Annual Results 2017

LONDON, 23 April 2018: Arix Bioscience plc (LSE:ARIX) ("Arix Bioscience", "Arix" or the "Company"), a global life sciences company supporting medical innovation, today announces its annual results for the year ended 31 December 2017.

Highlights within the period

- Successful IPO on the Main Market of the London Stock Exchange in February 2017, raising £112 million
- Acquired direct interests in 8 new Arix Group Businesses, bringing the total portfolio to 13 Group Businesses
- Strategic agreements signed with Takeda Ventures, Inc., and UCB Pharma S.A.
- Led or participated in eight Group Business fundraisings:
    - Led a $65 million Series B investment round for Iterum Therapeutics
    - Led a $45 million Series B investment round for LogicBio Therapeutics
    - Led $30m Series F financing round for Atox Bio
    - Co-led a $45 million Series B investment round for Harpoon Therapeutics
    - Co-led a $29 million Series A financing for PreciThera
    - Co-led $30 million series C financing round for Aura Biosciences
    - Participated in a $20 million Series A investment round for Mitoconix Bio
    - Participated in $67m Series C financing round for Amplyx Pharmaceuticals
- Encouraging progress in the development of existing Arix Group Businesses
    - Verona Pharma plc successfully listed on NASDAQ, raising c. $80 million
    - Autolus commenced three clinical trials in multiple myeloma, non-Hodgkin's lymphoma and T cell lymphoma
    - Amplyx Pharmaceuticals released positive data from two Phase 1 and five non-clinical trials showing tolerability, safety and non-clinical efficacy
    - Revaluation uplifts from Autolus and Harpoon Therapeutics:
        - Autolus raised a further $80 million in a series C financing at a c. 50% uplift in valuation.
        - Harpoon Therapeutics signed a collaboration agreement with AbbVie to develop novel T-cell engager therapies, resulting in an increase in the value of Arix's holding by approximately 25%
- Period-end cash balance of £74.9 million

Highlights post-period end

- Successful £87 million fundraise by the Company from new and existing investors
- Strategic agreements signed by the Company with Fosun International Limited and Ipsen
- Positive Phase 2 data announced by Verona Pharma in COPD

Dr Joe Anderson, Chief Executive Officer of Arix Bioscience, said: *"2017 was a transformational year for Arix, as we delivered on the objectives stated at the time of our IPO in February. The IPO brought £112 million of new capital, which enabled us to identify and support eight new innovative life science companies, bringing our total at the end of the year to 13 Group Businesses. Since then we have raised a further £87 million and our pipeline of opportunities continues to grow, supported by our broad international network. We are also fortunate to have secured strategic partnerships with leading global pharmaceutical companies Takeda, UCB, Fosun and Ipsen.*

"Looking ahead, we anticipate multiple clinical and financing catalysts in our Group Businesses and we are also planning to build interests in more exciting young companies. We believe our approach has the potential to generate significant value for patients and for investors, and we are grateful to our shareholders for supporting us in this mission."

Ends

Joe Anderson, Chief Executive Officer, and James Rawlingson, Chief Financial Officer, will host a lunch briefing and call for analysts at 12:00 BST at Stifel, 150 Cheapside, London, EC2V 6ET. Details of the call will be available on request. The call will be recorded and a replay will be available on Arix's website.

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About Arix Bioscience plc

Arix Bioscience plc is a global healthcare and life science company supporting medical innovation. Headquartered in London and with an office in New York, Arix Bioscience sources, finances and builds world class healthcare and life science businesses addressing medical innovation at all stages of development. Operations are supported by privileged access to breakthrough academic science and strategic relationships with leading research accelerators and global pharmaceutical companies.

Arix Bioscience plc is listed on the Main Market of the London Stock Exchange. For further information, please visit www.arixbioscience.com

Chairman's Statement

We have built a portfolio of 13 Group Businesses, all working on breakthrough therapies in areas of high and unmet patient need. They are led by experienced scientists and managers who have previously demonstrated success in their chosen field. And reflecting the global reach of our team, these companies are being developed in North America, the UK, Europe and Israel.

We have built partnerships with four global pharmaceutical companies, all of whom have become strategic investors in the Company. These partnerships provide access to substantial research capabilities and a leading presence in several important global markets, particularly China (Fosun), Japan (Takeda) and Continental Europe (UCB and Ipsen). For each of our partners we provide a window into a rich pipeline of innovative young companies working on potential breakthrough therapies.

With our private fund raise in 2016, our initial public offering in February 2017 and our recent secondary offering in March 2018, we have raised a total of £250m to support our existing Group Businesses and to continue to build our portfolio. With the use of these funds we expect to have around 20 companies in the portfolio within the next 12 to 18 months.

We also continue to build our relationships with leading academic institutions in Europe and North America with a focus on company creation from their most promising therapeutic research programmes.

Most of all, it is the talented people in our organisation that are the key to our success. We have continued to strengthen our teams in London and New York in 2017 and we were very pleased to have Meghan FitzGerald and Giles Kerr join our Board during the year. Both bring important and diverse global experience in healthcare. I'd also like to express my thanks to Sir John Banham, a great supporter of Arix, who retired from our Board during the year.

2018 promises to be a year of further progress and consolidation. Several of our Group Businesses will have important data read outs and we will work towards building out our portfolio to around 20 young companies.

Jonathan Peacock
Chairman

CEO's Statement

A year of achievement

We started 2017 with the ambition of building a business with the capital, skills and experience to take breakthroughs in life sciences and accelerate their development into important new medical treatments. We enter 2018 having floated Arix on the London Main Market, built an experienced team based in London and New York and directed a substantial amount of the capital we have raised into 13 promising young life science companies.

At year-end, we have committed around $105m into our Group Businesses. In addition, these companies have raised another $400m through syndication with expert global investor groups in life sciences, creating a well financed group of companies at the cutting edge of life sciences. These companies are led by management teams with successful track records of building value in our industry. We are now working closely with all of these businesses, and Arix team members have taken board seats or observer positions in all of the private companies to help them achieve their goals.

In March 2018 we completed our initial cycle of fundraising with an £87m follow-on, bringing the total to over £250m raised since Arix was founded two years ago. With this capital we are well placed to grow our collection of companies and embrace further new opportunities for the benefit of our shareholders.

It is early days for Arix and for many of our Group Businesses, and the development of important new medicines is not a quick business but already we have achieved substantive progress across the Group.

Two of our Group Businesses – Autolus and Harpoon – have already seen increases in their valuations through a follow-on financing and an industry collaboration respectively.

Moreover, we have seen meaningful scientific and technical developments in many of our other companies, and I believe the value that is being developed here will become increasingly apparent to shareholders in 2018 with the release of clinical data and business updates.

Rich, renewable pipeline of opportunities

Arix gets its rich pipeline of biotech and life science opportunities from an extensive scientific and clinical network to which Arix has privileged access.

The Arix Board and Management Team have wide personal networks with leading global venture capital groups, and Arix has attained privileged relationships with universities and research accelerators throughout Europe and the US. Since inception, we have reviewed over 800 opportunities, sourced from the UK, US, Europe and globally.

Well connected with the pharmaceutical industry

Pharmaceutical companies are one of our key customers as they seek to get ever closer to scientific and medical innovation outside of their own laboratories. During 2017, we have benefited from valuable strategic partnerships with two global pharmaceutical companies, UCB and Takeda, giving us access to deep scientific knowledge, R&D capabilities, market intelligence and commercial due diligence. We added to this early in 2018, and are delighted to have signed strategic agreements with Ipsen, a global specialty driven biopharmaceutical, and Fosun International, a large Chinese group with a global foothold who offer distribution capability across China. We expect to be sharing life science developments, ideas and co-investment opportunities with our new partners. All four of our pharmaceutical partners have committed meaningful resources to the relationship, and invested in the March 2018 financing of Arix.

Early focus on important areas of human disease

In this early stage of Arix's development, we have focused on three key therapeutic areas: Oncology, Infectious Diseases and Gene Therapy & Orphan Diseases. We see significant potential in these therapeutic areas through the combination of rapidly developing science, clinical innovation and significant unmet patient need. We see the opportunity to make a substantial contribution to patient well-being by accelerating the translation of new ideas into new medical products – and through this, the potential to deliver shareholder value.

