ARIX BIOSCIENCE plc

GENERATING VALUE FROM INNOVATION IN HEALTHCARE & LIFE SCIENCES

Annual Report and Accounts for the year ended 31 December 2017

Stock code: ARIX.L

Welcome to the Arix Bioscience plc Annual Report 2017

WHO WE ARE

Arix Bioscience is an operating company, focused on generating value from innovation and discovery in life sciences globally.

We are building interests in a diverse group of companies around cutting edge advances in life sciences. Through the provision of capital and operational support we seek to help young companies accelerate the translation of scientific discovery into new medicines. As a listed company, we are able to bring this exciting growth phase of our industry to a broader range of investors.

Contents

Highlights

13 Group Businesses

Including eight new additions during the year

TO DATE, ARIX HAS PROVIDED FUNDING AND EXPERTISE TO 13 PROMISING GROUP BUSINESSES ACROSS DEVELOPMENT STAGES AND GEOGRAPHIES

£250m

Raised in first two years

ARIX HAS RAISED IN EXCESS OF £250M TO GROW ITS GROUP BUSINESSES AND EMBRACE FURTHER NEW OPPORTUNITIES

Global Reach

Including new Fosun and Ipsen partnershps in 2018

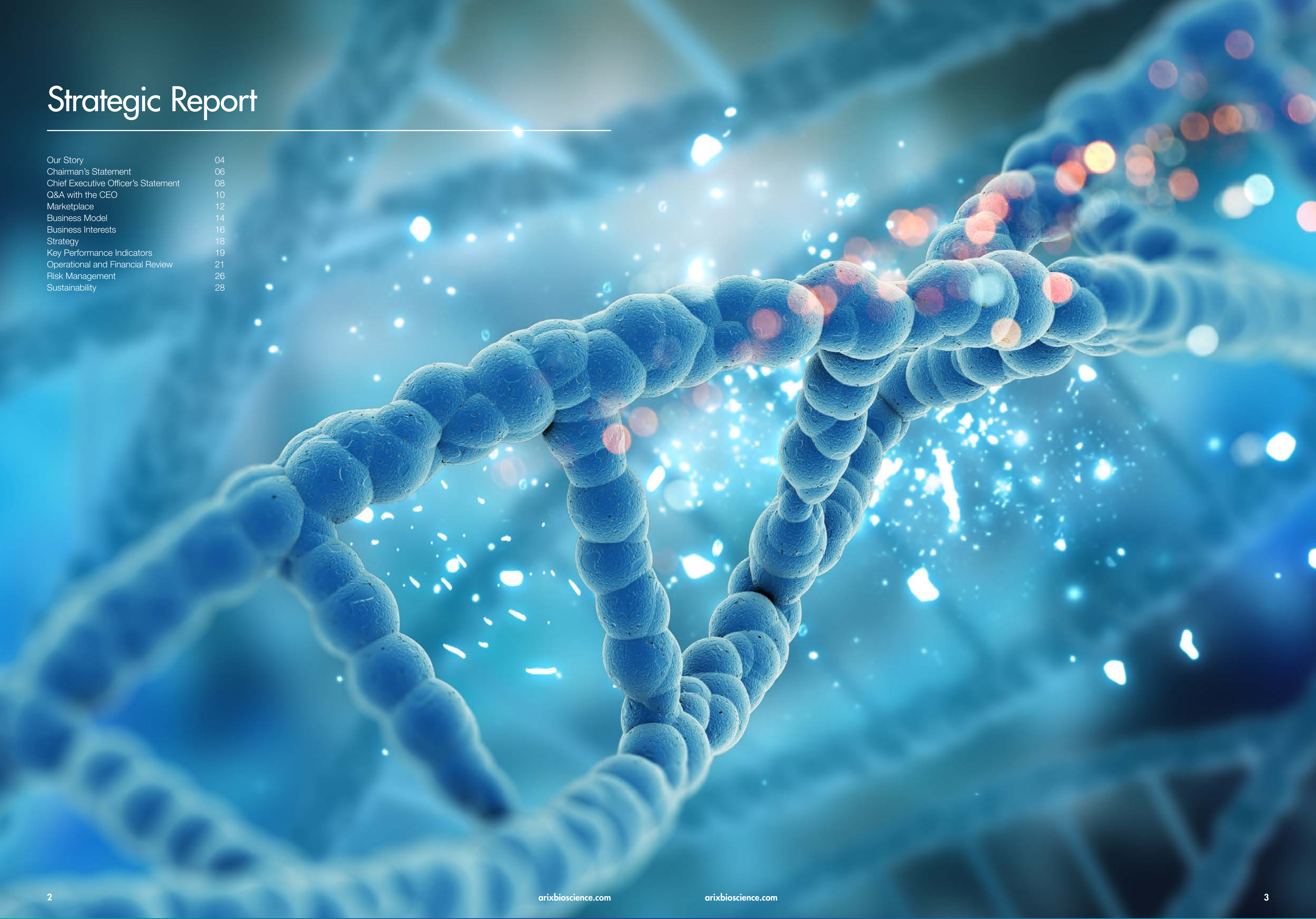
ARIX HAS PARTNERSHIPS WITH FOUR GLOBAL PHARMACEUTICAL COMPANIES, TWO INTERNATIONAL RESEARCH ACCELERATORS, EXTENSIVE PERSONAL NETWORKS AND OFFICES IN LONDON AND NEW YORK

Navigating the report

Further information contained within this report

Additional information online

Strategic Report



Our Story

Arix Bioscience provides strategic, operational, clinical and financial resources to support potential new drugs and other medical innovations, with the objective of creating value for investors.

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 lack company development expertise and access to permanent capital.
- Arix Bioscience can provide a flexible approach to funding and offer operational support.

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

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

EXTENSIVE GLOBAL NETWORKS

- New strategic agreements have been signed with two major pharmaceutical companies, Fosun and Ipsen. These partnerships, alongside existing partnerships with Takeda and UCB Pharma, develop further the deep industry experience of Arix.
- Partnerships with research accelerators, BioMotiv in the US and the Max Planck Lead Discovery Centre in Europe, provide Arix with a constant, renewable source of opportunities.
- Privileged academic relationships have been developed with universities, enabling Arix to access outstanding research at the earliest opportunity.
- Ownership of an investment management company with the ability to manage funds in the UK and abroad.
- Extensive professional networks of Arix's senior leadership team.

Read more in our **Chief Executive Officer's Statement** on pages **08** and **09**

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 practical support and capital across this broad spectrum.

Read more about our **Portfolio** on page **22** to **24**

DISCIPLINED AND EXPERIENCED BUSINESS DEVELOPMENT

- Our business model is to create long-term value by supporting the strategic, operational and clinical plans of our Group 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 pages **14** and **15**

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 Group 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.

DEEP PIPELINE OF ATTRACTIVE OPPORTUNITIES

- We have reviewed over 800 opportunities across 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.

SCALABLE PLATFORM

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

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 respectively, 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 pages **32** to **35**

Chairman's Statement

Jonathan Peacock, **Chairman**

> "On several dimensions 2017 has been a year of impressive growth at Arix Bioscience and this has continued into 2018."

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

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

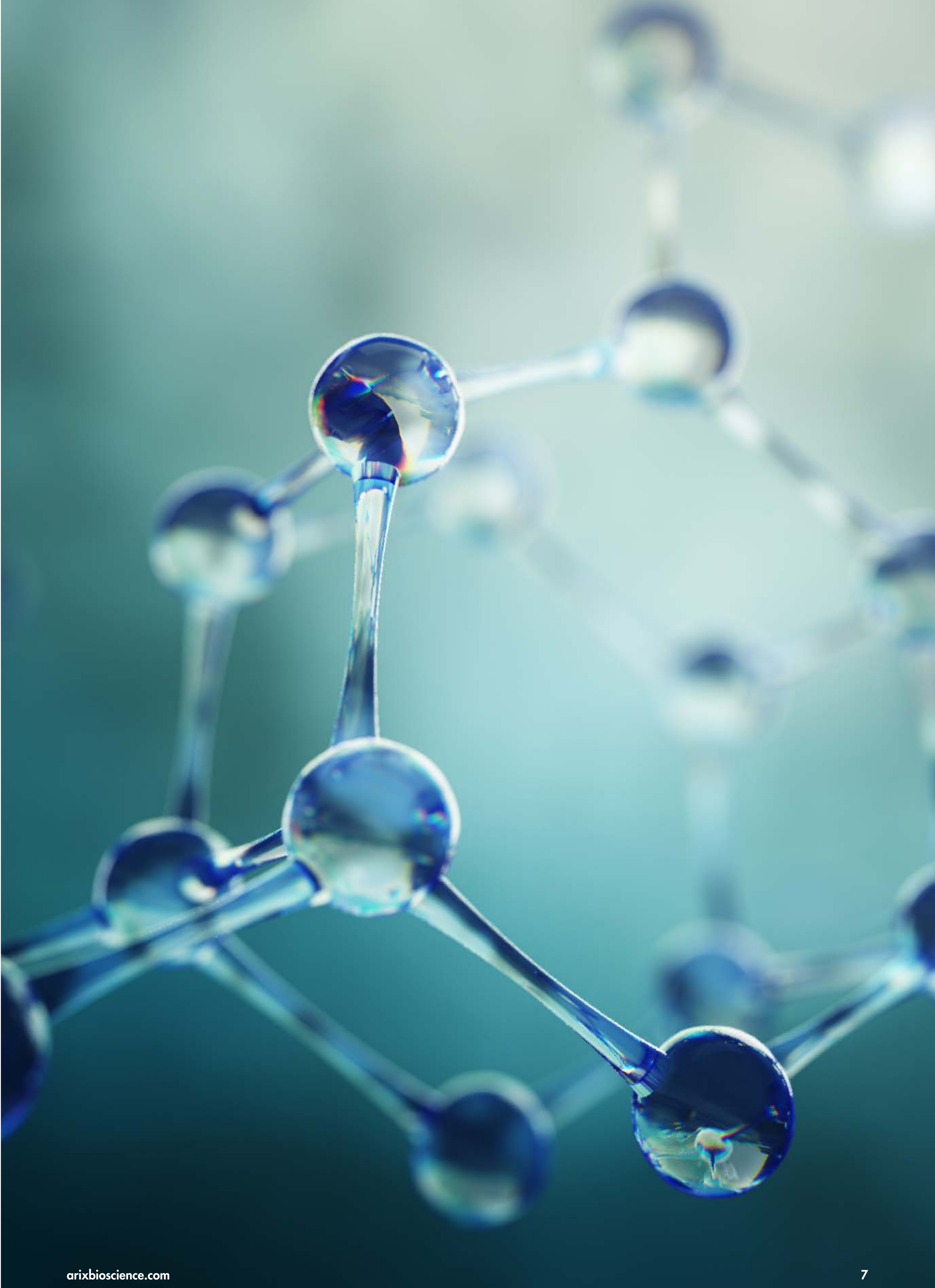
With our private fund raise in 2016, our initial public offering in February 2017 and our recent secondary offering in March 2018, we have raised a total of £250m to support our existing Group Businesses and to continue to build our portfolio. With the use of these funds we expect to have around 20 companies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

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

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

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

Jonathan Peacock
Chairman



Chief Executive Officer's Statement

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

> "The future offers unprecedented market opportunity."

A year of achievement

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

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

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

It is early days for Arix and for many of our Group Businesses, and the development of important new medicines is not a quick business but already we have achieved substantive progress across the Group. Two of our Group Businesses – Autolus and Harpoon – have already seen increases in their valuations through a follow-on financing and an industry collaboration respectively. Moreover, we have seen meaningful scientific and technical developments in many of our other companies, and I believe the value that is being developed here will become increasingly apparent to shareholders in 2018 with the release of clinical data and business updates.

