Company Registration No 03916791 (England and Wales)

VALIRX PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

VALIRX PLC

COMPANY INFORMATION

Directors	N Thornley S Vainikka G Morris G Desler K Alexander O De Giorgio-Miller (Appointed 31 May 2011)
Secretary	K Alexander
Company number	03916791
Registered office	24 Greville Street London EC1N 8SS
Auditors	Adler Shine LLP Chartered Accountants & Statutory Auditor Aston House Cornwall Avenue London N3 1LF
Bankers	Royal Bank of Scotland Plc St Ann Street Manchester M50 2SS
Solicitors	Nabarro LLP Lacon House 84 Theobald's Road London WC1X 8RW

VALIRX PLC

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VALIRX PLC

CHAIRMAN'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

I am pleased to report that during the twelve months ended 31 December 2011 your Company continued to develop strongly, both in providing a well funded platform for drug development and in terms of the progress and development of its lead therapeutic compounds VAL101 and VAL201 and their progress towards the commencement of in-human clinical trials Your Company continues to work with world class regulatory and clinical research organizations to ensure that these developments occur on a cost effective and timely basis

The February 2011 Placing through Hybridan to raise £3 3 million was a key milestone in providing ValiRx with a secure base of funding from which the Company can accelerate the pre-clinical progress of VAL101 and VAL201 along with other activities and further progress the business

The period also saw the establishment of our subsidiary, ValiRx Finland OY ("ValiFinn") in Finland and the acquisition from Pharmatest Services Oy ("Pharmatest") of Oulu, Finland, of its Biomarkers business unit together with several families of patents and patent applications and related intellectual property ("IP") This acquisition provides the Group with both an increased exposure to the Biomarker market, a key and increasingly exciting field within our industry, and also to a revenue stream, derived from the provision of contract services

In 2011, we received the proceeds from the sale of our Belgian subsidiary diagnostic development business, ValiBIO S A to Singapore Volition Pte Ltd ("Volition") This was a business which the Board considered lay outside the Company's core technologies However, we have retained the rights to the technologies for use in our therapeutic activities Whilst we retain a modest interest and shareholding in its future growth, we are pleased to have satisfactorily exited from one of our investments

The Company's progress during the period under review has been very encouraging and I am delighted that the business is more strongly established than ever before, and is now in a position to fully capitalise on both current opportunities and future successes Going forward, I look forward to seeing our lead therapeutics continue to progress and our position in the biotechnology market strengthen further We are well positioned and I look forward to the future with much confidence

On a personal note I would also like to thank the Executive Team and the Non-executive Directors for the significant contribution both groups have made to the business over the last twelve months

Nicholas Thornley

N Thornley
Chairman
26 April 2012

VALIRX PLC

CHIEF EXECUTIVE OFFICER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

The past year has been a fundamentally important period in the development of ValiRx, both as a company and in terms of the advancement of its various programmes On all fronts, ValiRx has made good progress

Revenues for the year were £455,000 (2010 £177,000) Administrative expenses were £1,513,000 (2010 £663,000) Included in administrative expenses were development costs of £421,000 (2010 120,000) Losses after taxation were £933,000 (2010 profit £134,000)

I am pleased to report that over the year we continued to make good progress in terms of developing our cancer therapeutics and Biomarker diagnostics, with significant advances being seen regarding moving forward both therapeutic compounds, VAL101 and VAL201, in their respective pre-clinical and translational programmes

VAL101 and VAL201
Continued strong progress has been seen with regard to the Eurostar's programme for our lead therapeutic, VAL101 and for the GeneICE technology (or "Gene inactivation by chromatin engineering"), ValiRx's proprietary gene-silencing technology which has been developed for silencing or "freezing" rebellious genes, which cause conditions such as cancer and various neurological problems

We continue to meet the milestones as set out in a programme and are pleased to have optimised and simplified the production of the lead candidate molecule, which by extension makes the compound cheaper to produce, thereby adding future value We believe this compound has the potential to deliver good biological activity and can complete pre-clinical studies efficiently and quickly

Imperial College, University of London, from whom the technology was originally licensed, has been working in collaboration with the Company and is currently carrying out the late pre-clinical development Results from the pre-clinical programme have shown efficacy in killing cancer cells in several systems, as the Company has reported previously, and ValiRx was delighted to announce that its agreement with Imperial College had been extended and that Imperial College would continue with the further development of this cancer therapeutic work Stability and toxicology studies are currently underway

We were also pleased to report that the previously announced extension to our Eurostars grant for the development of our GeneICE technology will extend the Company's pipeline of potential cancer therapeutic compounds

VAL201
We were also pleased to report on 28 July 2011 that a further late pre-clinical study into the development of another of our lead therapeutics, VAL201, carried out in collaboration with Oxford University, firmly established a potentially important role for VAL201 in treating, in vivo, hormone induced refractory prostate cancer and other conditions of hormone induced uncontrolled cell growth including breast and ovarian cancer, among others These conditions currently have a large unmet medical need

This progress follows on from ValiRx's agreement with Oxford University on 14 April 2011 to accelerate the development of this lead therapeutic and to study VAL201's therapeutic potential for additional indications In the studies thus far, VAL201 has been shown to prevent cancerous growth in live models, with two proliferative conditions and in a further three conditions in cancer cell lines The response was shown to be dose dependent and the Company was pleased to note that those models treated with VAL201 remained fertile and produced normal offspring and, unlike many other traditional therapies, no serious side effects were seen so far ValiRx further announced on 2 November 2011 that it had filed a new patent for a further indication in endometriosis or hormone induced abnormal cell growth in women

The compound is now in the translational phase from pre-clinical development into the clinical stage Good progress has been made and it is gratifying to report that the production methods and procedures for the manufacture of VAL201 has been successfully upgraded to a standard that is acceptable for use in human, a process known as Good Manufacturing Practise or GMP This GMP material is being used for the compulsory chronic and acute toxicological studies, which are being carried out to the highest ethical and regulatory standards It is also pleasing to report that confirmatory pre-clinical studies, paid for by ValiRx but conducted by independent contractors, have demonstrated the utility of VAL201 in controlling the proliferation of cancers - thereby confirming the results previously found by the Company and its collaborators

