Generating Value from Innovation in Healthcare & Life Sciences

Annual Report and Accounts for the period ended 31 December 2016

Stock code: ARIX.L

WELCOME TO THE ARIX BIOSCIENCE PLC ANNUAL REPORT 2016

Who we are

Arix Bioscience is a global healthcare and life science company focused on generating value from the development and commercialisation of innovative technologies and discoveries. The Company was formed in response to opportunities in the healthcare and life science sector brought by the growing number of new therapies and technologies, driven by scientific innovation.

Such innovation is increasingly led by small innovative businesses, and Arix aims to provide a solution to the volatility of the funding market available to such businesses, as well as providing operational and strategic support.

RECENTLY ACQUIRED GROUP BUSINESSES*

ARIX BIOSCIENCE plc

Autolus Limited

A Biotech focused on developing novel cancer therapies

Verona Pharma plc

A novel class of inhaled PDE3/4 inhibitor for COPD

OptiKira LLC

Pre-clinical BioMotiv spin-out focusing on Retinitis Pigmentosa

Depixus SAS

A completely novel approach to genome and epigenome sequencing

Artios Pharma Ltd

A novel class of DNA Damage Repair pathway inhibitors

Read More in our Operational and Financial Review on pages 16 to 20

*Group Businesses are innovative healthcare and life businesses with which Arix partners.

Highlights

£52M PRIVATE RAISE TO LAUNCH BUSINESS IN FEBRUARY 2016

ACQUIRED DIRECT INTERESTS IN FIVE EXCEPTIONAL LIFE SCIENCE COMPANIES SINCE FIRST RAISING CAPITAL IN FEBRUARY 2016

FEBRUARY 2017 IPO, BRINGING TOTAL FUNDS RAISED TO £164M

INDIRECT INTERESTS IN A FURTHER 17 INNOVATIVE LIFE SCIENCE COMPANIES THROUGH OWNERSHIP OF ALS AND EQUITY INTEREST IN BIOMOTIV

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www.arixbioscience.com

STRATEGIC REPORT

Contents

Strategic Report

"We are committed to building Arix as a leader in our industry both in terms of the value we deliver for shareholders and patients and in the quality of governance exercised by our Board."

Our Unique Investment Proposition

Arix Bioscience can provide strategic, operational, clinical and financial resources to support potential new drugs and other medical innovations, creating substantial value for investors.

A substantial market opportunity

- The healthcare and life science markets are worth over $1 trillion.
- Scientific innovation is driven by leading academic institutions and smaller companies. These often do not have experience of company development, nor access to permanent capital.
- Arix Bioscience can provide a balanced exposure to a diverse range of global biopharma companies, as well as a flexible approach to funding, by separating the development cycle from the capital cycle.

Read More about **Our Marketplace** on page **12**

Arix Bioscience is differentiated within the healthcare and life science sector due to:

EXTENSIVE GLOBAL NETWORKS

Arix has established, and continues to develop, contractual access to a broad range of opportunities from multiple sources:

- Strategic agreements have been signed with two major pharmaceutical companies, Takeda and UCB Pharma, developing further the deep industry experience of Arix.
- Partnerships have been agreed with research accelerators, BioMotiv in the US and the Max Planck Lead Discovery Centre in Europe, which provide Arix with a constant, renewable source of access to opportunities.
- Privileged academic relationships have been developed with universities around the world, enabling Arix to access outstanding research at the earliest opportunity.
- Ownership of Arthurian Life Sciences, the investment manager of The Wales Life Sciences Investment Fund, and the operational capability to seek appointment as a manager of other funds, including in other jurisdictions.
- Directed sourcing via the extensive professional networks of Arix's senior leadership team.

Read More in our **Chief Executive Officer's Statement** on page **08**

A HIGHLY DIVERSIFIED MODEL

Great ideas, technology and opportunities for value originate from varied institutions in many countries, and at all stages of company development, from start-up and discovery to those about to commercialise products. Arix Bioscience is structured to access opportunities and provide real support and capital all across this broad spectrum.

Read More about our **Portfolio** on page **18**

A DEEP PIPELINE OF ATTRACTIVE OPPORTUNITIES

We have reviewed over 500 opportunities across the full breadth of therapeutic areas, including oncology, rare diseases, immunology, inflammation and metabolism. These originate from the UK, Europe and the US, as well as a range of other countries, including Israel and Australia.

DISCIPLINED AND EXPERIENCED BUSINESS DEVELOPMENT

Our business model is to create long-term value by directing the strategic, operational and clinical plans of our businesses and providing support in the execution of those plans. We strengthen their boards and management teams, provide technical, operational and clinical experience and expertise where needed, and support the funding of the businesses.

Read More about our **Business Model** on page **14**

A HIGHLY SCALABLE PLATFORM

We are building a global infrastructure to support our long-term strategy. Once fully developed, we will be able to originate opportunities and apply strategic, operational and clinical direction to a significant number of businesses, with scalability of operating costs.

A UNIQUE COMBINATION OF LEADERSHIP SKILLS

- Joe Anderson has over 25 years' experience in the life science industry, including senior roles in venture capital, fund management and scientific development. He has a successful record of generating investment returns and extensive board-level experience of building life science companies.
- Jonathan Peacock was previously Group CFO of Amgen and Novartis Pharmaceuticals, where he developed extensive global operational and strategic experience. He has broad experience in the acquisition and divestment of life science companies both large and small, and has raised more than $20bn in capital during his career.
- Professor Sir Christopher Evans has built more than 50 medical companies from start-up over the past 30 years, and floated 20 new medical businesses on stock markets in six different countries. He has created 11 successful academic spin-outs, and companies worth over $2.4bn. He has raised $2.6bn from disposals.

Read More about our **Board of Directors** on page **26**

OUR ABILITY TO PROVIDE FLEXIBLE, LONG-TERM CAPITAL

We provide funding from our own working capital, and can offer finance throughout the life cycle of a business, whether early-stage research funding, growth capital or later-stage development capital. We focus on creating value, with a flexible approach to the length of time we retain an ownership interest in our businesses. This cushions our businesses against the normal volatility in funding for healthcare and life science companies, while allowing us to pursue the optimal course of action for creating shareholder value.

Chairman's Statement

Jonathan Peacock, **Chairman**

> "We are committed to building Arix Bioscience as a leader in our industry both in terms of the value we deliver for shareholders and patients and in the quality of governance exercised by our Board."

In February of 2016 we formed Arix Bioscience, with an ambition to provide operating, strategic and financial support to young companies in the development of breakthrough therapies for patients in areas of high unmet need. Our leadership team has extensive experience in building substantial businesses from breakthrough science, investing in promising young biotech companies and in managing companies to guide research and development programmes towards commercialisation. Our leadership team also brings to the Company strong contractual relationships with several universities and research accelerators, as well as broad industry relationships with the leading biotech and pharmaceutical companies. And as a permanent capital vehicle, we will be flexible in our holding period of Group Businesses to maximise value for our shareholders.

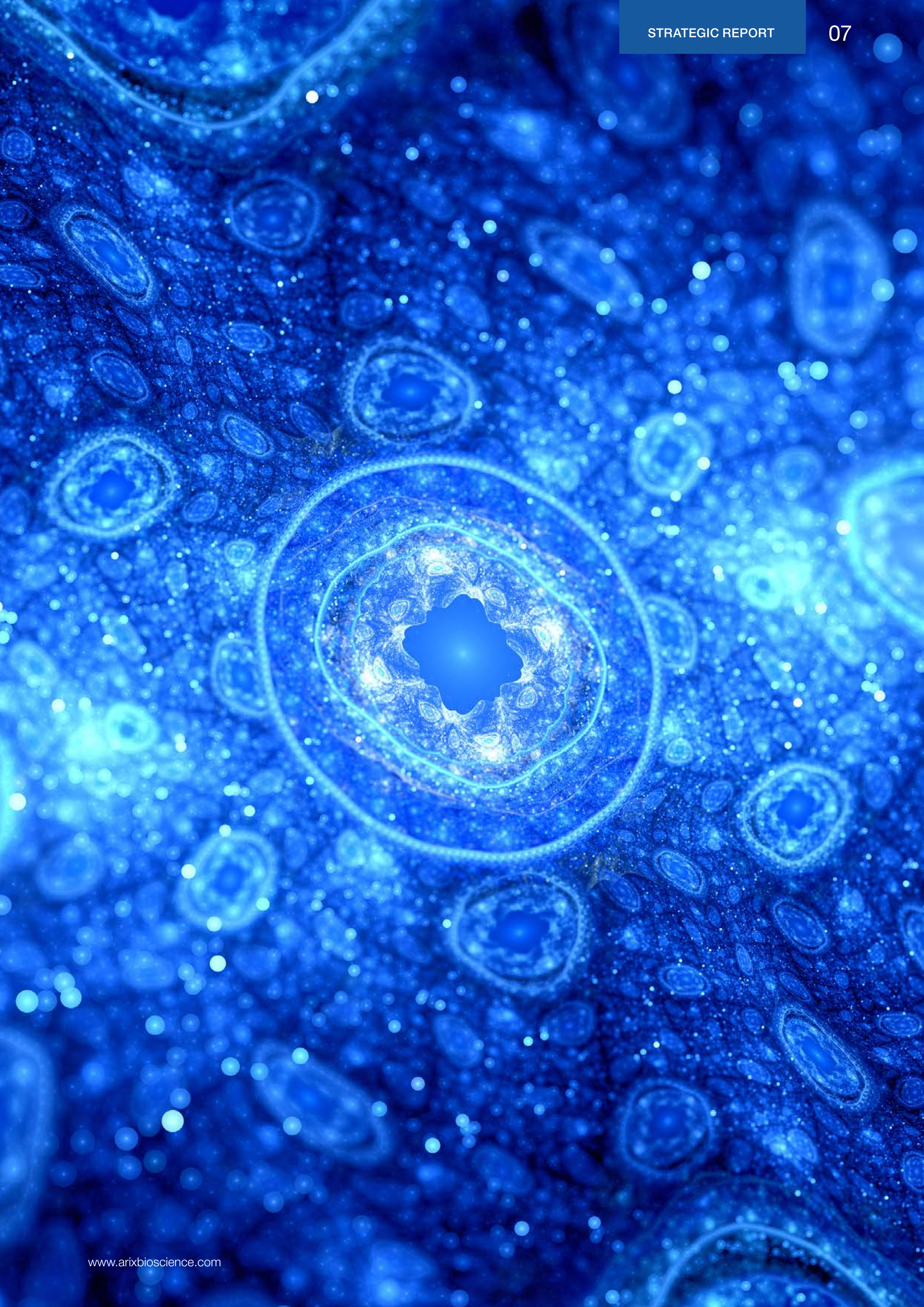
In a short period of time we have come a long way. We have added two major industry partners, acquired a fund manager, initially to manage The Wales Life Sciences Investment Fund, and built an outstanding Business Development team based in London and New York. Most importantly, we have already become active owners of five exciting young companies, with several more in our pipeline.

From the formation of Arix we have been supported by a highly experienced Board, bringing both deep industry experience and a track record in Board leadership and governance. During 2016, we were honoured to have Franz Humer, ex-Chairman and CEO of Roche, join the Board as our lead independent Director.

We are committed to building Arix as a leader in our industry both in terms of the value we deliver for shareholders and patients and in the quality of governance exercised by our Board.

Joe, Sir Chris and I are excited to build Arix together in the years ahead and look forward to maintaining a close dialogue with our shareholders as we continue to build the company.

Jonathan Peacock,
Chairman



Chief Executive Officer's Statement

Joe Anderson, PhD, **Chief Executive Officer**

> "The Arix team comprises some of the most-respected business builders in the life science industry, both in the UK and the US, with proven records of creating value."

A vote of confidence in the biotech sector

In February 2016, we secured funding in a private round of £52m, from investors including Woodford Investment Management, to launch Arix Bioscience. We are a new global health and life sciences company focusing on the sourcing, financing, development and commercialisation of innovative technologies and discoveries. Within a year, in February 2017, Arix Bioscience had made its debut on the London Stock Exchange, raising £112m from a range of blue-chip institutional investors, plus strategic agreements with two leading pharmaceutical companies. This has been a transformative year, and a real vote of confidence in the potential of the biotech sector to create value for investors.

A proven team

The Arix team comprises some of the most-respected business builders in the life science industry, both in the UK and the US, with proven records of creating value. Each member contributes to identifying and developing some of the world's most exciting science companies. We are supported by an outstanding Board and are well connected in the pharmaceutical industry and academia. Our contractual and privileged relationships in the UK, EU and US have already generated significant value for our business, with the promise of much more to come.

Identifying opportunities, building relationships

Drawing on the extensive experience of this leadership team, Arix has developed an extensive network that includes research accelerators, universities and pharma companies. Through this network, we identify new technologies and discoveries which form some of the most exciting opportunities in biotech, to shape a rich pipeline of potential Group businesses.

During 2016, the Arix team reviewed over 500 investment opportunities, five of which are now Group Businesses: we have direct interests in Artios Pharma, Autolus, Depixus, OptiKira and Verona Pharma. We have also gained indirect interests in other companies, by acquiring Arthurian Life Sciences (ALS), the manager of The Wales Life Sciences Investment Fund, an acquisition approved by the FCA in June. ALS is another source of opportunities, and as a fund manager, supports our strategy and capability.

We also acquired indirect holdings through a strategic partnership agreement with BioMotiv, a research accelerator associated with The Harrington Project for Discovery and Development, a $300m initiative for advancing medicine based at university hospitals in Cleveland, USA. Arix Bioscience finances opportunities, both alongside and independently of BioMotiv, gaining privileged access to innovations from leading US institutions and universities. In Europe, we struck a similar agreement with the Lead Discovery Centre (LDC), established to capitalise on research excellence at Max Planck Society institutes.

We have also entered into strategic agreements with two major pharmaceutical companies, UCB Pharma and Takeda. Arix will provide access to our Group Businesses, aiming to foster new technologies and drug development managed through joint advisory committees.

Universities provide an important source of ideas for our pipeline of Group Businesses. We have privileged agreements as a preferred partner with seven leading universities, providing access to new technologies ahead of other parties. This is an opportunity to acquire interest in businesses, and to shape their development at the earliest opportunity.

Developing Group Businesses

Our strength is in identifying and funding breakthrough medical products and therapeutics. The Arix team then continues to work with these Group Businesses, to help them pursue their strategy and ensure a successful business outcome. To provide that hands-on support in 2016, we placed a member of our senior team onto the Boards of Directors of Autolus, Artios, OptiKira and Depixus, and onto the Advisory Board of BioMotiv.

IPO on the London Stock Exchange

With the launch of Arix Bioscience on the London Stock Exchange, the company raised the capital required to invest in a broad range of innovative biotechnology companies. In addition to support from institutional and blue-chip investors, and large pharma companies, we received tremendous support from retail investors, a testament to the level of interest in the potential of biotech innovation to transform healthcare treatments and improve lives.

Building Arix Bioscience with a solid investor base has been an extraordinary achievement, made possible by the commitment of an outstanding professional team. The funds raised in February 2017 validate our ambition, and will enable us to acquire interests in a greater number of innovative companies, as well as continue to support our existing Group Businesses.

Outlook

We now look ahead to a formative 2017, our first as a public company following the successful IPO. We continue to be pleased with the vigour of our deal pipeline and the associated negotiations which are underway. We look forward to translating these opportunities into the announcement of significant new deals in the year ahead. Our goal is to support businesses that create new therapies for patients, while achieving growth for shareholders.

Dr Joe Anderson, PhD,
Chief Executive Officer

Q&A with the CEO

What prompted you to form Arix?

The healthcare and life science sector provides a growing number of new therapies and technologies, based on exceptional scientific innovation. These inventions are often created by small businesses, who are faced with a challenging funding environment. We believe we can fill this gap in the market, both with availability of permanent capital and, more importantly, with the unique experience and skill-set our team can contribute to running and building these businesses.

What progress has Arix made in its first year?

A huge amount. We started 2016 as little more than a fledgling concept based on a team with exceptional experience. We've since grown Arix into a market-ready operating company with an expansive network, identifying and supporting some of the most exciting developments in life sciences, to help deliver life-improving medicines.

What's your proudest moment during Arix's first year?

The success of our oversubscribed IPO has to be the proudest moment. We received a huge amount of interest from leading fund managers, strategic investors from the global pharmaceutical sector, such as UCB Pharma and Takeda, and retail investors. It was a validation of our team and business model.

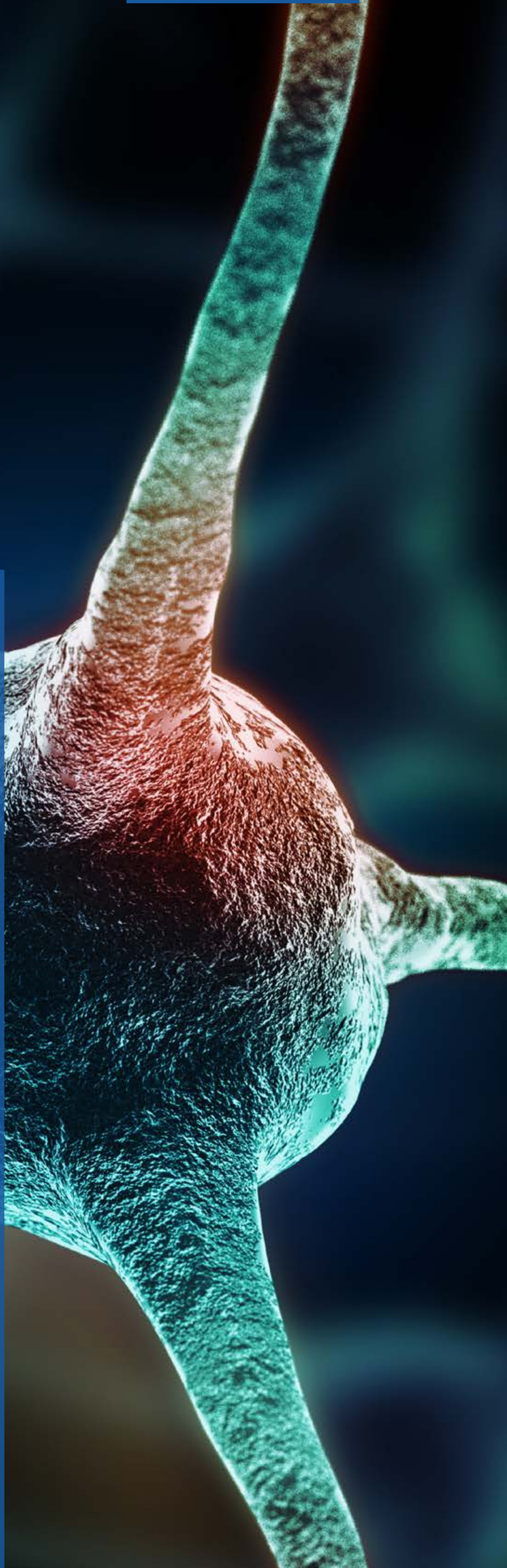
What differentiates Arix from the competition?