Rich, renewable pipeline of opportunities

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

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

Well connected with the pharmaceutical industry

Pharmaceutical companies are one of our key customers as they seek to get ever closer to scientific and medical innovation outside of their own laboratories. During 2017, we have benefited from valuable strategic partnerships with two global pharmaceutical companies, UCB and Takeda, giving us access to deep scientific knowledge, R&D capabilities, market intelligence and commercial due diligence.

We added to this early in 2018, and are delighted to have signed strategic agreements with Ipsen, a global specialty driven biopharmaceutical, and Fosun International, a large Chinese group with a global foothold who offer distribution capability across China. We expect to be sharing life science developments, ideas and co-investment opportunities with our new partners. All four of our pharmaceutical partners have committed meaningful resources to the relationship, and invested in the March 2018 financing of Arix.

Early focus on important areas of human disease

In this early stage of Arix's development, we have focused on three key therapeutic areas: Oncology, Infectious Diseases and Gene Therapy & Orphan Diseases.

We see significant potential in these therapeutic areas through the combination of rapidly developing science, clinical innovation and significant unmet patient need. We see the opportunity to make a substantial contribution to patient well-being by accelerating the translation of new ideas into new medical products – and through this, the potential to deliver shareholder value.

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

Encouraging developments in Arix's Group Businesses

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

- Autolus: We led the Series B financing for Autolus in March 2016, and have worked closely with the company as it successfully progressed three of its programmes into clinical trials. Within 18 months, by September 2017, this progress enabled Autolus to raise a further $80m in a Series C financing at a c. 50% uplift in valuation. The company is now exploring the potential for an IPO in North America.
- Harpoon Therapeutics: In October 2017, just five months after we led the Series B financing, Harpoon signed a collaboration agreement with AbbVie to develop novel T-cell engager therapies, resulting in an increase in the value of our holding by approximately 25%.

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

2018 brings new opportunities and multiple milestones

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

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

The future offers unprecedented market opportunity

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

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

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

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

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

Joe Anderson, PhD
Chief Executive Officer

Q&A with the CEO

Q What was your highlight of 2017?

A 2017 was certainly a busy year. We raised £112m in our IPO on the London Stock Exchange's Main Market and grew our number of Group Businesses up to 13, with a strengthening focus on gene therapy, oncology and infectious diseases. What we have not spoken enough about is the calibre of the team that we have assembled, both at Arix and within our Group Businesses. We now have some of life science's most impressive scientists and business builders, which gives me a huge amount of confidence in what we can achieve in the coming months and years.

Q What differentiates Arix from other similar business builders?

A We focus purely on life sciences, with a team that is highly experienced 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.

Some of our greatest advantages are that we are not constrained by attachment to any single institution, geography, stage of development, or to either private or public companies. 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.

Q What are you most excited by in the year to come?

A We have got a really fantastic collection of Group Businesses with pipelines at various stages of development. After a very busy couple of years of building Arix, we are now getting to the stage where this work starts to translate into transformative milestones for our Group Businesses.

Q What do you think one of your Group Businesses would say about working with Arix?

A From the feedback that we've had, I'd say that they notice the deep specialist experience that our team has and the enthusiasm with which they've helped to guide progress. Arix has taken board or observer seats with all of our unquoted Group Businesses and the directors responsible for these take a huge amount of satisfaction from seeing these businesses progress and getting these therapies each step closer to making very real differences to patients.

Q What is your vision for Arix?

A 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.

CASE STUDY: ITERUM THERAPEUTICS

Iterum Therapeutics is a Dublin-based clinical-stage Arix Group Business which is developing new and significantly differentiated anti-infectives aimed at combatting the global crisis of multi-drug resistant (MDR) pathogens.

Iterum is focused on addressing a significant unmet need in drug resistance. Approximately two million US citizens develop drug-resistant infections, leading to 23,000 deaths each year, and the CDC & Infectious Disease Society of America have identified an urgent need for new drugs.

Iterum is advancing its first compound, sulopenem, a novel penem anti-infective compound with oral and IV formulations in an IV only class of antibiotics that has demonstrated potent in vitro activity against a wide variety of gram-negative, gram-positive and anaerobic bacteria resistant to other antibiotics.

The company is headed by Chief Executive Officer Corey Fishman and Chief Scientific Officer Michael Dunne, MD, veterans of antibiotic development who were involved in the development of dalbavancin at Durata Therapeutics (now owned by Allergan).

Sulopenem is expected to begin Phase III studies in the first half of 2018 and is targeting 2019 for FDA approval. Arix co-led a $65m funding round in Iterum in May 2017, acquiring an 8.2% interest.

Marketplace

In a global pharmaceutical market worth over $1 trillion in 2017, we believe organisations with new high potential science, will provide a rich pipeline of opportunities for Arix Bioscience.

The healthcare and life science sector

This sector has brought significant innovation in recent years. Notable breakthroughs include a cure for Hepatitis C, the rise of CRISPR gene editing technology and the first FDA approval for both in vivo gene therapy and genetically edited T cell therapies.

The worldwide peak sales potential of New Molecular Entities (NMEs) newly approved by the US Food and Drug Administration (FDA) is estimated to be $49.6bn, with an additional c. $5bn peak sales potential for Biologics License Applications (BLAs) approved by CBER. Only in 2015 did new drugs approved in a single year show higher revenue potential (45 NMEs approved, $58bn peak sales).

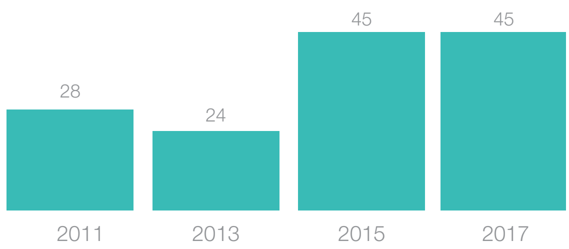
Regulatory environment

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.
- In Europe, the launch of the Adaptive Pathways pilot by the European Medicines Agency in March 2014 and the launch of the EMA's Priority Medicines (PRIME) initiative in 2016.

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. In 2017, 76% of NMEs approved originated from smaller biopharma 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.

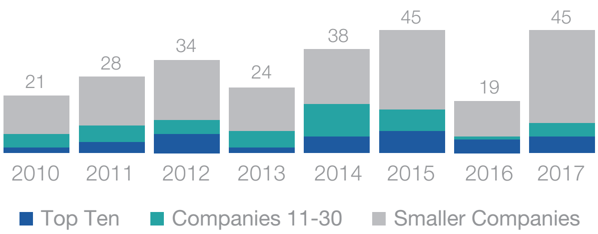
Arix is well placed in this regard, as we can provide permanent capital combined with sophisticated strategic advice on its use.

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.

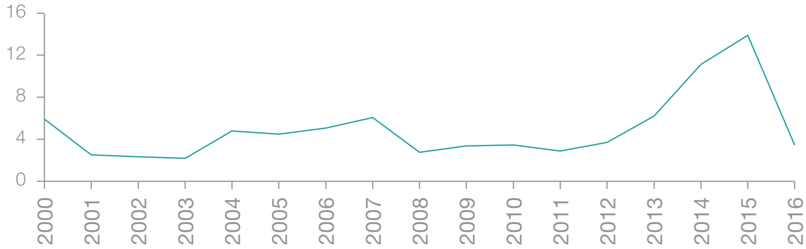
This volatility in funding in the healthcare and life science markets is likely to provide opportunities for Arix's permanent capital model.

Number of drug approvals by originator company size



Source: FDA (www.fda.gov), HBM analysis. Smaller companies defined as those ranked below the Top 30 pharma companies in global sales.

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 as a global healthcare and life science company is focusing on the sourcing, financing, development and commercialisation of innovative technologies.

Case Study

Atox Bio is a late-stage biotechnology company, with a primary focus on serious, life threatening conditions resulting from acute inflammation caused by severe infections, such as necrotising soft tissue infections (NSTI) more commonly known as 'flesh eating bacteria' and acute kidney injury (AKI), for which no current therapies exist.

NSTIs progress rapidly and often lead to multiple organ dysfunction, failure and death. AKI can lead to permanent reduction of kidney function and affects around three million patients a year in the US, Europe and Japan.

Reltecimod, Atox Bio's lead therapeutic candidate, is now in Phase III trials for NSTI and has orphan drug designation from the FDA and EMA, as well as Fast Track designation. A readout is due by mid-2019. Reltecimod is also being trialled for AKI, with a Phase II beginning in 2018 and expected to read out in mid-2019.

Creating value

- Strong leadership team
- Access to capital
- Strong industry and academic relationships
- Broad network of relationships

WE SOURCE

Our Unique Approach:
Experienced team drawing on a broad platform of partnerships and 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 only invest in the very best innovative technologies targeting unmet medical need

WE CREATE

Our Unique Approach:
Arix has expertise to create new businesses through leveraging global networks

The Outcome:
Arix has an unconstrained ability to seek out medical innovation and create businesses that drive value

Case Study

Autolus is a privately held clinical-stage biopharmaceutical company at the forefront of a global revolution in cancer treatment. Autolus is developing next-generation programmed T-cell therapies for the treatment of cancer, which involves harvesting a patients' own white blood cells, re-engineering them to improve their properties and then returning them to the patients, so that the body's own immune system can combat cancer more effectively.

Since Arix led a £40m series B financing in March 2016, Autolus has commenced a further three clinical trials. In 2017, Arix participated in Autolus' $80m Series C investment round. Arix's stake is valued at £20.1m, making Autolus its largest Group Business.

WE ACQUIRE

Our Unique Approach:
Arix's public structure and global presence allows it to invest flexibly

The Outcome:
Arix offers investors exposure to a balanced group of high quality life science businesses, unconstrained by time frames