Diagnostics and Biomarker Activities

With respect to the Company's diagnostics and Biomarker activities, ValiRx was pleased to have acquired on 18 August 2011 the outstanding equity of a subsidiary business, ValiRx Finland Oy ("ValiFinn") that it had jointly established with local partners in 2008 Subsequent to this transaction and just after the period end, ValiFinn acquired on 5 January 2012 from Pharmatest Services Oy ("Pharmatest") of Oulu, Finland, its Biomarkers business unit together with several families of patents and patent applications and related intellectual property ("IP")

The Biomarkers business unit comes with a revenue stream, which is derived from the provision of contract research services to pharmaceutical companies who are utilising its library of Biomarkers and it will form a new division at ValiFinn

The Company will build on the specialist Biomarker expertise of ValiFinn to develop its own companion diagnostic Biomarkers to complement ValiRx's therapeutics, its existing intellectual property and its companion diagnostic activities, as well as marketing that expertise for the development programmes of other companies

Biomarkers are a fast moving and currently very dynamic field within the bio-industry space and are crucial for detecting cancer at an early stage They are also key in optimising therapeutic strategy and monitoring therapeutic success It is a market that is rapidly growing in size and it has the potential of delivering significant benefit for patients, alongside potential cost savings derived from across the pharmaceutical industry

SELFCheck Health Screening Products

ValiRx is also continuing to generate revenues from its SELFCheck "Over-The-Counter" health screening products in the UK, which screen and identify among other things, cancers, cholesterol and several Sexually Transmitted Infections ("STI") such as Chlamydia During the period, we were pleased to conclude an agreement with Medcase OY MCO ("Medcase"), a Finnish distributor operating across the Nordic region, for the distribution and sale of our SELFCheck test kits in Finland and Sweden, among other key distribution agreements

Collaborative Agreements

During the period, ValiRx was pleased to have secured several developmental collaborative agreements, with prestigious partners including Oxford University, Imperial College, and Physiomics plc (AIM PYC), the Oxford based systems biology company We are delighted that the company continues to attract world-leading institutions to partner with us in the exciting development of a number of our key compounds and we thank them for their support

ValiBIO S A

In 2011, your Company received the proceeds from the sale of its Belgian subsidiary diagnostic development business, ValiBIO S A to Singapore Volition Pte Ltd ("Volition") ValiRx continues to retain its modest shareholding in Volition and interest in the future upside value and growth of the business, whilst both satisfactorily exiting from one of its investments yet retaining rights to use the technologies sold for its own use with its therapeutic programmes and products ValiRx has since received further shares in Volition in exchange for wider rights to its Hypergenomics Intellectual Property ("IP"), which the Board considered lay outside the Company's core technologies

CHIEF EXECUTIVE OFFICER'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Grant of Patents
We were also pleased to announce just before the period end on 15 December 2011, that GeneICE had received patent approval by the Canadian patent office This followed the previously announced grant of patents for the technology across the world encompassing territories including the US, Europe and Australia The filing of this latest patent extends the Company's global geographic patent coverage and, we believe, increases the value of the Company's assets

Fund Raising
ValiRx also raised further capital of £3 3 million by way of a placing, (announced on 16 February 2012) The net proceeds of the placing are currently being used by the Company to accelerate the pre-clinical progress of VAL101 and VAL201, to support the sales and marketing activities of ValiRx's subsidiary, ValiMedix, to develop the Company's companion diagnostics for use in its therapeutic programmes and to support the development and testing of its HPV diagnostic

Outlook
Looking to the future, we will continue to progress our lead development programmes towards clinical trials and further advance the development pipeline The placing and capital raised has left the Company well positioned to translate and move forward its therapeutic programmes towards the clinic and also to further advance the business and programme development of its Biomarker subsidiary I believe that the Company has made excellent progress over the past year, which also included a significant capital injection, a strengthened balance sheet and with the Company's lead therapeutic products being on the cusp of clinical trials We have a strong platform and offering from which to drive ValiRx forward and firmly position ourselves at the forefront of personalised oncology diagnostic and therapeutics development in the sector

I believe that the Company has made excellent progress over the past year, which also included a significant capital injection, a strengthened balance sheet and with the Company's lead therapeutic products being on the cusp of clinical trials We have a strong platform and offering from which to drive ValiRx forward and firmly position ourselves at the forefront of personalised oncology diagnostic and therapeutics development in the sector

Satu Vainikka
Chief Executive Officer
26 April 2012

VALIRX PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

The Directors present their report and financial statements for the year ended 31 December 2011

Principal activities and review of the business
The principal activity of the Company continued to be that of an investment holding company The principal activity of the Group is that of therapeutic and diagnostic research and development

The Company has undertaken to develop a novel and groundbreaking class of therapeutics based on the unique and proprietary GeneICE platform and hypergenomics technology

A detailed review of the business and the future prospects of the group is included in the Chief Executive Officer's report

Principal risks and uncertainties
In common with other small biotechnology companies, our business is subject to a number of risks, which include

- the early stage of development of our business,

- the safety and effectiveness of our technologies The Group's products are all tested by third party testers and by regulatory authorities before being marketed to the general public,

- availability and terms of capital needed for the business The Board continuously review the twelve month rolling cash flow forecast and the development budget every three months to ensure that the Group has sufficient working capital for the ongoing development of products and to fund the business generally We also consider joint ventures with various partners to share the financial burden of product development,

- the uncertainty that clinical trials will succeed or lead to commercially viable products The Group develops many products and some may not prove to be successful The Directors, upon advice from the Company's science advisory committee, ensure that regular reviews of product development are undertaken so that unsuccessful developments can be terminated early in their life cycle,

- competition from other companies and market acceptance of our products The Group aims to be ahead of the competition by continual development of its products targeted at specific customer requirements, and

- intellectual property infringement claims by others and the ability to protect our intellectual property Although the Group attempts to protect its intellectual property, there is a risk that patents will not be issued with respect to applications now pending In addition, there is a risk that patents granted or licensed to the Group may not be sufficiently broad in their scope to provide protection against other third party technologies The Group takes professional advice from experienced patent lawyers and works hard to win patents applied for and to ensure that the scope is sufficiently broad

Key Performance Indicators
The business Key Performance Indicator ('KPI') is to carry out the research programme in accordance with the plans approved by the Board of Directors The financial KPI is to ensure that there is adequate funding in place to achieve the business KPI