We focus purely on life sciences, with a team that has a world-class record of achieving returns in this sector. Importantly, we can finance and support our Group Businesses throughout their life cycles - we can exit when we judge each business to have reached the optimum value, not when a fixed fund liquidation dictates. With our structure we can provide operational direction to support innovation at all stages of development. What's more, we are not constrained by attachment to any single institution, region, stage of development, or to either private or public companies. So we can look for the very best opportunities anywhere - you can find great ideas in seed-level start-ups in universities, all the way through to late-stage and small public companies. This breadth of focus enhances the flow of deals, and enriches the quality of the set we select from.

What is your vision for Arix?

Arix can become a major source of support for the life science industry. After decades of investment in medical science, there has never been a more productive time for the emergence of new ideas. We look forward to helping accelerate the translation of scientific ideas into important new therapies for patients. Our business is structured to be scalable - we have the potential to grow significantly. We look forward to taking advantage of our strong pipeline of opportunities, and steadily increasing the number and size of our Group Businesses. Above all, our vision is to build companies that deliver improved treatment options for patients and, through this, returns for our investors.

Dr Joe Anderson, PhD,
Chief Executive Officer



Case Study

Autolus

Autolus is developing the next generation of CAR-T therapies for a range of cancer types where the current prognosis for patients' survival is poor. Autolus' therapy collects immune cells from the patient's blood, which are genetically altered before being administered back to the patient. These blood cells, when reinfused into the patient, can better recognise and more effectively target tumours. We believe Autolus has a range of exciting and innovative technologies that address some of the limitations of early CAR-T therapy. Autolus was spun out from University College, London in 2014.

Before contributing to the most recent funding round, our team carried out a thorough review of CAR-T cell therapy and immuno-oncology developments worldwide, as well as the intellectual property landscape for CAR-T cell therapy, seeking the views of a wide range of experts in the field. They combined this with a detailed analysis of Autolus' suite of technologies, development and manufacturing plans, and management capabilities.

An exciting aspect of this deal is accessing a company at the stage of life of Autolus, where an early investment can be at a fraction of the cost that similar assets trade at on public markets.

We were encouraged by the quality of the Chairman and now-CEO, Christian Itin, who has an exceptionally strong team and Board. With this world-class team and outstanding technology, we are very excited by Autolus' prospects, as the product pipeline progresses through clinical trials. We have committed £10m to date, and Arix CEO, Dr Joe Anderson, has joined the Board of Autolus to contribute to its further development.

Read More about **Autolus** on page 18

Our Marketplace

In a global pharmaceutical market worth over $1 trillion in 2016, we believe organisations with new potentially high-impact drugs, in need of strategic, operational and financial resources, will provide a rich pipeline of opportunities for Arix Bioscience. This is due to our having a unique proposition in a market which is limited in its approach to identifying these organisations and supporting them.

The healthcare and life science sector

The sector has brought significant innovation in recent years. Notable breakthroughs since 2010 include, among others, the first treatment for cystic fibrosis that targets the defective CFTR gene, a cure for hepatitis C, and the world's first new antibiotic in 30 years.

The worldwide peak sales potential of drugs newly approved by the US Food and Drug Administration (FDA) rose strongly, to approximately $57bn in 2015, from $22.5bn in 2011. This suggests such innovation also brings economic opportunity. In 2014, an all-time high of 59,000 global life science patents were granted.

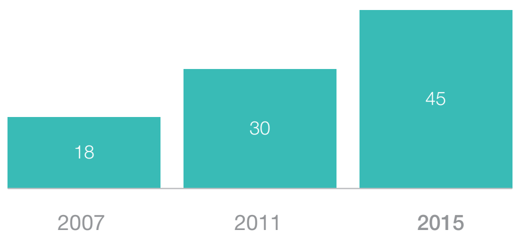
Regulatory environment

A number of regulatory changes have also had a positive impact upon the healthcare and life science landscape, encouraging innovative development. These include:

- In the US, the March 2010 Affordable Care Act, with comprehensive health insurance reforms; the April 2012 JOBS Act; and the July 2012 GAIN Act. Plus the creation of a breakthrough drug designation in July 2012.
- In the UK, the establishment of the National Institute for Health and Care Excellence in April 2013, and the House of Commons' approval of mitochondrial DNA replacement therapy in February 2015.
- In Europe, the launch of the Adaptive Pathways pilot by the European Medicines Agency in March 2014.

We believe the number of new product approvals is likely to remain high for the foreseeable future.

New molecular entity approvals by the FDA



Source: FDA (www.fda.gov)

Smaller companies

Approximately two-thirds of all new drugs approved since 2010 have been originated by small companies.

The development of new pharmaceuticals is a lengthy and capital-intensive process. Small companies are highly dependent on external capital to fund their research and bring their new drugs to market.

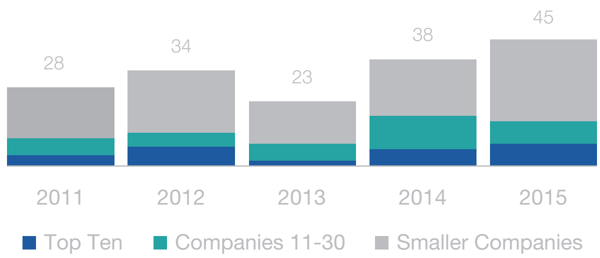
Arix is well placed in this regard, as we can provide permanent capital combined with sophisticated strategic advice on its use.

Volatile funding environment

Despite improvements in some areas, the availability of capital to fund research activities is volatile. It depends on many factors outside of the control of the drug developer.

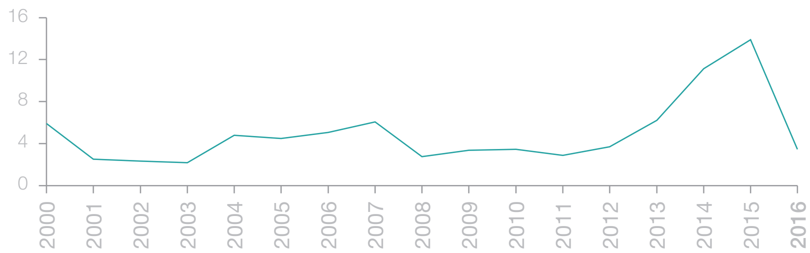
This volatility in funding in the healthcare and life science markets is likely to provide opportunities for Arix's permanent capital model.

Number of drug approvals by originator company size



Source: FDA (www.fda.gov), HBM analysis

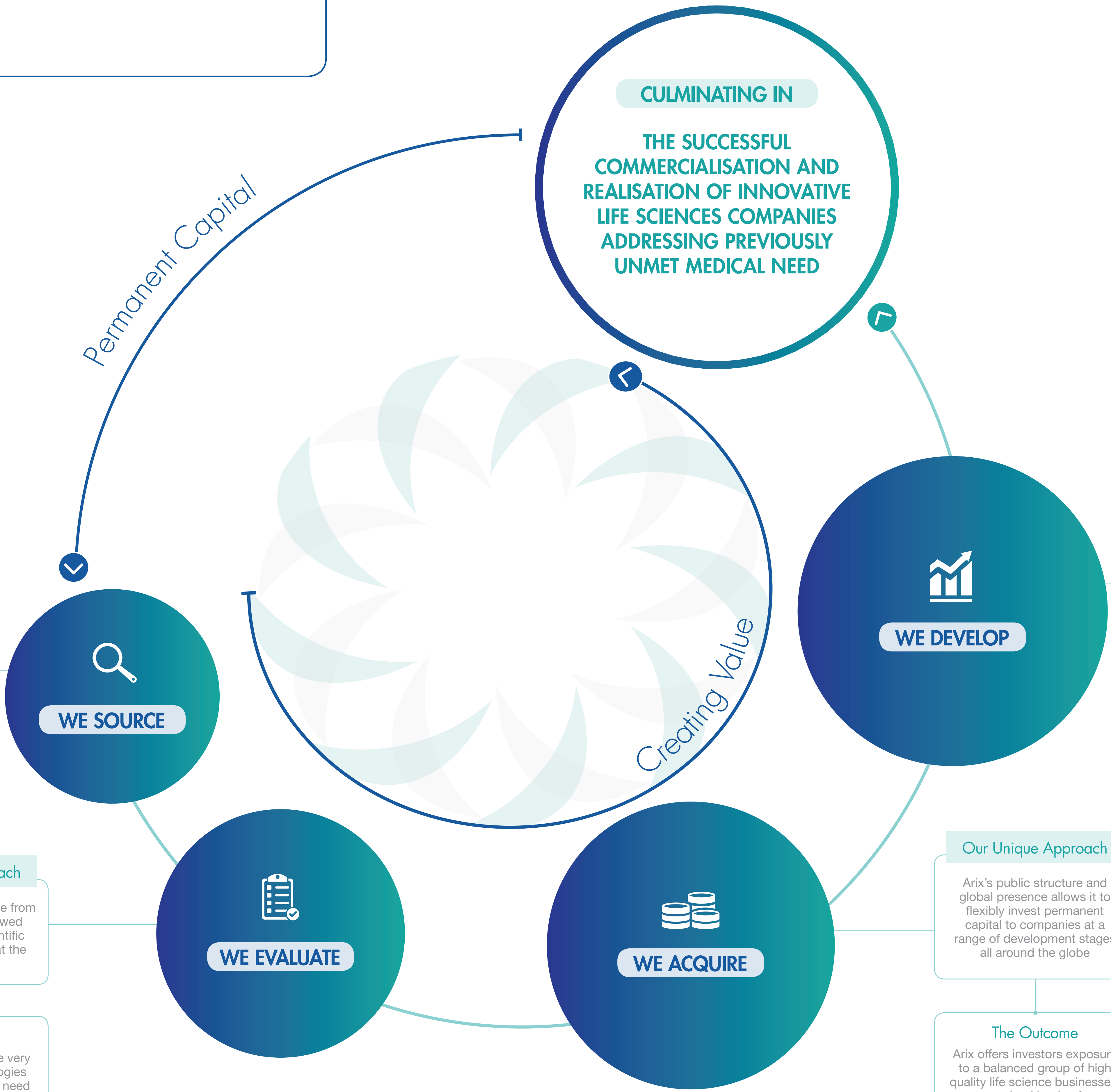
Total capital raised in biopharma IPOs and private rounds (US$bn)



Source: BioCentury. Excludes Venture Debt financings

Business Model

Arix Bioscience's primary business objective is to be a global healthcare and life science company focusing on the sourcing, financing, development and commercialisation of innovative technologies and discoveries.



We Source

Our Unique Approach

Core team with outstanding track record and unrivalled contractual, privileged and professional relationships

The Outcome

Arix is able to source a unique range of opportunities in emerging, private and public global life sciences companies

We Evaluate

Our Unique Approach

Detailed sector knowledge from rigorous research, followed by comprehensive scientific and clinical evaluation at the company level

The Outcome

Arix will invest only in the very best innovative technologies targeting unmet medical need

We Acquire

Our Unique Approach

Arix's public structure and global presence allows it to flexibly invest permanent capital to companies at a range of development stages all around the globe

The Outcome

Arix offers investors exposure to a balanced group of high quality life science businesses, unconstrained by timeframes

We Develop

Our Unique Approach

Arix acts as a patient trusted partner, providing operational and strategic input and continual capital throughout an investment's growth and development

The Outcome

Arix develops a highly attractive group of maturing and commercially viable life sciences companies

Operational and Financial Review

James Rawlingson, **Chief Financial Officer**

> "In February 2017, the Company successfully completed its Initial Public Offering and was admitted to the London Stock Exchange having raised £112m."

2016 has been a period of outstanding operational success for the Company. In a matter of months, from the launch of Arix Bioscience and initial private funding of £52m in February 2016, we have established offices in London and New York, including implementing a consistent IT framework across two continents, recruited a strong team of experienced life sciences professionals and, in June 2016, acquired Arthurian Life Sciences Limited (ALS), a wholly owned investment manager specialising in the life sciences sector. However, our trading loss of £8.4m reflects the inevitable costs associated with a start-up year.

Throughout this period, the management team of Arix Bioscience has also been working towards an Initial Public Offering on the London Stock Exchange main market, which we completed successfully in February 2017.

The Financial Statements reflect our achievements in progressing Arix so far in its maiden financial period, showing the initial costs incurred, while highlighting the establishment of a strong balance sheet.

Group Businesses

Arix Bioscience is an operating company, and its interests in Group Businesses are held on its own balance sheet. We have valued these assets in accordance with International Private Equity and Venture Capital Guidelines, which are consistent with International Financial Reporting Standards.

We have fair-valued these assets at cost, except for BioMotiv, which we revalued to the latest market event (an increase of 25%) and Verona Pharma, which is a quoted stock and has been marked to market (an increase of 12%).

Through ALS, Arix Bioscience owns the carried interest vehicle of The Wales Life Sciences Investment Fund. The revaluation of this carried interest at the balance sheet date is supported by external expert review by Duff & Phelps.

Case Study

artios

Artios is a new biotechnology company we provided funding to in September 2016. Artios is developing novel ways to treat cancer through exploiting the inability of many cancer cells to repair DNA properly in response to damage. Because normal cells can repair DNA proficiently but cancer cells cannot, Artios is developing methods, exploiting the tumour cell DNA repair changes, to be able to identify and kill cancer cells but spare healthy tissue. Artios was set up in early 2016, having licensed two exciting drug discovery programmes from Cancer Research Technology, the commercialisation arm of Cancer Research UK, the world's largest cancer charity.

We conducted extensive due diligence on the science, management, medical need and clinical opportunity, as well as the market for the drugs Artios is developing. We believe the way Artios intends to target the DNA damage repair pathway could revolutionise cancer treatment, so generating enormous value, both clinically and economically. We decided to commit £5.1m, in three tranches. Artios had installed an experienced team to manage the business. Now Arix team member, Jonathan Tobin, has taken a directorship on its board, and is working closely with the management team and board to shape company strategy and direction.

Read More about **Artios** on page **19**

Operational and Financial Review

continued

Portfolio summary

The audited valuations as at 31 December 2016 are as below.

Group Business	Valuation £'000	Funding committed, not yet invested £'000
Autolus Limited	3,333	6,667
BioMotiv, LLC	3,800	–
Depixus SAS	794	266
Verona Pharma plc	2,019	1,854
OptiKira, LLC	973	–
Artios Pharma Limited	1,896	3,229
ALS Carried Interest Partner LP	4,300	–
Total	**17,115**	**12,016**

The Group Businesses within the portfolio highlight our strong progress at building a balanced group of high quality life science businesses targeting significant previous unmet need.

Autolus

Autolus is Arix's first direct investment, and is developing the next generation of CAR-T therapies for a range of cancer types where the current prognosis for patients' survival is poor. Joe Anderson represents Arix on the company's board. The business is currently valued at cost, which approximates to fair value.

Read our case study on Autolus on page 11

BioMotiv

BioMotiv is the mission-driven development company associated with The Harrington Project for Discovery and Development. Its focus is accelerating breakthrough discoveries from research institutions into therapeutics for patients. Arix's investment is accompanied by the opportunity to review all businesses under consideration by BioMotiv, including all Harrington Scholars projects. Arix's Chairman, Jonathan Peacock, sits on BioMotiv's Advisory Board. At year-end, Arix's investment is valued at £3.8m.

Depixus

Depixus is an early stage Paris-based company developing technology that can sequence both the genome and epigenome, with proof of concept for detecting six epigenetic modifications. Arix employee Ed Rayner is a board member. The business is valued at cost, which approximates fair value.

verona pharma plc

Verona Pharma plc is a clinical stage biopharmaceutical company, focusing on the development and commercialisation of innovative prescription medicines to treat respiratory diseases with significant unmet medical needs, such as chronic obstructive pulmonary disorder and cystic fibrosis. Verona is AIM-listed, emphasising Arix's desire and ability to provide capital to companies at all stages of development. Arix's direct investment was valued at £2.0m at year-end. Furthermore, through Arix's ownership of the carried interest partner of The Wales Life Sciences Investment Fund, it has a further indirect interest in Verona; the fund's stake in the company was valued at £3.3m at year-end.

OptiKira LLC

OptiKira is a pre-clinical company, developing research carried out by its academic founders. This work has helped define the biological pathway leading to progressive cell death which characterises diseases such as retinitis pigmentosa, diabetes, and amyotrophic lateral sclerosis. OptiKira's formation was backed by BioMotiv, the for-profit arm of The Harrington Project for Discovery and Development, in which Arix is also an investor. Arix employee Mark Chin represents Arix on OptiKira's board. The business is valued at cost, which approximates fair value.

artios

Artios Pharma is developing new ways to treat cancer by developing a DNA damage response mechanism that can identify and kill cancer cells while sparing healthy tissue. Board level representation is provided by Arix employee Jonathan Tobin. At year-end, the business is valued at cost, which approximates fair value.

Read our case study on Artios on page 17

ARTHURIAN LIFE SCIENCES

ALS - Carried Interest Partner

As part of its acquisition of ALS, Arix has acquired the carried interest partner of The Wales Life Sciences Investment Fund. The fund aims to develop life sciences businesses in Wales, helping make the country an attractive destination for UK and international companies operating in the sector. At year-end, the carried interest vehicle was valued at £4.3m.

Operational and Financial Review

continued

Income statement

Revenues included an increase in the fair value of investments in Group Businesses of £1.4m, investment management fees of £0.6m, and fees for providing director services to Group Businesses of £0.1m.

Administrative expenses of £10.3m came partly from one-off operational activities, such as outfitting offices in London and New York, as well as the significant recruitment fees incurred in creating a strong team of life sciences professionals. In addition, the negotiation of commercial agreements and the acquisition of ALS, including the associated application to the FCA for change of control permission, means that legal and professional adviser fees were unusually high.

Foreign exchange gains and other exchange differences are partly due to Arix Bioscience holding assets in currencies other than sterling, and are also caused by the consolidation of Arix Bioscience Inc, which is a US company with a functional currency in US dollars. These together amount to £0.5m.

Exceptional items

The acquisition of ALS caused an exceptional gain £4.0m, following a fair-value valuation review completed by external advisers, adhering to the requirements of IFRS 3.

We have calculated a share based payment charge of £4.7m formed mainly of founder and management options granted at the set-up of the Company. The calculation uses a Black-Scholes model, in accordance with IFRS 2, which makes certain assumptions on the future volatility of a basket of equities across the life sciences sector. This amount is posted as a cost to the Consolidated Statement of Comprehensive Income, and as a credit within Retained Earnings. Following the end of the financial period, when the total comprehensive profit or loss result is taken to Retained Earnings, these items net to nil, which means that this charge has no impact on the net assets or on the value of the Company.

Financial position

Cash held at the end of December 2016 amounted to £28.9m, providing substantial liquidity for operational activities, including identifying and funding life sciences opportunities.

After the Balance Sheet date, in February 2017, the Company successfully completed its Initial Public Offering and was admitted to the London Stock Exchange, having raised £112m.

Corporate and social responsibility

Recycling

The London and New York offices of Arix benefit from coherent IT systems that enable paperless filing. Where paper waste is created, Arix makes use of recycling facilities to dispose of this securely in a sustainable manner.