WE DEVELOP

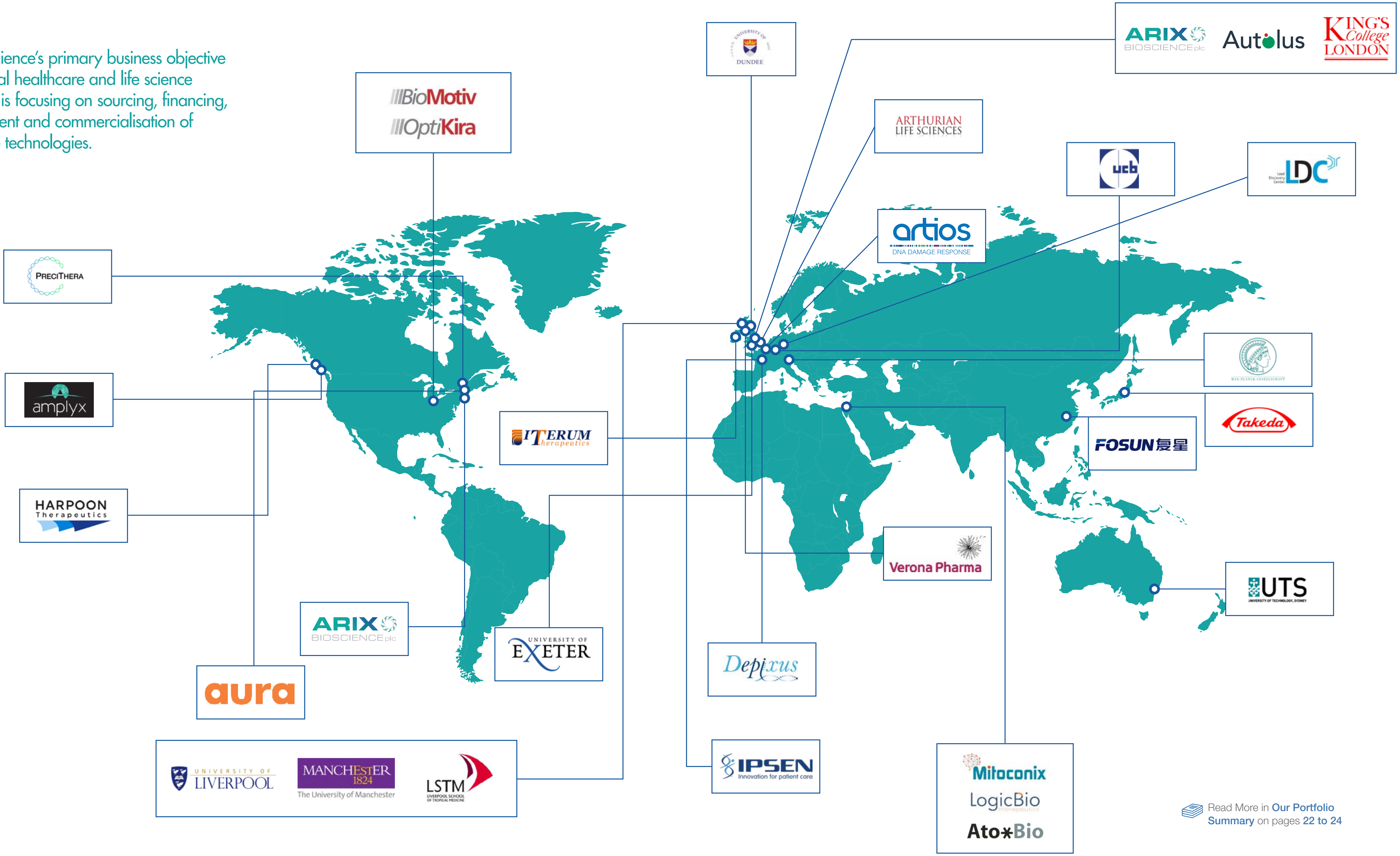
Our Unique Approach:
Arix acts as a patient, trusted partner, providing operational and strategic input and capital throughout an investment's growth and development

The Outcome:
A highly attractive group of maturing and commercially viable life sciences companies

Through this, creating substantial shareholder value

Business Interests

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



Read More in Our Portfolio Summary on pages 22 to 24

Strategy

Our strategy

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

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

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

What we have achieved so far

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

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

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

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

What we will aim to achieve this year

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

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

Key Performance Indicators

Group Businesses

Goal
Grow number of Group Businesses from five to 12

Achievement
Achieved. The Company now holds interests in 13 Group Businesses

Goal
Upwards revaluations in Group Businesses

Achievement
Achieved. Upwards revaluation noted in two Group Businesses

Partnering

Goal
Develop number of strategic partners

Achievement
Achieved. Ipsen and Fosun are new strategic pharma partners

Goal
Develop number of academic partners

Achievement
Instead focus was put on building relationships with existing academic partners.

Investor Relations

Goal
Develop analyst coverage (≥3)

Achievement
Achieved. Notably all three gave strong buy recommendations.

Goal
Strong news flow to provide good transparency on Group Businesses progress (>1 news item / month)

Achievement
Achieved. Over 50 items published since IPO in February 2017

Fund Management

Goal
Strengthen management structure

Achievement
Achieved. Advisory Board structure implemented bringing the Fund Manager increased access to relevant expertise

Goal
Significantly increase The Wales Life Sciences Investment Fund

Achievement
Partly achieved. Fund increased by £5m

Financing

Goal
Substantial capital raise on the London Stock Exchange (>£75m)

Achievement
Achieved. Raise of £87m delivered; notably, at a premium to market

CASE STUDY – AURA BIOSCIENCES

Aura Biosciences is an Arix Group Business, headquartered in Cambridge, Massachusetts, which is developing a new class of therapies to selectively target and destroy cancer cells, using viral nanoparticle conjugates to bind selectively to unique receptors on cancer cells.

The company's science builds on core discoveries made by Dr. John T. Schiller at the National Cancer Institute (NCI), who demonstrated that virus-like particles modeled on the human papilloma virus will selectively attach to solid tumors and metastases without binding to normal epithelium.

Aura's lead programme, light-activated AU-011, targets ocular melanoma, a rare and aggressive eye cancer which represents a significant unmet need. Surgical intervention and radiotherapy can lead to eye damage and loss of vision, but ocular melanoma metastasizes to the liver in about 40% of cases in the long term, where it is nearly always fatal.

This first-in-class programme uses viral nanoparticle conjugates to bind selectively to unique receptors on cancer cells. The therapy is administered through an intravitreal injection into the eye and, once activated by an ophthalmic laser, the treatment kills the cancer cells while preserving patients' vision. This approach is designed to remove cancer cells in the back of the eye as a first-line therapy, while allowing for the potential for preserving patients' vision. The goal is to treat small ocular melanomas before the disease progresses and metastasizes to the liver, saving lives, preserving vision and reducing complications.

The AU-011 programme is currently in a Phase 1b/2 trial in ocular melanoma and has been granted Orphan Drug and Fast Track Designation by the US Food and Drug Administration.

Aura is also advancing this approach in other cancers, including bladder and head and neck.

Arix co-led a Series C financing round in Aura in December 2017, raising $30m, and holds a 6.6% interest in Aura.

Operational and Financial Review

James Rawlingson, **Chief Financial Officer**

> "Valuation events are already driving an increase in the holding value of our Group Businesses."

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

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

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

Group Businesses

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

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

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

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

Operational and Financial Review continued

Portfolio Summary

	31 December 2016 Value £m	Net Investment in Period £m	Change in Valuation (including FX) £m	31 December 2017 Value £m	Fully Diluted Equity Interest %	Funding Committed, Not Yet Invested £m	Fully Diluted Equity Interest When Fully Committed %
Autolus	3.3	12.0	4.8	20.1	8.6%	–	8.6%
Artios Pharma	1.9	1.8	–	3.7	14.7%	1.4	14.9%
Harpoon Therapeutics	–	4.2	0.9	5.1	8.0%	4.4	12.4%
Aura Biosciences	–	2.5	–	2.5	4.9%	1.3	6.6%
Iterum Therapeutics	–	6.0	(0.3)	5.7	6.8%	4.8	8.2%
Amplyx Pharmaceuticals	–	2.9	(0.1)	2.8	2.8%	1.9	3.8%
Atox Bio	–	3.0	–	3.0	3.7%	3.2	6.4%
LogicBio Therapeutics	–	5.1	(0.3)	4.8	13.3%	2.8	15.4%
PreciThera	–	0.5	–	0.5	17.8%	5.6	23.4%
OptiKira	1.0	0.4	(0.1)	1.3	26.0%	–	26.0%
Mitoconix Bio	–	0.4	–	0.4	2.2%	2.8	9.0%
Verona Pharma	2.0	1.8	(0.9)	2.9	2.5%	–	2.5%
Depixus	0.8	0.3	–	1.1	17.6%	0.4	19.2%
Group Businesses	**9.0**	**40.9**	**4.0**	**53.9**		**28.6**	
BioMotiv	3.8	2.0	–	5.8	17.8%	–	17.8%
Simbec-Orion Group	–	2.0	–	2.0	N/A	–	N/A
Arthurian Life Sciences Carried Interest Partner LP	4.3	–	(0.5)	3.8	N/A	–	N/A
The Wales Life Sciences Investment Fund LP	–	5.3	0.5	5.8	N/A	–	N/A
Other Interests	**8.1**	**9.3**	**–**	**17.4**		**–**	
TOTAL	**17.1**	**50.2**	**4.0**	**71.3**		**28.6**	

Oncology

Autolus

Autolus is a leader in next generation T-cell therapies. Utilising advanced cell programming and manufacturing technologies, they have established a development-stage pipeline of products for the treatment of haematological malignancies and solid tumours.

Equity interest
8.6%

When fully committed
8.6%

artios
DNA DAMAGE RESPONSE

Artios is a leading independent DNA Damage Response (DDR) company focused on developing first-in-class treatments for cancer. Artios is building a pipeline of next-generation DDR programmes, including through a partnership with Cancer Research Technology, the development and commercialisation arm of Cancer Research UK, and with leading DNA repair researchers worldwide.

Equity interest
14.7%

When fully committed
14.9%

HARPOON Therapeutics

Harpoon has created a novel, proprietary trispecific antibody platform (TriTAC™) to harness T cells to kill tumour and other cell types by recruiting T cells and other immune cells. Harpoon was founded in 2015 by a team led by Patrick Baeuerle, PhD, Chief Scientific Officer during the development of bispecific T cell engagers (BiTE) at Micromet, which was acquired by Amgen for $1.2bn in 2012.

Equity interest
8.0%

When fully committed
12.4%

Oncology

aura

Aura Biosciences is developing a new class of therapies to target and destroy cancer cells selectively, while leaving surrounding tissue unharmed. By safely eliminating cancer locally, Aura aims to treat early and transform the lives of people with a wide range of cancers that are poorly managed today. The company's lead program, in ocular melanoma, is designed to remove cancer cells in the back of the eye as a first-line therapy, while allowing for the potential of preserving patients' vision.

Equity interest
4.9%

When fully committed
6.6%

Infectious Diseases

ITERUM Therapeutics

Iterum is a clinical-stage pharmaceutical company dedicated to developing differentiated anti-infectives aimed at combatting the global crisis of multi-drug resistant pathogens to significantly improve the lives of people affected by serious and life-threatening diseases around the world. Iterum is advancing its first compound, sulopenem, a novel penem anti-infective compound with oral and IV formulations in an IV only class of antibiotics that has demonstrated potent in vitro activity against a wide variety of gram-negative, gram-positive and anaerobic bacteria resistant to other antibiotics.

Equity interest
6.8%

When fully committed
8.2%

amplyx

Amplyx Pharmaceuticals is developing novel, broad-spectrum antifungal agents for the treatment of life-threatening fungal infections. Amplyx has raised $118.5m in venture capital and secured more than $10m in grants from the National Institutes of Health to support its drug discovery and development efforts.

Equity interest
2.8%

When fully committed
3.8%

Infectious Diseases

AtoxBio

Atox Bio is a late stage biotechnology company that develops novel immunomodulators to treat critically ill patients. Initial focus is on patients with Necrotising Soft Tissue Infections, a rare, life threatening infection for which no current therapy exists. Reltecimod, the company's lead product, is currently in phase 3 clinical trials, and received Orphan Drug designation from the FDA and EMA and Fast Track designation from the FDA.

Equity interest
3.7%

When fully committed
6.4%

Gene Therapy & Orphan Diseases

LogicBio therapeutics

LogicBio is a preclinical-stage gene-therapy company with a mission to develop cures for life-threatening diseases. Founded by pioneers in gene therapy from leading academic institutions, LogicBio's core platform includes synthetic gene-therapy vectors derived from naturally occurring human adeno-associated viruses and the GeneRide technology.

Equity interest
13.3%

When fully committed
15.4%

PreciThera

PreciThera is a biotechnology company committed to the development of therapies for rare bone diseases using the combined application of computational technology and a deep understanding of disease pathology. The company focuses on heterogeneous genetic disorders that primarily manifest in bone dysfunction. Understanding of novel biology will allow PreciThera's targeted strategies to meaningfully impact both the skeletal symptoms as well as the extraskeletal issues found in these patients.

Equity interest
17.8%

When fully committed
23.4%

Operational and Financial Review continued

Portfolio Summary

Gene Therapy & Orphan Diseases

OptiKira

OptiKira is developing novel therapeutics to prevent cell death. Founded in 2015, the company's technology is based on discoveries developed and exclusively licensed from the University of California, San Francisco. Extensive research by the founders on the unfolded protein response has helped define the biological pathway leading to progressive cell death which characterises diseases such as retinitis pigmentosa, diabetes and amyotrophic lateral sclerosis.