Results and dividends
The results for the year are set out on page 10

The Directors do not recommend payment of an ordinary dividend

Directors
The following Directors held office since 1 January 2011

N Thornley
S Vainikka
G Morris
G Desler
K Alexander
O De Giorgio-Miller (Appointed 31 May 2011)

The market value of the Company's shares at 31 December 2011 was 0 55p and the high and low share prices during the period were 1 82p and 0 23p respectively

Significant shareholders
As at 18 April 2012 so far as the directors are aware, the parties who are directly or indirectly interested in 3% or more of the nominal value of the Comany's share capital is as follows

Shareholders	Number of shares	% of total
Peter Crowson	41,975,776	3 3%
Directors	55,110,731	4 4%

Creditor payment policy
The company's current policy concerning the payment of trade payables is to

- settle the terms of payment with suppliers when agreeing the terms of each transaction,

- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and

- pay in accordance with the company's contractual and other legal obligations

On average, trade payables at the year end represented 21 (2010 - 146) days' purchases

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

Statement of disclosure to auditor
So far as each person serving as a director of the company at the date this report is approved is aware

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

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

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union The Directors have chosen to prepare the financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs A fair presentation also requires directors to

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

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

(b) each director hereby confirm

Financial statements are published on the Group'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 Group's website is the responsibility of the Directors The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

This report was approved by the board of directors and signed on its behalf by

S Vainikka
Director
26 April 2012

VALIRX PLC

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF VALIRX PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Valirx Plc for the year ended 31 December 2011 which comprise the Group Statement of Comprehensive Income, the Group Statement of Financial Position and Parent Company Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes

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

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's ('APB') Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2011 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, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

VALIRX PLC

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF VALIRX PLC

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Adler Shine LLP

Christopher Taylor (Senior Statutory Auditor)
for and on behalf of Adler Shine LLP
Statutory Auditor

26 April 2012
Aston House
Cornwall Avenue
London
N3 1LF

VALIRX PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes		2011 £		2010 £
Revenue	2		**455,226**		177,297
Cost of sales	3		**(26,507)**		(56,518)
Gross profit			**428,719**		120,779
Research and development			**(420,683)**		(120,281)
Administrative expenses	3		**(1,092,492)**		(542,638)
Operating loss	4				
Continuing operations		**(1,084,456)**		(462,345)	
Discontinued activities		**-**		(79,795)	
			(1,084,456)		(542,140)
Profit on disposal of subsidiary			**-**		649,078
(Loss)/profit on ordinary activities before interest			**(1,084,456)**		106,938
Finance income	5		**20,726**		1
Finance costs	6		**(1,308)**		(7,832)
(Loss)/profit on ordinary activities before taxation			**(1,065,038)**		99,107
Income tax expense	7		**132,353**		34,537
(Loss)/profit for the year			**(932,685)**		133,644
Other comprehensive income					
Change in fair value of available-for-sale assets			**147,912**		-
(Loss)/profit for the year and total comprehensive income			**(784,773)**		133,644
(Loss)/earnings per share - basic and diluted	8				
From continuing operations			**(0 10)p**		0 07p
From discontinued operations			**-**		(0 03)p

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Share capital	Share premium	Merger reserve	Reverse acquisition reserve	Share option reserve	Retained earnings	Total
		£	£	£	£	£	£	£
Balance at 1 January 2010		4,450,368	71,118	637,500	602,413	10,447	(4,864,499)	907,347
Changes in equity for 2010								
Profit for the year		-	-	-	-	-	133,644	133,644
Movement in the year		-	-	-	-	10,956	-	10,956
Issue of shares		381,354	616,102	-	-	-	-	997,456
Share issue costs		-	(52,151)	-	-	-	-	(52,151)
Balance at 31 December 2010	**18**	4,831,722	635,069	637,500	602,413	21,403	(4,730,855)	1,997,252
Changes in equity for 2011								
Loss for the year		-	-	-	-	-	(932,685)	(932,685)
Change in fair value of available-for-sale assets		-	-	-	-	-	147,912	147,912
Movement in the year		-	-	-	-	30,737	-	30,737
Issue of shares	17	568,262	2,815,957	-	-	-	-	3,384,219
Share issue costs		-	(203,487)	-	-	-	-	(203,487)
Balance at 31 December 2011	**18**	**5,399,984**	**3,247,539**	**637,500**	**602,413**	**52,140**	**(5,515,628)**	**4,423,948**

Merger reserve

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

Reverse acquisition reserve

The reverse acquisition reserve exists as a result of the method of accounting for the acquisition of Valirx Bioinnovation Limited and Valipharma Limited

VALIRX PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Notes	2011 £	£	2010 £	£
ASSETS					
Non-current assets					
Intangible assets	9		**1,748,484**		1,574,319
Property, plant and equipment	10		**9,167**		4,165
Financial assets available-for-sale investments	11		**859,450**		-
			2,617,101		1,578,484
Current assets					
Inventories	13	**19,484**		8,257	
Trade and other receivables	14	**294,908**		806,158	
Cash and cash equivalents		**1,634,148**		107,799	
			1,948,540		922,214
LIABILITIES					
Current liabilities					
Trade and other payables	15		**(141,693)**		(503,446)
Net current assets			**1,806,847**		418,768
Net assets			**4,423,948**		1,997,252
SHAREHOLDERS' EQUITY					
Called up share capital	17		**5,399,984**		4,831,722
Share premium			**3,247,539**		635,069
Merger reserve			**637,500**		637,500
Reverse acquisition reserve			**602,413**		602,413
Share option reserve			**52,140**		21,403
Profit and loss account			**(5,515,628)**		(4,730,855)
Total shareholders' equity			**4,423,948**		1,997,252