Low-energy lighting

Where possible or practicable, Arix looks to use low energy lighting in tandem with timer switches and motion-activated sensors in both London and New York as one way of reducing its carbon footprint.

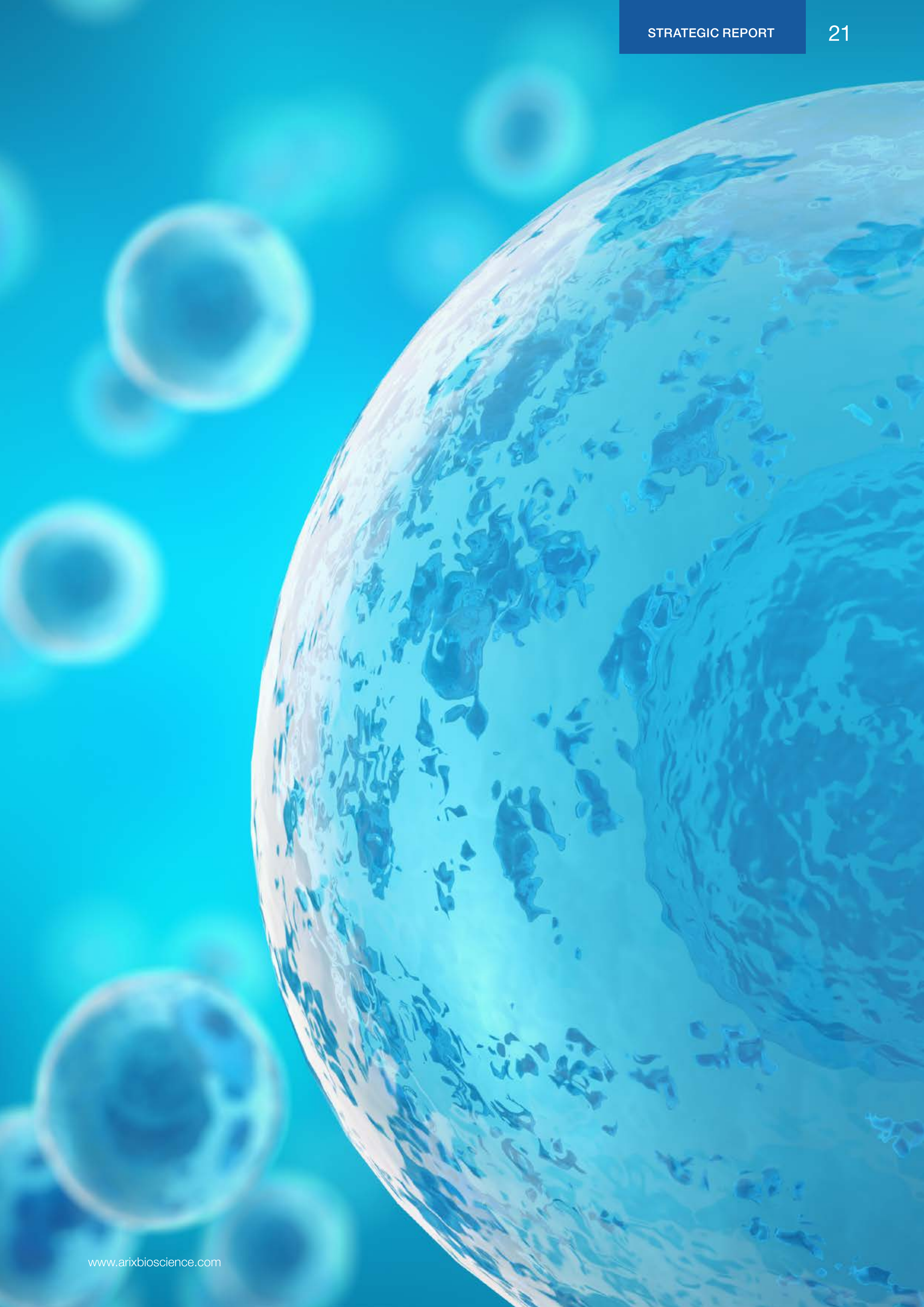
Cycle to work

The employees of Arix broadly share an interest in cycling and Arix is a member of the UK Government's Cycle to Work Scheme.

Corporate culture

The driving passion of everyone who works at Arix is to successfully deliver new medical treatments to market to improve the living conditions of patients, and to save human lives.

James Rawlingson,
Chief Financial Officer



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, following the acquisition of ALS, which is a regulated by the FCA, we engaged Duff & Phelps to review the status of regulatory compliance and provide assurance to the Board.

Read more about our **Corporate Governance** on pages 24 to 61

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	Impact	Mitigation Action/Control
Arix's Group Businesses may not generate the financial returns anticipated	Arix's net assets will 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	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 represented 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 and developing 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.
Loss of key personnel - to competitors, or from an external event	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.	Arix has a market-appropriate remuneration scheme for its senior employees. This includes share incentive schemes which reward personnel for 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 Nominations Committee is responsible for appropriate succession planning.
Adverse market conditions may affect Arix's operational model	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.	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 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.
Changes to government policy or regulation in the research, healthcare or life sciences industries	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	Arix is a global healthcare company, with Group Businesses in the UK, the USA and Europe. 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 a period greater than 12 months. We have considered a period of three years from the balance sheet date, as the Board expects the majority of Arix's current commitments and new proceeds raised to be invested over the next three years.

The Board has carried out a rigorous assessment of the principal risks and their mitigants, noted above. In particular, 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.

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.

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

Jonathan Peacock,
Chairman
26 April 2017

GOVERNANCE

Contents

Governance

"From the formation of Arix we have been supported by a highly experienced Board, bringing both deep industry experience and a track record in Board leadership and governance."

Board of Directors

Our Strong Board represents a commercial advantage as we seek to leverage our professional networks to generate shareholder value.

Jonathan Peacock
Chairman

Jonathan has 35 years' global experience in operations, strategy and business development. He is the former CFO of Amgen Inc. based in California, USA and prior to that was the CFO of the Pharmaceuticals Division of Novartis AG, based in Switzerland with global responsibilities including business development and strategy. During Jonathan's tenure as CFO of Amgen, Amgen Inc.'s share price increased by approximately 125%. Novartis Pharma AG's operating profit increased over 40% during his tenure as CFO of that company. Before joining the pharmaceutical industry, Jonathan was a partner at McKinsey & Company where he was co-head of the European Corporate Finance practice. He was also a partner at PricewaterhouseCoopers in London and New York from 1993 to 1998. He has a Masters degree in Economics from the University of St Andrews in Scotland

Jonathan has extensive expertise in strategy, finance and operations within the Biopharma industry. He has raised over $20bn in new capital and has been engaged throughout his career in business development and mergers and acquisitions on both the buy-side and sell-side globally. Jonathan was the CEO of NASDAQ-listed Bellerophon Therapeutics until 11 November 2016 and is currently the Chairman; he is also a non-executive director of Kite Pharma, also NASDAQ-listed, and of Avantor. He brings to the Company hands-on experience in managing large and small Biopharma companies, and a unique perspective on the factors driving successful partnerships or investments by bigger Biopharma companies.

Joe Anderson, PhD
Chief Executive Officer

Joe has over 25 years' experience in the life sciences industry, with a successful track record of generating investment returns. Until recently he was a Partner at Abingworth LLP, for 12 years, where he led venture-capital style investments in public companies. He has founded and managed public equities funds and been a director of Algeta (acquired by Bayer Ag for $2.9bn), Amarin plc, Cytos (merged with Kuros), Epigenomics Ag, and is currently a director of Autolus Ltd. He began his career at the Ciba (now Novartis) Foundation, before joining the The Wellcome Trust in 1990 where he became head of the strategy team. He then moved to the City of London as a pharmaceuticals analyst at Dresdner Kleinwort Benson, before being appointed as Head of Global Healthcare and Portfolio Manager at the First State Investments, Commonwealth Bank of Australia, in London. Joe has a PhD in Biochemistry and extensive board level experience of building successful life sciences companies.

Professor Sir Chris Evans, PhD, OBE
Deputy Chairman

Chris is the founder and Chairman of Excalibur Group and a renowned scientist and highly successful entrepreneur with numerous prestigious awards and medals for his work over the last 30 years. He has created 11 successful academic spin-outs. Chris directed the raising of approximately $450m for Merlin Biosciences Funds and $2.6bn from disposals including the sale of BioVex Group, Inc. to Amgen Inc. and Piramed Limited to Roche Group. Through Merlin Ventures Limited, he co-founded and advised Biotech Growth Trust plc. Arakis Limited, one of the companies developed by Chris was sold to Sosei Co. Ltd for $187m. As of the end of April 2016, he has founded multiple listed companies with a collective market cap of around $2.4bn. He has positively impacted many millions of lives with his work. Chris has founded notable companies such as Chiroscience, Celsis, ReNeuron, Vectura, Biovex and Merlin Biosciences Ltd. Appointed an OBE in 1995 for services to medical bioscience he was knighted in 2001 for services to bioscience and enterprise.

Committee Key

N Nomination Committee

AR Audit and Risk Committee

R Remuneration Committee

James Rawlingson
Chief Financial Officer

James has substantial experience at board and senior management level gained through over 20 years of involvement in financial services and UK public companies. His former role was Group CFO of Charles Stanley plc, a leading wealth manager with over £20bn of funds under management and administration. Before that, he was Group CFO for Coutts Bank, responsible for the global finance function, and held a key role in setting strategy. He has also been CFO of UBS Wealth UK, and worked for UBS Wealth Management, based in Zurich.

Franz Humer
Senior Independent Director

Franz has over 25 years of experience as an executive director of global blue chip companies. He has been managing director of Glaxo Pharmaceuticals UK Limited, and was elected to the board of Glaxo Holdings plc, where he became chief operating director for its worldwide operations, in 1992. In 1995, he joined the board of Hoffman-La Roche and was head of its pharmaceuticals division. He became Chairman and CEO in 2001. He joined the board of Diageo in 2005 and was chairman between 2008 and 2016. Between 2008 and 2014 he was also chairman of the board of directors of Roche Holding Limited. He is currently a non-executive director of Citigroup, Inc., Chugai Pharmaceuticals Limited of Japan, Bial Pharmaceuticals of Portugal, Kite Pharma and WISeKey of Switzerland, and a member of the international advisory board of Allianz SE.

Franz has a PhD in law from the University of Innsbruck and an MBA from INSEAD in Fontainbleau. He is the Chairman of the Board of the International Centre for Missing and Exploited Children, and has been awarded the Singapore Public Service Star and Austria's 'Grosses goldenes Ehrenzeichen mit dem Stern für Verdienste'.

Committee Memberships

N R (Chairman)

Sir John Banham
Non-Executive Director

Sir John is a former Director-General of the Confederation of British Industry (CBI). On leaving the CBI in 1992, he successively chaired four FTSE 100 companies: Tarmac, Kingfisher, Whitbread and Johnson Matthey. These companies all had major operations outside the UK and all delivered exceptional value for shareholders during his tenure. He also has experience in the private equity sector, serving as the Chairman of ECI Partners, a leading provider of funds to medium sized companies, for 13 years. He was also the founding chairman of Westcountry Television. Both produced exceptional returns for investors. He served on the Board of Invesco for 15 years, retiring in May 2015. He is currently Chairman of Innoveas International and an independent director of Cyclacel Pharmaceuticals Inc, a US-quoted biopharmaceutical company.

Committee Memberships

AR (Chairman)

Board of Directors continued

Committee Key

N Nomination Committee

AR Audit and Risk Committee

R Remuneration Committee

David U'Prichard
Non-Executive Director

David has been a leader in drug receptor research, pharmaceutical R&D, biotechnology and venture investing during a 45-year career in the USA. He trained as a pharmacologist in Scotland, and was an academic at Johns Hopkins University and Northwestern University medical schools, before leading Zeneca's global research activities, and subsequently, SmithKline Beecham's R&D, in the 1990s. He then led 3-Dimensional Pharmaceuticals Inc to an IPO in 2000, and sale to Johnson & Johnson in 2003. He is a highly experienced early-stage venture capitalist and corporate director in both the USA and the UK.

Since 2012 he has worked to establish The Harrington Project for Discovery & Development; a USA-wide non-profit scholarship scheme, turning the best American academic research into new drug development. He is a member of the Board of Managers of BioMotiv, and the chairman of its Advisory Board.

Committee Memberships

AR N (Chairman)

The Right Hon. Lord Hutton of Furness, PC
Non-Executive Director

Lord Hutton was the elected Member of Parliament for Barrow and Furness from 1992 until 2010, and served in the Labour cabinet as Secretary of State for Work and Pensions, Secretary of State for Business, and Secretary of State for Defence.

John achieved his BCL at Magdalen College, Oxford, and before becoming an MP, had a career in law.

He is now an adviser to Bechtel and Lockheed Martin. He also chairs the Nuclear Industry Association and is a non-executive director at Circle Holdings plc and Sirius Minerals plc. In 2010 he was created a Life Peer as Baron Hutton of Furness.

Committee Memberships

AR

Professor Trevor Jones CBE
Non-Executive Director

Trevor has had a distinguished career in both the pharmaceutical and biotech industries, and in academia. He was Group R&D director at The Wellcome Foundation Limited, responsible for the development of AZT, Zovirax, Lamictal, Malarone and other medicines. He was a director of Allergan Inc (USA) for ten years, until 2015, and was formerly Director General of the Association of the British Pharmaceutical Industry (ABPI). He served as a member of the UK Government Regulatory Agency Medicines Commission and chairman of the UK Government Advisory Group on Genetics Research for 12 years.

In 2004, he was appointed to the World Health Organisation Commission on Intellectual Property Rights, Innovation and Public Health. He is a visiting professor at King's College, London and holds honorary degrees and Gold Medals from six universities. In 2003 he was awarded the CBE for services to the pharmaceutical industry.

Committee Memberships

R

Business Development Team

Edward Rayner

Before joining Arix Bioscience at its inception, Ed spent 18 years as an equity analyst and Portfolio Manager in Europe and Australia. From 2004 to 2014, he was Head of Research at Alliance Bernstein and then a senior portfolio manager at AMP Capital, a leading Australian investment house with over A$130bn in funds under management, both in Sydney, Australia. At AMP Capital, he managed the growth equity portfolios and launched a small companies fund. As part of his responsibilities he focused on the Healthcare sector.

Prior to his move to Australia, Ed analysed European equities at UBS Asset Management and JP Morgan Investment Management. He gained an MA in Chemistry and MSc in Management at the University of Oxford and is a Chartered Financial Analyst.

Mark Chin

Mark has over ten years of experience in the life sciences industry. He was previously a principal at Longitude Capital, where he focused on investments in both private and public biotechnology and medical technology companies. Prior to Longitude, he was a consultant at the Boston Consulting Group, where he was responsible for strategy and corporate development projects for pharmaceutical and biotechnology companies. Before BCG, Mark worked in corporate development at Gilead Sciences and market planning at Genentech.

Mark has an MBA from The Wharton School at the University of Pennsylvania, an MS in Biotechnology from the University of Pennsylvania, and a BS in Management Science from the University of California at San Diego.

Jonathan Tobin

Jonathan specialises in biotechnology investments. He currently sits on the board of Artios Pharma. Prior to joining Arix Bioscience, Jonathan spent five years at Imperial Innovations, where he was a Principal in the Healthcare Ventures team. He was involved with the formation and investment in a number of early stage companies, including Inivata, Auspherix, Abingdon Health, Cell Medica, and Psioxus. Jonathan also worked at MRC Technology, sourcing and evaluating new small molecule and antibody drug discovery projects.

Jonathan has a first class degree in biology from the University of Oxford, a PhD in Molecular Medicine from UCL, carried out postdoctoral research at the Cancer Research UK London Research Institute (now Crick Institute), and published research in journals including PNAS, New England Journal of Medicine, and Nature Genetics. Jonathan also has an MBA with distinction from Imperial College, and is a Trustee of the Autism Research Trust.

Daniel O'Connell

Daniel has over ten years of experience in healthcare. Daniel joined Arix Bioscience from OrbiMed Advisors, where he played key roles across investments in both biotherapeutics and medical devices. Investments he has supported include CardiAQ (acquired by Edwards), Civitas Therapeutics (acquired by Acorda), Relypsa (acquired by Galenica), Cynapsus (acquired by Sunovion), as well as other public and private companies. Prior to OrbiMed, Daniel was the Associate Director of Cardiovascular Research at Arisaph Pharmaceuticals where he was responsible for pre-IND discovery and development for programmes in lipid modulation. He received his MD and PhD in Biochemistry from Tufts University School of Medicine, and has undergraduate degrees in Mathematics and Chemistry from MIT.

Owen Smith

Owen is focused on biotechnology. He is currently an Observer on the board of Depixus. Prior to joining Arix Bioscience, Owen spent a year at Arthurian Life Sciences, where he was an Investment Manager. He was involved with the investment in a number of companies, including Cequr, Apitope and ReNeuron. Owen also worked extensively sourcing and evaluating new opportunities.

He read biology at the University of Bristol, qualified as an accountant at Grant Thornton and spent six years working in public and private assurance and forensic investigations.

Directors' Report

For the period ended 31 December 2016

The Directors present their report for the period ended 31 December 2016. Additional information which is incorporated by reference into this Directors' Report, including information required in accordance with the Companies Act 2006 and Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules, can be located as follows:

Disclosure	Location
Important events affecting the Company since the year-end, future business developments and research and development activities	Strategic Report pages 02 to 23
Financial risk management objectives and policies (including hedging policy and use of financial instruments)	Note 2 to the financial statements, page 82
Statement of Directors' Responsibilities	page 33
Details of long-term incentive schemes	Note 19 to the financial statements, page 90
Waiver of emoluments by a Director	Directors' Remuneration Report, page 59

Directors

The Directors of the Company who held office during the period are:

Current Directors*

- Jonathan Peacock
- Professor Sir Chris Evans
  Appointed 15 September 2015
- Joe Anderson
- James Rawlingson
- Dr Franz Humer
  Appointed 7 June 2016
- Sir John Banham
- David U'Prichard
- The Right Hon. Lord Hutton of Furness
- Professor Trevor Jones

Past Directors

- Martin Charles Walton
  Resigned 8 February 2016
- Shafia Zahoor
  Resigned 7 June 2016

Non-independent Independent Past Directors

* Unless otherwise stated, the current Directors were appointed on 8 February 2016.

Results and Dividend

The results for the period ended 31 December 2016 are set out in the Consolidated Statement of Comprehensive Income on page 71. As noted in our IPO Prospectus, the Board's intention during the current phase of the Group's development is to retain any Group earnings for the foreseeable future to finance growth and expansion and to invest in the infrastructure of Group Businesses. Accordingly, the Board is not recommending a dividend for the period ended 31 December 2016.

Articles of Association

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. The Articles of Association may be amended by a special resolution of the Company's shareholders.