We aim to remain at the forefront of new exciting therapeutic areas by anticipating hot areas across the biotech and life science sectors and by identifying the most promising investment opportunities early. We access the best scientific ideas, wherever they emerge, and help build and finance new companies following rigorous research and due diligence.

Encouraging developments in Arix's Group Businesses

During the year, revaluation uplifts were achieved by two Group Businesses, Autolus and Harpoon Therapeutics:

- Autolus: We led the Series B financing for Autolus in March 2016, and have worked closely with the company as it successfully progressed three of its programmes into clinical trials. Within 18 months, by September 2017, this progress enabled Autolus to raise a further $80m in a Series C financing at a c. 50% uplift in valuation. The company is now exploring the potential for an IPO in North America.

- Harpoon Therapeutics: In October 2017, just five months after we led the Series B financing, Harpoon signed a collaboration agreement with AbbVie to develop novel T-cell engager therapies, resulting in an increase in the value of our holding by approximately 25%.

In addition, Verona Pharma, Artios Pharma and Amplyx Pharmaceuticals all reached important milestones over the course of the year, reflecting their continuing strong development towards important valuation inflexion points.

2018 brings new opportunities and multiple milestones

2017 was a period during which we put the IPO capital to work and built a collection of 13 of the most exciting young life science companies globally. As we look ahead to 2018, we believe the scale of opportunity in life sciences looks better than ever. With the capital raised from our follow-on financing, we are looking to add around another seven Group Businesses to our collection, further broadening and diversifying our Group. Our pipeline of new ideas is deep and broad and we see this as a renewable resource and core to our business. Through 2018 we will be sifting the best ideas and digging deep into due diligence to help build and finance more new companies at the cutting edge of life sciences.

Our existing Group Businesses are expected to reach significant development milestones during the course of the year. Additionally, we expect to see a series of clinical trial starts and pre-clinical development milestones across our Group Businesses. And, of course, other significant events – such as IPOs, M&A, licensing agreements and external financings - can happen at any time, and we will look to provide our shareholders with full transparency on any such developments.

The future offers unprecedented market opportunity

We are in a golden age of scientific development. Seventeen years ago the human genome was first sequenced, a project which took over a decade and almost $3bn to complete. These days, it takes about a day and roughly $1,000 to sequence a human genome. More broadly, we are seeing unprecedented advances in life science discoveries, such as human cell therapy, cures for diseases like hepatitis C, gene therapy and gene editing, and a host of other innovative treatments that are helping to improve and save patients' lives.

As a result, life sciences as an industry has the potential to create high growth companies, which over the past few years have generated billions of dollars of value for investors in an era of low economic growth. Small, development stage companies are the bedrock of much invention and discovery in medicine, but these companies are not readily accessible to most investors; Arix Bioscience aims to bridge that gap, bringing the opportunity to a broader investor base.

We remain well positioned to access the market opportunity with an experienced team providing expertise and funding for innovative life science companies – whatever their size or development stage. We hunt for the best ideas globally, and are as committed to helping companies get started as we are to backing late stage companies with proven teams going into pivotal clinical trials.

We are encouraged with what we have been able to achieve since inception just over two years ago, and we have certainly hit the ground running in 2018. It is important to us that the companies we have already backed continue to report substantial developments which will drive clear uplifts in value and we are working hard to ensure these goals are met through hands-on involvement with all our Group Businesses.

We believe our approach has the potential to generate significant value for patients and for investors, and we are grateful to our shareholders for supporting us in this mission.

Joe Anderson, PhD
Chief Executive Officer

Strategy

Our strategy

Since the inception of Arix Bioscience, our strategy has been to source and evaluate exciting opportunities in the biotech and life science sectors, and having created or invested in a company to then actively assist in successfully developing that Group Business in order to bring medical innovation to market.

We continue to believe that pursuing this strategy will achieve the twin goals of meeting patients' needs that are not being addressed today, and of creating significant value for our shareholders.

The delivery of this strategy requires us to secure access to capital markets to provide funds, manage a wide pipeline of opportunities and undertake deep due diligence on potential deals, attract a strong team and an exceptional board as well as build partnerships with major pharmaceutical companies, academic institutions and research accelerators.

What we have achieved so far

In February 2017 Arix Bioscience successfully listed on the London Stock Exchange, raising £112m. Through Q4 of 2017, significant progress was made in delivering a follow-on raise, which closed in March 2018 having generated a further £87m of funding. These two achievements compare well with the Company's private raise of £52m in 2016, which means that over £250m has been raised in just over two years.

During the year, progress was made in putting these funds to work. Over the 12-month period Arix grew from five to 13 Group Businesses, which was an over achievement of the goals Arix had set itself for the year. These 13 acquisitions followed the deep due diligence from reviewing and evaluating over 800 potential deals that came from Arix's strong pipeline of opportunities.

The deal team was strengthened by the arrival of John Cassidy; an advisory board structure was implemented into the fund manager subsidiary, Arthurian Life Sciences; and two new Directors, Giles Kerr and Meghan FitzGerald, joined the Board of Arix Bioscience, adding to its already deep and broad experience. Reporting on diversity is shown on page 45.

Negotiations with major pharmaceutical companies through the year resulted in an announcement in February 2018 of two new strategic agreements with Ipsen and Fosun International, bringing increased access to expert knowledge and distribution capability.

What we will aim to achieve this year

The high pace of achievement continues into 2018 and is reflected in the corporate goals, which have been reviewed and agreed by the Board.

A key theme for the coming year will be continuing to make use of the funds raised in March 2018 by identifying new Group Businesses that meet Arix's exacting requirements, and which are capable of bringing medical innovation to market and growing shareholder value. Additionally, Arix will widen its footprint in several key markets, further develop its team and will also continue to drive investor relations activities.

Operational and Financial Review

The consolidated balance sheet of Arix Bioscience has strengthened during the year following the successful IPO in February 2017 which raised gross proceeds of £112m. Whilst our cash balances remain strong (£74.9m at year-end (2016: £28.9m)) it is also true that a significant portion of funds raised in Q1 were put to use within months of the IPO, with the Group's interests in Group Businesses and other investments growing to £71.3m by the year end (2016: £17.1m).

The Group's early decision to hold interests in Group Businesses across the entire development life cycle, including very early to late stages, explains why valuation events are already driving an increase in the holding value of our Group Businesses. These net positive revaluations amount to £5.5m (2016: £1.4m) and are the main cause of the improvement in the Group's Operating Loss to £3.6m for the year. This diversity of holding by stage of development is expected to bring a number of potential revaluation events each year.

Subsequent to the balance sheet date, the Group successfully completed a further capital raise of £87m, which positions Arix Bioscience well to continue its strong growth through 2018 and beyond.

Group Businesses

Arix Bioscience is an operating company whose principal activities include supporting and assisting the development of life science and biotech companies that often feature ground breaking medical innovation. As an operating company, its interests in Group Businesses are held on its own balance sheet, offering strong transparency. The Group has expanded its Group Businesses from five to 13 companies over the course of 2017, diversifying its offering by clinical focus, stage of development and geography. A total of £40.9m has been deployed into Group Businesses during the year, with a further £28.6m committed to those Group Businesses but not yet invested as at 31 December 2017.

The Group Businesses have been valued at 31 December 2017 in accordance with International Private Equity and Venture Capital Guidelines, which are consistent with International Financial Reporting Standards. In line with these guidelines, Arix applies a fair value hierarchy when considering a revaluation; for example, where there is no quoted price for a stock then an independent transaction in the market has an acceptably high level of integrity.

This was seen with the revaluation of Autolus where the company completed a successful Series C financing, with newly participating shareholders pricing the funding round. This arm's length market event resulted in a £4.8m positive revaluation of Arix's existing interest in the business. Harpoon Therapeutics has also been positively revalued upwards in the year by £1m.

All remaining Group Businesses have been valued at their historic cost, with the exception of Verona Pharma plc, a dual London Stock Exchange/Nasdaq listed company, which has been marked-to-market at year-end.

