Oxitec Limited
Annual Report

For the year ended 31 December 2016

Registered number: 04512301

Company Information

Registered number	04512301
Registered office	71 Innovation Drive Milton Park Abingdon OXFORD OX14 4RQ
Independent auditors	PricewaterhouseCoopers LLP 3 Forbury Place 23 Forbury Road READING RG1 3JH
Bankers	Santander Corporate & Commercial Banking Santander UK plc 1st Floor, 121 St Aldates OXFORD OX1 1HB
Solicitors	Hogan Lovells International LLP Atlantic House Holborn Viaduct LONDON EC1A 2FG

Oxitec Limited
Registered number: 04512301

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Strategic Report

For the year ended 31 December 2016

Review of the business and key performance indicators (KPIs)

Following the 2015 acquisition of the Company by Intrexon, it has undergone another significant year of growth. During the year, the Company issued 94,440 additional shares to its owner in exchange for $15,000,000 (£10,816,057). This was used during the year for working capital in the development of our commercial service offering.

Progress towards commercial launch of proprietary products are the key measures of success for Oxitec Ltd. Activities undertaken have led to the achievement of a number of major milestone announcements referred to below.

The Company continues to focus primarily on Brazil, the USA, Central America and Caribbean for market entry of its OX513A mosquito and its cost base in 2016 reflects this focus. Since last year, staff numbers in both the UK and Brazil have grown and there are now more in Brazil following the expansion from one site to three, including a production facility in the city of Piracicaba. We also finished the year with six employees in Grand Cayman, delivering a programme of OX513A mosquito releases in the West Bay area, which we anticipate expanding to the whole island, commencing in 2018.

Income for 2016 comprises a number of on-going grants, licence income, and mostly the continuance of development of a major crop pest solution, being developed in collaboration with a US based corporation. The laboratories started earlier in the year were brought into commission in April 2016 and are being fully utilised in support of the crop pest collaboration project.

Future developments

It is the aim of the Company to invest in a large scale mosquito mass rearing facility in the UK. In addition to fulfilling contracts in the Americas, this investment will enable the Company to develop the expertise needed to expand the scale of production more rapidly into the future.

<u>Scientific and service developments</u>

Oxitec continues to develop and enhance its existing technologies so as to bring its pipeline of products to market both in the areas of human health and crop protection.

New patents continue to be registered and as we scale up production of OX513A we continue to develop new IP in production processes and equipment, and delivery and monitoring.

The Company has formed a cross functional team to drive continuous improvements in cost of goods for the production and delivery of OX513A, thereby maximising future potential profitability as the product is rolled out commercially.

<u>Regulatory developments</u>

During the year and in the period to the approval and signing of the financial statements, ongoing work has resulted in:

- the Food and Drug Administration in the US (US FDA) publishing our environmental assessment in order to reach a finding of no significant impact from our OX513A mosquito prior to conducting a trial in the Florida Keys (March 2016);
- approval from the government of the Cayman Islands to conduct a trial release of OX513A in selected parts of Grand Cayman (May 2016);
- The Dutch National Institute for Public Health and the Environment (RIVM) are undertaking a technical

Strategic Report
For the year ended 31 December 2016

evaluation of a potential release of OX513A Aedes aegypti mosquitoes on the island of Saba and concluding in July 2017 that a potential release of these mosquitoes on Saba is considered to result in negligible risks for human health and the environment..

Full regulatory approvals for our technology are being sought from organisations such as the US FDA, EPA and ANVISA, with no issues anticipated in obtaining these.

Post balance sheet events

On 4 January 2017, the company received additional funding by way of issuing a further 62,960 shares to Intrexon Corporation for the sum of £8,035,980. On 13 June 2017, the company received additional funding by way of issuing a further 62,960 shares to Intrexon Corporation for the sum of £7,764,227.

Subsidiaries

In 2016 Oxitec Brazil commissioned a large factory in the city of Piracicaba, initially to treat a human population of 60,000 residents against the threats associated with disease transmitting mosquitos, and with capacity to service 300,000 residents at intervention levels, or 1.5 million residents at maintenance levels. The local municipality has signed a contract for 60,000 people, and work to construct the facility, which to date has cost about £5 million. It is likely that the profitability of this contract, and others being sought at present may still take some time before the Company's investments in Brazil lead to a self-sustaining cash flow.