Approved by the Board and authorised for issue on 26 April 2012

S Vainikka
Director

Company Registration No 03916791

VALIRX PLC

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

		2011		2010
	£	£	£	£
Net cash outflow from operating activities		**(1,460,375)**		(592,288)
Taxation		-		104,142
Returns on investments and servicing of finance				
Interest received	**20,726**		1	
Interest paid	**(1,308)**		(7,832)	
Net cash inflow/(outflow) from returns on investments and servicing of finance		**19,418**		(7,831)
Capital expenditure and financial investment				
Payments to acquire intangible assets	**(193,511)**		(135,618)	
Payments to acquire tangible assets	**(8,831)**		(5,181)	
Net cash outflow for capital expenditure and financial investment		**(202,342)**		(140,799)
Acquisitions and disposals				
Sale of subsidiary	-		71,999	
Payments to acquire subsidiary	**(13,546)**		-	
Net cash acquired with subsidiary undertaking	**2,462**		-	
Net cash (outflow)/inflow for acquisitions and disposals		**(11,084)**		71,999
Financing				
Issue of ordinary share capital	**3,384,219**		755,000	
Cost of share issue	**(203,487)**		(52,151)	
Capital element of hire purchase contracts	-		(1,615)	
Net cash generated from financing activities		**3,180,732**		701,234
Net increase in cash and cash equivalents		**1,526,349**		136,457
Cash and cash equivalents at beginning of period		**107,799**		(28,658)
Cash and cash equivalents at end of period		**1,634,148**		107,799

VALIRX PLC

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

1 Cash flows from operating activities

	2011	2010
	£	£
Operating loss	(1,084,456)	(542,140)
Depreciation of tangible assets	3,829	3,597
Amortisation of intangible assets	30,096	27,596
(Increase)/decrease in inventories	(11,227)	7,402
(Increase) in receivables	(215,513)	(134,124)
(Decrease) in payables within one year	(361,753)	(208,808)
Other non-cash movements	147,912	243,233
Share option charge	30,737	10,956
Cash outflows from operating activities	(1,460,375)	(592,288)

2 Cash and cash equivalents

	1 January 2011	On acquisition of subsidiary	Cash flow	31 December 2011
	£	£	£	£
Net cash				
Cash at bank and in hand	107,799	2,462	1,523,887	1,634,148
	107,799	2,462	1,523,887	1,634,148

3 Major non-cash transactions

The Company received £711,538 worth of shares in VolitionRx Limited in settlement of receivables (note 11)

1 ***Principal accounting policies***

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

1 1 **Basis of preparation**

Valirx Plc is a company incorporated in the United Kingdom under the Companies Act 1985, which is listed on the AIM market of the London Stock Exchange Plc The address of its registered office is 24 Greville Street, London EC1N 8SS

The registered number of the Company is 03916791

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

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

1 2 **Basis of consolidation**

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

On 3 October 2006, Valirx Bioinnovation Limited ('Bioinnovation') acquired 60 28% of the issued share capital of ValiPharma Limited ('ValiPharma') in exchange for shares in Bioinnovation Concurrently, the Company, ("Valirx"), acquired the entire issued share capital of Bioinnovation in a share for share transaction As a result of these transactions, the former shareholders of ValiPharma became the majority shareholders in Valirx Accordingly, the substance of the transaction was that ValiPharma acquired Valirx in a reverse acquisition Under IFRS 3 'Business Combinations', the acquisition of ValiPharma has been accounted for as a reverse acquisition

In May 2008 the Company acquired the remaining 39 72% of the issued share capital of ValiPharma, which is now wholly owned by the Group This acquisition was accounted for using the acquisition method of accounting

In August 2011, the Company acquired for a nominal amount, the outstanding equity of a Finnish non-trading company - ValiRx Finland OY ("ValiFinn") that it had jointly established with local partners in 2008 As a result of the acquistion, ValiFinn has become a wholly owned subsidiary of the Company

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

1 Accounting policies **(continued)**

1 3 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

Determing 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 requires that management selects an appropriate valuation model and make 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

1 4 Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of acquisition over the fair value of the Group's share of the net identfiable 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 tested annually for impairment or when trigger events occur, and is carried at cost less accumulated impairment losses

1 5 Other intangible assets

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

Acquired brands are written off in equal annual instalments over there useful economic life, which the Directors estimate to be 15 years

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2011

1 Accounting policies **(continued)**

1 6 Research and development

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

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

1 7 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation

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

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

1 8 Impairment of assets

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

1 9 Leasing and hire purchase commitments

Leases are classified as financial leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee

Assets acquired under finance leases are recognised as assets of the Group at the fair value or, if lower, at the present value of the minimum lease payments, each determined at the start of the lease The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation Lease payments are apportioned between finance charges and the reduction of lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly against income

1 10 Investments

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which the cumulative gain or loss previously recognised in equity is included in the Statement of Comprehensive Income

The fair value of quoted investments are based on published market prices

1.11 Inventories

Inventories are valued at the lower of cost and net realisable value

1 12 Trade and other receivables

Trade and other 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

1.13 Cash and cash equivalents

1 Accounting policies ***(continued)***

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

1 14 Taxation

The taxation charge represents the sum of current tax and deferred tax

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

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

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

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

1 15 Foreign currency translation

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

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

1 16 Revenue recognition

Revenue represents sales and services to third party customers in the health sector, together with income from grants, stated net of any applicable value added tax Revenue is recognised when the goods and services have been provided

1 Accounting policies **(continued)**

1 17 Share based payments

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

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

1 18 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

IFRS 1	First time adoption of IFRS (amendment)
IFRS 7	Disclosures - transfers of financial assets (amendment)
IFRS 9	Financial instruments
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosures of interests in other entities
IFRS 13	Fair value measurements
IAS 1	Presentation of items of other comprehensive income (amendment)
IAS 12	Deferred tax - recovery of underlying assets (amendment)
IAS 19	Employee benefits (revised)
IAS 27	Separate financial statements (revised)
IAS 28	Investments in associates and joint ventures (revised)
IAS 32	Financial instruments Presentation (amendment)

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

2 Turnover and (loss)/profit on ordinary activities before taxation

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

Class of business

Revenue	**2011**	**2010**
	£	**£**
Drug development	**404,215**	134,338
Self-test diagnostic kits	**51,011**	42,959
	455,226	177,297
(Loss)/profit before taxation		
Drug development	**(917,657)**	218,432
Self-test diagnostic kits	**(147,381)**	(119,325)
	(1,065,038)	99,107
Net assets		
Drug development	**4,752,799**	2,178,722
Self-test diagnostic kits	**(328,851)**	(181,470)
	4,423,948	1,997,252

Geographical market

Revenue	**2011**	**2010**
	£	**£**
UK	**455,226**	177,297
	455,226	177,297
(Loss)/profit before taxation		
UK	**(1,063,400)**	186,030
Europe	**(1,638)**	(86,923)
	(1,065,038)	99,107
Net assets		
UK	**4,421,810**	1,997,252
Europe	**2,138**	-
	4,423,948	1,997,252