	31 December Value £m	**Net Investment in Period £m**	**Change in Valuation (including FX) £m**	**31 December Value £m**	**Fully Diluted Equity Interest %**	**Funding Committed, Not Yet Invested £m**	**Fully Diluted Equity Interest When Fully Committed %**
Autolus	3.3	12.0	4.8	20.1	8.6%	–	8.6%
Artios Pharma	1.9	1.8	–	3.7	14.7%	1.4	14.9%
Harpoon Therapeutics	–	4.2	0.9	5.1	8.0%	4.4	12.4%
Aura Biosciences	–	2.5	–	2.5	4.9%	1.3	6.6%
Iterum Therapeutics	–	6.0	(0.3)	5.7	6.8%	4.8	8.2%
Amplyx Pharmaceuticals	–	2.9	(0.1)	2.8	2.8%	1.9	3.8%
Atox Bio	–	3.0	–	3.0	3.7%	3.2	6.4%
LogicBio Therapeutics	–	5.1	(0.3)	4.8	13.3%	2.8	15.4%
PreciThera	–	0.5	–	0.5	17.8%	5.6	23.4%
OptiKira	1.0	0.4	(0.1)	1.3	26.0%	–	26.0%
Mitoconix Bio	–	0.4	–	0.4	2.2%	2.8	9.0%
Verona Pharma	2.0	1.8	(0.9)	2.9	2.5%	–	2.5%
Depixus	0.8	0.3	–	1.1	17.6%	0.4	19.2%
Group Businesses	**9.0**	**40.9**	**4.0**	**53.9**		**28.6**	
BioMotiv	3.8	2.0	–	5.8	17.8%	–	17.8%
Simbec-Orion Group	–	2.0	–	2.0	N/A	–	N/A
Arthurian Life Sciences Carried Interest Partner LP	4.3	–	(0.5)	3.8	N/A	–	N/A
The Wales Life Sciences Investment Fund LP	–	5.3	0.5	5.8	N/A	–	N/A
Other Interests	**8.1**	**9.3**	**–**	**17.4**		**–**	
TOTAL	**17.1**	**50.2**	**4.0**	**71.3**		**28.6**	

Other Investments

Other interests include Simbec-Orion and BioMotiv, a mission-driven development company associated with The Harrington Project for Discovery and Development, which is focused on accelerating breakthrough discoveries from research institutions into therapeutics for patients. BioMotiv has no quoted price and therefore the Company values its interest in BioMotiv at the price of the most recent investor into the accelerator; this is considered to be high quality valuation evidence as it is an arm's length market event.

The consolidated accounts also recognise investments held by Arthurian Life Sciences Limited (ALS) which is a wholly owned fund management subsidiary. During the year ALS committed £5.3m to The Wales Life Sciences Investment Fund LP and this is valued at £5.8m at year-end. ALS also holds the carried interest vehicle of this fund, which was valued at £3.8m at year end (2016: £4.3m). In line with the Company's high integrity approach to valuation, both of these ALS-held investments have been subject to external expert review by Duff & Phelps.

Comprehensive Income

Revenues grew in the period, due to increased net positive revaluations of Group Businesses of £5.5m (2016: £1.4m). Fund management fee income in ALS of £1.7m also showed an increase (2016: £0.6m) and reflects a full year of ALS trading as it was acquired part way through 2016. Administrative costs of £11.0m were similar to the previous period (2016: £10.3m). Other costs are not cash related and include a foreign exchange loss of £0.4m (2016: gain of £0.1m) relating to foreign currency denominated interests in Group Businesses; and also includes a share-based payment of £3.7m (2016: £4.7m). This charge is calculated using financial models to predict the future value of share options, and is shown as a cost in the Statement of Comprehensive Income and as a gain in the Company's retained earnings, with no impact on the Company's net assets.

Financial Position

Arix greatly strengthened its Balance Sheet during the period, raising gross proceeds of £112m from its IPO on the London Stock Exchange Main Market in February 2017. The proceeds from this have been deployed into developing Arix's Group Businesses, resulting in investments of £71.3m at year-end (2016: £17.1m).

The Company's cash position is strong, with £74.9m held at year-end (2016: £28.9m). Arix maintains robust cash reserving processes which requires that cash for commitments already made to Group Businesses are duly reserved, as is a cash runway for operational expenses. Soft reserving (not related to existing legal commitments) is also carried out for follow-on injections into current Group Businesses where Arix has an appetite and sees an opportunity for further participation.

Risk Management

The Group monitors a number of principal risks and uncertainties that may affect the business. These include financial, non-financial, internal and external concerns.

Risk management framework

The Directors are able to manage the business, and achieve its strategic objectives, due to an effective risk management framework which features multiple layers.

Board

Managing risk is a key responsibility of the Board, who set a strong tone, in line with best practice corporate governance.

Key committees

The Audit and Risk Committee oversees the effectiveness of the risk management processes with expert input from the independent auditors.

The Remuneration Committee ensures incentives and reward are balanced and appropriate for achieving the strategy.

The Nomination Committee addresses the need for continuing strength at the senior levels of the Company and is responsible for succession planning.

Executive management

The management team is responsible for identifying, assessing and mitigating the day-to-day operational risks.

Group Business boards and independent assurance

The boards of our Group Businesses are responsible for ensuring they meet key commercial objectives, and in this they are typically supported by senior members of the Arix Bioscience team, who also sit on their boards.

Independent assurance is provided by industry experts when required. For example, Duff & Phelps is engaged to provide regulatory compliance support to the Board of ALS, Arix Bioscience's FCA-regulated fund management subsidiary

Principal risks and uncertainties

We have assessed the key risks to Arix in light of the current environment. These, along with the steps we take to manage those risks, are detailed below.

Risk
Arix's Group Businesses may not generate the financial returns anticipated.

Impact
Arix's net assets increasingly comprise a range of Group Businesses; below-forecast performance from a Group Business may adversely affect Arix's profitability and ability to generate positive cash flows from future realisations.

Mitigation Action/Control
Arix has a world-class team responsible for identifying and developing Group Businesses, resulting in a high standard of due diligence before the commitment of any money. Post-investment, Arix typically has representatives on the company's board of directors, ensuring it is fully aware of business developments, and allowing for mitigation of possible issues as they arise.

Arix funds a range of Group Businesses and intends to continue growing its portfolio across a range of interests. As such, it will achieve a diverse portfolio, with financial performance not overly reliant on any one business.

Arix deploys capital to Group Businesses at all stages of a company's life cycle. Therefore, it is exposed not only to very early-stage businesses but also holds interests in more mature companies, where risk of failure is reduced.

Risk
Loss of key personnel – to competitors, or from an external event.

Impact
The financial performance of Arix depends on its ability to identify and develop outstanding Group Businesses and, as such, is reliant on its key personnel. Loss of key individuals could affect Arix's financial performance and future prospects.

Mitigation Action/Control
Arix has market-appropriate remuneration for senior employees, including share incentive schemes which reward long-term service and performance.

Arix has three very senior industry figures performing active day-to-day roles. Therefore, the loss of a single member of the executive team would be mitigated by the stature and experience of others within the organisation.

Arix's Nomination Committee is responsible for succession planning.

Risk
Adverse market conditions may affect Arix's operational model.

Impact
An economic downturn may reduce opportunities for Arix to realise capital from Group Businesses, affecting cash flow and financial performance if business valuations are reduced. The availability of capital for any external fundraising by Arix or its Group Businesses may also be affected.

Mitigation Action/Control
Arix's strategy is to deploy permanent capital into innovative businesses which have unique, high-impact outcomes; Arix believes that such businesses are less susceptible to macroeconomic cycles.

Arix has funded Group Businesses across a range of geographies, including the UK, USA, Europe, Canada and Israel. As such, it is not overly reliant on a downturn or market shock in a single geography.

Arix monitors its availability of capital closely, ensuring sufficient balances are available for the continuing operation of the business.

Risk
Changes to government policy or regulation in the research, healthcare or life sciences industries.

Impact
A change in government regulation may adversely affect the profitability of the healthcare and life sciences industry, reducing both the availability of external funding and potential exit opportunities for Arix's Group Businesses.

Mitigation Action/Control
Arix is a global healthcare company, with Group Businesses in the UK, the USA, Europe, Canada and Israel. As such, the portfolio is diversified against the adverse actions of any one government.

Viability statement

The Board has assessed the prospects of Arix over three year period; a timeframe over which the Board expects the majority of Arix's commitments and new proceeds to be deployed; and is consistent with the duration of cash flow forecasts used by management and periodically reviewed by the Board.