The subsidiary in Grand Cayman, became active in April 2016, employing staff and resources to perform an approved trial release of OX513A male mosquitos.

We have also established legal entities in Mexico and Australia to assist in our contractual negotiations with the health and environment governmental departments in those countries. We have kept dormant companies in Malaysia and Singapore, both countries affected by mosquito vectored diseases.

Financial and other risks and uncertainties

We believe the principal risks to the Company are regulatory in that we are unable to provide a commercial service unless we have regulatory approval to release our insects.

We do not depend solely on specific suppliers for certain materials for our insect development and rearing processes, but try to select those partners who are able to supply the appropriate quality goods and services at the right price in the markets in which we operate. We seek to settle supplier invoices on the terms agreed with them.

Our UK facilities have been consolidated to two premises presently in Oxfordshire, although we are considering another site to build a production facility in late 2017 or early 2018. If any of those buildings were severely damaged or destroyed, it would cause short to medium term interruption, but our insect strains are kept in more than one building and in more than one country to ensure we could raise the breeding colonies of the affected insects elsewhere. The insect breeding equipment is either developed and manufactured in-house, or is widely available scientific equipment. We maintain comprehensive insurance policies to assist in the event of a significant interruption to our business.

Strategic Report

For the year ended 31 December 2016

As the Company develops its product pipeline, there is presently relatively low risk from non-payment of debts. Income is sourced from a number of government and EU supported grant schemes and its collaboration income derives from a large Wall Street listed corporation, which the Company regards as low risk.

The Company anticipates future loss making periods as its products complete the development phase and will likely require additional cash injection. During 2016, the Company obtained additional working capital investment to fund on-going operations and in 2017 Intrexon Corporation continued to support the Company with further equity investment and has indicated its intention to continue doing so.

On behalf of the Board

M Carnegie-Brown
Director
31 August 2017

Directors' Report

For the year ended 31 December 2016

The directors present their report and the audited financial statements of the company for the year ended 31 December 2016.

The following information is not shown in the Directors' Report because it is shown in the Strategic Report on pages 1-3 instead under s414c(11):

- Future developments
- Post balance sheet events

Results and Dividends

The Company recorded a loss for the financial year amounting to £5,645,989 (2015: loss of £6,768,213). The directors are unable to recommend the payment of a dividend.

Directors

The directors who held office during the year and up to the date of signing the financial statements, unless otherwise stated, are given below:

H St P Parry (Resigned 16 August 2017)
M Carnegie-Brown (Appointed 14 June 2017)
R Sterling
C Ulrich

Qualifying third-party indemnity provisions

A qualifying third-party indemnity provision for the benefit of the directors was in force during the year and up to the date of signing the financial statements.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdon Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

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 United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' Report

For the year ended 31 December 2016

The directors are responsible for keeping adequate accouting 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 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.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP were reappointed as auditors under section 487(2) of the Companies Act 2006.

On behalf of the board.

M Carnegie-Brown
Director
31 August 2017

Independent auditors' report to the members of Oxitec Limited

Report on the financial statements

Our opinion

In our opinion, Oxitec Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Oxitec Limited

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on pages 4-5, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Sam Taylor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
31 August 2017

Financial statements for the year ended 31 December 2016

Profit and loss account

	Note	**Year ended 31 December 2016**	Year ended 31 December 2015
		£	£
Revenue	5	**1,140,265**	274,774
Cost of sales		**(659,753)**	(125,697)
Gross profit		**480,512**	149,077
Research and development		**(3,767,670)**	(2,490,317)
Administrative expenses excluding exceptional items		**(3,292,897)**	(3,326,333)
Exceptional items – costs incidental to acquisition		**-**	(2,401,090)
Administrative expenses including exceptional items		**(3,292,897)**	(5,727,423)
Other operating income	5	**553,696**	803,505
Operating loss	6	**(6,026,359)**	(7,265,158)
Loss on ordinary activities before interest and taxation		**(6,026,359)**	(7,265,158)
Interest receivable and similar income	9	**380,370**	104,942
Interest payable and similar expense	9	**-**	(92,393)
Net interest income		**380,370**	12,549
Loss before taxation		**(5,645,989)**	(7,252,609)
Tax on loss	10	**-**	484,396
Loss for the financial year		**(5,645,989)**	(6,768,213)

Statement of comprehensive income

	Note	**Year ended 31 December 2016**	Year ended 31 December 2015
		£	£
Loss for the financial year		**(5,645,989)**	(6,768,213)
Total comprehensive expense for the year		**(5,645,989)**	(6,768,213)

All results relate to continuing operations.