3 Cost of sales and net operating expenses

	2011			2010		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	£	£	£	£	£	£
Cost of sales	**26,507**	-	**26,507**	56,518	-	56,518
Research & development	**420,683**	-	**420,683**	120,281	-	120,281
Administrative expenses	**1,092,492**	-	**1,092,492**	462,843	79,795	542,638
	1,539,682	-	**1,539,682**	639,642	79,795	719,437

4 Operating loss

	2011	2010
	£	£
Operating loss is stated after charging		
Amortisation of intangible assets	**30,096**	27,596
Depreciation of tangible assets	**3,829**	3,597
Loss/(profit) on foreign exchange transactions	**12,007**	(54,476)
Auditors remuneration		
Fees payable to Company auditor for the audit of the Company and consolidated accounts	**10,500**	10,000
- The audit of Company's subsidiaries pursuant to legislation	**9,500**	9,000
- Auditor's fees for review of interim accounts	-	1,270

5 Finance income

	2011	2010
	£	£
Bank interest	**20,726**	1

6 Finance costs

	2011	2010
	£	£
On bank loans and overdrafts	-	7,832
On overdue tax	**1,308**	-
	1,308	7,832

7 Taxation

	2011	2010
Domestic current year tax	**£**	**£**
Tax credits on research and development - current year	**(116,303)**	(34,537)
Tax credits on research and development - prior years	**(16,050)**	-
Current tax charge	**(132,353)**	(34,537)
Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before taxation	**(1,065,038)**	99,107
(Loss)/profit on ordinary activities before taxation multiplied by effective rate of UK corporation tax of 26 50% (2010 - 28 00%)	**(282,235)**	27,750
Effects of		
Non deductible expenses	**3,881**	24,258
Capital allowances for the year in deficit/(excess) of depreciation and amortisation	**(289)**	1,419
Tax losses not utilised	**138,801**	100,996
Profit on disposal of shares in subsidiary	**-**	(174,273)
Research and development expenditure	**7,204**	(14,061)
Other tax adjustments	**285**	(626)
	149,882	(62,287)
Current tax charge	**(132,353)**	(34,537)

No corporation tax arises on the results for the year ended 31 December 2011 due to the losses incurred for tax purposes

The deferred tax asset, arising from tax losses of £4,102,704 (2010 - £3,604,933) carried forward, has not been recognised but would become recoverable against future trading profits

8 (Loss)/earnings per ordinary share

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

	2011	2010
Basic:		
(Loss)/profit for the financial period - continuing operations	**(932,685)**	220,567
Loss for the financial period - discontinued operations	-	(86,923)
Weighted average number of shares	**945,478,035**	306,190,464
(Loss)/earnings per share - continuing operations	**(0 10)p**	0 07p
Loss per share - discontinued operations	-	(0 03)p

There was no dilutive effect from the share options outstanding during the year (note 16)

Following the issue of 200,000,000 ordinary shares of 0 1p each in April 2012, the number of allotted ordinary shares of 0 1p each in issue was 1,259,562,609

9 Intangible fixed assets

	Patents	Goodwill	Brands and licences	Total
	£	£	£	£
Cost				
At 1 January 2010	334,310	1,166,842	15,000	1,516,152
Additions	35,618	-	100,000	135,618
At 31 December 2010	369,928	1,166,842	115,000	1,651,770
Additions	193,511	10,750	-	204,261
At 31 December 2011	**563,439**	**1,177,592**	**115,000**	**1,856,031**
Amortisation				
At 1 January 2010	49,438	-	417	49,855
Charge for the year	21,600	-	5,996	27,596
At 31 December 2010	71,038	-	6,413	77,451
Charge for the year	24,100	-	5,996	30,096
At 31 December 2011	**95,138**	-	**12,409**	**107,547**
Net book value				
At 31 December 2011	**468,301**	**1,175,183**	**105,000**	**1,748,484**
At 31 December 2010	298,890	1,166,842	108,587	1,574,319

The goodwill arising on the acquisition of Valirx Bioinnovation Limited, ValiPharma Limited and ValiRx Finland OY is not being amortised but 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)

10 Property, plant and equipment

	Plant and machinery £
Cost	
At 1 January 2010	22,340
Exchange differences	(1,006)
Additions	5,181
Disposals	(11,755)
At 31 December 2010	14,760
Additions	8,831
At 31 December 2011	**23,591**
Depreciation	
At 1 January 2010	14,301
Exchange difference	(229)
On disposals	(7,074)
Charge for the period	3,597
At 31 December 2010	10,595
Charge for the year	3,829
At 31 December 2011	**14,424**
Net book value	
At 31 December 2011	**9,167**
At 31 December 2010	4,165

11 Financial assets - available-for-sale investments

	Listed investments	Unlisted investments	Total
	£	£	£
Cost and valuation			
At 1 January 2011	-	1,333,770	1,333,770
Additions	711,538	-	711,538
Revaluation	147,912	-	147,912
At 31 December 2011	**859,450**	**1,333,770**	**2,193,220**
Provisions for diminution in value			
At 1 January 2011 & at 31 December 2011	**-**	**1,333,770**	**1,333,770**
Net book value			
At 31 December 2011	**859,450**	**-**	**859,450**
At 31 December 2010	-	-	-

The Group owns 8 517% (2010 - 8 517%) (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

On 6 December 2011, the Company acquired 510,811 ordinary shares in VolitionRx Limited ("Volition"), a company incorporated in USA Volition is quoted on the OTC Bulletin Board in the USA

The Volition shares were issued as the final requirement of the Share Purchase Agreement dated 22 September 2010 (as amended on 9 June 2011) between ValiRx and Singapore Volition Pte Limited, a subsidiary of Volition A total allotment of 525,000 shares were issued in relation to the settlement of a US$1 11m liability owed to the Company As part of the settlement, 14,189 of the total allotment of shares in Volition were issued to Chroma Therapeutics Limited in settlement of their remaining payment under the terms of the sale of ValiBIO and IPR Licences to Volition

As at 31 December 2011, the market value of the shares of VolitionRx Limited was US$2 6 per share, giving a market value of ValiRx's shareholding of US$1 33m (£859,450)

12 Acquisitions

On 18 August 2011, ValiRx acquired the whole of the issued share capital of ValiRx Finland OY ("ValiFinn") for a consideration of £13,546