The Board has carried out a robust assessment of the principal risks and their mitigants, noted above. In particular, the Board was influenced by a number of factors that may impact the financial returns from Group Businesses. It was ensured that the projections of the Group over the assessment period were consistent with the Group's strategy.

The Board assessed Arix's ability to manage the risk of over-commitment to Group Businesses by reviewing cash flow projections, which included scenarios with differing impacts to the cash flow forecast inputs. Four stress test scenarios were reviewed, and included external factors such as a worsening of market conditions and an industry specific downturn, and internal factors such as the loss of key personnel. Finally, one scenario looked at the impact of all these stress test events happening concurrently.

Based on its review, the Board has a reasonable expectation that Arix will be able to continue in operation and meet its liabilities as they fall due over a three-year period and confirm that preparing the financial statements on a going concern basis is appropriate.

The Strategic Report has been approved by the Board and signed on its behalf by:

Jonathan Peacock
Chairman

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	Note	2017 £'000	15 Sept 15 to 31 Dec 2016 £'000
Change in fair value of investments	11	5,544	1,354
Revenue	3	1,857	635
Administrative Expenses	6	(10,990)	(10,293)
Operating Loss		**(3,589)**	**(8,304)**
Net finance (costs)/income	7	(15)	26
Exceptional gain	23	-	3,962
Exceptional costs		-	(596)
Foreign exchange gains		(432)	97
Share-based payment charge	18	(3,654)	(4,712)
Loss before taxation		**(7,690)**	**(9,527)**
Taxation	9	221	692
Loss for the period		**(7,469)**	**(8,835)**
Other Comprehensive Income			
Exchange differences on translating foreign operations		(1,202)	434
Taxation	9	59	-
Total comprehensive loss for the period		**(8,612)**	**(8,401)**
Attributable to			
Owners of Arix Bioscience plc		(8,612)	(8,401)
Earnings per share			
Basic earnings per share (p)	10	(0.11)	(0.36)
Diluted earnings per share (p)	10	(0.11)	(0.36)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position as at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Non-Current Assets			
Investments held at fair value	11	71,331	17,115
Intangible assets	12	2,057	2,344
Property, plant and equipment	13	523	750
		73,911	**20,209**
Current Assets			
Cash and cash equivalents	15	74,938	28,929
Trade and other receivables	14	1,266	3,262
		76,204	**32,191**
TOTAL ASSETS		**150,115**	**52,400**
LIABILITIES			
Current liabilities			
Trade and other payables	14	(3,670)	(5,791)
Deferred tax liability		-	(280)
		(3,670)	**(6,071)**
TOTAL LIABILITIES		**(3,670)**	**(6,071)**
NET ASSETS		**146,445**	**46,329**
EQUITY			
Share capital and share premium	15	105,125	51
Retained earnings		42,088	45,844
Other reserves		(768)	434
		146,445	**46,329**
TOTAL EQUITY		**146,445**	**46,329**

The accompanying notes form an integral part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 23 April 2018, and were signed on its behalf by

James Rawlingson
Chief Financial Officer

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Share Capital £'000	Share Premium £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2017	51	-	434	45,844	46,329
Loss for the period	-	-	-	(7,469)	(7,469)
Other comprehensive income	-	-	(1,202)	59	(1,143)
Contributions of equity, net of transaction costs and tax	-	105,074	-	-	105,074
Share-based payment charge	-	-	-	3,654	3,654
As at 31 December 2017	**51**	**105,074**	**(768)**	**42,088**	**146,445**

For the period from 15 September 2015 to 31 December 2016

	Share Capital £'000	Share Premium £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000
At Incorporation	-	-	-	-	-
Loss for the period	-	-	-	(8,835)	(8,835)
Other comprehensive income	-	-	434	-	434
Contributions of equity, net of transaction costs and tax	51	49,967	-	-	50,018
Share capital reorganisation	-	(49,967)	-	49,967	-
Share-based payment charge	-	-	-	4,712	4,712
As at 31 December 2016	**51**	**-**	**434**	**45,844**	**46,329**

Consolidated Statement of Cash Flows for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Net cash from operating activities	**19**	**(8,768)**	**(7,457)**
Finance expenses paid		(16)	-
Net cash from operating activities		**(8,784)**	**(7,457)**
Cash flows from investing activities			
Purchase of equity investments		(50,239)	(12,385)
Purchase of property, plant and equipment		(5)	(888)
Acquisition of subsidiaries, net of cash and other assets acquired		-	(359)
Net cash from investing activities		**(50,244)**	**(13,632)**
Cash flows from financing activities			
Net proceeds from issue of shares		105,074	50,018
Net cash from financing activities		**105,074**	**50,018**
Net increase in cash and cash equivalents		**46,046**	**28,929**
Cash and cash equivalents at start of period		28,929	-
Effect of exchange rate changes		(37)	-
Cash and cash equivalents at end of period		**74,938**	**28,929**

Notes to the Financial Statements

1. General information

The principal activity of Arix Bioscience plc (the 'Company') and together with its subsidiaries (the 'Arix Group' or 'the Group') is to source, finance and develop healthcare and life science businesses globally.

The Company is incorporated and domiciled in the United Kingdom. Arix Bioscience plc was incorporated on 15 September 2015 as Perceptive Bioscience Investments Limited and changed its name to Arix Bioscience Limited. It subsequently re-registered as a public limited company and changed its name to Arix Bioscience plc. The address of its registered office is 20 Berkeley Square, London, W1J 6EQ. The registered number is 09777975.

2. Accounting policies

a. Basis of preparation

The consolidated financial statements of the Arix Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS as adopted by the European Union. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) as adopted by the European Union.

The financial statements have been prepared on a historical cost basis, except for certain financial assets which have been measured at fair value. The financial statements are presented in British pounds sterling, which is the functional and presentational currency of the Company, and the presentational currency of the Group; balances are presented in thousands of British pounds sterling unless otherwise stated.

The Arix Group has applied all standards and interpretations issued by the IASB that were effective at the period end date. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented.

Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Arix Group's accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Significant estimates are made by the Arix Group when determining the appropriate methodology for valuing investments (see Note 2(i)) and share- based payments (see Note 2(o) and Note 18).

In preparing these financial statements, the Directors have considered the relationship that the Group has with The Wales Life Sciences Investment Fund (the "WLSIF") and specifically as to whether the Group controls WLSIF. The Directors note that while Arthurian Life Sciences Limited (a 100% subsidiary of Arix Bioscience plc), in its role as fund manager to WLSIF, and Arthurian Life Sciences SPV GP Limited (a 100% subsidiary of Arix Bioscience plc) in its role as general partner of the WLSIF, both exercise power over the activities of WLSIF, they do not have sufficient exposure to variability of returns from WLSIF to meet the definition of control and therefore acts as agents, rather than principals of WLSIF. Accordingly, WLSIF has not been consolidated into these financial statements.

b. Basis of consolidation

Subsidiaries

Subsidiaries are entities over which the Arix Group has control. The Arix Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

The consolidated financial statements comprise a consolidation of the subsidiary entities listed below. This table contains the disclosures required by Section 409 of the Companies Act 2006 for subsidiaries.

Entity	Country of Incorporation	Registered Address	Ownership
Arix Bioscience Holdings Limited	England and Wales	20 Berkeley Square, London, W1J 6EQ	100%
Arix Bioscience, Inc	United States	250 West 55th Street, 33rd Floor, New York NY 10019	100%
Arthurian Life Sciences Limited	England and Wales	3 Assembly Square, Britannia Quay, Cardiff, CF10 4PL	100%
Arthurian Life Sciences GP Limited	Scotland	16 Charlotte Square, Edinburgh, EH2 4DF	100%
Arthurian Life Sciences SPV GP Limited	England and Wales	3 Assembly Square, Britannia Quay, Cardiff, CF10 4PL	100%
Arthurian Life Sciences Carried Interest Partner LP	Scotland	16 Charlotte Square, Edinburgh, EH2 4DF	100%
Arix Bioscience Pty Limited	Australia	Level 27, AMP Centre, 50 Bridge Street, Sydney NSW 2000	100%

All companies are involved in the sourcing, financing and development of healthcare and life science businesses, other than the Arthurian Life Sciences companies, which are engaged in fund management activity, and Arthurian Life Sciences Carried Interest Partner LP, which holds a financial interest in a limited partnership.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Associates

Associates are entities over which the Group has significant influence, but does not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights.