Balance Sheet

	Note	As at 31 December 2016 £	2015 £
Fixed assets			
Tangible assets	11	**2,377,815**	670,208
Investments	12	**318,755**	318,755
		2,696,570	988,963
Current assets			
Debtors	13	**12,267,049**	2,638,005
Cash at bank and in hand		**164,361**	5,621,825
		12,431,410	8,259,830
Creditors: amounts falling due with one year	14	**(2,479,450)**	(1,770,331)
Net current assets		**9,951,960**	6,489,499
Net assets		**12,648,530**	7,478,462
Capital and reserves			
Called up share capital	15	**11,018**	10,074
Share premium account		**43,646,019**	32,830,906
Capital redemption reserve		**1,912,650**	412,551
Accumulated losses		**(32,921,157)**	(25,775,069)
Total equity		**12,648,530**	7,478,462

The notes on pages 11 to 23 are an integral part of these financial statements.

The financial statements on pages 8 to 23 were authorised for issue by the board or directors on 31 August ~~dd mmmm~~ 2017 and were signed on its behalf.

M Carnegie-Brown
Director
Oxitec Limited
Registered no. 04512301

Statement of changes in equity for the year ended 31 December 2016

	Note	Called up share capital	Share premium account	Convertible loan note reserve	Accumulated losses	Capital redemption reserve	Equity
		£	£	£	£	£	£
Balance as at 1 January 2015		6,661	20,790,841	456,318	(20,462,807)	-	791,013
Loss for the financial year		-	-	-	(6,768,213)	-	(6,768,213)
Total comprehensive expense for the year		-	-	-	(6,768,213)	-	(6,768,213)
Credit relating to equity-settled share-based payments		-	-	-	999,633	-	999,633
Charge from parent for equity-Settled share-based payments		-	-	-	-	412,551	412,551
Proceeds from shares issued		3,413	12,040,065	-	-	-	12,043,478
Transfer to retained earnings		-	-	(456,318)	456,318	-	-
Total transactions with owners, recognised directly in equity		3,413	12,040,065	(456,318)	1,455,951	412,551	13,455,662
Balance as at 31 December 2015		10,074	32,830,906	-	(25,775,069)	412,551	7,478,462
Balance as at 1 January 2016		10,074	32,830,906	-	(25,775,069)	412,551	7,478,462
Loss for the financial year		-	-	-	(5,645,989)	-	(5,645,989)
Total comprehensive expense for the year		-	-	-	(5,645,989)	-	(5,645,989)
Charge from parent for equity-settled share-based payments		-	-	-	(1,500,099)	1,500,099	-
Proceeds from shares issued		944	10,815,113	-	-	-	10,816,057
Total transactions with owners, recognised directly in equity		944	10,815,113	-	(1,500,099)	1,500,099	10,816,057
Balance as at 31 December 2016		**11,018**	**43,646,019**	-	**(32,921,157)**	**1,912,650**	**12,648,530**

Notes to the financial statements

For the year ended 31 December 2016

1. General information

Oxitec Limited utilises biotechnology in the research and development of solutions to control insect pests in the the fields of human health, animal welfare and agricultural crop production. The company has production facilities in the UK and Brazil, along with trial facilities in other countries.

The company is limited by shares and is domiciled and incorporated in England. The address of its registered office is 71 Milton Park, Abingdon, Oxfordshire, OX14 4RQ. The company is a wholly owned subsidiary of Intrexon Corporation, based in Maryland, USA.

2. Statement of compliance

The individual financial statements of Oxitec Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements in confirmity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgelent in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(b) Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The directors have received a letter of support from Intrexon to provide the Company with sufficient resources to meet its liabilities as they fall due. Accordingly, the directors consider that the going concern assumption is appropriate.