Equity interest
26.0%

When fully committed
26.0%

Mitoconix

Mitoconix Bio is pioneering a novel strategy to improving mitochondrial health as a disease-modifying therapeutic for neurodegenerative diseases. Mitoconix Bio's lead drug is a first-in-class inhibitor of pathological mitochondrial fragmentation and dysfunction with demonstrated in vivo efficacy in animal models of Huntington's and Parkinson's diseases and beneficial activity in patient-derived cells of Huntington's, sporadic and genetic Parkinson's, and sporadic and genetic Alzheimer's disease.

Equity interest
2.2%

When fully committed
9.0%

Respiratory

Verona Pharma

Verona Pharma plc is a UK-based clinical stage biotech company focused on the development of innovative prescription medicines to treat respiratory diseases with significant unmet medical needs, such as chronic obstructive pulmonary disease (COPD), asthma and cystic fibrosis. Verona Pharma's lead drug, RPL554, is a first-in-class drug currently in Phase 2 trials as a nebulised treatment for COPD patients with moderate to severe disease and possibly as a treatment of acute exacerbations of COPD in the hospital setting.

Equity interest
2.5%*

When fully committed
2.5%*

*Additional 0.2% indirect interest via The Wales Life Sciences Investment Fund

Technology Platforms

Depixus

Depixus is a young and dynamic biotechnology company based in Paris. Its goal is to commercialise a highly innovative technology platform for the fast, accurate, and inexpensive extraction of genetic and epigenetic information from single molecules of DNA and RNA. Originally developed in the Physics Department of École Normale Supérieure (ENS) in Paris, the potential of this exciting technology has been recognised through the award of numerous grants and innovation prizes at both national and international levels.

Equity interest
17.6%

When fully committed
19.2%

Other Investments

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

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

Comprehensive Income

Revenues grew in the period, due to increased net positive revaluations of Group Businesses of £5.5m (2016: £1.4m). Fund management fee income in ALS of £1.7m also showed an increase (2016: £0.6m) and reflects a full year of ALS trading as it was acquired part way through 2016.

Administrative costs of £11.0m were similar to the previous period (2016: £10.3m).

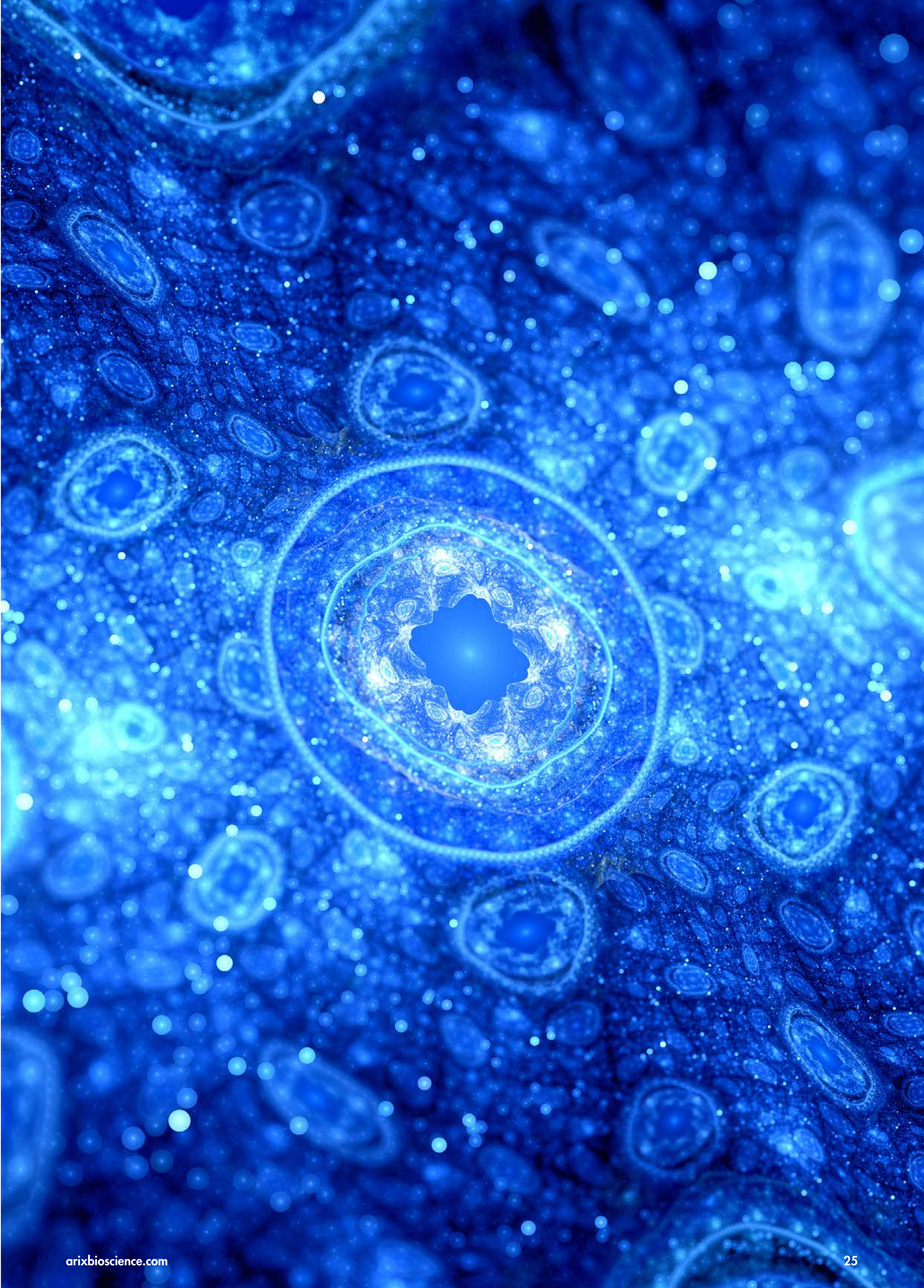
Other costs are not cash related and include a foreign exchange loss of £0.4m (2016: gain of £0.1m) relating to foreign currency denominated interests in Group Businesses; and also includes a share-based payment of £3.7m (2016: £4.7m). This charge is calculated using financial models to predict the future value of share options, and is shown as a cost in the Statement of Comprehensive Income and as a gain in the Company's retained earnings, with no impact on the Company's net assets.

Financial Position

Arix greatly strengthened its Balance Sheet during the period, raising gross proceeds of £112m from its IPO on the London Stock Exchange Main Market in February 2017.

The proceeds from this have been deployed into developing Arix's Group Businesses, resulting in investments of £71.3m at year-end (2016: £17.1m).

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



Risk Management

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

Risk management framework

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

Board

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

Key committees

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

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

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

Executive management

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

Group Business boards and independent assurance

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

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

Principal risks and uncertainties

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

Risk	Impact	Mitigation Action/Control
Arix's Group Businesses may not generate the financial returns anticipated.	Arix's net assets increasingly comprise a range of Group Businesses; below-forecast performance from a Group Business may adversely affect Arix's profitability and ability to generate positive cash flows from future realisations	Arix has a world-class team responsible for identifying and developing Group Businesses, resulting in a high standard of due diligence before the commitment of any money. Post-investment, Arix typically has representatives on the company's board of directors, ensuring it is fully aware of business developments, and allowing for mitigation of possible issues as they arise. Arix funds a range of Group Businesses and intends to continue growing its portfolio across a range of interests. As such, it will achieve a diverse portfolio, with financial performance not overly reliant on any one business. Arix deploys capital to Group Businesses at all stages of a company's life cycle. Therefore, it is exposed not only to very early-stage businesses but also holds interests in more mature companies, where risk of failure is reduced.
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 market-appropriate remuneration for senior employees, including share incentive schemes which reward long-term service and performance. Arix has three very senior industry figures performing active day-to-day roles. Therefore, the loss of a single member of the executive team would be mitigated by the stature and experience of others within the organisation. Arix's Nomination Committee is responsible for succession planning.
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 has funded Group Businesses across a range of geographies, including the UK, USA, Europe, Canada and Israel. As such, it is not overly reliant on a downturn or market shock in a single geography. Arix monitors its availability of capital closely, ensuring sufficient balances are available for the continuing operation of the business.
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, Europe, Canada and Israel. As such, the portfolio is diversified against the adverse actions of any one government.

Viability statement

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

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

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

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

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

Jonathan Peacock
Chairman
23 April 2018

Sustainability

Greenhouse gas emissions

The section below includes our mandatory reporting of greenhouse gas emissions. The reporting period is the same as the Group's financial year.

Organisation boundary and scope of emissions

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within the Group's consolidated financial statement.

An operational control approach has been used in order to define our organisational boundary. This is the basis for determining the Scope 1 and 2 emissions for which the Group is responsible.

Methodology

For the Group's reporting, the Group has employed the services of a specialist adviser, Verco, to quantify and verify the Greenhouse Gas (GHG) emissions associated with the Group's operations.

The following methodology was applied by Verco in the preparation and presentation of this data:

- the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the 'WBCSD/WRI GHG Protocol');
- application of appropriate emission factors to the Group's activities to calculate GHG emissions;
- implementation of the new Scope 2 reporting methods – application of location-based and market-based emission factors for electricity supplies;
- inclusion of all the applicable Kyoto gases, expressed in carbon dioxide equivalents, or CO_2e;
- presentation of gross emissions as the Group does not purchase carbon credits (or equivalents);

Absolute emissions

The total Scope 1 and 2 GHG emissions from the Group's operations in the year ending 31 December 2017 were:

- 32.6 tonnes of CO_2 equivalent (tCO_2e) using a 'location-based' emission factor methodology for Scope 2 emissions;
- 21.2 tonnes of CO_2 equivalent (tCO_2e) using a 'market-based' emission factor methodology for Scope 2 emissions.

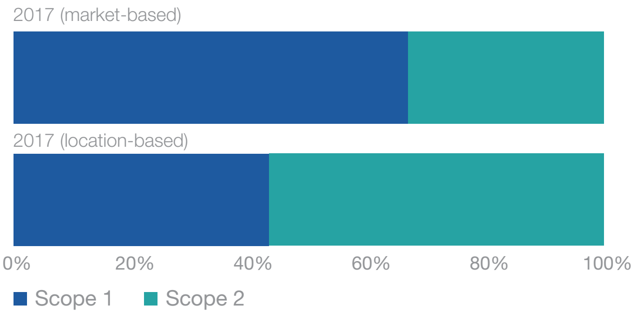
Intensity ratio

As well as reporting the absolute emissions, the Group's GHG emissions are reported below on the metrics of tonnes of CO_2 equivalent per employee and tonnes of CO_2 equivalent per square foot of the occupied areas. These are the most appropriate metrics given that the majority of emissions result from the operation of the Group's offices and the day-to-day activities of the employees.

Target and baselines

Given the comparatively low GHG impact of the Group's operations, the Group's objective is to maintain or reduce its GHG emissions per employee and per square foot of office space each year and will report each year whether it has been successful in this regard.

Key figures



GHG emissions	2017		
	Tonnes CO_2e	tCO_2e / emp.[4]	tCO_2e / sq. ft.[5]
Scope 1[1]	14.1	0.88	0.002
Scope 2[2]	18.5	1.15	0.002
Scope 2[3]	7.0	0.44	0.001
Total GHG emissions (location-based Scope 2)	32.6	2.04	0.004
Total GHG emissions (market-based Scope 2)	21.2	1.32	0.003

[1] Scope 1 being emissions from the Group's combustion of fuel and operation of facilities.

[2] Scope 2 being electricity (from location-based calculations), heat, steam and cooling purchased for the Group's own use.