No associates are presented on the Statement of Financial Position as the Group elects to hold such investments at fair value through profit and loss. This treatment is permitted by IAS 28 Investment in Associates and Joint Ventures, which permits investments held by entities that are akin to venture capital organisations to be excluded from its measurement methodology requirements where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Changes in fair value of associates are recognised in the Statement of Comprehensive Income in the period in which the change occurs. The Group has no interests in associates through which it carries on its business.

The disclosures required by Section 409 of the Companies Act 2006 for associated undertakings are included in Note 11 to the financial statements. Similarly, those investments which may not have qualified as Associate but fall within the wider scope of significant holdings and so are subject to Section 409 disclosure acts are also included in Note 11 to the financial statements.

WLSIF is considered neither a subsidiary nor an associate, as detailed in Note 2(a).

c. Adoption of new and revised standards

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9 – 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group have determined that its investments are held for long periods of time, and are not held for the benefit of any contractual cash flows. On this basis, such investments are classified as financial assets at Fair Value in Profit and Loss under IFRS 9. This is consistent with the Group's treatment under IAS39, so there is no change in treatment and no impact on the financial statements. The Group's cash and receivable balances are held with the expectation that these will be realised by collecting the contractual cash flows associated with them. Under IFRS 9, such financial assets are held at Amortised Cost. This is consistent with the Group's treatment under IAS 39, so there is no change in treatment and no material impact on the financial statements. To date, the Group has not impaired any financial instruments, and as such, any possible future impairments would be applied in line with IFRS 9. The Group will apply the new rules from 1 January 2018.
- IFRS 15 – 'Revenue from contracts with customers' applies to the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group has assessed its sources of revenue, namely fund management fees, Non- Executive Director fees receivable, and determined that there will be no change in how each revenue source will be recognised compared to the existing treatment under IAS18; there will therefore be no impact on the financial statements. The Group will apply the new rules from 1 January 2018.
- IFRS 16 – 'Leases' This standard replaces the current guidance in IAS 17 – 'Leases' and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting remains substantially unchanged. IFRS 16 provides updated guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts); under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement. The Group is currently assessing the impact of IFRS 16.

d. Revenue recognition

Revenue is generated from fund management fees, transaction fees and from Non-Executive Directors' fees receivable. Fund management fees are earned as a percentage of fund commitments managed and are recognised in the period in which they arise. Transaction fees are typically earned as a fixed percentage of funds provided and are recognised at the point of completion of the transaction. Non-Executive Directors' fees are recognised on an accruals basis.

e. Foreign currency translation

The assets and liabilities of foreign operations are translated to the Arix Group's presentational currency (British pounds sterling) at foreign exchange rates ruling at the period-end date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

f. Leases

Rents payable under operating leases are charged against income on a straight-line basis over the lease term, even if payments are not made on such a basis.

g. Exceptional items

Items that are material in size and unusual in nature are disclosed separately to provide a more accurate indication of underlying performance.

h. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets:

- Office Equipment Three years
- Fixtures and Fittings Five years
- Office Furniture Five years
- Leasehold Property Five years

i. Financial Assets

The Arix Group classifies its financial assets as either at fair value through profit or loss or as loans and receivables. The classification depends on the purpose for which the financial assets have been acquired and is determined on initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Arix Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Arix Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Arix Group has transferred substantially all risks and rewards of ownership.

Equity Investments

Those Group Businesses in the Arix Group that are held with a view to the ultimate realisation of capital gains are recognised as equity investments within the scope of IAS 39 and are classified as financial assets at fair value through profit or loss. This includes investments in associated undertakings, as per Note 11. When financial assets are recognised initially they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. They are subsequently remeasured at their fair value if a valuation event occurs. A valuation event may include technical measures, such as product development phases, financial events, such as further injection of capital, and sales events, such as product launches.

Fair value hierarchy

The Arix Group classifies financial assets using a fair value hierarchy that reflects the significance of the inputs used in making the related fair value measurements. The level in the fair value hierarchy, within which a financial asset is classified, is determined on the basis of the lowest level input that is significant to that asset's fair value measurement. The fair value hierarchy has the following levels:

Level 1 The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.

The quoted market price used for financial assets held by the Group is the current bid price.

Level 2 The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3 If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Valuation of investments

The fair value of quoted investments is based on bid prices at the period end date.

The fair value of unlisted securities is established initially at cost. Subsequently, the fair value is determined using the International Private Equity and Venture Capital Valuation Guidelines December 2015 ('IPEV Guidelines'). The valuation methodology primarily used by the Arix Group is the 'price of recent investment', a 'milestone analysis' approach or the net asset value of a direct investment in a fund.

Investments made in seed, start-up and early stage companies often have no current and no short-term future earnings or positive cash flows; in such circumstances, it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts. Consequently, the most appropriate approach to determine fair value is a methodology primarily based on the price of a recent investment.

Where the Arix Group considers that the unadjusted price of investment may no longer be relevant, the Group carries out an enhanced assessment based on milestone analysis. In applying the milestone analysis approach to investments in companies in early or development stages, the Group seeks to determine whether there is an indication of change in fair value.

The following factors are considered when calculating the fair value:

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value, unless there is objective observable evidence that the investment has since been impaired;
- Where there has been a recent investment by a third party, the price of that investment will provide a basis of the valuation;
- If there is no readily ascertainable value or recent transaction, the Arix Group considers alternative IPEV Guidelines methodologies, principally being discounted cash flows and price-earnings multiples. In these instances, a price to earnings multiple is derived from an equivalent business that is considered a suitable proxy. An appropriate discount is applied to the price-earnings multiple for risks inherent to early stage businesses;
- Where a fair value cannot be estimated reliably, perhaps because of a lack of either revenue or earnings, the investment is reported at carrying value, unless there is evidence that the investment has been impaired or there has been a 'milestone' event. A milestone event may include technical measures, such as product development phases and patent approvals, financial measures, such as cash burn rate and profitability expectations, and market and sales measures, such as testing phases, product launches and market introductions; and
- Where the equity structure in an investment involves different class rights in a sale or liquidity event, the Arix Group takes these different rights into account when forming a view of the fair value of its investment.

Although the Directors use their best judgement, and cross-reference results of primary valuation models against secondary models in estimating the fair value of investments, there are inherent limitations in any estimation techniques. Whilst fair value estimates presented herein attempt to present the amount the Arix Group could realise in a current transaction, the final realisation may be different, as future events will also affect the current estimates of fair value. The effects of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to the financial statements.

This is particularly significant for the Arix Group's interest in the carried interest vehicle of The Wales Life Sciences Investment Fund. Carried interest is the fund manager's share of the fund's profits, once investors have received a return over a specified hurdle. Underlying companies within the fund are at an early stage of their lives and are generally held at a value equal to cost until a milestone is reached. This makes the valuation of the carried interest sensitive to the assumptions used regarding the size and timing of realisations. This information is then used to determine the carried interest valuation, using a discounted cash flow model; further assumptions are made in this calculation, with the final balance being particularly sensitive to the choice of discount rate; a liquidity discount is also applied. Any ultimate gain for the Arix Group from this holding may be materially different from the current fair value.

Treatment of gains and losses arising on fair value

Realised and unrealised gains and losses on financial assets at fair value through profit and loss are included in the Statement of Comprehensive Income in the period in which they arise.

Recognition of financial assets

Purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets

At the end of each reporting period the Group assesses whether there is objective evidence that its loans and other receivables are impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income within administrative expenses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Statement of Comprehensive Income within administrative expenses.

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Arix Group or the counterparty. Where these conditions are met, the net amount is reported in the Statement of Financial Position.

j. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, call deposits and bank overdrafts.

k. Goodwill and intangible assets

Intangibles were acquired by the Arix Group as part of the acquisition of Arthurian Life Sciences Limited and Arthurian Life Sciences SPV GP Limited.

It is the policy of the Arix Group to amortise these fair values over the period in which the Arix Group is expected to obtain economic benefit from the related intangible assets. The excess of consideration transferred over the fair value of net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the Statement of Comprehensive Income as a bargain purchase.

l. Share capital

Ordinary Shares and Series C Shares are classified as equity. Equity instruments issued by the Arix Group are recorded at the proceeds received, net of direct issue costs.

m. Trade payables

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 (or in the normal operating cycle of the business if longer).