Share capital

Details of the Company's share capital, including changes during the period, are set out in note 18 to the financial statements. As at 31 December 2016, the Company's share capital consisted of:

- 100,966,920 Ordinary Shares of £0.00001 each (77.71% of total share capital by number, 1.98% by nominal value)
- 28,916,666 Series B Shares of £0.00001 each (22.25% of total share capital by number, 0.57% by nominal value)
- 49,671 C Shares of £1.00 each (0.04% of total share capital by number, 97.45% by nominal value)

The Series B shares in issue at the date of the IPO converted automatically into Ordinary Shares in accordance with the Company's Articles of Association. In addition, and in connection with the IPO, a number of Ordinary Shares held as Restricted Shares in accordance with the provisions of the Restrictive Share Agreement (as described in Part XV of the IPO Prospectus), converted into Deferred Shares.

Ordinary shareholders are entitled to receive notice of, and to attend and speak at, any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share they hold. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies. Ordinary Shares held as Restricted Shares pursuant to the Restrictive Share Agreement are disenfranchised and, accordingly, holders of such Restricted Shares are not entitled to vote, attend the meetings of the Company or receive dividends or other distributions made or paid on the Ordinary Share capital of the Company.

No voting rights attach to the Deferred Shares and the C Shares, and their holders are not entitled to receive notice of, or to attend and speak at, any general meeting of the Company. Holders of Deferred Shares and C Shares are not entitled to receive any dividend or distributions made or paid on the ordinary share capital of the Company.

Other than the general provisions of the Articles of Association (and prevailing legislation), there are no specific restrictions of the size of a holding or on the transfer of any class of shares in the Company except as follows:

- Prior consent of the Directors is required for the transfer of Deferred Shares or C Shares;
- Holders of Restricted Shares may not dispose of Restricted Shares until and unless the relevant Restricted Shares are released from their respective undertakings pursuant to the Restrictive Share Agreement;
- Pursuant to lock-up arrangements under the Placing Agreement dated 2 February 2017 each of the Directors has agreed not to offer, sell, contract to sell, pledge or otherwise dispose of any Ordinary Shares which they hold directly or indirectly for a period of 365 days from the date of the Placing Agreement (subject to certain usual and customary exemptions and exceptions on the transfer of shares);
- Pursuant to a Lock-Up Deed, certain shareholders have agreed not to offer, sell, pledge or otherwise dispose of any of their interests for specified periods up to a maximum of 365 days from the date of Admission (subject to certain usual and customary exceptions, for example when the Company has given its consent to any such transfer).

Other than as set out above, the Directors are not aware of any other agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Authority for the Company to purchase its own shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Act. Any shares which have been bought back may be held as treasury shares or cancelled immediately upon completion of the purchase.

Prior to listing, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Companies Act 2006) of up to a maximum of 23,214,332 of its Ordinary shares. The Company has not repurchased any of its Ordinary shares under this authority, which is due to expire at the AGM to be held on 5 June 2017, and accordingly has an unexpired authority to purchase up to 23,214,332 Ordinary shares with a nominal value of £232.14.

Directors' interests

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 31 December 2016, is set out in the Directors' Remuneration Report on page **61**.

Directors' indemnities

The Company's Articles of Association (the 'Articles') provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers. The Company has made qualifying third party indemnity provisions for the benefit of its Directors during the period and these remain in force at the date of this report.

The Company maintains Directors' and officers' liability insurance cover and this is in place for all the Company's Directors at the date of this report. The Company will review its level of cover annually.

Compensation for loss of office

The Company does not have any agreements with any Executive Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes may cause options and awards outstanding under such schemes to vest on a takeover. Further information is provided in the Directors' Remuneration Report on page 54.

Overseas offices

Arix Bioscience, Inc has an office in New York, USA.

Significant interests

The table below shows the interests in shares notified to the Company in accordance with the Disclosure Guidance and Transparency Rules as at 31 December 2016 and 18 April 2017 (being the latest practicable date before publication of the Annual Report):

	At 31 December 2016		**At 18 April 2017**	
Name of Shareholder	Number of Ordinary Shares of 0.001 pence each held+	Percentage of total voting rights held+	**Number of Ordinary Shares of 0.001 pence each held+**	**Percentage of total voting rights held+**
CF Woodford Equity Income Fund	13,333,333	40.4%	–	–
Woodford Patient Capital Trust PLC	3,333,333	10.1%	–	–
Woodford Investment Management Limited	–	–	29,538,005	30.8%
C Chipperton	7,139,235	21.6%	10,497,522	10.9%
Richard Caring	2,777,778	8.4%	2,777,778	2.9%
The Elcot Fund Limited	1,388,889	4.2%	–	–
UCB Ventures SA	–	–	3,869,902	4.0%
Takeda Ventures, Inc	–	–	4,830,917	5.4%

+ The figures set out in this column in the table above are exclusive of any Restricted Shares held.

Political donations

The Company did not make any political donations during the period.

Change of control – Significant Agreements

There are a number of agreements that may take effect, alter or terminate on a change of control of the Company, such as commercial contracts and property lease agreements. None of these are considered to be significant in their likely impact on the business as a whole.

Audit information

At the date of the approval of this report, each Director confirms that:

- so far as they know, the Company's auditors are aware of all relevant audit information;
- each Director has taken all the reasonable steps to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

PricewaterhouseCoopers LLP, who were appointed during the period, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the offices of Brown Rudnick, 8 Clifford Street, London W1S 2LQ on 5 June 2017 at 2pm. The Notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

The Strategic Report on pages 02 to 23 and this Directors' Report have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

Statements of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records sufficient to show and explain the Group's and Company's transactions. Also to disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

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

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 26 to 28, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

James Rawlingson
Chief Financial Officer
26 April 2017

Corporate Governance Report

Chairman's introduction to governance

Jonathan Peacock, **Chairman**

> "The Board aims for the highest standards of corporate governance."

Dear Shareholders,

Arix Bioscience plc listed its ordinary shares on the main market of the London Stock Exchange on 22 February 2017. As stated in the IPO prospectus, the Board aims for the highest standards of corporate governance. The Company intends to voluntarily observe the requirements of the UK Corporate Governance Code (the 'Code'), so far as it is able, as if it were admitted to trading on the premium segment of the Official List, even though it is not obliged to do so by virtue of having a standard listing.

During 2016, and in the weeks leading up to the listing in 2017, the Board implemented a number of measures and procedures in preparation for becoming a listed company. These included appointing a number of highly experienced independent Non-Executive Directors. These Directors have already made a great contribution, and I'm sure they will continue to do so as we develop as a listed Company.

The Board also established three Board Committees: Audit and Risk, Remuneration and a Nomination Committee. The independent Non-Executive Directors form the membership of these committees, as envisaged by the Code. The committees have all started work on progressing the Company's governance structure and procedures. We therefore look forward to reporting further progress next year.

This report includes a description of how the Company has set up its governance structure, and how it intends to apply the principles and provisions of the Code throughout 2017.

Jonathan Peacock,
Chairman

UK Corporate Governance Code

As a company admitted to the Standard segment of the Official List, the Company is not required to adopt the UK Corporate Governance Code but is voluntarily choosing to observe the requirements of the Code as far as it is able in 2017. The Company was not listed at the period end of 31 December 2016, so will not be reporting on its compliance with the Code for that period.

The Board structure

The role of the Board is to provide entrepreneurial leadership to the Group, set strategy and monitor performance, and to ensure that the necessary financial and human resources are in place to enable the Company to meet its objectives. In addition, the Board ensures the appropriate financial and business systems and controls are in place to safeguard shareholders' interests and maintain effective corporate governance.

The Board operates in accordance with the Company's articles of association and its own written terms of reference. The Board has established a number of Committees. Each has its own terms of reference, which we will reviewed at least annually. A summary of the matters reserved for decision by the Board is set out below:

Key Board roles and responsibilities

The Board currently consists of nine Directors (including the Chairman), five of whom are considered to be independent.

Senior Independent Director

Franz Humer is the Senior Independent Director (SID). The SID's role is to act as a sounding board for the Chairman and serve as an intermediary for the other Directors when necessary. The SID will meet other Non-Executive Directors without the Chairman present at least once a year, to appraise the Chairman's performance, taking into account the views of executive Directors, plus on such other occasions as are deemed appropriate.

The SID is also available to shareholders should they wish to discuss concerns they have failed to resolve through the normal channels of Chairman, Chief Executive Officer or executive Directors or for which such contact is inappropriate.

Responsibilities of the Board

Leadership, strategy and management

- Providing leadership and setting values and standards
- Approving the Company's strategic aims and objectives
- Overseeing operations

Structure and capital

- Changes to the Group's capital or corporate structure
- Changes to the Group's management and control structure

Financial reporting

- Approval of financial statements
- Approval of the dividend policy
- Approval of material changes in accounting policies
- Approval of major capital expenditure

Risk management and internal controls

- Ensuring maintenance of a sound system of internal control and risk management
- Determining the principal risks of the Company and how they are managed and mitigated
- Reviewing the effectiveness of the risk and controls processes

Board membership

- Changes to the structure, size and composition of the Board
- Ensuring adequate succession planning
- Appointment or removal of the Chairman, CEO, SID and Company Secretary

Corporate governance

- Review of Group's overall governance framework
- Determining the independence of Directors
- Considering the balance of interests between shareholders and other stakeholders
- Authorising any conflicts of interest

Remuneration

- Determining the policy for remuneration of Chairman, the executive Directors, Company Secretary and other senior executives
- Determining the remuneration of the Non-Executive Directors
- Introducing new share incentive plans or major changes to existing plans

Other

- Approval and monitoring of the share dealing code
- Approval and monitoring of CSR
- Approving policies and political and charitable donations
- Approval of the overall levels of insurance for the group

Corporate Governance Report

continued

Commitment

The Board expects Non-Executive Directors to commit sufficient time to allow them to meet their obligations to the Company. The Non-Executive Directors are required to confirm, on acceptance of the role, that they have sufficient time to meet the expectations of their role. Non-Executive Directors will need to attend scheduled and emergency Board meetings, and Committees as well as the AGM, as well as allowing appropriate preparation time ahead of each meeting.

Conflicts of interest

The Company's Articles of Association set out the policy for dealing with Directors' conflicts of interest, in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise.

Prior to listing, potential conflicts of interest were considered by the Board and these were discussed in the prospectus. Directors are reminded at the beginning of each Board meeting to notify the Board of any further conflicts of interest, in accordance with Sections 175, 177 and 182 of the Companies Act 2006. Over the forthcoming year the Board will agree a procedure for dealing with conflicts of interest in relation to matters which are scheduled for Board consideration.

Board process

The Board met a number of times in the lead-up to the listing, and has met twice since listing. It intends to meet formally at least four times a year, with ad hoc meetings called as and when circumstances require at short notice.

All Directors are expected to attend all meetings of the Board, and any Committees they are members of, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they will be encouraged to submit to the Chairman any comments on papers to be considered at the meeting in advance, to ensure their views are recorded and taken into account.

The Chairman and Non-Executive Directors will meet without the Executive Directors present on a number of occasions throughout the year.

Board independence

Non-independent	Independent
Jonathan Peacock	Franz Humer
Christopher Evans	John Banham
Joe Anderson	David U'Prichard
James Rawlingson	John Hutton
	Trevor Jones

Read more about the **Board of Directors** on pages 26 to 28

Training and development

In preparation for listing, all Directors received an induction briefing from the Company's legal adviser, Brown Rudnick, on their duties and responsibilities as directors of a publicly quoted company.

During 2017, the Chairman will review and agree with each Director their individual training and development needs. In addition, under the guidance of the Chairman, the Company Secretary will establish a formal induction training process for new Directors.

Information and support

An agenda and accompanying detailed papers are circulated to the Board well in advance of each Board meeting. These include reports from Executive Directors and other members of senior management, and all Directors have direct access to senior management should they require additional information on any of the items to be discussed.

The information supplied to the Board and its Committees will be kept under review and formally assessed annually as part of the Board evaluation exercise to ensure it is fit and proper for purpose, and that it enables sound decision making.

The Company has adopted a formal procedure through which Directors may obtain independent professional advice at the Company's expense. The Directors also have access to the services of the Company Secretary.

Performance evaluation

Given that the majority of the Directors were appointed only in the year immediately preceding the listing in February 2017, the Board believes that a meaningful evaluation of the Board can only take place after it has been working together for a reasonable time as a listed company. The Board will consider an annual evaluation policy during 2017.

Relations with shareholders

Dialogue with shareholders

As part of the IPO 'roadshow', the Board met a large number of investors in the UK and US. The meetings involved the Chairman, Chief Executive Officer, Chief Financial Officer and senior management.

As part of its future investor relations programme, the Group will aim to maintain a dialogue with its key stakeholders, including institutional investors, to discuss issues relating to the performance of the Group including strategy and new developments. The Non-executive Directors are available to discuss any matter stakeholders might wish to raise, and the Chairman and Independent Non-Executive Directors attend meetings with investors and analysts as required.

Annual General Meeting

The Company's first Annual General Meeting since listing will take place on 5 June 2017 at 2pm at the offices of Brown Rudnick, 8 Clifford Street, London W1S 2LQ, and the chairman of each of the Board's committees will be present to answer questions put to them by shareholders. We will send the Annual Report and Accounts and Notice of the Annual General Meeting to shareholders at least 20 working days before the date of the meeting.

To encourage shareholders to participate in the AGM process, we propose to offer electronic proxy voting through the CREST service and all resolutions will be proposed and voted on at the meeting individually by shareholders or their proxies. Results will be announced through the Regulatory News Service and made available on the Company's website.

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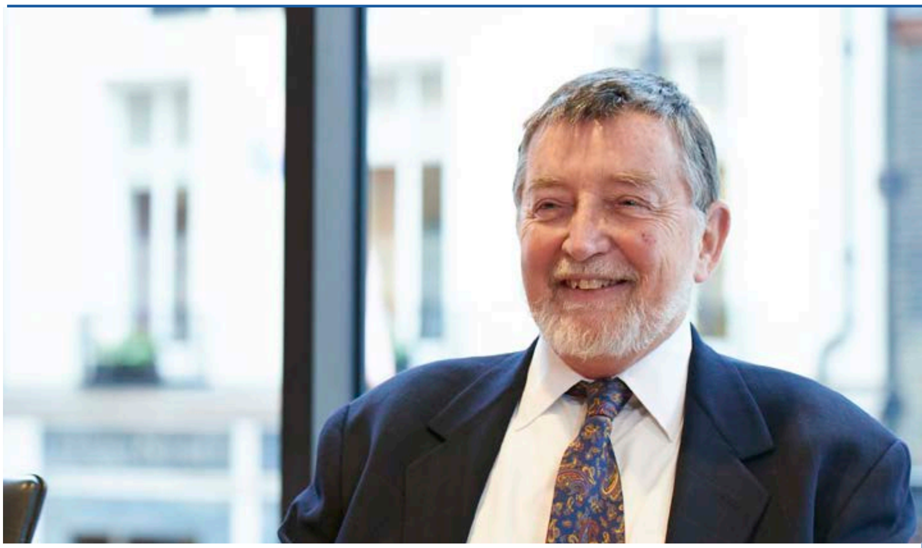
www.arixbioscience.com

Jonathan Peacock,
Chairman

Report of the Nomination Committee



David U'Prichard, **Chairman of the Nomination Committee**

Composition

- David U'Prichard (Chairman)
- Franz Humer (Other member)

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Dear Shareholders,

On behalf of the Board, I am pleased to present the Nomination Committee report for the period ended 31 December 2016.

Role and responsibilities

The role of the Nomination Committee is set out in its terms of reference, available on the Company's website.

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and its committees.

Specific duties of the Nomination Committee include:

Nomination Committee – key responsibilities

Board and Committee Composition

- Review structure, size and composition of the Board regularly
- Evaluate the balance of skills, knowledge, experience and diversity on the Board
- Recommend changes to membership of the Board's Committees
- Recommend suitable candidates for the role of the Senior Independent Director
- Consider and review the Board's policy on diversity

Appointments

- Prepare role description for Board appointments
- Identify and nominate to the Board candidates to fill Board vacancies
- Make recommendations to the Board regarding the reappointment of NEDs at the end of their term of office
- Make recommendations to the Board regarding the re-election of Directors by shareholders

Effectiveness & Succession Planning

- Review the results of the Board performance evaluation process that relate to the composition of the Board
- Ensure the all members of the Board are devoting sufficient time to fulfil their duties
- To assist with succession planning, keep informed about strategic and commercial changes affecting the Company
- Satisfy itself that processes and plans are in place for succession planning

Meetings

We intend for the Nomination Committee to meet at least once a year, and otherwise as required to discharge its duties. Only members of the Nomination Committee have the right to attend meetings, but we may invite other Directors, executives or advisers to attend all or part of any meeting as appropriate. In practice, we are likely to invite the Chairman to most meetings.

The Nomination Committee met before the IPO to discuss the future composition of the Board. The Committee also met after the IPO in March 2017. The meeting focused on the post IPO composition of the Board and its Committees, and a review of the Committee's terms of reference.

Diversity

The Company's policy is that recruitment, promotion and any other selection exercises will be conducted on the basis of merit against objective criteria that avoid discrimination. No individual should be discriminated against on the ground of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability, and this extends to Board appointments. The Board recognises the benefits of diversity, including gender diversity, on the Board, although it believes that all appointments should be made on merit, while ensuring there is an appropriate balance of skills and experience within the Board.

Annual evaluation

As the Nomination Committee and the Board itself has only been established for a short time, we have not conducted a formal performance evaluation. We will consider the annual evaluation process and policy during 2017.

David U'Prichard
Chairman of the Nomination Committee
26 April 2017

Report of the Audit and Risk Committee

Sir John Banham, **Chairman of the Audit and Risk Committee**

Composition

- Sir John Banham (Chairman)
- Lord Hutton (Other member)
- David U'Prichard (Other member)

Dear Shareholders,

On behalf of the Board, I am pleased to present the Audit and Risk Committee report for the period ended 31 December 2016.

The Arix Bioscience plc Audit and Risk Committee was formally established by the Board in the lead-up to IPO and I was appointed its Chairman when I became a Director of the Group. Lord Hutton joined me as a member of the Committee on its formation. The Committee membership has recently been strengthened by adding a further Non-Executive Director David U'Prichard. All members of the Committee are Independent Non-Executive Directors. The Board considers that I have recent and relevant financial experience as recommended under provision C.3.1 of The UK Corporate Governance Code (the Code) as it applies to the Company. I and the other members of the Committee also have competence relevant to the sector the Company operates in, as also recommended by provision C.3.1 of the Code.

The Committee's role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and controls, including reviewing the Group's annual financial statements, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal control systems in place within the Group.

We intend to meet at least three times a year. We met formally during the period and once since the period end. A summary of the matters we discussed is set out in the following report.

We have made good progress since the IPO and will continue to work with the management team and the Board to ensure we keep our governance and control processes under review, and operate effectively to support the achievement of the Group's strategy.

Sir John Banham
Chairman of the Audit and Risk Committee
26 April 2017

Duties and Responsibilities

The Audit and Risk Committee's duties and responsibilities are set out in its terms of reference which are available on the Company's website.