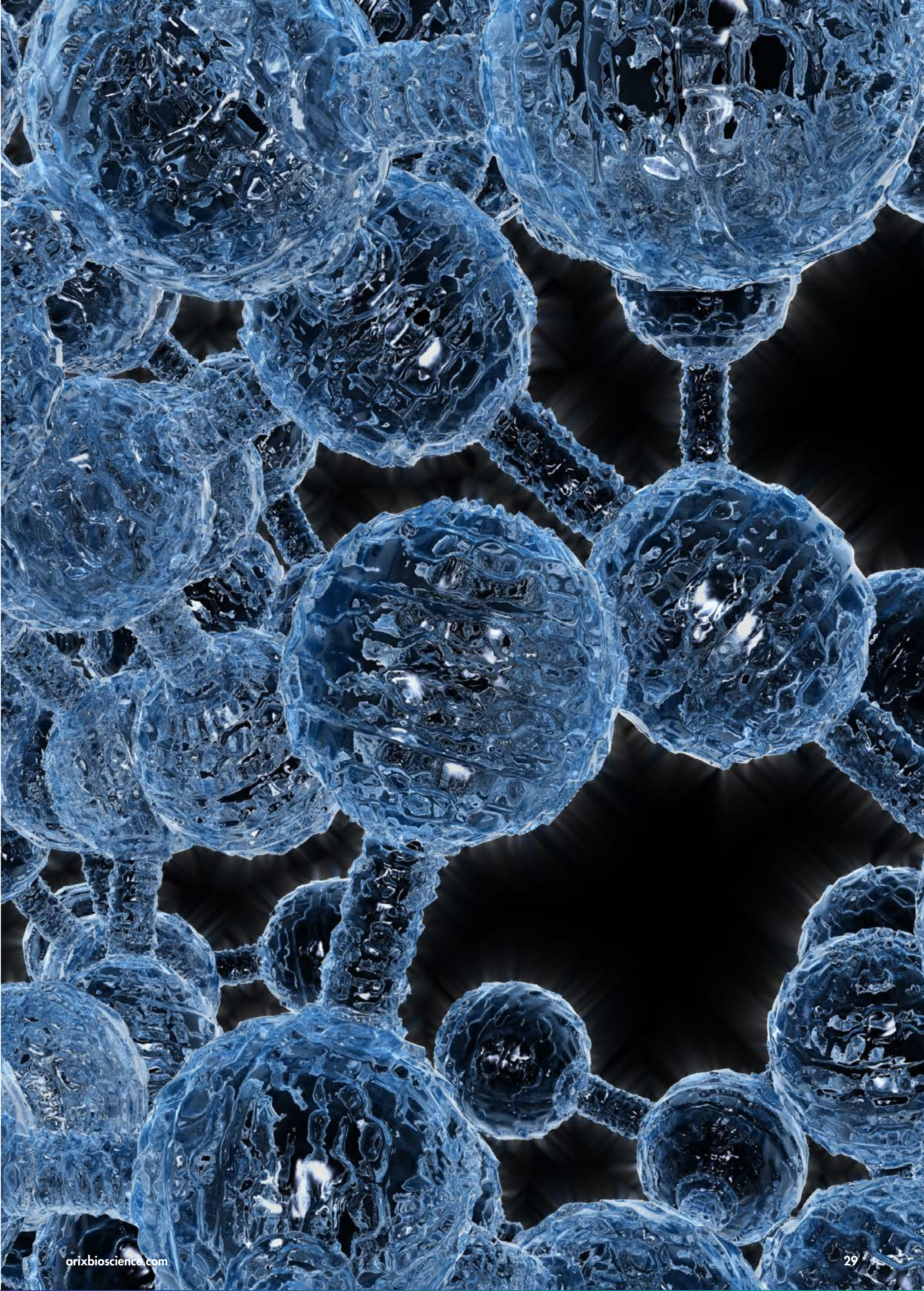
[3] Scope 2 being electricity (from market-based calculations), heat, steam and cooling purchased for the Group's own use.

[4] Employee numbers: 16.

[5] Occupied office space: 8,239 sq.ft.

Understanding the indirect environmental impacts of our business activities

The Group's day-to-day operational activities have a limited impact on the environment. We do, however, recognise that the more significant impact occurs indirectly, through the investment decisions we make and the operation of the companies we choose to invest in. The Group therefore considers it important to establish and invest in businesses that comply with existing applicable environmental, ethical and social legislation. It is also important that these businesses can demonstrate that an appropriate strategy is in place to meet future applicable legislative and regulatory requirements and that these businesses can operate to specific industry standards, striving for best practice.



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 was formally a non-executive director of Kite Pharma from 2014 to 2017 where he sat on the Board's Transaction Committee for the successful acquisition of Kite by Gilead Sciences for $11.9bn in August 2017. 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. He was formerly 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 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, James was Group CFO for Coutts, the Wealth Management Division of RBS, where he was responsible for the global finance function and held a key role in setting strategy. During his time in this role James was also a director of: Coutts & Co., Adam & Company plc, RBS Pension Trustee Ltd and additionally served as Chairman of the Audit Committee for RBS Collective Investment Funds Ltd.

Prior to this James was formerly CFO of UBS Wealth UK where he held a strategic role in Europe before spending two years based in Zurich in UBS Wealth Management's head office.

James originally qualified as an accountant with Deloitte and is a Chartered Member of the Chartered Institute of Securities and Investment.

Franz Humer
Senior Independent Director

Franz has over 25 years of experience as an executive director of global blue chip companies. He was the managing director of Glaxo Pharmaceuticals UK Limited, was elected to the board of Glaxo Holdings plc, and became the chief operating director for its worldwide operations, in 1992. In 1995, he joined Hoffman-La Roche as a member of its Board and the head of its pharmaceuticals division, progressing to become Chairman and CEO in 2001, and between 2008 and 2014 the Chaiman of Roche Holding Limited. Franz joined the board of Diageo in 2005, became Chairman in 2008 and resigned in 2016. He is also Chairman of PCI Services; a non-executive director of Citigroup, Inc., Bial Pharmaceuticals of Portugal and Allogene Therapeutics, Inc.; and an Advisor to Temasek Holdings. From 2015 to 2017, he was a non-executive director of Kite Pharma, until the company's acquisition by Gilead Sciences for $11.9bn in August 2017.

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

Committee Memberships

N R (Chairman)

Board of Directors continued

David U'Prichard
Non-Executive Director

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

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

Committee Memberships

AR N (Chairman)

The Right Honourable 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.

John Hutton 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

R

Professor Trevor Jones, CBE
Non-Executive Director

Trevor has led a distinguished career in both the pharmaceutical and biotech industries, as well as 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), served for 12 years as a member of the UK Government Regulatory Agency Medicines Commission and Chairman of the UK Government Advisory Group on Genetics Research.

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

Committee Memberships

R

Committee Key

N Nomination Committee

AR Audit and Risk Committee

R Remuneration Committee

Meghan FitzGerald
Non-Executive Director

Meghan has broad experience in the US healthcare industry, with a strong emphasis on operations, health policy and business development. She is a Partner at L1 Health, with a focus on investing in healthcare services. She is also an Assistant Professor of Health Policy and Management at Columbia University. Prior to joining L1 Health, Meghan served as Executive Vice President of Strategy and Health Policy at Cardinal Health, the global integrated healthcare services and products provider, and before then was President of Cardinal's Specialty Solutions division. She holds a DrPh in Healthcare Policy from New York Medical College, a BSN in Nursing from Fairfield University, and a Master of Public Health from Columbia University.

Committee Memberships

AR

Giles Kerr
Non-Executive Director

Giles has 36 years' experience in finance across a broad range of industrial sectors with a particular focus on life sciences. He is currently CFO of the University of Oxford and during his tenure he has established a successful investment office with £2.5 bn under management and a £650m early-stage investment fund. Through his role on the board of the University of Oxford's technology transfer company, Oxford University Innovation Ltd., he has gained considerable experience of establishing and growing technology-based companies. Prior to joining the University of Oxford he was CFO of Amersham plc and during his time at Amersham the share price increased seven-fold. Giles has extensive experience as chairman and senior independent director, and as chairman of UK and US listed company audit committees. He is currently Chairman of the audit committees of Senior plc, Paypoint plc and a member of the audit committees of BTG plc and Adaptimune Therapeutics plc. Prior to joining Amersham plc he was an audit partner with Arthur Anderson & Co.

Committee Memberships

AR (Chairman)

Business Development Team

Edward Rayner

Edward Rayner joined Arix Bioscience in January 2016 and his responsibilities include leading the further developments of ALS, including management of the WLSIF. He currently sits on the boards of Depixus and Simbec-Orion. 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$178bn in funds under management in 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 currently sits on the boards of Iterum Therapeutics, Harpoon Therapeutics, Aura Biosciences, and OptiKira, and has a Board Observer position at Amplyx Pharmaceuticals. 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 boards of Artios Pharma and Atox Bio, and has a Board Observer position at Mitoconix. 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 worked at MRC Technology, sourcing and evaluating new small molecule and antibody drug discovery projects.

He 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. He currently sits on the boards of LogicBio and Precithera. Daniel joined Arix Bioscience from OrbiMed Advisors, where he played key roles across investments in both biotherapeutics and medical devices. Investments he has been involved in 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.

John Cassidy

John Cassidy joined Arix Bioscience in February 2018. John previously worked at L.E.K. Consulting LLP, as a Senior Life Science Specialist, responsible for strategy and transaction support for pharma, biotech and private equity clients. John has a first-class degree in Biochemistry from Imperial College London, a PhD in Neuroscience from University College London and has published research in journals including PNAS Proceedings of the National Academy of Sciences, Nature Communications and Journal of Neuroscience.

Directors' Report

For the year ended 31 December 2017

The Directors present their report for the year ended 31 December 2017. 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 4 to 28
Financial risk management objectives and policies (including hedging policy and use of financial instruments)	Notes to the financial statements, pages 80 to 86
Statement of Directors' responsibilities	page 39
Details of long-term incentive schemes	Note 18 to the financial statements, pages 92 and 93
Waiver of emoluments by a Director	Directors' Remuneration Report, pages 50 to 67

Directors

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

Current Directors

- Jonathan Peacock
- Professor Sir Chris Evans
- Joe Anderson
- James Rawlingson
- Dr Franz Humer
- David U'Prichard
- The Right Hon. Lord Hutton of Furness
- Professor Trevor Jones
- Giles Kerr
  Appointed 17 October 2017
- Meghan FitzGerald
  Appointed 21 July 2017

Previous Directors

- Sir John Banham
  Resigned 10 November 2017

Non-independent   Independent   Past Directors

Results and dividend

The results for the year ended 31 December 2017 are set out in the Consolidated Statement of Comprehensive Income on page 76. 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 year ended 31 December 2017.

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 year, are set out in note 17 to the financial statements. As at 31 December 2017, the Company's share capital consisted of:

- 96,153,090 Ordinary Shares of £0.00001 each (99.95% of total share capital by number, 1.90% by nominal value)
- 49,671 C Shares of £1.00 each (0.05% of total share capital by number, 98.10% by nominal value)

In accordance with the resolution passed at the AGM on 5 June 2017, the Deferred Shares were cancelled during the year.

Directors' Report

For the year ended 31 December 2017

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 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 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 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 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); all such agreements ended by 22 February 2018.

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.

At the AGM on 5 June 2017, 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 9,609,108 of its Ordinary shares. The Company has not repurchased any of its Ordinary shares under this authority, which is due to expire on the date of this year's AGM or 30 June 2018.

Directors' interests

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 31 December 2017, is set out in the Directors' Remuneration Report on page 66.

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.