(c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The company has taken advantage of the following exemptions under the provisions of FRS 102:

a) The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17 (d) to prepare a statement of cash flows;
b) The requirements of Section 11 paragraphs 11.39 to 11.48 (a) and Section 12 paragraphs 12.26 to 12.29 A, regarding certain disclosures for financial liabilities and assets, as the equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the group in which the entity is consolidated;
c) The requirement of Section 33 Related Party Disclosures paragraph 33.9 to disclose related party transactions within other members of the group;
d) From disclosing share based payment arrangements, required under FRS 102 paragraphs 26.18 (b), 26.19 to 26.21 and 26.23, concerning the equity instruments of Intrexon Incorporated as the equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the group in which the entity is consolidated.

(d) Consolidated financial statements

The company is a wholly owned subsidiary of Intrexon UK Insect Holdings Limited and of its ultimate parent, Intrexon Corporation. It is included in the consolidated financial statements of Intrexon Corporation which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirements to prepare consolidated financial statements.

These financial statements are the company's separate finanical statements.

(e) Foreign currency

(i) The company's functional and presentation currency is pounds sterling.
(ii) Foreign currency transactions are translated into the functional currency unsing the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(f) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered less value added taxes.

The company generates revenue from funded research and development programmes. Amounts receivable in respect of milestone payments are recognised as revenue when the specific conditions stipulated in the agreement have been met. Payments linked to "success" such as regulatory filing or approval, achievement of specified sales volumes or other milestones, are recognised in full when the relevant event has occurred. Otherwise, amounts receivable are recognised in the period in which related costs are incurred, or over the estimated period to completion of the relevant phase of development.

(g) Other operating income

Government and other grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure is incurred. Where there is significant uncertainty over the timing or amount of grant income, this is only recognised on a receipt basis.

(h) Exceptional items

The company classifies certain one-off charges that have a material impact on the company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the company.

(i) Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plans

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. The assets of the plan are held separately from the company in independently administered funds.

(iii) Annual bonus plan

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

(iv) Share-based payments

Where the company particiaptes in a share-based payment arrangement established by a group company the company takes advantage of the alternative treatment allowed under Section 26 of FRS 102. The company recognises the share-based payment expense based on an allocation of its share of the group's total expense, calculated in proportion to the number of participating employees. The corresponding credit is recognised in retained earnings as a component of equity.

Where the company is charged for the cost of share-based payments arrangements the amounts are treated as a reduction in the capital contribution. If the amount charged is in excess of the share-based payemnt charge the company treats the excess as a notional distribution and charges this to retained earnings.

(j) Taxation

Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Unrelieved tax losses of approximately £31,450,000 (2015: £23,850,000) remain available for offset against future taxable trading profits, prior to any research and development tax relief claims for the current year. The company has not recognised any deferred tax asset in respect of these losses due to there being uncertainty regarding its recovery in the forseeable future.

R&D tax credits are recognised on an accruals basis for the period in which they are incurred.

(k) Tangible assets

Tangible fixed assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use and dismantling and restoration costs.

Depreciation is calculated, using the straight-line method, to allocate the cost less the expected residual values over their estimated useful lives, as follows:

- Plant and machinery - 5 to 8 years
- Fittings - over the period of the lease in the building in which they are used.
- Office equipment - 3 to 5 years

Assets in the course of construction are included in tangible fixed assets as construction in progress on the basis of expenditure incurred at the balance sheet date and are not depreciated until brought into use.

(l) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(m) Investments

Investments in subsidiary companies are held at cost less accumulated impairment losses.

(n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(o) Financial instruments

Notwithstanding the exemptions taken the company has elected to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, amounts due from group undertakings, cash and bank balances and accrued income, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account. If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the profit and loss account. Other financial assets are initially measured at fair value, which is normally the transaction price.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables, amounts due to group undertakings and accruals, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

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

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

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Offsetting

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

Compound financial instruments

Compound financial instruments issued by the company comprise convertible loan notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

(p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds.

(q) Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the entity's accounting policies

There are no such critical judgements applied.

(b) Critical accounting estimates and assumptions

(i) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property, plant and equipment, and note 3 for the useful economic lives for each class of assets.