Visit us online at:
www.arixbioscience.com

Specific duties of the Audit and Risk Committee include:

Duties and Responsibilities

External Audit

- Recommend the appointment, reappointment or removal of the Auditors
- Oversee the relationship, make recommendations on their remuneration, approve terms of engagement and review independence and objectivity
- Meet regularly without management present
- Develop policy on the supply of non-audit services
- Ensure the audit contract is tendered at least every ten years
- Review and approve the audit plan
- Review the findings of the audit

Internal Audit

- To review the need for an internal audit function
- If an internal audit function is appointed:
  - Approve the appointment or termination of the head of internal audit
  - Consider and approve the Terms of Reference for the internal audit
  - Monitor and review the operation and the effectiveness
  - Review and assess the internal audit plan and reports
  - Ensure access to the Board and Committee Chairmen

Financial and narrative reporting

- Monitor the integrity of the financial statements
- Review and report to the Board on significant financial issues and judgements
- Review and challenge accounting policies, methods used to account for significant or unusual transactions, clarity and completeness of disclosure

Whistleblowing, fraud, bribery and other compliance

- Review the Company's arrangements for its employees and contractors to raise concerns in confidence
- Review procedures for detecting fraud and preventing bribery
- Review the Company's code of corporate conduct/business ethics

Internal controls and risk management

- Monitor and review the adequacy and effectiveness of the Company's internal financial controls and risk management systems
- Review and recommend to the Board the disclosures in the annual report concerning internal controls and risk management
- Promote sound risk management and internal control systems
- Monitor and keep under review the policies and overall process for identifying and assessing business risk

Report of the Audit and Risk Committee continued

Meetings and attendees

The Audit and Risk Committee met once during the period and has met once so far since the period end. The Audit and Risk Committee will normally meet no fewer than three times a year. Further meetings may be called as required.

The external auditors are invited to attend some meetings. Outside of the formal meeting programme, the Audit and Risk Committee chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman, the Chief Executive Officer, the Chief Financial Officer and the external audit lead partner.

Activity before and since IPO

The Audit and Risk Committee met once before the IPO and once since the period end. Matters discussed included:

- Reviewing the Committee's terms of reference and recommending changes to the Board
- Considering the Group's policy on the provision of non-audit services by the external auditors
- Reviewing the Audit Plan, process and scope
- Reviewing the independence of the External Auditor
- Reviewing the significant issues in the External Audit report
- Reviewing the Annual Report and Financial statements and recommending their approval by the Board

Significant issues considered in relation to the financial statements

Significant issues and accounting judgements are identified by the finance team and the external audit process and are reviewed by the Audit and Risk Committee. The significant issues considered by the Committee in respect of the period ended 31 December 2016 are set out in the table below:

Significant issues and judgements	How the issues were addressed
Valuation of Unquoted Investments	The Audit and Risk Committee reviewed management's determination of the valuations of the unquoted investments including the work performed by the External auditors to evaluate the valuation methodology applied. The Committee concluded that the valuations of the five unquoted investments were properly prepared in accordance with the stated accounting policy and the evidence available.
Valuation of investment in carried interest	The Audit and Risk Committee reviewed and considered the key assumptions noting also that the valuation of investment in carried interest is determined at the reporting date by management's appointed experts. The Audit and Risk Committee was satisfied that procedures and assumptions used were appropriate and the carried interest valuation was in the appropriate range.
Calculation of Share-Based Payment expense	The Audit and Risk Committee considered management's calculation of the share-based payment expense relating to founder shares, founder options and management options including the assumptions made regarding volatility and the risk-free interest rate. The Committee was satisfied that the expense had been calculated appropriately.
Presentation of the Annual Report	The Audit and Risk Committee reviewed management's presentation of the Annual Report, noting that this was the first period that a report has been prepared. The Committee concluded that management has presented the report in a suitable manner.

Risk management and internal control

The Board has overall responsibility for setting the Group's risk appetite and ensuring there is an effective risk management framework to maintain levels of risk within this risk appetite. The Board has, however, delegated responsibility for reviewing the risk management methodology and effectiveness of internal control to the Audit and Risk Committee. The Audit and Risk Committee will provide oversight and advice to the Board on current risk exposures and future risk strategy. Further details of the Group's risk management approach, structure and principal risks are set out in the Strategic report on pages 22 to 23.

The Group's system of internal control comprises entity-wide high level controls, controls over business processes and centre level controls. Policies and procedures and clearly defined levels of delegated authority have been communicated across the Group and management has identified the key operational and financial processes which exist within the business and implemented internal controls over these processes in addition to the higher level review and authorisation based controls. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements. The Board is ultimately responsible for the Group's system of internal controls and risk management and will discharge its duties in this area by:

- holding regular Board meetings to consider the matters reserved for its consideration
- receiving regular management reports which provide an assessment of key risks and controls
- scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business
- ensuring there is a clear organisational structure with defined responsibilities and levels of authority
- ensuring there are documented policies and procedures in place
- reviewing regular reports containing detailed information regarding financial performance, rolling forecasts, actual and forecast covenant compliance and financial and non-financial KPIs.

In reviewing the effectiveness of the system of internal controls, the Audit and Risk Committee will:

- review the risk register compiled and maintained by senior managers within the Group and question and challenge where necessary
- review the system of financial and accounting controls regularly
- report to the Board on the risk and control culture within the Group.

Internal audit

The Group does not have an internal audit function. The Audit and Risk Committee will keep under review the need for an internal audit function.

External auditors

The Audit and Risk Committee is responsible for overseeing the Group's relationship with its external auditors, PricewaterhouseCoopers LLP (PwC). This includes the ongoing assessment of the auditors' independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board as to the auditors' appointment (subject to shareholder approval) or otherwise.

Appointment and tenure

PwC was first appointed as the external auditors of the Group in September 2016. The current lead audit partner, Richard McGuire, has been in place for one year.

PwC generally require the rotation of the lead audit partner every five years for a listed client. Therefore, we expect a new lead audit partner to be selected for the 2021 audit. In accordance with the Code and EU legislation, the Committee intends to put the external audit out to tender at least every ten years.

Non-audit services

The engagement of the external audit firm to provide non-audit services to the Group can affect the independence assessment, and the Company has therefore adopted a policy which conforms to the new Ethical Standard published by the Financial Reporting Council. Under the policy the engagement of the external auditors to provide statutory audit services, certain assurance, taxation and certain advisory services with fees of less than £5,000 is pre-approved. Any engagement of the external auditors to provide permitted services above £5,000 is subject to the specific approval of the Audit and Risk Committee. The policy recognises that certain non-audit services may not be carried out by the external auditors (in accordance with the EU Statutory Audit regime).

During the period ended 31 December 2016, PwC was engaged to provide certain non-audit services for the IPO. These included preparing reports on the Company's financial position and prospects, working capital and a report to the Company's sponsors regarding the Company's business and operations. In approving the use of PwC to provide these services, the Board took the view that PwC's knowledge of the Company and its operations meant it was best placed to provide the services, and was comfortable that PwC's independence would not be compromised. The fees paid to PwC for non-audit services during the period totalled £756,650, representing 548% of the total audit fee.

Whistleblowing

The Company has adopted procedures where employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The whistleblowing policy applies to all Group employees. The Audit and Risk Committee is responsible for monitoring the Group's whistleblowing arrangements and the Board will review the policy periodically.

Sir John Banham
Chairman of the Audit and Risk Committee
26 April 2017

Directors' Remuneration Report

Franz Humer, **Chairman of the Remuneration Committee**

Composition

- Franz Humer (Chairman)
- Trevor Jones (Other member)

Annual Statement by the Chairman of the Remuneration Committee

Dear Shareholders,

As Chairman of the Remuneration Committee I am pleased to introduce our first Directors' Remuneration Report.

One of the Remuneration Committee's aims is to provide clear, transparent remuneration reporting for our shareholders which adheres to the best practice corporate governance principles that are required for listed organisations. During the financial period ended 31 December 2016, Arix was not a quoted company so is not subject to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 nor the UKLA Listing Rules or the UK Corporate Governance Code. However, we have provided disclosure that exceeds our obligations to meet our desire for clear and transparent remuneration reporting. The 2017 Directors' Remuneration Report will adhere to the full requirements of a listed company.

The Directors' Remuneration Policy, which is set out on pages 46 to 58 of this report, will be submitted to shareholders for approval at our Annual General Meeting on 5 June 2017.

Our Approach to the Directors' Remuneration Policy

This is the first Directors' Remuneration Report for Arix Bioscience as a listed company. We started our work as a Remuneration Committee in the run-up to the IPO and since the IPO, we have built on this work to develop our first Directors' Remuneration Policy.

The Remuneration Committee's aim is to have a Directors' Remuneration Policy which supports the Company strategy of providing strategic, operational and clinical direction to its Group Businesses by acquisitions, financing potential investments into life sciences funds globally, building the Group's infrastructure including expanding its high quality operating team and supporting the growth of existing university relationships and to establish new relationships with academia.

In order to do this, the Directors' Remuneration Policy had been designed to attract, retain and motivate top talent and a very experienced senior leadership team who provide us with highly complementary skills to help ensure continued growth and success as the Company enters its next stage of development operating in a Listed environment. This has guided our thinking and actions in developing our Directors' Remuneration Policy.

A key focus of the Directors' Remuneration Policy is to align the interests of the Directors to the long-term interests of the shareholders and aims to support a high performance culture with appropriate reward for superior performance, without creating incentives that will encourage excessive risk taking or unsustainable company performance. This is underpinned through the implementation and operation of our two incentive plans – the Annual and Deferred Bonus Plan and the Executive Incentive Plan.

This report lays out the core principles of our Directors' Remuneration Policy and our practice over the past year. I trust we have done this with the transparency and clarity that aids your understanding of both our intent and our activity.

Our Directors' Remuneration Policy

In preparation for Listing we introduced the following incentive plans for senior executives including the Executive Directors. These incentive plans are part of our new Directors' Remuneration Policy. The overview of these plans is below (with further detail outlined in our Directors' Remuneration Policy):

Annual and Deferred Bonus plan (ABP)

The annual bonus for Executive Directors will comprise the following elements:

- Maximum payment of 100% of base salary;
- Up to one-half of any bonus may be deferred into shares for three years (with the Remuneration Committee having discretion to apply a further two year holding period after awards have been exercised).

Executive Incentive Plan (EIP)

- Executive Directors are intended to receive annual awards of shares under the EIP
- The maximum base award is 150% of salary
- Vesting of these shares is subject to achievement of challenging performance conditions with significant outperformance of the target will result in a vesting of 150% of base award (which equates to a maximum opportunity of 225% of salary)

The Remuneration Committee has various discretions under these plans that affect the vesting outcomes and actual level of reward payable to individuals. Such discretion would only be used in exceptional circumstances and, if exercised, disclosed at the latest in the Annual Report on Remuneration for the year in question. There are also provisions included in the rules to operate malus and clawback.

Shareholding guidelines

A requirement for Executive Directors to build up and retain a significant holding of 100 - 200% of salary in shares has been introduced.

Further details on these key elements of Directors' Remuneration Policy may be found in the Policy Report on pages 46 to 58.

Key activities of the Remuneration Committee

The Remuneration Committee's key activities during 2016 and in the period since the IPO were focused on:

- Agreement of the Remuneration Committee's terms of reference;
- Formulation and finalisation of the Company's Directors' Remuneration Policy; and
- Determining the level of bonus payments in respect of the 2016 financial year.

Implementation of the Directors' Remuneration Policy in 2017

The Remuneration for our Executive Directors in the 2017 financial year will be governed by the Directors' Remuneration Policy as set out on pages 46 to 58.

Key elements for the 2017 financial year are:

- In the 2017 financial year, the annual bonus will operate in accordance with the terms set out in the Directors' Remuneration Policy with a maximum bonus opportunity of 100% of salary for the Executive Directors. The bonus plan will feature corporate financial and non-financial measures that will support shareholder value creation (details of the measures and targets are in the process of being finalised at the date of this report). The details of the measures and the targets will be fully disclosed in the 2017 Annual Report on Remuneration.
- Awards will be made in the 2017 financial year under the EIP to Executive Directors and other senior management. The awards will feature stretching share price growth targets with a threshold of 8% p.a. compound over three years to 150% vesting of the award for achievement of 30% p.a. compound growth.
- The Company wants to ensure that Non-Executive Directors are aligned to the future development of the Company. In 2017, Non-Executive Directors were provided Ordinary Shares on float to provide this alignment, and annual fees for the 2017 financial year will be paid in cash. However from the 2018 financial year, our intention is to provide 50% of the annual fees in cash and 50% in shares, to provide ongoing alignment with the development of the Company.

The remainder of the Remuneration Report is split into two parts:

- Directors' Remuneration Policy Report. This sets out our Remuneration Policy for the Directors; and
- The Annual Report on Remuneration which sets out payments made to the Executive Directors during the year.

Franz Humer
Chairman of the Remuneration Committee
26 April 2017

Remuneration Policy

Introduction

This report sets out the details of the Directors' Remuneration Policy (the 'Policy') for Executive and Non-Executive Directors of the Company and will be proposed for approval by shareholders at the Annual General Meeting on 5 June 2017.

Policy summary

The Remuneration Committee (the 'Committee') is responsible for determining the Remuneration Policy for the Executive Directors, Chairman and other senior executives for current and future years. In setting the Policy, the Committee has sought to ensure that it is sufficiently flexible to take account of future changes in the Company's business environment and in remuneration practice. The Policy is designed around the following key principles:

- Alignment with the long-term interests of shareholders;
- Competitive remuneration which is set at an appropriate level to attract, retain and motivate executive management of the quality required to help ensure growth and success as the Company enters its next stage of development operating in a listed company environment;
- Strategic alignment – having regard to the risk appetite of the Company and alignment to the Company's long-term strategic goals;
- Encourage and support a high performance culture with appropriate award for superior performance; and
- Avoid creating incentives that will encourage excessive risk taking or unsustainable Company performance.

The Remuneration Committee will review annually the remuneration arrangements for the Executive Directors and key senior management drawing on trends and adjustments made to all employees across the Group and taking into consideration:

- business strategy over the period;
- overall corporate performance;
- market conditions affecting the Company;
- the recruitment market;
- changing practice in the markets where the Company competes for talent; and
- changing views of institutional shareholders and their representative bodies.

The following table sets out each element of remuneration for Executive Directors and how it supports the Company's short and long-term strategic objectives:

Remuneration Policy Table

Element of Remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity and Performance metrics
Salary and fees	Provide salaries and fees that support the Company to acquire and retain the highly qualified Executive Directors who are needed to develop and implement the Company's strategy.	An Executive Director's basic salary and fees are set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • individual degree of responsibility; • the general operational performance of the Group and individual performance (if applicable); • the economic environment and the sustainable development of the Company; • remuneration structures in companies that are comparable in terms of business activities, complexity and size; • any change in scope, role and responsibilities; and • remuneration practices within the Company.	The Committee ensures that maximum salary and fee levels are positioned with consideration for: • the need to acquire and retain Executives with the skills and experience to develop and implement the Company's strategy; • companies that are comparable in terms of business activities, complexity and size to Arix, which we would compete for talent against. In general, increases for Executive Directors will be in line with the increase for employees. The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year, the salaries for that year for each of the Executive Directors.
Benefits	Provides a benefits package in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy.	The Executive Directors are eligible to receive private health cover, life assurance, income protection and a company car or car allowance. The Committee recognizes the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment and reasonable tax advice and filing support. The maximum will be set at the cost of providing the benefits described.	See description of benefits in previous column.

Element of Remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity and Performance metrics
Pensions	Provides a pension provision in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy.	Pension arrangements are provided in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy. The Company operates a defined contribution (DC) scheme for UK employees and US employees contribute into the Arix 401(k) pension scheme (which is open to all employees) with a contribution made by Arix alongside an employee's contribution.	The maximum contribution for UK employees into a defined contribution plan or a salary supplement in lieu of pension will be 10% of gross basic salary (or salary plus fees). US employees contribute into the Arix 401(k) pension scheme with a matching contribution made by Arix on their contributions up to the US government limits imposed on the 401(k) Plan. The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year the pension contributions for that year for each of the Executive Directors.

Element of Remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity and Performance metrics
Annual and Deferred Bonus Plan ("ABP")	The ABP provides a significant incentive to the Executive Directors linked to achievement in delivering goals that are closely aligned with the Company's strategy and the creation of value for shareholders. In particular, the Annual Bonus Plan supports the Company's objectives allowing the setting of annual targets based on the businesses' strategy at the time, meaning that a wider range of performance metrics can be used that are relevant and achievable. The Committee has discretion to defer part of the annual bonus earned in shares under the ABP. The advantage of deferral is: • increased alignment between Executives and shareholders created through deferral and the increased equity stake of management in the Company; and • amounts deferred in shares are subject to a Director's continuing employment, which provides an effective lock-in.	The maximum bonus (including any part of the bonus deferred into an ABP Award) deliverable under the ABP will not exceed 100% of a participant's annual base salary (or salary plus fees). The Board will determine the bonus to be delivered following the end of the relevant financial year. The Company will set out in the Remuneration Report in the following financial year, the nature of the targets and their weighting for each year. Details of the performance conditions, targets and their level of satisfaction for the year being reported on will be set out in the Annual Report on Remuneration. The Committee can determine that part of the bonus earned under the ABP is provided as an award of shares. The maximum value of deferred shares is 50% of the bonus earned. The main terms of these awards are: • minimum deferral period of three years, during which no performance conditions will apply; and • the participant's continued employment at the end of the deferral period unless he / she is a good leaver. The Company will set out in the Remuneration Report in the following financial year, the nature of the deferral mechanism being operated for the annual bonus for the awards to be made in that financial year. The Committee may award dividend equivalents on those shares to plan participants to the extent that they vest. The Committee has the discretion to apply a holding period of two years post vesting for deferred bonus shares.	Percentage of bonus maximum earned for levels of performance: Threshold: 0% On target: 50% Maximum: 100%

Element of Remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity and Performance metrics
Long-Term Incentive Plan ("EIP")	The purpose of the EIP is to incentivise and reward Executive Directors in relation to long-term performance and achievement of Group Strategy. This will better align Executive Directors' interests with the long-term interests of the Group and also will act as a retention mechanism. The Award is designed to incentivise Executive Directors to grow the investment portfolio and value creation by successfully delivering the Company's strategy and increase in total shareholder value, assessed via share price growth.	Awards are granted annually to Executive Directors in the form of a conditional share award, nil cost option or restricted share award. Details of the performance conditions for grants made in the year will be set out in the Annual Report on Remuneration. These awards will vest over three years subject to: • the Executive Director's continued employment at the date of vesting; and • satisfaction of the performance conditions. The Committee may award dividend equivalents on awards in either shares or cash to the extent that these vest. The Committee has the discretion to apply a holding period of two years post vesting for the EIP.	Normal maximum value of 225% of salary (or salary plus fees) p.a. based on the market value at the date of grant set in accordance with the rules of the Plan. In exceptional circumstances the Committee may grant an award with a maximum of 300% of salary (or salary plus fees). 100% of the base award will vest based on the achievement of the performance target with up to 150% vesting based on the achievement of the outperformance target which is set at a level that rewards for significant outperformance of the performance target. For the 2017 award: • None of the award will vest if the share price growth is less than 8% p.a. compound; • 8% p.a. compound growth provides vesting of 100% of the base award; • 20% p.a. compound provides vesting of 125% of the base award; • 30% p.a. compound growth provides vesting of 150% of the base award (which results in the maximum value of 225% of salary). The Remuneration Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part way through a performance period if there is a significant and material event which causes the Remuneration Committee to believe the original measures, weightings and targets are no longer appropriate. Any changes made and the exceptional circumstances will be clearly disclosed to shareholders in the Annual Report on Remuneration.