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 2017:

	At 31 December 2017		At 18 April 2018	
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+
Woodford Investment Management Limited	29,538,005	30.7%	33,093,560	24.6%
C Chipperton	10,432,914	10.9%	10,432,914	7.8%
C Evans	7,316,039	7.6%	7,316,039	5.4%
Takeda Ventures, Inc	4,830,917	5.0%	7,497,583	5.6%
Ruffer LLP	4,100,000	4.3%	6,921,088	5.1%
UCB Ventures SA	3,869,902	4.0%	5,647,679	4.2%
Fosun International Holdings Limited	–	–	11,111,111	8.2%
Ipsen Pharma SAS	–	–	6,666,666	5.0%

Political donations

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

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.

Independent Auditors

PricewaterhouseCoopers LLP 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 17 May 2018 at 11am. The Notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

The Strategic Report on pages 4 to 28 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.

Statement 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, and 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 position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 32 to 35, 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
23 April 2018

Corporate Governance Report

Chairman's introduction to governance

Jonathan Peacock, **Chairman**

> "This year the Board has been strengthened even further."

Dear Shareholders,

The Company listed its ordinary shares on the main market of the Stock Exchange on 22 February 2017. In the weeks leading up to the listing, 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. Additionally, this year the Board membership has been strengthened further by the appointment of two additional Independent Non-Executive Directors: Ms Meghan FitzGerald, who has broad experience in the US healthcare industry; and Mr Giles Kerr, who has a wealth of experience in finance across a broad range of industrial sectors with a particular focus on life sciences. These Directors have already made a great contribution in their short tenure so far, and I'm sure will continue to do so.

During the year Sir John Banham retired from the Board. Sir John helped to oversee the Company's growth both as a private company and since its successful IPO. It was a pleasure and a privilege to work with Sir John and on behalf of the Board, I would like to thank him again for his contribution to the successful creation and early development of Arix Bioscience.

This report includes a description of the Company's governance structure, how it has applied the principles and the extent of compliance with the provisions of the Code throughout 2017.

Jonathan Peacock
Chairman

UK Corporate Governance Code – Compliance Statement

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 it has voluntarily chosen to observe the requirements of the Code as far as it has been able in 2017. Since listing on 22 February 2017 the Company has applied all of the main principles of the Code and provides below explanations of its non-compliance with the Code provisions:

A.3.1 The Chairman was not independent on appointment. Due to the nature of the strategic objectives of the Company and its recent incorporation, the Company has a highly experienced Chairman, Jonathan Peacock. The Company considers it essential to have leadership of this quality available to it alongside a Board containing experienced Non-Executive Directors.

B.6.1 – The Board has not carried out a performance evaluation. The majority of the Directors were only appointed to the Board prior to the IPO in February 2017, and since then there have been a number of changes to the Board. As a result it was felt that a Board evaluation would be better suited when the Board had spent longer working together. An evaluation will be considered during 2018.

B.6.3 – As described above, the Non-Executive Directors have not formally evaluated the Chairman's performance as a formal Board evaluation has not been carried out.

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 Group 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 are 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 ten Directors (including the Chairman), six 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

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

Leadership, strategy and management

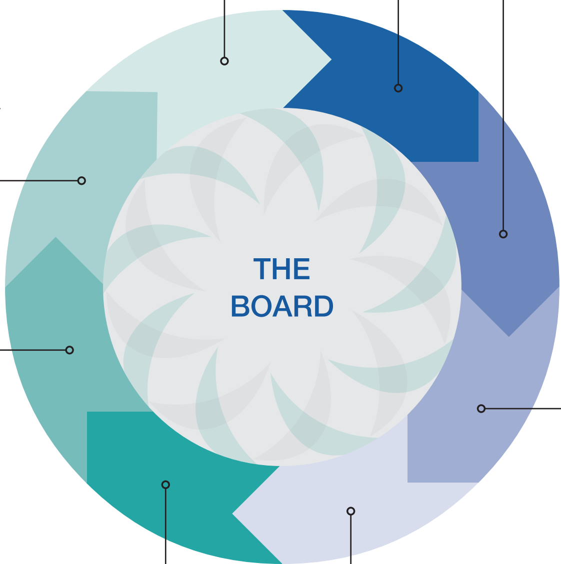
- Providing leadership and setting values and standards
- Approving the Company's strategic aims and objectives
- Overseeing operations

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

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

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

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

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

Corporate Governance Report

Strategy Committee

During the year the Board has created a Strategy Committee, the membership of which includes the Chairman, Deputy Chairman and CEO. The Committee's roles are to regularly review the Group's existing strategic objectives and report to the Board on the Group's progress in implementing those objectives. It will also make recommendations to the Board on adjustments to the strategic objectives and implement strategic objectives approved by the Board.

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. A record of Directors' interests is kept and 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.

Board process

The Board meets formally at least four times a year, with ad hoc meetings called as and when circumstances require at short notice. The table below shows the attendance of each Director at formal meetings of the Board and the committees of which they are a member:

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 have met without the Executive Directors present on a number of occasions throughout the year. The Non-Executives also meet after each Board meeting without the Chairman and the Executive Directors present.

Board attendance

	Board	Audit	Remuneration	Nomination
Jonathan Peacock	5/5	–	–	–
Professor Sir Chris Evans	5/5	–	–	–
Joe Anderson	5/5	–	–	–
James Rawlingson	5/5	–	–	–
Sir John Banham	3/5	2/3	–	–
Dr Franz Humer	4/5	–	3/3	2/2
David U'Prichard	5/5	3/3	–	2/2
Lord Hutton	3/5	2/3	–	–
Professor Trevor Jones	5/5	–	3/3	–
Meghan FitzGerald	2/2	2/2	–	–
Giles Kerr	1/1	1/1	–	–

Board independence

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

Read more about the Board of Directors on pages 32 to 35

Training and development

The Company Secretary regularly provides the Board with updates on Corporate Governance and regulatory matters at Board meetings. An induction is also provided to Directors on joining the Board.

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 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

The majority of the Directors were appointed only in the year immediately preceding the listing in February 2017 with an additional two Directors appointed during 2017. Accordingly, the Board has considered the evaluation and has concluded that a meaningful evaluation of the Board can only take place after the Board has been working together longer in its current composition. The Board will consider an annual evaluation policy during 2018.

Relations with shareholders

Dialogue with shareholders

During the year a Head of Investor Relations was appointed to guide the investor relations function. As part of its investor relations programme, the Group maintains 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 attends meetings with investors and analysts as required.

During the year the Company presented at a number of investor attended conferences and additionally held a Capital Markets Day presentation in September 2017.

Annual General Meeting

The Company's Annual General Meeting will take place on 17 May 2018 at 11am at the offices of Brown Rudnick, 8 Clifford Street, London W1S 2LQ.

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.

Visit us online at:
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

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www.arixbioscience.com

Dear Shareholders,

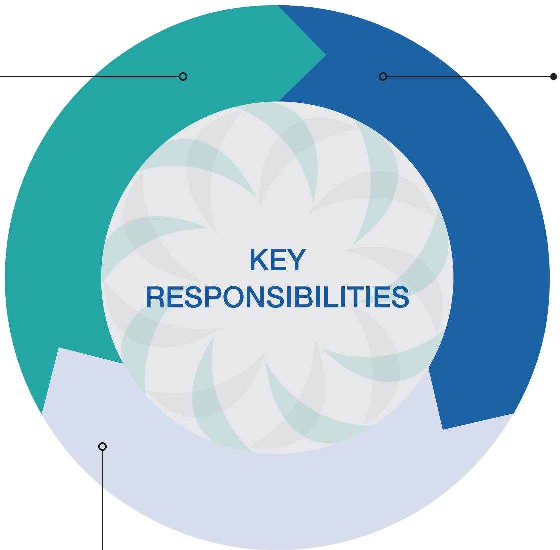
On behalf of the Board, I am pleased to present the Nomination Committee report for the year ended 31 December 2017.

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:



Effectiveness and Succession Planning

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

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

Meetings

The Nomination Committee has met twice during the year. 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, the Chairman attends most meetings.

The Nomination Committee has met this year to discuss the following matters:

- To review the composition of the Board and the Board's committees
- To review the balance of skills required by the Board and its committees and the business as a whole
- To discuss and set the process for the search for new Non-Executive Directors
- To recommend for approval new Directors to be appointed to the Board
- To consider the re-election of Directors at the AGM

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. The Board currently consists of 10% (one) female and 90% (nine) male board members. The Group consists of 75% (12) male employees and 25% (four) female employees; no employees other than board members are classified as senior managers.

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 2018.

David U'Prichard
Chairman of the Nomination Committee
23 April 2018

Report of the Audit and Risk Committee

Composition

- Giles Kerr (Chairman)
- David U'Prichard
- Meghan FitzGerald

Giles Kerr, **Chairman of the Audit and Risk Committee**

Dear Shareholders,

On behalf of the Board, I am pleased to present the Audit and Risk Committee report for the year ended 31 December 2017.

The Arix Bioscience plc Audit and Risk Committee was formally established by the Board in the lead-up to IPO. The Committee has, during the year, been strengthened further by adding an additional Non-Executive Director to its membership. Meghan FitzGerald joined the Committee on her appointment to the Board in July 2017.

I joined the Board in October 2017 and took over the chairmanship of the Committee when Sir John Banham stepped down from the Board in November 2017. I would like to thank Sir John for his contribution to the progress made by the Committee. Lord Hutton also stepped down from the Committee to join the Remuneration Committee. 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 have met three times during the year. Further details on the activities of the Committee during the year and how it has discharged its responsibilities are provided in the report below.

Giles Kerr
Chairman of the
Audit and Risk Committee
23 April 2018

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

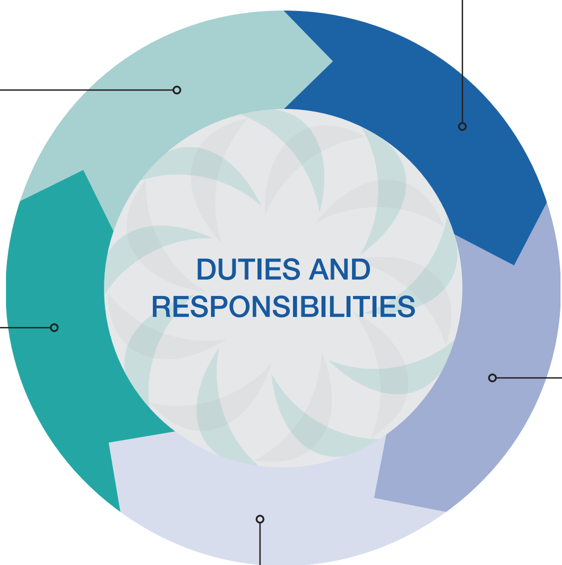
Specific duties of the Audit and Risk Committee include:

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

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



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 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, review the findings of the audit

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

Report of the Audit and Risk Committee continued

Meetings and attendees

The Audit and Risk Committee has met three times during the year. The Audit and Risk Committee will normally meet no fewer than three times a year with further meetings being called as required.

The external auditors are invited to attend the majority of the meetings. Outside of the formal meeting programme, the Audit and Risk Committee chairman maintains 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 since IPO

The Audit and Risk Committee has met three times since the IPO. Matters discussed have 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 considered and reviewed by the Audit and Risk Committee. The significant issues considered by the Committee in respect of the year ended 31 December 2017 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 unquoted investments were properly prepared in accordance with the stated accounting policy and the evidence available.
Financial interest in The Wales Life Sciences Investment Fund	The Audit and Risk Committee reviewed and considered the key assumptions, noting also that both the valuation of investment in carried interest and the valuation of the fund's unquoted investments are 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 both the carried interest valuation and fund interest valuation were 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, management options and the Executive Incentive Plan, 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 Company's first period-end as a Main Market-listed Company. 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 provides 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 4 to 28.