5. Other operating income and revenue

Analysis of other operating income and revenue by geography and category:

	2016	2015
	£	£
European Union – Research grants	**110,392**	342,116
Australia – Research grants	**145,758**	243,641
Tax Credit Receivable	**297,546**	217,748
Total other operating income	**553,696**	803,505
United States – collaboration revenue	**1,140,265**	274,774

6. Operating loss

Operating loss is stated after charging:

	2016	2015
	£	£
Wages and salaries	**2,966,147**	2,432,197
Social security costs	**282,728**	242,210
Other pension costs	**200,599**	39,534
Staff costs	**3,449,474**	2,713,941
Exceptional items - transaction and advisory fees for the sale to Intrexon Corporation, and accelerated share based payment charge	**-**	2,401,090
Depreciation of tangible fixed assets - owned by the company (note 11)	**307,883**	192,697
Audit fees payable to the company's auditor	**28,300**	30,000
Non audit fees payable to the company's auditor	**-**	197,500
Operating lease charges	**234,873**	230,577
Foreign exchange losses on receivables	**15,817**	107,042
R&D expenditure	**3,767,670**	2,490,317

In addition to the audit fees for the company presented above £9,500 (2015: nil) was paid by the company in respect of the statutory audit of the immediate parent company Intrexon UK Insect Holdings Limited for the period ended 31 December 2016. This amount will not be reimbursed.

7. Employees and directors

Employees

The average number of persons (including executive directors) employed by the company during the year was:

Employees and directors

By activity	Number 2016	Number 2015
Research	**47**	36
Development and Regulatory	**9**	11
Administration	**10**	7
	66	54

Directors	2016 £	2015 £
Aggregate emoluments	**317,331**	387,836
Company contributions to money purchase pension plans	**20,583**	4,008
	337,914	391,844

The company has made payments into money purchase pension schemes of £200,599 (2015: £39,534) under the provisions of auto-enrolment including to one director.

No directors (2015: four) exercised share options during the year.

Highest paid director	2016 £	2015 £
Total emoluments	**317,331**	313,784
Company contributions to money purchase pension plans	**20,583**	4,008
	337,914	317,792

R Sterling and C Ulrich do not receive any remuneration in relation to their position as directors of the company.

8. Share-based payments

Following the sale to Intrexon Corporation, certain employees of the company along with other group employees have been granted options over shares in Intrexon Corporation. The options are granted with a fixed exercise price, are exercisable in equal tranches over one to four years and expire 10 years after the date of grant. Employees are required to remain in employment with the group. A charge of £1,500,099 (2015: £412,551) has been recognised in the profit and loss account in relation to these options. This has been credited to a capital redemption reserve as the company is not required to reimburse Intrexon Corporation.

A reconciliation of share options movements over the year to 31 December 2016 is shown below:

	2016		2015	
	No.	**Weighted average exercise price £**	No.	Weighted average exercise price £
Outstanding at 1 January	**500,000**	**£19.86**	80,850	£11.39
Granted – Oxitec Limited	**-**	**-**	7,326	£30.18
Granted – Intrexon Corporation	**-**	**-**	500,000	£19.86
Exercised - Oxitec Limited	**-**	**-**	(88,176)	£12.95
Exercised – Intrexon Corporation	**(12,500)**	**£19.86**	-	-
Forfeited – Intrexon Corporation	**(47,500)**	**£19.86**	-	-
Outstanding at 31 December	**440,000**	**£19.86**	500,000	£19.86
Exercisable at 31 December	**110,000**	**£19.86**	-	-

The options granted by Intrexon Corporation have been converted at the USD to GBP exchange rate applying on the grant date from a per option amount of $29.39. On 9 January 2017, Intrexon Corporation diluted its capital by way of a dividend of shares in its subsidiary, Aquabounty Technologies, resulting in a reduction of the exercise price by $0.12 per option. The Company is liable for Class 1 National Insurance contributions on the net gain of options by employees. At the balance sheet date, the share price was below the exercise price, both original and adjusted post 9 January, therefore no provision has been made for such a charge.