<table>
<tr><th>Element of Remuneration</th><th>How it supports the Company's short and long-term strategic objectives</th><th>Operation</th><th>Opportunity and Performance metrics</th></tr>
<tr><td>Minimum Shareholding Requirement</td><td colspan="3">The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up over a five year period and then subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned.
The following table sets out the minimum shareholding requirements:
Role — Shareholding Requirement (percentage of salary, or salary plus fees)
Main Board Executive Directors — 100%-200% (dependent on historical level of EIP awards)
The Committee retains the discretion to increase the shareholding requirements.</td></tr>
<tr><td>Non-Executive Director Fees</td><td>Provides a level of fees to support recruitment and retention of high calibre Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.</td><td>The Chairman and Executive Directors are responsible for setting the remuneration of the Non-Executive Directors. Non-Executive Directors are paid an annual fee and additional fees for chairmanship of committees.
Up to 50% of their total annual fee shall be satisfied by the issue and allotment of Ordinary Shares at the prevailing market price following the annual general meeting of the Company each year. The remaining balance of their fee is payable in quarterly equal instalments in arrears.
Fees are reviewed annually based in line with the review policy for the Executive Directors. Non-Executive Directors do not participate in any variable remuneration or benefits arrangements.</td><td>The fees for Non-Executive Directors are set at broadly the median of the comparator group.
In general the level of fee increase for the Non-Executive Directors will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.
The Company will pay reasonable expenses incurred by the Non-Executive Directors and may settle any tax incurred in relation to these.</td></tr>
</table>

Historic awards

Any historic awards that were granted under any previous share schemes operated by the Company but remain outstanding, remain eligible to vest based on their original award terms. See Annual Report in Remuneration for details of outstanding share awards.

Malus and Clawback

The ABP and the EIP include best practice malus and clawback provisions.

Malus is the adjustment of unpaid bonus and deferred share awards under the ABP and outstanding EIP awards as a result of the occurrence of one or more of the circumstances listed below. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments or vested awards under the ABP and vested EIP awards as a result of the occurrence of one or more of the circumstances listed below. Clawback may apply to all or part of a participant's award and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- the assessment of any performance condition or condition in respect of an ABP and EIP Award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the cash payment under the ABP or the number of shares subject to an ABP or EIP Award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct; or
- events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

	Annual Bonus	Deferred Bonus	EIP
Malus	Up to the date of payment of a cash bonus	To the end of the three year deferral period	To the end of the three year vesting period
Clawback	–	–	Two years post vesting

The Committee believes that the rules of the Plans provide sufficient powers to enforce malus and clawback where required.

Discretion

The Remuneration Committee has discretion in several areas of Policy as set out in this report. The Remuneration Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Remuneration Committee has discretion to amend the Policy with regard to minor or administrative matters where it would be, in the opinion of the Remuneration Committee, disproportionate to seek or await shareholder approval.

Recruitment Policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles as for the Executive Directors, as set out in the Remuneration policy table above. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role.

In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any performance measures associated with an award.

The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below:

Remuneration element	Recruitment policy
Salary, Benefits and Pension	These will be set in line with the policy for existing Executive Directors.
Annual Bonus	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 100% of salary.
EIP	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 225% of salary in normal circumstances and 300% of salary in exceptional circumstances.
"Buy Out" of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Executive Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and condition having a material effect on their value ("lapsed value"); The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the remuneration report for the relevant financial year.

The Company's policy when setting fees for the appointment of new non-executive Directors is to apply the policy which applies to current non-executive Directors.

Payment for Loss of Office

The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There is no agreement between the Company and its Executive Directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid.

The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Remuneration element	Treatment on Cessation of Employment
Salary, Benefits and Pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu.
Annual Bonus	**Good Leaver Reason** • Performance conditions will be measured at the bonus measurement date. Bonus will normally be prorated for the period worked during the financial year. **Other Reason:** • No bonus payable for year of cessation **Discretion:** The Committee has the following elements of discretion: • To determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • To determine whether to prorate the bonus to time. The Remuneration Committee's policy is that it will prorate bonus for time. It is the Remuneration Committee's intention to use discretion to not prorate in circumstances where there is an appropriate business case which will be explained in full to shareholders.
Deferred Bonus Shares	**Good Leaver Reason** • All subsisting deferred share awards will vest in full on cessation of employment. **Other Reason:** • Lapse of any unvested deferred share awards. **Discretion:** The Committee has the following elements of discretion: • To determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To vest deferred shares at the end of the original deferral period or at the date of cessation. The Remuneration Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • To determine whether to prorate the maximum number of shares to the time from the date of grant to the date of cessation. The Remuneration Committee's policy is that it will not prorate awards for time. The Remuneration Committee will determine whether or not to prorate based on the circumstances of the Executive Director's departure.

Remuneration element	Treatment on Cessation of Employment
EIP	**Good Leaver:** • Prorated to time and performance in respect of each subsisting EIP award. **Other Reason:** • Lapse of any unvested EIP awards. **Discretion:** The Committee has the following elements of discretion: • To determine that an executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To measure performance over the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • To determine whether to prorate the maximum number of shares to the time from the date of grant to the date of cessation. The Remuneration Committee's policy is that it will prorate awards for time. It is the Remuneration Committee's intention to use discretion to not prorate in circumstances where there is an appropriate business case which will be explained in full to shareholders.
Other contractual obligations	There are no other contractual provisions other than those set out above agreed prior to 27 June 2012.

A good leaver reason is defined as cessation in the following circumstances:

- death;
- ill health;
- injury or disability;
- retirement;
- employing company ceasing to be a Group company;
- transfer of employment to a company which is not a Group company; and
- at the discretion of the Committee (as described above).

Cessation of employment in circumstances other than those set out above is cessation for other reasons.

Change of Control

Name of Incentive Plan	Change of Control	Discretion
ABP Cash Awards	Prorated to time and performance to the date of the change of control.	The Committee has discretion regarding whether to prorate the bonus to time. The Committee's policy is that it will prorate the bonus for time. It is the Committee's intention to use its discretion to not prorate in circumstances only where there is an appropriate business case which will be explained in full to shareholders.
ABP Deferred Share Awards	Subsisting deferred share awards will vest on a change of control.	The Committee has discretion regarding whether to prorate the award to time. The Committee's policy is that it will not prorate awards for time. The Committee will make this determination depending on the circumstances of the change of control.
EIP	The number of shares subject to subsisting EIP awards will vest on a change of control, prorated to time and performance.	The Committee will determine the proportion of the EIP Award which vests taking into account, among other factors, the period of time the EIP Award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time.

Directors' Remuneration Report

continued

Service agreements and letters of appointment

The Executive Directors' service agreements are for a rolling term and, with the exception of James Rawlingson's, may be terminated by the Company or the Executive Director by giving 12 months' notice.

Name	Date of service agreement	Notice periods by Company (months)	Notice periods by Director (months)
Jonathan Peacock[1]	2 February 2017	12	12
Professor Sir Christopher Evans[2]	1 November 2015	12	12
Joe Anderson	8 February 2016	12	12
James Rawlingson	9 February 2016	6	6

[1] J Peacock became Chairman in February 2016. He also entered into a service agreement with Arix Bioscience, Inc dated 2 February 2017 effective from 1 October 2016 (in replacement of his service agreement with the Company which was effective 1 January 2016 to 1 February 2017). Either party may terminate the employment at any time and depending upon the reason for such termination, severance including 12 months of salary may be payable.

[2] The Company has also entered into a consultancy agreement on 1 February 2016 with Merlin Scientific LLP, a limited liability partnership wholly owned and controlled by C Evans. Under the Consultancy agreement Merlin Scientific LLP agreed to make C Evans available for the performance of services. The Consultancy agreement can be terminated by either party upon 12 months' notice in writing.

The Non-Executive Directors of the Company do not have service contracts, but are appointed by letters of appointment. Each Non-Executive Director's term of office runs for an initial period of three years unless terminated earlier upon written notice or upon their resignations.

The terms of the Non-Executive Directors' appointments are subject to their re-election by the Company's shareholders at the AGM scheduled to be held on 5 June 2017 and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election.

The details of each Non-Executive Director's current term are set out below:

Name	Date of appointment	Current term (full years)	Notice periods by Company (months)	Notice periods by Director (months)
Franz Humer	7 June 2016	3	3	3
Sir John Banham	8 February 2016	3	3	3
Lord John Hutton	8 February 2016	3	3	3
Professor Trevor Jones	8 February 2016	3	3	3
David U'Prichard	8 February 2016	3	3	3

Illustrations of the application of the remuneration policy

The chart below illustrates the remuneration that would be paid to each of the Executive Directors, based on current salaries under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum. The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual Bonus; and (iii) EIP, with the assumptions set out below:

Element	Description	Minimum	On-Target	Maximum
Fixed[1]	Salary, benefits and pension	Included	Included	Included
Annual Bonus	Annual bonus (awards under ABP)	No variable payable	50% of maximum bonus	100% of maximum bonus
Executive Incentive Plan[2]	Award under the EIP	No annual minimum Multiple year and variable	67% of the maximum award	100% of the maximum award

In accordance with the regulations, share price growth has not been included.

Notes:

[1] Benefits provided are permanent health insurance, life assurance, private medical insurance, company car (company car allowance of £10,000 for the CEO) and pension (current contribution of 7.5% of salary). The value of the benefits (except for the company car allowance and pension) will not be known until the end of the financial year – therefore in the 2017 report, the charts below will be updated to incorporate the benefits values as per the single figure table for the 2017 financial year.

[2] Long-Term Incentive Plan illustration is for the maximum award level of 225% of salary (salary and fees) under the EIP for all roles. Please note, the final award levels for the roles is determined by the Remuneration Committee and may not be at the maximum level for all roles. The charts below will be updated in the 2017 report to reflect the actual award levels that have been made for each role in 2017.

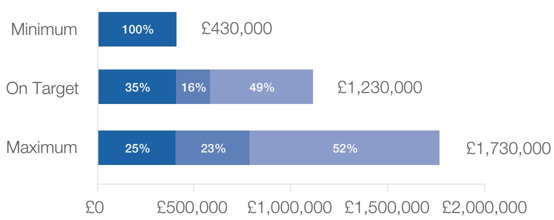
Information regarding the illustrations

The Remuneration Committee wishes to provide shareholders with a full understanding of our proposed Remuneration Policy, in line with the Directors' Remuneration reporting requirements.

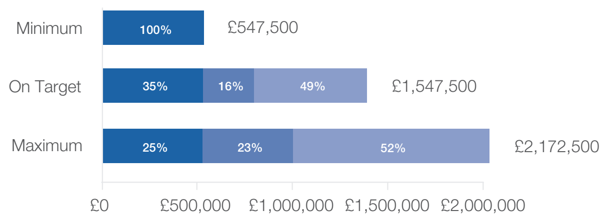
The charts below provide an illustration of the Remuneration Policy but the Remuneration Committee wishes to note that the implementation of the Policy for the 2017 financial year, which is being finalised by the Remuneration Committee at the time of this report (in particular the award levels for the EIP in 2017), will differ from the illustrations.

The implementation of the Remuneration Policy for the 2017 financial year will be disclosed in our 2017 Annual Report and the illustration charts will be updated to reflect the actual implementation of our Policy.

Jonathan Peacock

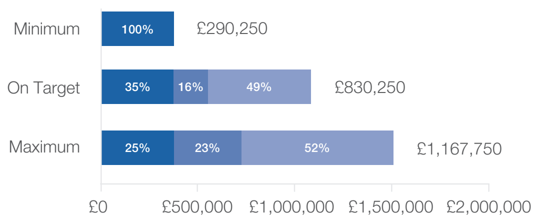


Joe Anderson



Chris Evans

James Rawlingson



Salary, Benefits & Pension | Bonus (ABP) | EIP

Professor Sir Christopher Evans will not participate in the Company's Annual Bonus or Executive Incentive Plan. In addition to the remuneration components outlined in the illustration above, a consultancy fee will be paid to Merlin Scientific LLP, a limited liability partnership wholly owned and controlled by Professor Sir Christopher Evans. The minimum payment will be £240,000 per year and the maximum payment, in combination with the amounts paid to Professor Sir Christopher Evans, will not exceed the maximum which could be made under the proposed Remuneration Policy. The payment will be determined based on the nature of the services provided in the year. The Company will provide a full disclosure of the payments made in the following year's Annual Report.

Exceptions to Remuneration Policy for Executive and Non-Executive Directors

Notwithstanding the restrictions set out in the Policy, where the Group has made a commitment to a Director which:

- was in accordance with the then prevailing Remuneration policy at the time the commitment was made; and/or
- was made before the Director became a Director;

the Company will continue to give effect to it, even if it is inconsistent with the policy which is in effect at that time. For example, earlier remuneration policies of the Group may continue to apply in relation to awards under bonus or share incentive plans in operation pre-IPO which were made pre-IPO but which may vest or be exercised, or may have vested and been exercised, post-IPO.

Statement of conditions elsewhere in the Company

The Remuneration Committee considers pay and employment conditions across the Company when reviewing the remuneration of the Executive Directors and other senior employees. In particular, the Remuneration Committee considers the range of base pay increases across the Group. While the Company does not directly consult with employees as part of the process of reviewing executive pay and formulating the Remuneration Policy set out in this report, the Company does receive updates from the Executive Directors on their discussions and reviews with senior management and employees.

Consideration of shareholder views

The Company welcomes dialogue with its shareholders; shareholder views are considered when evaluating and setting the remuneration strategy and the Remuneration Committee will consult with key shareholders prior to any significant changes to its Remuneration Policy.

Annual Report on Remuneration

This section sets out details of the remuneration of the Executive and Non-Executive Directors received during the financial period ended 31 December 2016 and also describes the operation of the Remuneration Committee. During the financial period ended 31 December 2016 the Company was not a Quoted company so was not subject to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 nor the UKLA Listing Rules or the UK Corporate Governance Code. For clarity, all remuneration set out in the following report refers to payments made prior to Listing and was not subject to the Remuneration Policy. The Annual Report on Remuneration will therefore not be proposed for an advisory vote by shareholders at the forthcoming Annual General Meeting because it relates to the period ended 31 December 2016 when the Company was not Quoted and there was no Remuneration Policy in place.

Remuneration Committee

Membership

The Remuneration Committee was established on 7 June 2016 in preparation for the listing. Franz Humer is Chairman of the Committee. The other member of the Committee is Professor Trevor Jones. There were no meetings of the Committee during the period and the Committee has met once so far since IPO.

The Board considers each of the members of the Committee to be independent in accordance with the UK Corporate Governance Code (the Code). The Chairman of the Board and Chief Executive will also attend meetings of the Committee by invitation, but will not be present when matters relating to their own remuneration are discussed.

Role of the Remuneration Committee

The Remuneration Committee's responsibilities are set out in its Terms of Reference which are available on request to shareholders and on the Company's website.

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www.arixbioscience.com

Its role includes:

- Setting the remuneration policy for all executive Directors of the Company, the Chairman of the Board and management (being all personnel receiving an annual basic salary of £250,000 or more).
- Within the terms of the remuneration policy and in consultation with the Chairman of the Board and/or Chief Executive, as appropriate, determining the total individual remuneration package of each Executive Director and the Chairman and other designated senior executives including bonuses, incentive payments and share option or other share awards.
- Approving the design of, and determining targets for, any performance related pay schemes operated by the Company and approving total annual payments made under such schemes.
- Ensuring that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

In carrying out its duties the Remuneration Committee takes into account any legal and regulatory requirements, including the Code, the UK Listing Rules and FCA Remuneration Codes. Determining the fees of the Non-Executive Directors is a matter for the Executive Directors and the Chairman as a whole.

Key matters considered by the Remuneration Committee since IPO

Key issues reviewed and discussed by the Remuneration Committee since the IPO have included:

- Review and consideration of remuneration policy;
- Review of Executive Directors and senior manager bonuses for 2016.

Advisers to the Committee

The Committee has not appointed advisers at this stage and will review its position now that the Company is Listed. The Committee receives advice and guidance on senior executive remuneration from the Chief Executive Officer, and the Company Secretary in respect of the UK Corporate Governance Code and share schemes. The Company Secretary acts as Secretary to the Committee, ensures that the Remuneration Committee fulfils its duties under its terms of reference and provides regular updates to the Remuneration Committee on relevant regulatory developments in the UK.

Executive Directors' remuneration

The table below sets out the remuneration received by each Executive Director for the period ended 31 December 2016. Joe Anderson was the highest paid Director:

Executive Directors	Basic Salary £'000 2016	Taxable Benefits £'000 2016	Pension £'000 2016	Annual Bonus £'000 2016	Total £'000 2016
Jonathan Peacock*	229	13	-	375	617
Professor Sir Christopher Evans	229	8	-	735	972
Joe Anderson*	427	19	32	750	1,228
James Rawlingson*	247	13	19	405	684
Past Directors					
Martin Walton**	nil	nil	nil	nil	nil
Shafia Zahoor***	nil	nil	nil	nil	nil

* Appointed 8 February 2016
** Resigned 8 February 2016
*** Resigned 7 June 2016

The figures have been calculated as follows:

- Base salary: amount earned for the year. During the period, J Peacock waived £150k of his annual £400k base salary.
- Benefits: the taxable value of annual benefits received in the year. The main benefits are life assurance, long-term sickness insurance, private healthcare and company car or company car cash allowance. The value of the company car cash allowance is £10,000.
- Pension: the value of the Company's contribution during the year 7.5% or in the case of Jonathan Peacock Company contributions to 401(k) plan.
- Do not include an invoice from C Evans settled through his consultancy of £208k relating principally to founding activities during 2015 before Arix Bioscience plc had been incorporated.

Non-Executive Directors' remuneration

The table below sets out the remuneration received by each Non-Executive Director during the period ended 31 December 2016.

	2016 £'000
Franz Humer	67
Sir John Banham	54
Lord John Hutton	52
Professor Trevor Jones	52
David U'Prichard	54
Total	279

Non-Executive Directors cannot participate in any of the Company's share schemes and are not eligible to join a company pension scheme.

Directors' Remuneration Report

continued

Executive Directors' Pension

The Executive Directors are entitled to a pension contribution to a personal pension scheme equal to 7.5% salary with the exception of Jonathan Peacock who is entitled to participate in a 401(k) retirement plan with matching contributions to be made by Arix Bioscience, Inc. Contributions paid for each Executive Director in the period to 31 December 2016 are set out in the remuneration table above.