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. Policies cover defined lines of accountability and delegation of authority; financial reporting procedures; and preparation of monthly management accounts; these facilitate 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. No failings were identified, having discharges 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:

- reviews the risk register compiled and maintained by senior managers within the Group and questions and challenges where necessary
- reviews the system of financial and accounting controls regularly
- reports 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 keeps under review the need for an internal audit function but feels it is not currently required given the Group's size.

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, by regular meetings and assessment of non-audit engagements. The results of this 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 December 2016. The current lead audit partner, Richard McGuire, has been in place for two years.

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 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 Group has therefore adopted a policy which conforms to the Revised Ethical Standard 2016 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 year ended 31 December 2017, PwC was engaged to provide certain non-audit services for the Group's February 2017 IPO; and the Group's capital raising which completed in March 2018. This 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. Services were also provided relating to remuneration and training. The fees paid to PwC for non-audit services during the period totalled £186,750, representing 91% of the total audit fee.

Whistleblowing

The Group 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.

Giles Kerr
Chairman of the Audit and Risk Committee
23 April 2018

Directors' Remuneration Report

Composition

- Franz Humer (Chairman)
- Trevor Jones
- John Hutton

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

Annual Statement by the Chairman of the Remuneration Committee

Dear Shareholders,

As Chairman of the Remuneration Committee (the "Committee") I am pleased to introduce our 2017 Directors' Remuneration Report. Last year, in an effort to ensure clear and transparent remuneration reporting, we provided levels of disclosure around remuneration which met those of a listed company, despite the fact that we were not subject to the same rules and regulations. This year, we are building upon this level of disclosure to ensure that we improve upon our existing high standards and continue to provide transparency around pay policy and decision making. I have set out below a summary of the guiding principles behind our current policy, approved by a significant majority of shareholders (88.6%) at the AGM on 5 June last year:

- To have a Remuneration Policy which supports the Company strategy of providing strategic operational and clinical direction to its Group Businesses;
- The need to offer remuneration packages which attract, retain and motivate global talent of the highest calibre in the market in order to add value to the Group Businesses and drive shareholder value creation;
- To align the interests of the shareholders with those of the Directors, and;
- 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.

Business Performance and Remuneration Outcomes for 2017

This year has been one of significant progress for the company since IPO. Over the course of 2017, the Company has been working hard to expand its Group Businesses, investing £50.2m and adding eight new Group Businesses, expanding it to 13 companies in total.

Several Group Businesses have hit important strategic milestones during 2017, with a successful listing on the Nasdaq for Verona Pharma; and continued clinical trial development at Autolus and Amplyx, with the latter receiving data from two Phase 1 clinical trials.

During 2017, the Company was focused on building towards a capital raise in the early stages of 2018, which has subsequently been successfully completed. The capital raised will allow for continued investment into new opportunities and provide the management team with the flexibility to make the right decisions around appropriate investments.

The Company has engaged in a successful recruitment initiative, with the addition of two new Non-Executive Directors to the board, Meghan FitzGerald and Giles Kerr. Both Meghan and Giles bring additional sector experience to the Board and further bolster the knowledge and experience at board level.

After the strong performance in 2017, the annual bonus is set to payout at 80% of base salary for the management team, with the bonus delivered fully in cash based on successful delivery against a large number of strategic and operational objectives. In line with the opt-out provisions in the current policy, the Committee made the decision not to defer a portion of the bonus into shares due to the already significant shareholding of the majority of the management team and the fact that any incremental bonus deferral will have an immaterial impact on aligning their interests with those of shareholders. A full breakdown of the performance conditions and level of performance achieved can be found on page 64.

As the first grant of the Executive Incentive Plan (EIP) occurred in 2017, the performance period is still ongoing and no shares are eligible to vest until 2020.

How we will apply our Remuneration Policy in 2018

The structure of remuneration arrangements for 2018 will remain largely unchanged from that applied in 2017. Executive directors will continue to have the opportunity to earn a bonus of up to 100% of salary, subject to stretching and rigorously applied performance conditions aligned to our business KPIs.

It is expected that awards will be made to management under the EIP and will feature stretching share price growth targets in line with the Remuneration Policy.

The Committee has agreed that base salaries for the management team will be maintained at their current level, with no increase for 2018. During the year the Remuneration Committee has considered various elements of executive pay and has agreed an amendment to the consultancy agreement with Merlin Scientific LLP (further details of this agreement can be found on page 62). Under the new agreement the fixed consultancy fee will cease in 12 months' time, with a view to renegotiating the arrangement in 2019. Sir Chris Evans' service agreement remains unchanged.

These decisions reflect the Company's belief in the importance of the variable portion of remuneration, which is structured to encourage and drive long-term performance aligned to the strategy of the business.

Below board level, the Company has conducted a full pay review, and is implementing some changes to pay structure and quantum, with pay increases across a range of positions and levels. The Committee is aware of the prevailing changes in corporate governance towards the expectation that the Committee should have a wider remit when addressing remuneration related issues and has made a conscious effort to take a broad company-wide view in this respect. In future, when reviewing and developing new iterations of the Remuneration Policy, how the Policy filters through the organisation will be a key consideration.

The Committee and I are satisfied that the current remuneration structure and outcomes for 2017 are in the best interests of shareholders and reflect strong corporate and personal performance. We will continue to make sure that our executives' pay reflects performance achieved and corporate governance best practice as it develops, while ensuring that an exceptional management team is appropriately retained and motivated. In that regard, the Committee acknowledges that a new corporate governance code is in preparation and, together with the whole Board, will look to pro-actively respond to developments arising from this as part of our 2018 agenda.

I hope that you find the information contained in this report helpful, thoughtful and clear. I welcome any feedback from shareholders and look forward to answering any questions at the Company's AGM when we will be asking shareholders to approve the Annual Report on Remuneration contained in the rest of this report, which sets out payment made to the Directors during the year.

Franz Humer
Chairman of the Remuneration Committee
23 April 2018

Directors' Remuneration Report

continued

Remuneration snapshot

Topic	Description
Base salary	The base salaries for the Executive Directors remain unchanged in 2018, and are as follows: • Joe Anderson £500,000 • Jonathan Peacock £400,000 • Professor Sir Christopher Evans £250,000 • James Rawlingson £270,000
Benefits	The Executive Directors are eligible to receive private health cover, life assurance, income protection and a company car or car allowance.
Pension contribution	A maximum contribution of 10% gross base salary for UK employees
Annual bonus	• 100% of salary for the Executive Directors • Bonuses for 2018 will be based on a range of challenging strategic measures aligned with the company's KPIs • Up to 50% of the annual bonus can be deferred into shares for a period of 3 years
Long term incentive	• Award of up to 150% of salary for the Executive Directors. • 100% of the base award will vest based on the achievement of the performance target with up to 150% of the award vesting based on the achievement of the outperformance target. • Awards vest after three years subject to share price performance targets.
Shareholding guidelines	100%–200% of salary for Executive Directors

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 Group'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 Group; • 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 Group.	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 Group 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 Group 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 recognises 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.

Directors' Remuneration Report

continued

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 Group to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy. The Group 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 Group 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 Group; 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 Group 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 Group 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%

Directors' Remuneration Report

continued

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 will also 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 Group'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.

Element of Remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity and Performance metrics
Minimum Shareholding Requirement	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.		
Non-Executive Director Fees	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.	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.	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.

Directors' Remuneration Report

continued

Historic awards

Any historic awards that were granted under any previous share schemes operated by the Group 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 Group'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 below. 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 Group'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 Group's policy for existing Executive Directors and will not exceed 100% of salary.
EIP	Maximum annual participation will be set in line with the Group'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 conditions 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.

Directors' Remuneration Report

continued

Payment for Loss of Office

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, the date at which the new regime of Directors' Remuneration Report obligations applies.

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
Sir Chris 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 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 17 May 2018 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
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
Meghan FitzGerald	21 July 2017	3	3	3
Giles Kerr	17 October 2017	3	3	3

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 year ended 31 December 2017 and also describes the operation of the Remuneration Committee.

Remuneration Committee

Membership

Franz Humer is Chairman of the Committee. The other members of the Committee are Professor Trevor Jones and Lord Hutton. The Committee has met three times during the year under review.

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

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

- Review and consideration of remuneration policy;
- Review of Executive Directors and senior manager bonuses for 2017.

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.

Directors' Remuneration Report

continued

Single Figure Table – Executive Directors (audited)

	Basic salary		Benefits		Pension		Annual bonus		LTIP		Other*		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Jonathan Peacock	400	229	11	13	22	–	320	375	–	–	500	–	1,253	617
Sir Chris Evans	250	229	19	8	18	–	-	–	–	–	1,052	955	1,339	1,192
Joe Anderson	500	427	39	19	37	32	400	750	–	–	750	–	1,726	1,228
James Rawlingson	270	247	20	13	20	19	216	405	–	–	337	–	863	684

* One-off awards of share options were issued to Executive Directors upon the Company's Initial Public Offering in February 2017; these have a two-year vesting period but for disclosure purposes are recognised in the period in which they are awarded

- Base salary: amount earned for the year. During 2016, J Peacock waived £150k of his annual £400k base salary
- Benefits: the taxable value of benefits received in the year, including life assurance, long-term sickness insurance, private healthcare and company car cash allowance
- Pension: the value of the Company's contribution during the year; 7.5% or in the case of Jonathan Peacock, 6.0% Company contributions to 401(k) plan
- Annual Bonus: all amounts are payable in 2018
- Other: Sir Chris Evans' balance includes amounts paid via Merlin Scientific LLP, a limited liability partnership wholly owned and controlled by Sir Chris Evans

Single Figure Table – Non-Executive Directors (audited)

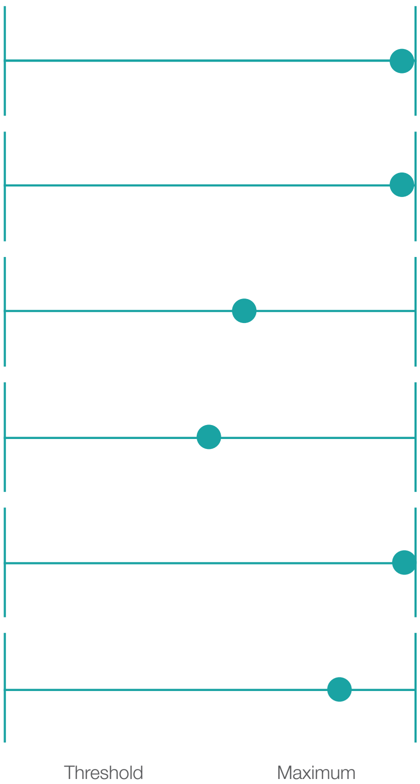
	Fees		Benefits		Pension		Annual bonus		LTIP		Other*		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Franz Humer	88	67	–	–	–	–	–	–	–	–	70	–	158	67
Lord John Hutton	43	52	–	–	–	–	–	–	–	–	34	–	77	52
Professor Trevor Jones	43	52	–	–	–	–	–	–	–	–	34	–	77	52
David U'Prichard	44	54	–	–	–	–	–	–	–	–	34	–	78	54
Meghan FitzGerald	27	–	–	–	–	–	–	–	–	–	23	–	50	–
Giles Kerr	13	–	–	–	–	–	–	–	–	–	24	–	37	–
Sir John Banham (retired)	26	54	–	–	–	–	–	–	–	–	20	–	46	54

* Non-Executives receive 50% of their remuneration in the form of shares, annually following the Company's AGM. Other amounts relate to share issues.