9. Net interest income

(a) Interest receivable and similar income

	£ **2016**	£ 2015
Bank interest received	**15,308**	22,382
Interest receivable from group undertakings	**365,062**	82,560
Total interest receivable and similar income	**380,370**	104,942

(b) Interest payable and similar expenses

	£ **2016**	£ 2015
Interest payable on convertible loans	**-**	(92,393)
Total interest payable and similar charges	**-**	(92,393)

(c) Net interest income

	£ **2016**	£ 2015
Interest receivable and similar income	**380,370**	104,942
Interest payable and similar expenses	**-**	(92,393)
Net interest income	**380,370**	12,549

10. Tax on loss

	2016	2015
	£	£
Current tax:		
UK corporation tax charge on loss for the year	-	-
Adjustments in respect of prior periods	-	(484,396)
Total current tax	-	(484,396)

The tax assessed for the year is lower than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015 20.25%). The differences are explained below:

	2016	2015
	£	£
Loss on ordinary activities before taxation	**(5,645,989)**	(7,252,609)
Loss before taxation multiplied by the standard rate of tax in the UK of 20% (2015: 20.25%)	**(1,129,198)**	(1,468,653)
Effects of:		
Expenses not deductible for tax purposes	**127,676**	360,996
Capital allowances for year in excess of depreciation	**(345,321)**	(27,473)
Timing differences on share options	**(1,200)**	(886,802)
Tax losses carried forward	**1,348,043**	2,021,932
Adjustments in respect of prior periods	-	(484,396)
Tax on loss	-	(484,396)

Factors that may affect future tax charges

The main rate of corporation tax was reduced to 20% from 1 April 2015. Further reductions were enacted by Finance (No.2) Act 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

The Chancellor of the Exchequer has announced a further reduction in the rate, to 17% from 1 April 2020, which was enacted by Finance Act 2016 on 15 September 2016 and is therefore reflected in these financial statements. The previously enacted rate of 18% from 1 April 2020 will not come into effect.

11. Tangible assets

	Plant, machinery & fittings	Office equipment	Construction in progress	Total
	£	£	£	£
At 31 December 2015				
Cost	957,176	108,987	59,855	1,126,018
Accumulated depreciation and impairment	(378,628)	(77,182)	-	(455,810)
Net book amount	578,548	31,805	59,855	670,208
Year ended 31 December 2016				
Opening book amount	578,548	31,805	59,855	670,208
Additions	1,419,186	609,993	12,043	2,041,222
Transfers	59,855	-	(59,855)	-
Disposal cost	(323,665)	-	-	(323,665)
Disposal depreciation	297,933	-	-	297,933
Depreciation	(276,110)	(31,773)	-	(307,883)
Closing net book amount	1,755,747	610,025	12,043	2,377,815
At 31 December 2016				
Cost	2,112,552	718,980	12,043	2,843,575
Accumulated depreciation and impairment	(356,805)	(108,955)	-	(465,760)
Net book amount	1,755,747	610,025	12,043	2,377,815

12. Investments

		£ **2016**	£ 2015
At 1 January		**318,755**	171,777
Additions		-	137,390
Foreign exchange movement		-	9,588
		318,755	318,755
Analysed as:			
Oxitec do Brasil Technologia de Insetos Ltda	Brazil	**318,755**	318,755
Oxitec Singapore pte	Singapore	-	-
Oxitec Sdn Bhd	Malaysia	-	-
Oxitec Inc	USA	-	-
Oxitec Cayman Limited	Grand Cayman	-	-
		318,755	318,755

Oxitec do Brasil Technologia de Insetos Ltda
Avenida Alexander Grahn Bell, 200 Bloco C, Modulo 3, Techno Park, CEP 13069-310, Campinas, SP, Brazil.

The company owns 100% of the equity share capital of Oxitec do Brasil (2015: 100%). During the year the company did not increase its investment (2015: £137,390).

Oxitec Singapore pte
133 New Bridge Road, #09-06 Chinatown Point, 059413, Singapore

Oxitec Sdn Bhd
Level 15-2, Faber Imperial Court, Jalan Sultan Ismail, 50250, Kuala Lumpur, Malaysia

The company owns 100% (2015: 100%) of the equity share capital of both of these subsidiaries. No changes to equity have been made during the year and no dividends have been received. As both companies are currently not trading, the directors maintain a full provision against the investments made and therefore the investments are carried at zero value.

Oxitec Inc
Corporation Trust Centre, 129 Orange Street, City of Wilmington, County of New Castle, Delaware, USA

Oxitec Inc, for which the company owns 100% (2015: 100%) of the equity share capital, was formally dissolved and removed from the register of companies in the state of Delaware, USA effective from 25 February 2016.