If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value, generally being the invoiced amount and are subsequently measured at amortised cost, using the effective interest method.

n. Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Arix Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheets. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

o. Share-based payments

The Arix Group operates an equity incentive plan and an executive share option plan in which the Group's founders also participate. Share options must be measured at fair value and recognised as an expense in the Statement of Comprehensive Income with a corresponding increase in equity. The fair value of the option is estimated at the date of grant using the Black-Scholes Model and is charged as an expense in the Statement of Comprehensive Income over the vesting period. The charge is adjusted each year to reflect the expected and actual level of vesting. Estimation uncertainty arises with this balance as the calculation incorporates assumptions for share price, exercise price, expected volatility (based on similar quoted companies), risk-free interest rate and share option term. In addition to management share options, the Group has also provided Founders Shares, which are classed as a share-based payment. As no service conditions are attached to these shares, the incremental accounting charges have been recognised immediately.

p. Financial risk management

The Arix Group is exposed to market risk, interest rate risk, credit risk and liquidity risk. The senior management oversees the management of these risks and ensures that the financial risk taking is governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Arix Group's policies and risk appetite.

The Board of Directors review and agree the policies for managing each of these risks, which are summarised below:

Market risk

Foreign exchange risk – the Arix Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and euros. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Arix Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk; at period-end the Arix Group held euro-denominated assets valued at €1.2m; Canadian dollar-denominated assets valued at C$0.9m; and US dollar-denominated assets valued at $44.2m. The impact of foreign exchange on these holdings is closely monitored.

Price risk – the Arix Group is exposed to equity securities price risk because investments are held at fair value through profit or loss.

The Group's strategy is to deploy permanent capital into innovative businesses which have unique, high-impact outcomes; Arix believes that such businesses are less susceptible to macroeconomic cycles. The Group monitors its availability of capital closely, ensuring sufficient balances are available for the continuing operation of the business throughout the period assessed in the viability statement.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Arix Group's income is substantially independent of changes in market interest rates. Interest bearing assets include only cash and cash equivalents, which earn interest at variable rates. The Arix Group has a treasury policy to manage cash and cash equivalents.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Arix Group. The major classes of financial assets of the Arix Group are cash and cash equivalents (31 December 2017: £74,938k) and trade and other receivables (£960k).

Risk of counterparty default arising on cash and cash equivalents is controlled within a framework of dealing with high-quality institutions.

As at 31 December 2017, 100% of cash and cash equivalents was deposited with institutions that have a credit rating of at least category A+, according to Fitch ratings.

No counterparty has failed to meet its obligations over the period. The maximum exposure to credit risk is represented by the carrying amount of each asset. Management does not expect any significant counterparty to fail to meet its obligations.

Liquidity risk

The Arix Group manages liquidity risk by maintaining sufficient cash to enable it to meet its operational requirements. The following table details the Arix Holdings Group's remaining contractual maturity for its financial liabilities based on undiscounted contractual payments:

	Within one year £'000	1 to 2 Years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade, other payables and accruals	3,670	–	–	–	3,670

Capital risk management

The Arix Group manages its capital to ensure that it will be able to continue as a going concern, whilst also maximising the operating potential of the business. The capital structure of the Arix Group consists of equity attributable to equity holders of the Arix Group, comprising issued capital and retained earnings as disclosed in the Consolidated Statement of Changes in Equity. The Arix Group is not subject to externally imposed capital requirements.

3. Revenue

	2017 £'000	**2016 £'000**
Fund management fee income	1,695	589
Other income	162	46
	1,857	**635**

The total revenue for the Arix Group has been derived from its principal activity of sourcing, financing and developing healthcare and life science businesses globally. All of this revenue relates to trading undertaken in the United Kingdom.

4. Segmental Information

Information for the purposes of resource allocation and assessment of performance is reported to the Arix Group's Chief Executive Officer, who is considered to be the chief operating decision maker, based wholly on the overall activities of the Arix Group. It has therefore been determined that the Arix Group has only one reportable segment under IFRS 8 ('Operating Segments'), which is that of sourcing, financing and developing healthcare and life science businesses globally. The Arix Group's revenue, results and assets for this one reportable segment can be determined by reference to the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position.

	2017 £'000	**2016 £'000**
Negative goodwill on acquisition of Arthurian Life Sciences	–	3,962
Amortisation	(287)	(142)
Depreciation	(218)	(138)
Rent	(598)	(302)
Auditors' remuneration		
Statutory audit services		
Fees payable for the audit of the Arix Group accounts	152	95
Fees payable for the audit of the accounts of subsidiaries of the Arix Group	41	43
Non-audit services		
Taxation advisory services	–	35
Other assurance and advisory services	187	722
Total auditors' remuneration	**380**	**895**

6. Administrative Expenses

The administrative expenses charge broken down by nature is as follows:

	2017 £'000	**2016 £'000**
Employment costs	5,933	6,324
Recruitment costs	255	837
Consultancy fees	999	1,152
Research and development costs	208	–
Other expenses	3,595	1,980
	10,990	**10,293**

7. Net Finance Income

	2017 £'000	**2016 £'000**
Bank interest	1	36
Bank charges	(16)	(10)
	(15)	**26**

8. Employee Costs

Employee costs (including Directors) comprise:

	2017 £'000	**2016 £'000**
Salary and bonus	5,236	5,560
Social security costs	541	712
Pension costs	156	52
	5,933	**6,324**

9. Income Tax

	2017 £'000	**2016 £'000**
Current year tax charge		
Current Tax	59	-
Deferred tax	(221)	(692)
Total tax credit	**(162)**	**(692)**
Reconciliation of tax charge		
Profit before tax	(7,690)	(9,527)
Expected tax based on 19.25% (2016: 20.00%)	(1,481)	(1,906)
Effects of:		

Expenses not deductible for tax purposes	378	890
Adjustments in respect of previous periods	59	–
Income not taxable	–	(792)
Impact of rate between deferred tax and current tax	(11)	187
Deferred tax not recognised	893	929
Total tax credit	**(162)**	**(692)**
Tax creditor		
Brought forward	(31)	–
Relating to Acquisition	–	(31)
Relating to Profit and Loss	–	-
Carried forward	**(31)**	**(31)**
Recognised deferred tax provisions		
Brought forward	(280)	–
Relating to Acquisition	–	(972)
Relating to Profit and Loss	221	692
Relating to Other Comprehensive Income	59	–
Carried forward	**–**	**(280)**
Represented by:		
Unutilised tax losses	1,076	575
ACAs	5	5
Intangibles	(374)	(398)
Employee benefits	374	118
Investments	(1,081)	(580)
	–	**(280)**
Unrecognised deferred tax provisions		
Unutilised tax losses	1,868	839
Employee benefits	79	–
Other timing differences	1	–
	1,948	**839**

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of £1,948k in respect of losses amounting to £11,459k, which can be carried forward against future taxable income.

10. Earnings per Share

On 17 February 2017, the Group issued 48,309,179 ordinary shares as it was admitted to the standard listing segment of the Official List of the UKLA and to London Stock Exchange plc's Main Market for listed securities. On 20 March 2017, the Group partially exercised the Over-Allotment Option available to it following its listing, with a further 6,139,815 shares issued. As at 31 December 2017, the Group had 96,153,090 ordinary shares in issue.

At the year-end date, 9,822,459 of the ordinary shares were subject to restrictions. These shares are not entitled to vote, attend meetings or to receive dividends or other distributions. Consequently, restricted shares have been excluded from the calculation of the weighted average number of shares in issue.

Basic earnings per share is calculated by dividing the loss attributable to equity holders of Arix Bioscience plc by the weighted average number of enfranchised shares (as adjusted for capital subscription in accordance with the terms of the restrictive share agreement) in issue during the period.

The Arix Group has potentially dilutive ordinary shares, being those share options granted to employees. As the Arix Group has incurred a loss in the period, the diluted loss per share is the same as the basic earnings per share as the loss has an anti-dilutive effect.