The following table summarises the assets acquired and the liabilities assumed, which were considered to equal their fair value

	£
Receivables	334
Cash and cash equivalents	2,462
Net assets acquired	2,796
Goodwill	10,750
Consideration satisfied by shares	13,546

The loss included in the Consolidated Statement of Comprehensive Income since 22 August 2011 contributed by ValiFinn was £541

Had ValiFinn been consolidated from 1 January 2011, the Consolidated Statement of Comprehensive Income would show a loss of £1,506

13 Inventories

	2011 £	2010 £
Finished goods and goods for resale	**19,484**	8,257

14 Trade and other receivables

	2011 £	2010 £
Trade receivables	**5,430**	11,214
Tax recoverable	**132,353**	-
Called up share capital not paid	**40**	40
Other receivables	**134,360**	745,969
Prepayments and accrued income	**22,725**	48,935
	294,908	806,158

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

15 Trade and other payables

	2011	2010
	£	£
Trade payables	**58,006**	213,788
Taxes and social security costs	**21,943**	49,753
Directors' current accounts	**-**	46,316
Other payables	**14,120**	121,235
Accruals and deferred income	**47,624**	72,354
	141,693	503,446

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

16 Share-based payments

At 31 December 2011 outstanding awards to subscribe for ordinary shares of 1p each in the Company, granted in accordance with the rules of the ValiRx share option schemes, were as follows

	2010	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	5,262,000	-	1 9
Granted	-	-	0 0
Lapsed	(1,882,000)	-	1 4
Carried forward	3,380,000	8 5	2 2

	2011	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	**3,380,000**	-	**2 2**
Granted	**42,500,000**	-	**0 8**
Lapsed	**(3,000,000)**	-	**0 8**
Carried forward	**42,880,000**	**9 4**	**0 9**

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

	Share options	Share options	Share options
Grant date	23 November 2007	17 September 2009	8 July 2011
Exercise period	November 2007 - November 2017	September 2009 - September 2019	July 2011 - July 2021
Share price at date of grant	10 5p	2 1p	0 64p
Exercise price	10 5p	1p	0 75p
Shares under option	512,000	4,750,000	42,500,000
Expected volatility	35%	40%	52%
Expected life (years)	3 5	4	3
Risk-free rate	4 36%	2 50%	1 24%
Expected dividend yield	0 00%	0 00%	0 00%
Fair value per option	1 55p	0 72p	0 10p

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2011

17 Share capital	2011 Number	2010 Number	2011 £	2010 £
Allotted, called up and fully paid				
Ordinary shares of 0 1p each	**1,059,562,609**	491,299,344	**1,059,561**	491,299
Deferred shares of 5p each	**58,378,365**	58,378,365	**2,918,918**	2,918,918
Deferred shares of 0 9p each	**157,945,030**	157,945,030	**1,421,505**	1,421,505
			5,399,984	4,831,722

On 10 January 2011, the Company issued 3,763,265 Ordinary Shares of 0 1p each at 0 245p per share to satisfy creditors amounting to £9,220, in lieu of fees

On 8 March 2011, the Company raised £3,297,000, before expenses, by way of a placing of 549,500,000 new ordinary shares of 0 1p each at a price of 0 6p per share, to provide the Company and the Group with working capital

On 23 December 2011, the Company allotted 15,000,000 new ordinary shares of 0 1p each at 0 52p per share as part of the consideration to acquire from Pharmatest Services Oy of Finland, its Biomarkers patent applications and related intellectual property This asset is owned by ValiRx Finland OY, the Company's wholly owned subsidiary undertaking

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

18 Reconciliation of movement in shareholders' funds	2011 £	2010 £
Opening shareholders' equity	**1,997,252**	907,347
(Loss)/profit and total comprehensive income for the financial year	**(784,773)**	133,644
Issue of ordinary share capital	**568,262**	381,354
Share premium, after expenses	**2,612,470**	563,951
Share option reserve	**30,737**	10,956
Closing shareholders' equity	**4,423,948**	1,997,252

19 Directors' emoluments

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

	2011	2010
	£	£
Salaries and other short term employee benefits	**320,538**	68,446

Salaries and fees	2011 £	2010 £
S Vainikka	**111,173**	8,250
G Morris	**41,716**	6,875
N Thornley	**25,792**	13,833
K Alexander	**14,820**	(387)
G Desler	**38,333**	27,500
O De Giorgio-Miller (appointed 31 May 2011)	**40,000**	-
J Micallef (resigned 30 September 2010)	-	6,875
N Hardman (resigned 2 December 2010)	-	5,500
	320,538	68,446

The number of Directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 0 (2010 - 0)

The Directors interests in share options as at 31 December 2011 are as follows

Director	Options at 31 December 2011	Exercise price	Date of grant	First date of exercise	Final date of exercise
S Vainikka	1,000,000	1 00p	17 09 09	17 09 13	17 09 19
S Vainikka	10,000,000	0 75p	08 07 11	08 07 11	08 07 21
G Morris	750,000	1 00p	17 09 09	17 09 13	17 09 19
G Morris	6,000,000	0 75p	08 07 11	08 07 11	08 07 21
N Thornley	400,000	1 00p	17 09 09	17 09 13	17 09 19
N Thornley	6,000,000	0 75p	08 07 11	08 07 11	08 07 21
K Alexander	400,000	1 00p	17 09 09	17 09 13	17 09 19
K Alexander	6,000,000	0 75p	08 07 11	08 07 11	08 07 21
G Desler	130,000	10 50p	23 11 07	23 05 09	23 11 17
G Desler	400,000	1 00p	17 09 09	17 09 13	17 09 19
G Desler	6,000,000	0 75p	08 07 11	08 07 11	08 07 21
O De Giorgio-Miller	3,000,000	0 75p	08 07 11	08 07 11	08 07 21

20 Employees

Number of employees

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

	2011 Number	2010 Number
Administration	9	8

Employment costs	2011 £	2010 £
Wages and salaries	439,751	152,042
Social security costs	16,650	11,121
Costs of share option scheme	30,737	10,956
	487,138	174,119

21 Related party transactions

During the year the Director, G Desler, provided the Company with bookkeeping and fund raising services totalling £5,250 (2010 £9,000) and £nil (2010 £5,000) respectively

During the year the Director, K Alexander, provided the Company with fund raising, legal and company search services totalling £20,100 (2010 £nil), £12,435 (2010 £9,600) and £1,443 (2010 nil) respectively