Executive Directors

Annual Bonus for 2016 performance

Cash bonuses were awarded to the Executive Directors in respect of the period ended 31 December 2016. The awards were made in accordance with arrangements in place prior to the IPO. The cash bonuses equated to 150% of salary (being a 100% annual bonus and 50% one-off exceptional bonus). Details of these bonuses are set out in the following table:

	Annual Bonus £	Exceptional Bonus £
Jonathan Peacock	250,000	125,000
Professor Sir Christopher Evans	490,000	245,000
Joe Anderson	500,000	250,000
James Rawlingson	270,000	135,000

Founder Awards

Founder options

Awards were made under the Executive Share Option Plan adopted by the Board on 4 February 2016 as follows:

Director	Type of Award	Exercise price (per share)	No. of Shares subject to option	Date of Award	Vesting Dates			
Jonathan Peacock	Option	£1.80	2,286,261	08.02.16	08.02.17	08.02.18	08.02.19	08.02.20
	Option	£1.80	197,989	07.06.16	08.02.17	08.02.18	08.02.19	08.02.20
Joe Anderson	Option	£1.80	2,794,320	08.02.16	08.02.17	08.02.18	08.02.19	08.02.20
	Option	£1.80	241,989	07.06.16	08.02.17	08.02.18	08.02.19	08.02.20

The awards set out above are not subject to performance conditions and will vest in four equal tranches on the vesting dates shown subject to the option holder remaining an eligible employee under the terms of the Executive Share Option Plan.

Following the admission of the Company's Ordinary Shares to trading on the London Stock Exchange, no further awards may be made under the Executive Share Option Plan. Note 19 to the financial statements details the share-based payment charge for the period relating to these options.

Founder Incentive Shares

The release of these Founder Incentive Shares (Incentive Shares) is conditional that Sir Chris Evans (as a Founder) remains an employee or Director of the Company at the date the incentive shares are eligible for release. In consideration for the release of his undertakings in respect of these shares Sir Chris Evans must pay £1.80 per Incentive Share. These Incentive shares will be released in four equal tranches on 8 February 2017, 2018, 2019 and 2020. Note 19 to the financial statements details the share-based payment charge for the period relating to these shares.

	Founder Incentive Shares
Sir Chris Evans*	3,088,729

* C Evans holds 2,573,941 Founder Incentive Shares through Ectoplasm Limited, which is wholly owned by Abacus Trust Company Limited as Trustee of the Ectoplasm Settlement, of which the discretionary beneficiaries include C Evans and members of his close family.

Payments to departing Directors

During the period, the Company has not made any payments to past Directors; neither has it made any payments to Directors for loss of office.

Directors' shareholdings and share interests

Executive Directors' interests in Ordinary shares of the Company

Interests of the Executive Directors in the share capital of the Company as at 31 December 2016 are shown in the table below:

	Class of Shares		
	Ordinary	Series B	C Shares
Jonathan Peacock	Nil	555,556	49,671
Professor Sir Christopher Evans*	60,000,000	Nil	Nil
Joe Anderson**	Nil	277,778	Nil
James Rawlingson	Nil	Nil	Nil

* C Evans holds part of his interest through Ectoplasm Limited as to 50,000,000 Ordinary Shares. Ectoplasm Limited is wholly owned by Abacus Trust Company Limited as Trustee of the Ectoplasm Settlement, of which the discretionary beneficiaries include C Evans and members of his close family.
** Joe Anderson holds 138,889 Series B Shares representing 50%. of his shares through PAL Trustees Limited, the trustee of his SIPP.

As a result of the restructuring of the Company's share capital as described in the IPO Prospectus the Executive Directors' interests in the share capital of the Company as at 18 April 2017, being the latest practicable date prior to publication of this Annual Report, are as follows:

	Class of Share		
	Ordinary	Deferred	C Shares
Jonathan Peacock	555,556	Nil	49,671
Professor Sir Christopher Evans*	7,316,039	96,912	Nil
Joe Anderson**	277,778	Nil	Nil
James Rawlingson	Nil	Nil	Nil

* C Evans holds part of his interest through Ectoplasm Limited as to 6,096,699 Ordinary Shares and 80,760 Deferred Shares. Ectoplasm Limited is wholly owned by Abacus Trust Company Limited as Trustee of the Ectoplasm Settlement of which the discretionary beneficiaries include C Evans and members of his close family.
** Joe Anderson holds 138,889 Ordinary Shares representing 50%. of his shares through PAL Trustees Limited, the trustee of his SIPP.

In addition to the interests shown in the table above, pursuant to an option agreement, Professor Sir Christopher Evans has the right to purchase 70% of the Ordinary Shares held by Arig Risk Management JLT (5,555,556 shares).

Non-executive Directors' interests in Ordinary shares of the Company

Non-Executive Directors are not subject to a shareholding requirement. Details of their interests in Ordinary Shares in the Company are set out below:

Non-Executive Director	Shareholding as at 31 December 2016	Shareholding as at 18 April 2017*
Franz Humer	nil	56,763
Sir John Banham	nil	28,985
Lord John Matthew Patrick Hutton	nil	27,777
Professor Trevor Jones	nil	27,777
David U'Prichard	nil	28,985

* Each of the Non-Executive Directors received Ordinary Shares with a value (calculated by reference to the IPO Offer Price) equivalent to their respective annual fees immediately prior to admission. Subject to certain customary exceptions, such Shares are locked-up for a period of one year from the date of Admission.

IPO Awards

There were no awards during 2016 under the Executive Incentive Plan.

Awards under the EIP were made to certain Executive Directors and employees on Admission in February 2017 (IPO Awards) in recognition of their contribution to the Offer and Admission. The IPO Awards were made in the form of nil-cost options for UK employees and conditional awards for US based employees in accordance with the rules of the EIP as follows:

Director	Date of Award	Number of Awards	Exercise Price	Face Value (£)	Vesting Date	Last Exercise Date
Jonathan Peacock*	22.02.2017	241,545	Nil	499,998	22.02.2019	N/A
Professor Sir Christopher Evans	22.02.2017	295,893	Nil	612,498	22.02.2019	21.02.2027
Joe Anderson	22.02.2017	362,318	Nil	749,998	22.02.2019	21.02.2027
James Rawlingson	22.02.2017	163,043	Nil	337,499	22.02.2019	21.02.2027

* Conditional share awards which vest on the second anniversary of admission. Ordinary Shares are delivered following the vesting.

Face value has been calculated using price per Ordinary Share in the Offer (207p). The awards are exercisable at the on the second anniversary of Admission.

FINANCIAL STATEMENTS

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Financials

"We look forward to taking advantage of our strong pipeline of opportunities, and steadily increasing the number and size of our Group Businesses."

Independent Auditor's Report

to the members of Arix Bioscience plc

Report to the financial statements

Our opinion

In our opinion:

- Arix Bioscience plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's loss and cash flows for the 16 month period (the "period") then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- The Consolidated Statement of Financial Position as at 31 December 2016;
- The Company Statement of Financial Position as at 31 December 2016;
- The Consolidated Statement of Comprehensive Income for the period then ended;
- The Consolidated Statement of Cash Flows for the period then ended;
- The Consolidated Statement of Changes in Equity for the period then ended;
- The Company Statement of Changes in Equity for the period then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is IFRSs as adopted by the European Union, and applicable law. The financial reporting framework that has been applied in the preparation of the Company financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

Our audit approach

Context

The principal activity of Arix Bioscience plc is to source, finance and develop healthcare and life sciences businesses globally. The Group works with its Group Businesses to support them in delivering their strategy. The Parent Company is incorporated and domiciled in the United Kingdom and was formed in September 2015.

The Arthurian Life Sciences Limited ('ALS') Group, comprising Arthurian Life Sciences Limited, Arthurian Life Sciences SPV GP Limited and Arthurian Life Sciences Carried Interest Partner LP was acquired during the period. The ALS Group manages the Wales Life Sciences Investment Fund (the 'WLSIF') and receives a management fee and carried interest from the WLSIF.

Overview

- Overall Group materiality: £463,000 which represents 1% of net assets.

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.
- We audited the Parent Company and three significant subsidiaries of the Group, which together account for 94% of its loss before tax, and 99% of its net assets. The three significant subsidiaries subject to audit were Arix Bioscience Holdings Limited, Arthurian Life Sciences Limited and Arthurian Life Sciences SPV GP Limited and these were subject to audit as they represent a significant portion of the Group's income, loss before tax or net assets.

- Valuation of unquoted investments.
- Valuation of investment in carried interest.
- Share based payment expense

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of unquoted investments Refer to pages 78 to 80 (Accounting Policies), page 87 (notes) and page 42 (Audit and Risk Committee Report). The fair value of the unquoted investments is £12.8m as at 31 December 2016. This is an area of focus due to the fact that unquoted investments ("investee companies") do not have readily determinable prices. The valuation methodology primarily used by the Group is based on the 'price of recent investment' or a 'milestone approach'. The price of recent investment approach refers to any investment in the investee company that would give an indication of fair value. The milestone approach refers to monitoring the fair value of the investments for potential adjustments based on meeting certain milestones or performance targets. As such, the valuation of unquoted investments is judgemental, increasing the risk of material misstatement based on the size of the investments held in relation to the overall financial statements.	We understood and evaluated the valuation methodology applied, by reference to industry practice and applicable accounting standards, and tested the techniques used by management in determining the fair value of the investee companies. We performed the following: • Agreed the price of recent investment to supporting documentation such as purchase agreements or bank statements. • Held meetings with management to understand the performance of each investee company in relation to its plan and the rationale for the valuation methodology applied and then obtained supporting financial information and board papers from the investee companies that corroborated those discussions held with management. We found that management's valuations of investments, and in particular that the assumptions used were supported by the audit evidence we obtained.

Valuation of investment in carried interest	
Refer to pages 78 to 80 (Accounting Policies), pages 86 and 87 (notes) and page 42 (Audit and Risk Committee Report). The investment in carried interest arises through Arthurian Life Sciences Limited's 100% interest in the 'carried interest' vehicle (Arthurian Life Sciences Carried Interest Partner LP) of The Wales Life Sciences Investment Fund (the 'WLSIF'). Carried interest represents a share of the profits arising in the WLSIF. The fair value of this carried interest investment is determined to be £4.3m and is included in investments held at fair value in the financial statements. The valuation of investment in the carried interest is determined at the reporting date through the assistance of a management's expert using a discounted cash flow model which takes into account the future carried interest cash flows arising from the WLSIF. The key assumptions used in the model include the expected 'exit values' and 'exit dates' for the underlying investments in the WLSIF and the discount rate to be applied. This is an area of focus due to the fact that the underlying investments held by the WLSIF are unquoted in nature and therefore do not have a readily determinable market price. In addition, judgement is also involved in the assessment of an appropriate discount rate to be applied.	We understood and evaluated the valuation methodology applied, by reference to industry practice and applicable accounting standards, and tested the techniques used by management in determining the fair value of the investment. • We obtained the management expert's report, the discounted cash flow model and tested the mathematical accuracy of the model and agreed the calculation of the carried interest cash flows to WLSIF governing documents. • We assessed the competence, capability and objectivity of management's expert. • We engaged our internal valuation experts to perform a review of the methodology applied to determine the fair value and derive an appropriate discount rate. • We held meetings with management to understand the assumptions made in determining the exit value and exit dates of the investments in the WLSIF. We obtained supporting information, including board papers and financial projections of the investee companies and market comparable information to support the exit dates and exit values used in the model. • We applied various sensitivities to the assumptions used by management in the valuation model to assess the impact that this would have on the overall carried interest valuation. We found that management's valuation of the investment in carried interest, including assumptions used in the valuation was supported by the evidence we obtained and was within a reasonable range.

Share based payment expense Refer to page 81 (Accounting Policies), page 90 (notes) and page 42 (Audit and Risk Committee Report). The share based payment expense is determined to be an area of focus given the assumptions used by management, judgements made, and the complexity of the Black-Scholes valuation model. These factors increase the risk of material misstatement based on the size of the share based payment charges in relation to the financial statements. There is also a risk that due to the complexity of some of the incentive and share arrangements that the charge is not completely recognised. The share based payment expense amounted to £4.7m for the period.	In testing the share based payment expense, we performed the following testing to address the risks identified for the types of share based payment transaction: • Obtained and read the contracts for new and amended awards in the period and shareholder agreements to examine whether all share based payments have been accounted for. We did not identify any material omissions. • Tested each of the new awards in the period by checking that they were appropriately authorised, consistent with scheme plans, classified correctly as equity or cash settled and used an appropriate share price. • Obtained the valuation models for new schemes and grants made in the period and tested those models by agreeing key inputs (service commencement date, exercise price, share amount, vesting period) used to the share agreements in place, and examining that this model was appropriate in the context of an industry accepted pricing model. • Assessed the reasonableness of the estimates in relation to performance conditions and/or service conditions for existing awards. The key assumptions in calculating the share based payment expense are the share volatility of the Group, the exercise date for the shares, the assumed dividend yields of the Group's shares, the forfeiture rates of the share options, the leaver rate and performance conditions. • Assessed whether all disclosures required by IFRSs as adopted by the EU had been made and appropriately reflected the scheme agreements and the calculations and estimates made. Based on our work, we found that the pricing model used to value the awards was in line with accepted market practice and that the assumptions made by management were supported by audit evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

This is a first audit for the Group and therefore we have held a number of early planning discussions with those charged with governance and with management from the formation of the Group and our appointment as auditors in order to appropriately scope and plan the audit. This has allowed us to adequately capture the areas of focus for the audit.

We audited the Parent Company and three significant subsidiaries of the Group, which together account for 94% of its loss before tax, and 99% of its net assets. This, together with procedures performed over the consolidation, has provided the evidence we need for our opinion on the Group financial statements. We also performed audit procedures on the Group consolidation adjustments and the financial statement disclosures.

The three significant subsidiaries subject to audit were Arix Bioscience Holdings Limited, Arthurian Life Sciences Limited and Arthurian Life Sciences SPV GP Limited and these were subject to audit as they represent a significant portion of the Group's income, loss before tax or net assets.

In addition to the Group audit and audit of the three subsidiaries we have performed specified audit procedures over Arix Bioscience, Inc., holding two of the Group's significant investments, which is a specific risk and an area of focus for the audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£463,000
How we determined it	1% of net assets.
Rationale for benchmark applied	Net assets is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark for business such as the Group, which invests in other businesses for capital appreciation

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £23,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

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 period 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 Group, the Company and their 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.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Corporate Governance Report set out on pages 34 to 37 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- The information given in the Corporate Governance Report set out on pages 34 to 37 with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Report. We have nothing to report in this respect.

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Other Companies Act 2006 reporting

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.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. 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 page 33, 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 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and 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, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Richard McGuire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 April 2017

Consolidated Statement of Comprehensive Income

For the period from 15 September 2015 to 31 December 2016

	Note	2016 £'000
Change in fair value of investments	12	1,354
Revenue	3	635
Administrative Expenses	6	(10,293)
Loss before exceptional items and share based payment charge		**(8,304)**
Net finance income	7	26
Exceptional gain	11	3,962
Exceptional costs	15	(596)
Foreign exchange gains		97
Share-based payment charge	19	(4,712)
Loss before taxation		**(9,527)**
Taxation	9	692
Loss for the period		**(8,835)**
Other Comprehensive Income		
Exchange differences on translating foreign operations		434
Total comprehensive loss for the period		**(8,401)**
Attributable to		
Owners of Arix Bioscience plc		(8,401)
Earnings per share		
Basic earnings per share (p)	10	(0.36)
Diluted earnings per share (p)	10	(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 2016

	Note	2016 £'000
ASSETS		
Non-Current Assets		
Investments held at fair value	12	17,115
Intangible assets	13	2,344
Property, plant and equipment	14	750
		20,209
Current Assets		
Cash and cash equivalents	16	28,929
Trade and other receivables	15	3,262
		32,191
TOTAL ASSETS		52,400
LIABILITIES		
Current liabilities		
Trade and other payables	17	(5,791)
Deferred tax liability	9	(280)
		(6,071)
TOTAL LIABILITIES		(6,071)
NET ASSETS		46,329
EQUITY		
Share capital and share premium	18	51
Retained earnings		45,844
Other reserves		434
		46,329
TOTAL EQUITY		46,329

The accompanying notes form an integral part of the financial statements. The financial statements on pages 71 to 92 were approved by the Board of Directors and authorised for issue on 26 April 2017, and were signed on its behalf by

James Rawlingson,
Chief Financial Officer

Consolidated Statement of Changes in Equity

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 period from 15 September 2015 to 31 December 2016

	Note	2016 £'000
Net cash from operating activities	20	**(7,457)**
Cash flows from investing activities		
Purchase of equity investments		(12,385)
Purchase of property, plant and equipment		(888)
Acquisition of subsidiaries, net of cash acquired		(359)
Net cash from operating activities		**(13,632)**
Cash flows from financing activities		
Net proceeds from issue of shares		50,018
Net cash from financing activities		**50,018**
Net increase in cash and cash equivalents		**28,929**
Cash and cash equivalents at start of period		–
Cash and cash equivalents at end of period		**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. 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 19).

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.

2. Accounting policies continued

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 12 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 12 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

A number of new standards and amendments to standards and interpretations are not yet effective and have not been applied early in preparing this financial information. These are summarised below.

- **IFRS 15 – 'Revenue from contracts with customers'** This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.
- The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Arix Group is assessing the impact of IFRS 15.
- **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 Arix Group is currently assessing the impact of IFRS 16.
- **Amendments to IAS 7 – 'Cash Flow Statements'** These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after 1 January 2017 and are not expected to have a significant impact on the Arix Group consolidated financial statements.
- **Amendments to IAS 12 – 'Income taxes' on Recognition of deferred tax assets for unrealised losses** These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after 1 January 2017 and are not expected to have a significant impact on the Arix Group consolidated financial statements.
- **IFRS 9 – 'Financial Instruments'** This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Arix Group is currently assessing the impact of IFRS 9.

The impact of the new standards is currently being considered by the Group. There are no other IFRS or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Arix Group.

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.

2. Accounting policies continued

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 2b. 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' or a 'milestone analysis' approach.

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 in the price of a recent investment.

Where the Arix Group considers that the unadjusted price of investment is no longer 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. 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.

2. Accounting policies continued

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 Arix 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 (see Note 11). 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 B 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 taxes 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 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.

2. Accounting policies continued

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 €930k and US dollar-denominated assets valued at $5,888k. 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.

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 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 2016: £28,929k) and trade and other receivables (£3,262k).

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 2016, 100% of cash and cash equivalents was deposited with institutions that have a credit rating of at least category A+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 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade, other payables and accruals	5,791	–	–	–	5,791

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

	2016 £'000
Fund management fee income	589
Other income	46
	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.

5. Loss Before Taxation

The loss before taxation has been arrived at after crediting:

	2016 £'000
Negative goodwill on acquisition of Arthurian Life Sciences	3,962
Auditors' remuneration	
Statutory audit services	
Fees payable for the audit of the Arix Group accounts	95
Fees payable for the audit of the accounts of subsidiaries of the Arix Group	43
Non-audit services	
Taxation advisory services	35
Taxation compliance services	–
Other assurance and advisory services	722
Total auditors' remuneration	**895**

6. Administrative Expenses

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

	2016 £'000
Employment costs	6,324
Recruitment costs	837
Consultancy fees	1,152
Other Expenses	1,980
	10,293

7. Net Finance Income

	2016 £'000
Bank Interest	36
Bank Charges	(10)
	26

8. Employee Costs

Employee costs (including Directors) comprise:

	2016 £'000
Salary and bonus	5,560
Social security costs	712
Pension costs	52
	6,324

A charge of £1,379,000 has been recognised relating to Executive Share Options, which is not included in this table. This cost forms part of the share-based payment charge in the Consolidated Statement of Comprehensive Income.