	Year ended 31 Dec 2017 £'000	**Period ended 31 Dec 2016 £'000**
Loss attributable to equity holders of Arix Bioscience plc	(8,612)	(8,401)

Weighted average number of shares in issue	78,725,677	23,030,546
	(0.11)p	**(0.36)p**

11. Investments

Equity Investments

	Level 1 - Quoted Investments £'000	**Level 3 - Unquoted Investments £'000**	**Total £'000**
At 1 January 2017	2,020	15,095	17,115
Additions	1,780	48,459	50,239
Unrealised (loss) / gain on investments	(882)	6,426	5,544
Foreign exchange losses	(72)	(1,495)	(1,567)
At 31 December 2017	**2,846**	**68,485**	**71,331**

Level 3 investments are valued with reference to either price of recent investment (£58.8m, 2016: £10.8m); net asset value (£5.9m, 2016: £nil); or by discounted cash flow (£3.8m, 2016: £4.3m); the latter used a discount rate of 23%, a discount for marketability (20%) and other assumptions relating to exit values and exit dates (see Note 2(i) for further details). The sensitivity of the discounted cash flow valuation was considered; a 25% reduction in the exit assumptions of the underlying assets would result in the £3.8m valuation being reduced to £0.7m.

As permitted by IAS 28 'Investment in Associates' and in accordance with the Arix Group accounting policy, investments are held at fair value even though the Arix Group may have significant influence over the companies. As at 31 December 2017 the Arix Group is deemed to have significant influence over the following entities, either due to holding more than 20% of the issued share capital, and/or having a director on the board of the company:

Company	**Country of Incorporation**	**Registered Address**	**% of Issued Share Capital Held**	**Net Assets/ (Liabilities) of Company £'000**	**Profit/(Loss) of Company £'000**	**Date of Financial Information**
Artios Pharma Limited	England	Babraham Hall, Babraham Research Campus, Cambridge, CB22 3A	14.7%	4,965	(2,444)	31 Dec 2016
Atox Bio, Inc	Israel	8 Pinhas Sapir St, Weizmann Science Park, Ness Ziona	3.7%	Not disclosed	Not disclosed	N/A
Aura Biosciences, Inc	USA	85 Bolton Street, Cambridge, MA	4.9%	Not disclosed	Not disclosed	N/A
Autolus Limited	England	Forest House, 58 Wood Lane, London, W12 7RZ	8.6%	28,282	(9,736)	30 Sept 2016
Depixus SAS	France	3–5 Impasse Reille, 75014 Paris	20.7%	Not disclosed	Not disclosed	N/A
Harpoon Therapeutics, Inc.	USA	4000 Shoreline Court, Suite 250 South San Francisco, CA 94080	8.0%	Not disclosed	Not disclosed	N/A
Iterum Therapeutics Limited	Ireland	Block 2 Floor 3, Harcourt Centre Harcourt Street, Dublin	6.8%	Not disclosed	Not disclosed	N/A
LogicBio Therapeutics, Inc	USA	815 Perseus Ln, Foster City, CA 94404	13.3%	Not disclosed	Not disclosed	N/A
OptiKira, LLC	USA	20600 Chagrin Boulevard, Suite 210, Cleveland, OH 44122	26.0%	Not disclosed	Not disclosed	N/A
PreciThera, Inc	Canada	1010 Sherbrooke Street West, Suite 408, Montreal, QC H3A 2R7	17.8%	Not disclosed	Not disclosed	N/A

Company	Country of Incorporation	Registered Address	% of Issued Share Capital Held
Amplyx Pharmaceuticals, Inc	USA	12730 High Bluff Drive, Suite 160, San Diego, CA 92130, USA	2.8%
BioMotiv, LLC	USA	20600 Chagrin Boulevard, Suite 210, Cleveland, OH 44122	17.8%
Mitoconix Bio Limited	Israel	2 Ilan Ramon St. , 3rd Floor, P.O.Box 4044, Ness Ziona 7403635, Israel	2.2%
Verona Pharma plc	England	3 More London Riverside, London, SE1 2RE	2.5%

The Arix Group has an interest in one structured entity, The Wales Life Sciences Investment Fund (registered address: Life Sciences Hub Wales, 3 Assembly Square, Britannia Quay, Cardiff, Wales, CF10 4PL). The fund has interests in Welsh life sciences opportunities. A structured entity is an entity that is structured in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity. The Arix Group is not deemed to have control over this fund for the reasons disclosed in Note 2(a). The Group's interest is recognised within Investments, and totals £9.6m at year-end (2016: £4.3m); the Group's exposure is limited to the carrying value within Investments. Investments also includes a £2m loan provided to Simbec-Orion Group Limited during the year.

12. Intangible Assets

	Year ended 31 Dec 2017 £'000	Period ended 31 Dec 2016 £'000
Brought forward	2,344	-
Additions	-	2,486
Amortisation	(287)	(142)
	2,057	**2,344**

An intangible asset arose on Arix Bioscience plc's acquisition of ALS, relating to management fees due to Arthurian Life Sciences Limited as a result of managing The Wales Life Sciences Investment Fund. These fees are amortised over a nine-year period, being the expected remaining life of the fund at the time of acquisition.

13. Property, Plant and Equipment

Year ended 31 December 2017

	Fixtures and Fittings £'000	Leasehold Improvements £'000	Office Equipment £'000	Total £'000
As at 1 January 2017	577	44	129	750
Exchange translation adjustments	(10)	(1)	(3)	(14)
Additions	–	–	5	5
Depreciation Charge	(157)	(9)	(52)	(218)
At 31 December 2017	**410**	**34**	**79**	**523**

Period ended 31 December 2016

	Fixtures and Fittings £'000	Leasehold Improvements £'000	Office Equipment £'000	Total £'000
Cost Additions	682	50	156	888
Depreciation Charge	(105)	(6)	(27)	(138)
Net Book Value	**577**	**44**	**129**	**750**

14. Trade and Other Receivables

	As at 31 Dec 2017 £'000	As at 31 Dec 2016 £'000
Trade receivables	275	610
Other receivables	571	2,099
Prepayments	306	113
VAT receivable	114	440
	1,266	**3,262**

The maximum exposure to credit risk at the reporting date is the carrying value of each asset class listed above. The Arix Group does not hold any collateral as security.

15. Cash and Cash Equivalents

	As at 31 Dec 2017 £'000	As at 31 Dec 2016 £'000
Cash at bank and in hand	74,938	28,929

The carrying value of cash and cash equivalents approximates to its fair value.

16. Trade and Other Payables

The carrying values of trade and other payables approximates their fair value.

	As at 31 Dec 2017 £'000	As at 31 Dec 2016 £'000
Trade payables	544	1,280
Accruals and other payables	2,856	4,383
Deferred Income	–	3
Current Tax Liabilities	270	125
	3,670	**5,791**

17. Share Capital

	As at 31 Dec 2017 £'000	As at 31 Dec 2016 £'000
Allotted and called up		
96,153,090 ordinary shares of £0.00001 each (2016: 100,966,920)	1	1
49,671 Series C shares of £1 each (2016: 49,671)	50	50

A restructure of the Company's share capital took place in February 2017, resulting in the conversion of 88,245,473 shares into deferred shares.

A further 754,527 deferred shares were issued; this was followed by a consolidation of the deferred shares, resulting in 89 deferred shares of £1.00 per share.

On 17 February 2017, the Group issued 48,309,179 ordinary shares at a price of £2.07 per share as it was admitted to the standard listing segment of the Official List of the UKLA and to London Stock Exchange plc's Main Market for listed securities. On 20 March 2017, the Group partially exercised the Over-Allotment Option available to it following its listing, with a further 6,139,815 shares issued, at £2.07 per share.

Following the exercise of the over-allotment option a further 166,311 shares were converted into £0.0001 deferred shares. All deferred shares were subsequently cancelled following the passing of a resolution at the Group's AGM in June 2017.

On 21 December 2017 the Group issued 62,007 shares to certain Non-Executive Directors. As at 31 December 2017, the Group had 96,153,090 ordinary shares in issue.

At the year-end date, 9,822,459 of the ordinary shares were subject to restrictions. These shares are not entitled to vote, attend meetings or to receive dividends or other distributions. C shares carry no voting rights and no rights to profits.

18. Share Options

During 2017, share-based payment expenses have been recognised relating to a range of share schemes operated by the Arix Group.

Executive Share Option Plan

Arix Group operates an Executive Share Option Plan, in which two Directors participate. Options were granted on 8 February 2016 with an exercise price of £1.80 per ordinary share. The number of ordinary shares subject to the options totals 5,520,559. The options vest in four equal proportions on 8 February of 2017, 2018, 2019 and 2020. The options may not be exercised after the tenth anniversary of the grant date and it will lapse on that date if it has not lapsed or been exercised in full before then. All options vest at the end of the vesting period relating to that option or on the occurrence of a contingent event; these include a change of control or cessation of employment in accordance with "good leaver" provisions.