During the year the wife of one of the Directors provided the Company with translation services totalling £nil (2010 £5,000)

As at 31 December 2011, the Company was owed £nil (2010 £136,709) by Belgian Volition SA (formerly Valibio SA) Belgian Volition SA is a subsidiary of Singapore Volition Pte Limited

At 31 December 2011, the Company was owed £100,561 (2010 £581,760) from Singapore Volition Pte Limited as part of the sale proceeds of Valibio SA This amount is included in other receivables in note 14 On 10 June 2011, the Company sold certain diagnostic technology for use with endometriosis at a value of US$510,000 and monies due from Valibio SA of £100,561 were transferred to Singapore Volition Pte Limited S Vainkka is a director of VolitionRx Limited

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

	2011 £	2011 £
G Morris	-	9,876
S Vainikka	-	11,035
K Alexander	-	2,600
N Thornley	-	4,688
G Desler	-	18,117

22 Post balance sheet events

In April 2012, the Company raised £900,000, before expenses, by placing 200,000,000 new ordinary shares of 0 1p each at a price of 0 45p per share

23 Financial instruments

The Group's principal financial assets are available for sale investments, cash at bank, trade and other receivables

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits The carrying amount of these assets approximates their fair value Cash at bank and in hand, including short-term bank deposits, at 31 December 2011 amounted to £1,634,148 (2010 - £107,799)

The Directors consider that the carrying amount of available for sale investments, trade and other receivables approximate 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
The Group's credit risk is primarily attributable to its receivables The amounts presented in the balance sheet are net of allowances for doubtful receivables The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies

Interest rate and liquidity risk
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 Group is exposed to foreign currency risk arising from recognised assets and liabilities Although the countries that the Group trades with have relatively stable economies, managment has set up a policy which requires Group companies to manage their foreign exchange risk against their functional currency and where necessary, by entering into forward exchange contracts with highly reputable counterparties

Fair value
There were no material differences between the book value of financial instruments and their fair value at 31 December 2011 or 31 December 2010

VALIRX PLC

COMPANY BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2011

VALIRX PLC

BALANCE SHEET

AS AT 31 DECEMBER 2011

	Notes	2011 £	2011 £	2010 £	2010 £
Fixed assets					
Intangible assets	2		90,000		95,000
Tangible assets	3		8,217		2,126
Investments	4		3,361,710		2,636,626
			3,459,927		2,733,752
Current assets					
Debtors	5	1,432,087		1,485,870	
Cash at bank and in hand		1,625,307		103,776	
		3,057,394		1,589,646	
Creditors amounts falling due within one year	6	(425,713)		(694,819)	
Net current assets			2,631,681		894,827
Total assets less current liabilities			6,091,608		3,628,579
Capital and reserves					
Called up share capital	8		5,399,984		4,831,722
Share premium account	9		3,247,539		635,069
Merger reserves	9		637,500		637,500
Share option reserve	9		52,140		21,403
Profit and loss account	9		(3,245,555)		(2,497,115)
Shareholders' funds	10		6,091,608		3,628,579

Approved by the Board and authorised for issue on 26 April 2012

S Vainikka
Director

Company Registration No 3916791

1 Accounting policies

1 1 Accounting convention

The balance sheet and the associated notes have been prepared under the historical cost convention in accordance with the provisions of the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdon Generally Accepted Accounting Practice)

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

The Company is also exempt from FRS 22 'Earnings per share' as this information is produced in the consolidated accounts

1 2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated)

1 3 Turnover

Revenue represents sales and services to third party customers in the health sector, together with income from Grants, stated net of any applicable value added tax

1.4 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred Development expenditure is written off in the same way unless the Directors are satisfied as to the technical, commercial and financial viability of individual projects In this situation, the expenditure is deferred and amortised over the period during which the Company is expected to benefit

1 5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

Computer equipment	33% per annum straight line

1 6 Investments

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

1 7 Deferred taxation

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

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

1 8 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction All differences are taken to profit and loss account

1 Accounting policies **(continued)**

1 9 *Government grants*

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

1 10 Profit and loss account

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company alone A loss of £748,440 is attributable to shareholders for the financial year ended 31 December 2011 (2010 - £593,774)

1 11 Financial instruments

Full details of the Company's policy in relation to financial instruments and management of financial risk are set out in Note 23 to the Group financial statements The Company does not hold any derivatives and there is no material difference in the fair value and carrying value of any financial instruments held by the Company

1 12 Share based payments

FRS 20 "Share-based payments" requires that the fair value of options awarded to employees is charged to the profit and loss account over the period during which the employees become unconditionally entitled to the options

2 Intangible fixed assets

	Development Costs £
Cost	
At 1 January 2011 & at 31 December 2011	**100,000**
Amortisation	
At 1 January 2011	5,000
Charge for the year	5,000
At 31 December 2011	**10,000**
Net book value	
At 31 December 2011	**90,000**
At 31 December 2010	95,000

3 Tangible fixed assets

	Computer equipment £
Cost	
At 1 January 2011	9,606
Additions	8,831
At 31 December 2011	**18,437**
Depreciation	
At 1 January 2011	7,480
Charge for the year	2,740
At 31 December 2011	**10,220**
Net book value	
At 31 December 2011	**8,217**
At 31 December 2010	2,126

4 Fixed asset investments

	Shares in subsidiary undertakings £	Listed investments £	Total £
Cost			
At 1 January 2011	2,636,626	-	2,636,626
Additions	13,546	711,538	725,084
At 31 December 2011	**2,650,172**	**711,538**	**3,361,710**
Net book value			
At 31 December 2011	**2,650,172**	**711,538**	**3,361,710**
At 31 December 2010	2,636,626	-	2,636,626

The principal subsidiary undertakings of the company are as follows

Company	Country	% of shares held	Activity
Valirx Bioinnovation Limited	England and Wales	100 00	Holding company
Valipharma Limited	England and Wales	100 00 *	Therapeutic research and development
Valimedix Limited	England and Wales	100 00	Medical diagnostics company
ValiRx Finland OY	Finland	100 00	Therapeutic research and development

* 60 28% is owned by Valirx Bioinnovation Limited and 39 72% by the Company

The Company acquired 510,811 restricted shares of common stock in VolitionRx Limited ("Volition"), a company incorporated in USA Volition is quoted on the OTC Bulletin Board in the USA

