30/05/2017)	10,677	–	–	**10,677**	30,138
	485,222	4,036	13,881	**503,139**	486,424

The number of Directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2016: 2).

28 Key management personnel compensation

The Directors interests in share options as at 31 December 2017 are as follows:

Director	Options at 31 December 2017	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	25.06.15
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	25.06.15
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	25.06.15
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	25.06.15
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	25.06.15

29 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:

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Fair value measurement		
	Level 1 £	Level 2 £	Level 3 £
At 31 December 2017	**–**	**117,229**	**–**
At 31 December 2016	–	140,675	–

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2017

29 Financial instruments continued

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

Financial assets £	2017 £	2016
Loans and receivables		
Trade and other receivables	**766,475**	722,362
Derivative financial assets	**117,229**	140,675
Cash and cash equivalents	**701,410**	560,763
Total loans and receivables	**1,585,114**	1,432,800
Total financial assets	**1,585,114**	1,432,800

Financial liabilities	2017 £	2016 £
Trade and other payables	**1,711,622**	2,533,749

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.

COMPANY INFORMATION

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