No options have been exercised to date. In the year ended 31 December 2017, a share-based payment charge of £985k was recognised in relation to the Executive Share Option Plan, calculated using the Black–Scholes model. Assumptions used in the model relating to the risk free interest rate and expected volatility were unchanged from those used in the prior period.

Restricted shares with identical terms, including a £1.80 price for the lifting of restrictions, were offered to the founders of the Company, totalling 5,080,582 shares. In the year ended 31 December 2017, a share-based payment charge of £606k was recognised in relation to these Founder Incentive Shares, calculated using the Black–Scholes model. Assumptions used in the model relating to the risk free interest rate and expected volatility were unchanged from those used in the prior period.

Executive Incentive Plan

Arix Group operates an Executive Incentive Plan for Executive Directors and certain employees of the Company.

IPO Award

In February 2017, the Executive Directors and certain employees were awarded one-off nil cost options or conditional awards in recognition of their contribution to the Company's initial public offering. The options were granted on 22 February 2017; all options vest after two years, on 22 February 2019. Options are conditional upon remaining in employment with the Arix Group during the vesting period. In the year ended 31 December 2017, a share-based payment charge of £1,261k was recognised in relation to the IPO Awards. The charge was calculated as the total number of options granted, at the IPO share price of £2.07, recognised across the two-year vesting period.

Employee Share Plan

In May 2017, the Executive Directors and certain employees were awarded options or conditional awards which, in case of options will become exercisable and in the case of the conditional share awards, will vest on the third anniversary of their grant, on 26 May 2020, subject to performance criteria. This requires the share price to have grown by a set percentage over the assessment period, with the quantum of shares vesting dependent on the level of share price growth. In the year ended 31 December 2017, a share-based payment charge of £259k was recognised in relation to the Employee Share Plan. The charge was calculated using a Monte Carlo simulation model, using the following assumptions:

Share price at grant	£1.975
Risk free interest rate	0.12%
Time to vesting	3 years
Expected volatility	44%

Non-Executive Director Awards

During the year, each of the Non-Executive Directors received a fee equal to their annual fees under their respective letters of appointment, satisfied by the issue and allotment of Ordinary Shares. In the year ended 31 December 2017, a share-based payment charge of £470k was recognised in relation to these awards, calculated as the market value of the award on the grant date.

Pursuant to their respective letters of appointment, the Non-Executive Directors agreed that 50% of their fees will be satisfied by the issue of the Ordinary Shares. Shares are expected to be awarded in June 2018 for the year to 30 June 2018; as such, a share-based payment charge of £73k has been recognised in relation to the share award accrued for the period from 1 July 2017 to 31 December 2017.

19. Notes to the Statement of Cash Flows

	Year ended 31 Dec 2017 £'000	Period ended 31 Dec 2016 £'000
Loss before income tax	(7,690)	(9,527)
Adjustments for:		
Change in fair value of investments	(5,544)	(1,354)
Exceptional gain	–	(3,962)
Foreign exchange loss/(gain)	432	(97)

Share-based payment charge	3,654	4,712
Depreciation and Amortisation	506	278
Finance income	(1)	(36)
Changes in Working Capital		
Decrease/(increase) in trade and other receivables	1,996	(3,262)
(Decrease)/increase in trade and other payables	(2,121)	5,791
Cash used in Operations	**(8,768)**	**(7,457)**

20. Financial Commitments

Operating Leases

At 31 December 2017, operating leases represent short-term leases for office space.

Future aggregate minimum lease payments under non-cancellable operating lease agreements are as follows:

	As at 31 Dec 2017 £'000	**As at 31 Dec 2016 £'000**
No later than one year	637	673
Later than one year but no later than five years	1,492	2,208
Later than five years	–	-
	2,129	**2,881**

The Group also has amounts committed to Group Businesses but not yet invested; at 31 December 2017 these totalled £28,606k (2016: £12,016k).

21. Financial Instruments

Financial Assets

The Arix Group has other receivables and cash that derive directly from its operations. Financial assets at fair value through profit or loss are measured as either Level 1 or Level 3 under the fair value hierarchy, as described in Note 2i and disclosed in Note 11.

	As at 31 Dec 2017 £'000	**As at 31 Dec 2016 £'000**
Financial Assets at Fair Value Through Profit or Loss		
Equity investments	71,331	17,115
Loans and Receivables		
Other receivables (excluding prepayments)	846	2,709
Cash and cash equivalents	74,938	28,929

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The Arix Group's cash and cash equivalents are deposited with A+ rated institutions. Investments and other receivables do not have a credit rating. However, the Group does not believe these to be past due nor impaired.

Financial Liabilities

The Arix Group's principal financial liabilities comprise trade and other payables. The primary purpose of these financial liabilities is to finance the operations.

	As at 31 Dec 2017 £'000	**As at 31 Dec 2016 £'000**
Trade, Other Payables and Accruals (excluding non-financial liabilities)	3,670	5,791

22. Guarantees

The Company has provided a rent deposit guarantee in respect of its US office for an amount of $261,657, (£193,946), unchanged from 2016.

23. Exceptional Gain in Prior Period

On 20 June 2016, the Arix Group acquired the whole of the issued share capital of both Arthurian Life Sciences Limited and Arthurian Life Sciences SPV GP Limited, for a total cash consideration of £891k.

The fair value of the shares acquired of Arthurian Life Sciences Limited was determined to be £5,855k, calculated on the basis of:

(i) income multiples relating to the management fees due to Arthurian Life Sciences Limited as a result of managing The Wales Life Sciences Investment Fund; and

(ii) Current day valuation of The Wales Life Sciences Investment Fund and the excess value due to Arthurian Life Sciences Limited as a result of its carried interest arrangement. This was discounted to reflect liquidity risk.

Adjusted for deferred tax of £1,002k, negative goodwill credited to profit and loss totalled £3,962k.

24. Related Party Transactions

Consultancy fees plus expenses amounting to £280,165 (inclusive of VAT) (2016: £1,146,000) were payable to Merlin Scientific LLP during the period, a partnership controlled by Sir Chris Evans, a Director and substantial shareholder of the Company. At 31 December 2017, £841 (inclusive of VAT) (2016: £882,000) was owed to Merlin Scientific LLP by the Company.

At 31 December 2017, Excalibur Fund Managers Limited, a business which Sir Chris Evans, a Director and substantial shareholder of the Company, is the ultimate controlling paty, owed Arthurian Life Sciences Limited £174,000 relating to overpayment of fund management fees (31 December 2016: £174,000).

Consultancy fees amounting to £313,147 (inclusive of VAT) were payable to Martin Walton, a Director of Arthurian Life Sciences Limited until 13 October 2017. At 31 December 2017, no amounts were due to Martin Walton (31 December 2016: £nil).

David U'Prichard, a Non-Executive Director of the Company, provides consulting services and administrative support to BioMotiv LLC a company in which the Group holds an interest. The consulting services and administrative support are provided through Druid Consulting LLC, a firm controlled by David U'Prichard. During the year ended 31 December 2017, Druid Consulting LLC received a total of $330,679 from BioMotiv LLC (2016: $247,195).

Key management comprises solely the Directors of the Arix Group, the emoluments of which are disclosed in the Directors' Remuneration Report.

25. Events After the Reporting Date

On 20 March 2018, the Company raised approximately £87 million in a capital raising, from both new and existing investors. A total of 38,610,928 new Ordinary Shares were issued at a price of £2.25 per share. At the date of publication, the number of Ordinary Shares that the Company has in issue was 134,764,018.

On 16 February 2018, a further $4,689k (£3,393k) was invested in Iterum Therapeutics Limited. The Arix Group's fully diluted shareholding in the company now stands at 8.4%.

On 28 February 2018, a further €286k (£254k) was invested in Depixus SAS, in line with existing commitments; the Arix Group's fully diluted shareholding in the company now stands at 18.6%.

On 28 March 2018, a further $2,500k (£1,764k) was invested in BioMotiv, LLC; the Arix Group's fully diluted shareholding in the company remains at 17.8%.