The shares were acquired on 6th December 2011 as part of the final requirement of the Share Purchase Agreement dated 22 September 2010 (as amended on 9 June 2011) between ValiRx and Singapore Volition Pte Limited, a subsidiary of Volition A total allotment of 525,000 shares were issued in relation to the settlement of a US$1 11m liability payable to the Company As part of the settlement, 14,189 shares were issued to Chroma Therapeutics Limited in settlement of their remaining payment under the terms of the sale of Valibio and IPR Licences to Volition

The market value of the listed investments as at 31 December 2011 is £859,450

5 Debtors

	2011	2010
	£	£
Trade debtors	-	8,387
Amounts owed by subsidiary undertakings	**1,148,369**	683,765
Tax recoverable	**132,353**	-
Other debtors	**128,640**	744,783
Prepayments and accrued income	**22,725**	48,935
	1,432,087	1,485,870

6 Creditors amounts falling due within one year

	2011	2010
	£	£
Trade creditors	**52,795**	153,352
Amounts owed to subsidiary undertakings	**300,670**	300,670
Taxes and social security costs	**10,534**	19,585
Directors' current accounts	-	46,284
Other creditors	**14,090**	114,515
Accruals and deferred income	**47,624**	60,413
	425,713	694,819

7 Share-based payments

At 31 December 2011 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

	2010	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	5,262,000	-	1 9
Granted	-	-	0 0
Lapsed	(1,882,000)	-	1 4
Carried forward	3,380,000	8 5	2 2

	2011	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (pence)**
Brought forward	**3,380,000**	-	**2 2**
Granted	**42,500,000**	-	**0 8**
Lapsed	**(3,000,000)**	-	**0 8**
Carried forward	**42,880,000**	**9 4**	**0 9**

The fair value of 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

	Share options	Share options	Share options
Grant date	23 November 2007	17 September 2009	8 July 2011
Exercise period	November 2007 - November 2017	September 2009 - September 2019	July 2011 - July 2021
Share price at date of grant	10 5p	2 1p	0 64p
Exercise price	10 5p	1p	0 75p
Shares under option	512,000	4,750,000	42,500,000
Expected volatility	35%	40%	52%
Expected life (years)	3 5	4	3
Risk-free rate	4 36%	2 50%	1 24%
Expected dividend yield	0 00%	0 00%	0 00%
Fair value per option	1 55p	0 72p	0 10p

8 Share capital

	2011 Number	2010 Number	2011 £	2010 £
Allotted, called up and fully paid				
Ordinary shares of 0 1p each	**1,059,562,609**	491,299,344	**1,059,561**	491,299
Deferred shares of 5p each	**58,378,365**	58,378,365	**2,918,918**	2,918,918
Deferred shares of 0 9p each	**157,945,030**	157,945,030	**1,421,505**	1,421,505
			5,399,984	4,831,722

On 10 January 2011, the Company issued 3,763,265 Ordinary Shares of 0 1p each at 0 245p per share to satisfy creditors amounting to £9,220, in lieu of fees

On 8 March 2011, the Company raised £3,297,000, before expenses, by way of a placing of 549,500,000 new ordinary shares of 0 1p each at a price of 0 6p per share, to provide the Company and the Group with working capital

On 23 December 2011, the Company allotted 15,000,000 new ordinary shares of 0 1p each at 0 52p per share as part of the consideration to acquire from Pharmatest Services Oy of Finland, its Biomarkers patent applications and related *intellectual property* This asset is owned by ValiRx Finland OY, the Company's wholly owned subsidiary undertaking

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

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2011

9 Statement of movements on reserves

	Share premium account £	Other reserves (see below) £	Profit and loss account £
Balance at 1 January 2011	635,069	658,903	(2,497,115)
Loss for the year	-	-	(748,440)
Premium on shares issued during the year	2,815,957	-	-
Share premium - other movements	(203,487)	-	-
Movement during the year	-	30,737	-
Balance at 31 December 2011	**3,247,539**	**689,640**	**(3,245,555)**

Share option reserve	
Balance at 1 January 2011	21,403
Share option reserve movement	30,737
Balance at 31 December 2011	**52,140**
Merger reserve	
Balance at 1 January 2011 & at 31 December 2011	**637,500**

The merger reserve arises as a result of the acquisition of Valirx Bioinnovations Limited and 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

10 Reconciliation of movements in shareholders' funds

	2011 £	2010 £
Loss for the financial year	**(748,440)**	(593,774)
Shares issued	**3,384,219**	997,456
Cost of share issue written off to share premium account	**(203,487)**	(52,151)
Other reserves movement	**30,737**	10,956
Net addition to shareholders' funds	**2,463,029**	362,487
Opening shareholders' funds	**3,628,579**	3,266,092
Closing shareholders' funds	**6,091,608**	3,628,579

11 Related party transactions

During the year the Director, G Desler, provided the Company with bookkeeping and fund raising services totalling £5,250 (2010 £9,000) and £nil (2010 £5,000) respectively

During the year the Director, K Alexander, provided the Company with fund raising, legal and company search services totalling £20,100 (2010 nil), £12,435 (2010 £9,600) and £1,443 (2010 nil)

During the year the wife of one of the Directors provided the Company with translation services totalling £nil (2010 £5,000)

As at 31 December 2011, the Company was owed £nil (2010 £136,709) by Belgian Volition SA (formerly Valibio SA) Belgian Volition SA is a subsidiary of Singapore Volition Pte Limited

At 31 December 2011, the Company was owed £100,561 (2010 £581,760) by Singapore Volition Pte Limited as part of the sale proceeds of Valibio SA This amount is included in other debtors in note 5 On 10 June 2011, the Company sold certain diagnostic technology for use with endometriosis at a value of US$510,000 and monies due from Valibio SA of £100,561 were transferred to Singapore Volition Pte Limited S Vainikka is a director of VolitionRX Limited

At the year end, the amounts owed to directors were as follows

	2011	2010
	£	£
G Morris	-	9,876
S Vainikka	-	11,035
K Alexander	-	2,600
N Thornley	-	4,688
G Desler	-	18,117

12 Post balance sheet events

In April 2012, the Company raised £900,000 before expenses, by placing 200,000,000 new ordinary shares of 0 1p each at a price of 0 45p per share