The average monthly number of persons (including Executive Directors) employed by the Group during the period was 12, all of whom were involved in management and administration activities. Details of the Directors' remuneration can be found in the Directors' Remuneration Report on pages 59 to 61.

9. Income Tax

	2016 £'000
Current period tax charge	
Current tax	–
Deferred tax	(692)
Total tax credit	**(692)**
Reconciliation of tax charge	
Loss before tax	(9,527)
Expected tax based on 20% tax rate	(1,906)
Expenses not deductible for tax purposes	890
Income not taxable	(792)
Impact of rate between deferred tax and current tax	187
Deferred tax not recognised	929
Total tax credit	**(692)**
Tax creditor	
Brought forward	–
Relating to Acquisition	(31)
Relating to Profit and Loss	–
Carried forward	**(31)**
Recognised deferred tax provisions	
Brought forward	–
Relating to Acquisition	(972)
Relating to Profit and Loss	692
Carried forward	**(280)**
Represented by:	
Unutilised tax losses	575
Capital allowances	5
Acquisition of intangible asset	(398)
Share-based payment charge	118
Change in fair value of investment	(580)
	(280)
Unrecognised deferred tax provisions	
Unutilised tax losses	839
	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 £839k in respect of losses amounting to £4,979k, which can be carried forward against future taxable income.

10. Earnings per Share

On 8 February 2016, 97,046,908 Ordinary Shares were disenfranchised pursuant to a restrictive share agreement. The restrictive share agreement makes provision for the release of the restrictions in certain circumstances, which includes upon the subscription for future share issues.

Disenfranchised shares are not entitled to vote, attend meetings or to receive dividends or other distributions. Consequently, disenfranchised 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.

	Period Ended 31 Dec 2016 £'000
Loss attributable to equity holders of Arix Bioscience plc	(8,401)
Weighted average number of shares in issue	23,030,546
Basic and diluted loss per share	**(0.36)p**

11. Acquisition of Arthurian Life Sciences Limited and Arthurian Life Sciences SPV GP Limited

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 £891,431. Actual completion occurred on 8 July 2016 but as all pre-conditions for the transaction had been fulfilled on 20 June 2016, the acquisition was deemed to have occurred on 20 June 2016.

The following table summarises the book values of the identifiable assets and liabilities and their fair values at the date of acquisition.

	2016 £'000
Cash paid	891

The fair value of the shares acquired of Arthurian Life Sciences Limited was 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.

The assets and liabilities recognised as a result of the acquisition are as follows:

	2016 £'000
Debtors	216
Cash	221
ALS interest in carried interest arrangement	3,800
Fair value of interest in management fees charged to WLSIF	2,400
Allocation of net assets to management fees as part of fair value process	86
Short-term creditors	(868)
Fair value of assets acquired	**5,855**
Less: purchase price of assets acquired	(891)
Negative goodwill arising on purchase of assets	**4,964**
Deferred tax liability in respect of business combination	(1,002)
Negative goodwill credited to profit and loss	**3,962**

The sale of ALS to Arix Bioscience was agreed in December 2015. Following FCA approval for the sale in June 2016, a fair value exercise of ALS was undertaken. The fair value of the interest in management fees charged to The Wales Life Sciences Investment Fund ('WLSIF') is amortised over the expected life of the fund. The fair value of Arthurian Life Sciences' interest in the WLSIF carried interest arrangement was reviewed by external valuations experts Duff & Phelps at 31 December 2016 and its value was assessed to have increased to £4.3m.

12. Investments

Equity Investments

	Level 1- Quoted Investments £'000	Level 3 - Unquoted Investments £'000	Total £'000
At incorporation	–	–	–
Additions	1,854	13,408	15,262
Unrealised gain on investments	166	1,188	1,354
Foreign exchange gains	–	499	499
At 31 December 2016	**2,020**	**15,095**	**17,115**

Level 3 investments are valued with reference to either price of recent investment (£10,795k); or by discounted cash flow (£4,300k); the latter used a discount rate of 14.5%, a discount for marketability (20%) and other assumptions relating to exit values and exit dates (see Note 2(i) for further details).

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 2016 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 and Wales	Babraham Hall, Babraham Research Campus, Cambridge, CB22 3A	15.1%	–	–	–
Autolus Limited	England and Wales	Forest House 58 Wood Lane London, England, W12 7RZ	4.8%	6,309	(3,674)	30 September 2015
Depixus SAS	France	3-5 Impasse Reille, 75014 Paris	19.1%	–	–	–
OptiKira, LLC	USA	20600 Chagrin Boulevard, Suite 210, Cleveland, OH 44122	31.9%	–	–	–

In addition, at 31 December 2016, the Group held the following investments in Group Businesses where it is not considered to have significant influence:

Company	Country of Incorporation	Registered Address	% of Issued Share Capital Held
BioMotiv, LLC	USA	20600 Chagrin Boulevard, Suite 210, Cleveland, OH 44122	17.8%
Verona Pharma plc	England and Wales	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). 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).

Notes to the Financial Statements

13. Intangible Assets

	Period Ended 31 Dec 2016 £'000
At incorporation	–
Additions	2,486
Amortisation	(142)
At 31 December 2016	**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.

14. Property, Plant and Equipment

Company	Fixtures and Fittings £'000	Leasehold Improvements £'000	Office Equipment £'000	Total £'000
Cost				
Additions	682	50	156	888
At 31 December 2016	**682**	**50**	**156**	**888**
Depreciation				
Depreciation Charge	(105)	(6)	(27)	(138)
At 31 December 2016	**(105)**	**(6)**	**(27)**	**(138)**
Net Book Value				
At 31 December 2016	**577**	**44**	**129**	**750**

15. Trade and Other Receivables

	As at 31 Dec 2016 £'000
Trade receivables	610
Other receivables	2,099
Prepayments	113
VAT receivable	440
	3,262

Other receivables includes £1,940k of expenditure which is directly attributable to the Company's IPO. On completion of the IPO in February 2017, such amounts have been capitalised against the Company's share reserve, in line with the Group's accounting policy. Expenditure which is not directly attributable to the IPO has been expensed in the period. The carrying values of trade and other receivables approximates their fair value.

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.

16. Cash and Cash Equivalents

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

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

17. Trade and Other Payables

	As at 31 Dec 2016 £'000
Trade payables	1,280
Accruals and other payables	4,383
Deferred Income	3
Current Tax Liabilities	125
	5,791

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

18. Share Capital

	As at 31 Dec 2016 £'000
Allotted and called up	
100,966,920 ordinary shares of £0.00001 each	1
28,916,666 Series B shares of £0.00001 each	–
Series C shares of £1 each	50

On incorporation, the Company issued one ordinary share of £1. On 29 September 2015, the Company issued an additional 999 ordinary shares of £1 each at par.

On 10 November 2015, each ordinary share of £1.00 each was subdivided into 100,000 Ordinary Shares of £0.00001.

On 30 November 2015, the Company issued and allotted 966,920 Ordinary Shares at par.

On 8 February 2016, the Company created a new class of Series B Shares of £0.00001 each ('Series B Shares') and deferred shares of £0.00001 each (the 'Deferred Shares'). At 31 December 2016, no Deferred Shares have been issued.

On 8 February 2016, the Company issued and allotted 27,805,556 Series B Shares at an issue price of £1.80 per share. On the same date, 97,046,908 ordinary shares were disenfranchised pursuant to a restrictive share agreement. Disenfranchised shares are not entitled to vote, attend meetings of the Company, or to receive dividends or other distributions made or paid on the ordinary shares. The restrictive share agreement makes provision of the release of the restrictions in certain circumstances, which includes upon the subscription for future share issues.

On 15 April 2016, the Company issued and allotted 1,111,110 Series B shares at an issue price of £1.80 per share.

On 7 June 2016, 156,642 ordinary shares were released from the obligations under the restrictive share agreement.

On 14 September 2016, the Company issued and allotted 49,671 Series C shares at a nominal value of £1.00 per share. Series C shares carry no voting nor distribution rights. On the same date, as part of the share capital reorganisation required to become a plc, all share premium previously recognised was transferred to retained earnings.

All other ordinary and Series B shares carry equal voting and distribution rights.

19. Share Options

Arix Group operates an Executive Share Option Plan.

On 8 February 2016, options were granted pursuant to the Executive Share Option Plan to two Directors at an exercise price of £1.80 per ordinary share. The number of ordinary shares subject to the options are the requisite number of ordinary shares as represents 5.43%. Of the fully diluted ordinary share capital of the Company immediately following an initial financing round by private placements (up to and including financing of £100 million), increased by such number of ordinary shares as are necessary to constitute 5.43%. of either:

(a) The Company's fully diluted share capital on a qualifying private placing; or

(b) The Company's listed class of ordinary shares on a qualifying initial public offering.

The options will 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.

Options with identical terms were offered to the founders of the Company constituting 5 percent of the issued share capital of the Company after admission.

With regards to the Executive Share Option Plan, contingent events include a change of control or cessation of employment in accordance with "good leaver" provisions.

Share-based payments

For the period to 31 December 2016, a share-based payment charge of £4,712,000 has been recognised for a variety of share-based payment schemes offered by the Group. A charge of £1,379,000 was booked in the period in respect of equity-settled share options, granted on 8 February 2016, with an exercise price of £1.80 per share. The options are exercisable over ten years from the date of grant and vest in four equal instalments on 8 February 2017, 8 February 2018, 8 February 2019 and 8 February 2020. As at 31 December 2016, two Directors had options over the requisite number of shares as represents 5.43% of the fully diluted ordinary share capital of the Company following admission. Further details of the share awards can be found in the Directors' Remuneration Report.

As at 31 December 2016, Founders had options over 5% of the fully diluted ordinary share capital of the Company following admission. A charge of £1,896,000 was booked in the period relating to these options.

The fair value of the two forms of options granted was calculated using the Black-Scholes model, incorporating relevant assumptions for share price, exercise price, expected volatility (based on similar quoted companies), risk free interest rate and share option term. The resultant fair value was then spread over the relevant vesting period for each tranche of share options. The fair value of options granted in the period is measured by use of the Black-Scholes option pricing model using the following assumptions:

	Period Ended 31 Dec 2016
Share price	£2.07
Exercise price at grant date	£1.80
Fair value at grant date	£0.45–£0.71
Risk free interest rate	0.5%/0.6%
Expected volatility	37%
Expected period to exercise (years)	1 to 4

A further charge of £1,437,000 was also booked as a one-off charge in the period relating to the 7% of the Group that will be controlled by the Founders post admission. This was produced as an incremental theoretical fair value to the Founders based on the assumption of a successful admission to the London Stock Exchange and produced a higher theoretical value to the Founders than the amount previously calculated when a successful admission was deemed less likely. For the Founders' shares, there is no vesting period and therefore the full charge has been recognised in the period.

20. Notes to the Statement of Cash Flows

	Period Ended 31 Dec 2016 £'000
Loss before income tax	(9,527)
Adjustments for:	
Change in fair value of investments	(1,354)
Exceptional gain	(3,962)
Foreign exchange gain	(97)
Share-based payment charge	4,712
Depreciation and Amortisation	278
Finance income	(36)
Changes in Working Capital	
(Increase) in trade and other receivables	(3,262)
Increase in trade and other payables	5,791
Cash used in Operations	**(7,457)**

21. Financial Commitments

Operating Leases

At 31 December 2016, 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 2016 £'000
No later than one year	673
Later than one year and no later than five years	2,208
Later than five years	–
	2,881

22. Financial Instruments

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 12.

Financial Assets

	As at 31 Dec 2016 £'000
Financial Assets at Fair Value Through Profit or Loss	
Equity investments	17,115
Loans and Receivables	
Other receivables (excluding prepayments)	2,709
Cash and cash equivalents	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 2016 £'000
Trade, Other Payables and Accruals (excluding non-financial liabilities)	5,791

23. Guarantees

The Company has provided a rent deposit guarantee in respect of its US office for an amount of $261,657 (£212,103).

24. Related Party Transactions

On 21 December 2015, the Company agreed to acquire the whole of the issued share capital of Arthurian Life Sciences GP Limited, and entered into a conditional agreement to acquire the whole of the issued share capital of Arthurian Life Sciences Limited and Arthurian Life Sciences SPV GP Limited. These entities were to be acquired from C Evans (a Director and shareholder of the Company) and C Chipperton (a shareholder of the Company) for an aggregate price of £891,531. The agreement was conditional on consent from the Financial Conduct Authority, which was granted on 20 June 2016.

The Company paid transaction fees of £900,000 to Arthurian Life Sciences Limited during the period, in connection with the issue of shares in February 2016.

The Company paid £805,625 (inclusive of VAT of £45,746) to Arthurian Life Sciences Limited during the period in respect of certain costs met on its behalf.

Consultancy fees amounting to £1,146,000[1] (inclusive of VAT) were payable to Merlin Scientific LLP during the period, a partnership controlled by C Evans, a Director and substantial shareholder of the Company. At 31 December 2016, £882,000 (inclusive of VAT) was owed to Merlin Scientific LLP by the Company.

David U'Prichard, a Non-Executive Director of the Company, provides consulting services and administrative support to BioMotiv LLC. The consulting services and administrative support are provided through Druid Consulting LLC, a firm controlled by David U'Prichard. The Company is a stakeholder of BioMotiv LLC. During the period ended 31 December 2016, Druid Consulting LLC received a total of $247,195 from BioMotiv LLC.

Consultancy fees amounting to £292,000 (inclusive of VAT) were payable to Bradshaw Consulting Limited during the period, a company owned by Martin Walton, who is a director of Arthurian Life Sciences Limited. At 31 December 2016, no amounts were owed to Bradshaw Consulting Limited by the Group.

Key management comprises solely the Directors of the Arix Group, the emoluments of which are disclosed in the Directors' Remuneration Report on pages 44 to 61.

25. Events After the Reporting Period

On 22 February 2017, the Group 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. Conditional dealings in the ordinary shares commenced on 17 February 2017; admission became effective at 8am on 22 February 2017, at which point unconditional dealings in the ordinary shares commenced. 48,309,179 shares were issued, with gross capital of £100.0m raised.

On 20 March 2017, the Group partially exercised the Over-Allotment Option available to it following its listing. A further 6,139,815 shares were issued, with gross capital of £12.7m raised.

At the publication date of these accounts, shares in issue totalled 96,091,083, of which 9,952,573 were restricted.

[1] Balance does not include an invoice settled through the consultancy of £208,000 relating principally to founding activities during 2015, before Arix Bioscience plc had been incorporated.

Company Statement of Financial Position

As at 31 December 2016

	Note	2016 £'000
ASSETS		
Non-Current Assets		
Investments in subsidiary undertakings	2	891
Intangible assets		–
Property, plant and equipment		–
Amounts due from subsidiary undertakings	4	16,357
		17,248
Current Assets		
Cash and cash equivalents	3	28,771
Trade and other receivables		1,940
		30,711
TOTAL ASSETS		47,959
LIABILITIES		
Current liabilities		
Trade and other payables		(57)
		(57)
TOTAL LIABILITIES		(57)
NET ASSETS		47,902
EQUITY		
Share capital and share premium		51
Loss for the period		(6,828)
Other movements in retained earnings		54,679
		47,902
TOTAL EQUITY		47,902

The accompanying notes form an integral part of the financial statements. The financial statements on page 93 to 95 were approved by the Board of Directors and authorised for issue on 26 April 2017, and were signed on its behalf by

James Rawlingson,
Chief Financial Officer

Company Statement of Changes in Equity

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	–	–	–	(6,828)	(6,828)
Other comprehensive income	–	–	–	–	–
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**	**–**	**–**	**47,851**	**47,902**

Notes to the Company Financial Statements

1. Accounting Policies

These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures: a Statement of Cash Flows and related notes; disclosures in respect of transactions with wholly owned subsidiaries; disclosures in respect of capital management; the effects of new but not yet effective IFRSs; and disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures: IFRS 2 Share Based Payments; certain disclosures required by IFRS 13 Fair Value Measurement; and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements. The accounting policies set out below have been applied consistently. Where relevant, the accounting policies of the Arix Group have been applied to the Company.

Investments in Subsidiary Undertakings

Unlisted investments are held at cost less any provision for impairment.

Amounts Due from Subsidiary Undertakings

All amounts due from subsidiary undertakings are initially recognised at fair value and subsequently measured at amortised cost. Amounts provided to subsidiaries are intended for use on a continuing basis in the Company's activities, with no intention of their settlement in the foreseeable future; as such, they are presented as fixed assets.

2. Investments in Subsidiary Undertakings

	2016 £'000
At incorporation	–
Additions	891
Impairments	–
Disposals	–
At 31 December 2016	891

The Company's subsidiary undertakings are detailed in Note 2(b) to the Group financial statements.

3. Cash and Cash Equivalents

	As at 31 Dec 2016 £'000
Cash at bank and in hand	28,771

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

4. Amounts Due from Subsidiary Undertakings

	As at 31 Dec 2016 £'000
Opening balance	–
Additions during the period	16,357
Repayments during the period	–
At 31 December 2016	**16,357**

The amounts due from subsidiary undertakings are interest free, repayable on demand and unsecured.

Shareholder Information

Warning about unsolicited approaches to shareholders and 'Boiler Room' scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in UK investments. These operations are commonly known as 'boiler rooms'.

These 'brokers' can be very persistent and persuasive. Arix Bioscience plc shareholders are advised to be extremely wary of such approaches and are advised to only deal with firms authorised by the FCA. You can check whether an enquirer is properly authorised and report scam approaches by contacting the FCA on www.fca.org.uk/scams (where you can also review the latest scams) or by calling the FCA Consumer Helpline: 0800 111 6768.

If you have already paid money to share fraudsters then contact Action Fraud on 0300 123 2040

Registrar

The Company's register of shareholders is maintained by our Registrar, Equiniti Limited. All enquiries regarding shareholder administration including lost share certificates or changes of address should be communicated in writing or by calling 0371 384 2030 for callers from the UK (lines are open 8.30am to 5.30pm Mondays to Fridays, excluding Bank Holidays in England and Wales) or +44 (0)121 415 7047 for callers from outside the UK.

Shareholders can also view and manage their shareholdings online by registering at www.shareview.co.uk/myportfolio.

Forward-Looking Statements

This Annual Report has been prepared for, and only for, the members of Arix Bioscience plc ('the Company') as a body, and for no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

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Joe Anderson, PhD
Professor Sir Chris Evans, PhD, OBE
James Rawlingson
Franz Humer
Sir John Banham
David U'Prichard
The Right Hon. Lord Hutton of Furness, PC
Professor Trevor Jones CBE

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