Oxitec Cayman Limited
Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104

The company owns 100% (2015: 100%) of the equity share capital, being 1 share (2015: 1 share) share of $0.001 (2015: $0.001) par value.

13. Debtors

	2016	2015
	£	£
Due within one year		
Amounts owed by group undertakings	**11,263,850**	2,058,788
VAT receivable	**171,940**	121,877
R&D tax credit receivable	**515,292**	217,748
Other debtors	**45,543**	114,995
Prepayments and accrued income	**270,424**	124,597
	12,267,049	2,638,005

The directors have considered the recoverability of the amounts owed by the group undertakings and have fully provided against amounts owed by Oxitec Sdn Bhd and Oxitec Singapore pte. The directors believe the remaining amounts relating to Oxitec do Brasil Technologia de Insetos Ltda will be recoverable in the long term as the subsidiary's activities develop further. This amount is interest bearing (six month LIBOR + 3%), unsecured and is repayable on demand after one year and at the latest five years after the installment was made, or convertible into equity of the borrowing company.

14. Creditors: amounts falling due within one year

	2016	2015
	£	£
Trade creditors	**484,457**	92,817
Taxation and social security payable	**138,286**	62,997
Other creditors	**55,686**	109,754
Accruals and deferred income	**1,801,021**	1,504,763
	2,479,450	1,770,331

15. Called up share capital

Ordinary shares of £0.01 each

Issued, allotted and fully paid	2016 No.	2016 £	2015 No.	2015 £
At 1 January	**1,007,363**	**10,074**	666,094	6,661
Issued during the year	**94,440**	**944**	341,269	3,413
At 31 December	**1,101,803**	**11,018**	1,007,363	10,074

During the course of the year the company issued:

(i) 47,220 shares on 24 May 2016 for £5,109,048.
(ii) 47,220 shares on 31 August 2016 for £5,707,009.

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

16. Capital and other commitments

At 31 December, the company had the following capital commitments:

	2016 £	2015 £
Contracts for future capital expenditure not provided for in the financial statements - Assets under construction	-	535,000

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

Payments due	2016 £	2015 £
Not later than one year	**139,987**	4,268
Later than one year and not later than five years	**576,583**	317,750
Later than five years	-	355,385
	716,570	677,403

The company had no other off-balance sheet arrangements.

17. Related party transactions

At 31 December 2016 £8,296 (2015: £5,009) was owed to the company by Genefirst Limited, of which the company owns 12% of the issued share capital.

During the year ended 31 December 2008, the company was provided with a £1,500,000 unsecured convertible loan facility by East Hill Venture Fund LP, a business which is controlled by L T Clay, a director of Oxitec Limited. During 2009, the company was provided with and drew down a further £750,000 loan by East Hill Venture Fund LP secured by way of a debenture over the company's assets. At 3 September 2015, £2,250,000 of this facility had been drawn down by the company. During 2015 interest charges of £68,108 were accrued and added to the amount of the outstanding loans. As at 31 December 2015 accrued interest amounts to £896,264. On 4 September 2015 the loan was repaid in full in exchange for ordinary shares as per the loan agreement.

All of the above facilities with their associated balances and charges were not present at any time during 2016 or at the balance sheet date.

In 2015 fees totalling £10,000 were paid to Oxford Capital Partners, a business which is under the control of E D K Mott, a former director of Oxitec Limited. Invoices totalling £28,473 for Non Executive Director services provided throughout 2015 for Talestris Ltd (Former director Christopher Richards) were paid during 2015. Invoices totalling £8,333 for Non Executive Director services provided throughout 2015 for former director Brian Morton. Fees totalling £5,005 were paid to L T Clay, a former director of Oxitec Limited. All fees previously accrued for L T Clay were paid during 2015.

In 2016, there were no Non Executive Directors of the Company, therefore no fees were paid to any related party during the year. The above is stated for prior year comparative purposes only.

18. Controlling parties

The immediate parent undertaking is Intrexon UK Insect Holdings Limited.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Intrexon Corporation. Copies of Intrexon Corporation consolidated financial statements can be obtained from the Legal Department at 20374 Seneca Meadows Parkway, Germantown, MD 20876, United States.