Annual Bonus Payout Table (audited)

For the Executive Directors, the annual bonus objective outcomes were as follows (certain outcomes not listed due to commerical sensitivity):

Category	Performance Outcome	Bonus Contribution	Rationale
Grow number and value of Group Businesses: • Increase number of Group Businesses • Deliver positive revaluations (>1 Group Business)		30%	Goals achieved. Eight new Group Businesses acquired, taking total from five to 13. This was an outperformance, as was the two positive revaluations seen in the year
Financing • Substantial raise made on London Stock Exchange (>£75m)		30%	Goals achieved. In addition to the successful £112m IPO in February 2017, there was a successful follow-on raise in March 2018 of £87m. Notably the follow-on raise was at a premium to the prevailing share price
Business partnering • Increase strategic reach by developing strategic partners • Increase commercial potential by developing academic partners		5%	Goals partly achieved. Number of strategic partners doubled from two to four, by the addition of Ipsen in Europe and Fosun in China. However, the focus on academic relationships in the year was on deepening relationships with existing partners rather than increasing the number of relationships
Fund management • Strengthen the management structure of the fund management division • Significantly increase The Wales Life Sciences Investment Fund (WLSIF)		5%	Goals partly achieved. The governance of the fund management business was successfully restructured to create an Advisory Board; and a new fund manager was appointed for WLSIF. Although WLSIF was increased by a further £5m fund raise, this was not considered sufficient by the Remuneration Committee to fully meet the goal
Investor Relations • Research coverage from high quality analysts (minimum three) • Strong news flow to keep shareholders well informed (>1 news item per month)		10%	Research coverage goals achieved with strong buy recommendations from Jefferies, Stifel and H.C. Wainwright & Co. High levels of news flow achieved, with over 50 news items released following IPO in February 2017
Percentage of Base Salary Awarded		**80%**	**Primary goals achieved**



LTIPs Vesting in the Year (audited)

During 2017, no shares vested under the EIP. The first grant of EIP shares was made in 2017 and will not vest until 2019.

Implementation of Remuneration Policy for Executive Directors – Base Salary (audited)

	2017 £'000	2016 £'000	Increase in Salary %
Jonathan Peacock	400	400	0%
Sir Chris Evans	250	250	0%
Joe Anderson	500	500	0%
James Rawlingson	270	270	0%

Scheme Interests Awarded in 2017 (audited)

During the year ended 31 December 2017, the Executive Directors were awarded options or conditional share awards under the EIP, details of which are summarised below.

Director	Date of Grant	Number Awarded	Award Price £	Face Value £	% of Base Salary	Vesting Date
Jonathan Peacock	26/05/2017	379,746	1.975	750,000	188%	26/05/2020
Joe Anderson	26/05/2017	569,619	1.975	1,125,000	225%	26/05/2020
James Rawlingson	26/05/2017	205,062	1.975	405,000	150%	26/05/2020

Performance Measure	Weighting	Performance Period	Performance	% Vesting
Compound share price growth	100%	Grant to 26 May 2020	<8% per annum	0%
			8% per annum	67%
			20% per annum	83%
			≥30% per annum	100%

The award price of £1.975 was the closing share price of Arix Bioscience plc the day prior to the award. The exercise price differs from the market value at the date of the grant due to the awards being nil-cost options.

Awards relating to Arix's IPO were also made during the year under the EIP, in the form of options or conditional share awards. Details of the award were fully disclosed in the Directors' Remuneration Report for the period ended 31 December 2016.

CEO – Historic Remuneration Information (audited)

	2017 £'000	2016 £'000
Single Figure Total	1,726	1,228
Annual Variable against maximum opportunity	80%	N/A
EIP vesting rates against maximum opportunity	N/A	N/A

Note: Arix Bioscience plc was incorporated in 2015; it listed on the London Stock Exchange in February 2017; as such, only the previous two periods of data is included

Percentage Change in Remuneration of CEO (audited)

Percentage change in 2017 remuneration compared with remuneration in 2016

	CEO	All Employees excl. CEO
Base Salary	0%	0%
Annual Bonus	-46%	-21%
Benefits	0%	0%

Note: the above table reflects annualised balances for the prior period, as it was Arix's first accounting period

Directors' Remuneration Report

continued

Implementation of Remuneration Policy for 2018

Base Salary

Salary reviews normally take place in January of each year, and take effect from February. No base salary increases were proposed for 2018.

Benefits and Pension

No changes are proposed to benefits or pension arrangements in 2018.

Annual Bonus

The operation of the bonus plan for 2018 will be consistent with the framework detailed in the Policy section of this report. The maximum opportunity for the year ending 31 December 2018 will be 100% of salary for all Executive Directors. Up to 50% of the annual bonus can be deferred into shares, which will be held for three years, subject to the participants' continued employment.

Proposed target levels have been set to be challenging relative to the 2018 business plan and the performance conditions comprise of a range of strategic measures aligned to the long-term growth of the Group. Specific targets will not be disclosed because the Remuneration Committee consider forward looking targets to be commercially sensitive. However, the Committee intends to disclose these retrospectively in next year's Remuneration Report to the extent that they do not remain commercially sensitive.

Long Term Incentive

The anticipated 2018 grant of the EIP will be in line with the policy laid out in the 2016 Directors' Remuneration Report. The maximum opportunity for executive directors will be 225% of base salary. The grant will be subject to threshold performance targets over a three-year period.

A Total Shareholder Return graph will be included in the 2018 Directors' Remuneration Report. It is not included this year as the Company's shares were not traded throughout the period.

Directors' Shareholdings and Share Interests (audited)

Executive Directors' interests in the Company as at 31 December 2017 are shown in the table below. Shareholding guidelines are 100%-200% of salary for Executive Directors. Only the 2017 EIP Awards are subject to performance conditions.

Director	Ordinary Shares Held #	C Shares Held #	Shareholding as % of Base Salary	IPO Awards* (unvested) #	2017 EIP Awards* (unvested) #	Founder Options (not exercised) #	Founder Options (unvested) #
Jonathan Peacock	595,056	49,671	303%	241,545	379,746	1,242,125	1,242,125
Joe Anderson**	354,310	–	138%	362,318	569,619	1,518,155	1,518,154
Sir Chris Evans***	7,316,039	–	5,707%	295,893	–	–	–
James Rawlingson	37,484	–	27%	163,043	205,062	–	–

* Awards are options, other than for Jonathan Peacock, which are conditional share awards

** Joe Anderson holds 138,889 Ordinary Shares through PAL Trustees Limited, the trustee of his SIPP

*** Sir Chris Evans holds part of his interest through Ectoplasm Limited as to 6,096,699 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

Implementation of Remuneration Policy for Non-Executive Directors – Fees

	2017 £'000
Base Fees	
Senior Independent Director	100
Non-Executive Director	50
Additional Fees	
Audit Committee Chair	10
Audit Committee Member	7.5
Remuneration Committee Chair	10
Remuneration Committee Member	7.5
Nomination Committee Chair	10
Nomination Committee Member	7.5

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 2017
Franz Humer	56,763
Lord John Matthew Patrick Hutton	27,777
Professor Trevor Jones	27,777
David U'Prichard	28,985
Meghan FitzGerald	30,344
Giles Kerr	31,663

Statement of Voting on Remuneration – 2017 AGM

	Votes For #	Votes For %	Votes Against #	Votes Against %	Votes Withheld #
To approve the Directors' Remuneration Policy	41,408,348	88.59%	5,333,387	11.41%	942

Relative Importance of Spend on Pay

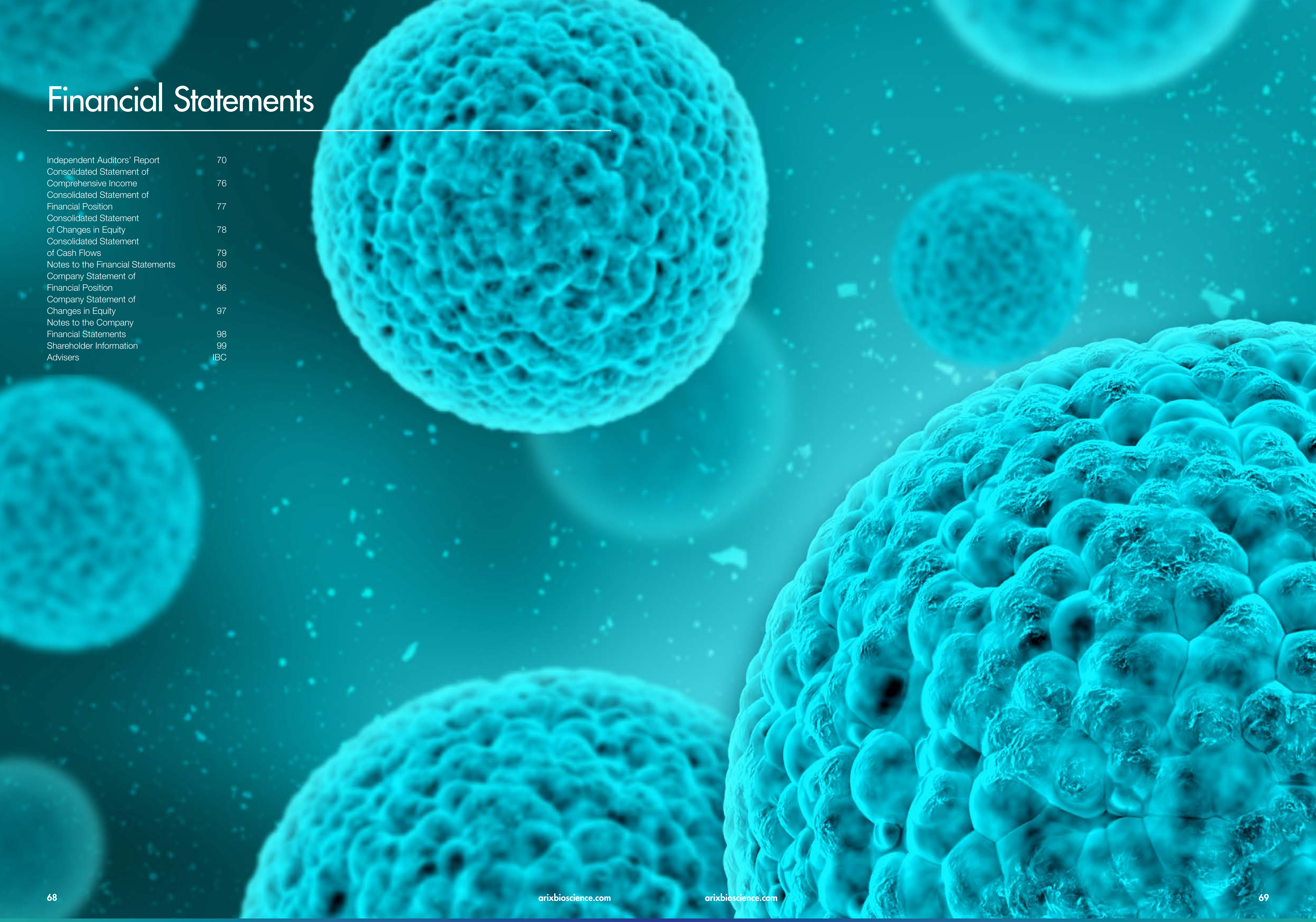
	2017 £'000	2016 £'000
Underlying operating loss	(3,589)	(8,304)
Dividends	–	–
Total company spend on remuneration	5,933	6,324

Underlying operating loss is considered the most appropriate metric given the current stage of the Group.

Total Group spend on remuneration fell by 6% compared to the previous period.

External Board Appointments

Subject to Board approval, the Company allows its Executive Directors to hold non-executive positions outside of the Company that complement and enhance their current role. Any fees may be retained by the Director. Non-Executive Director positions in exchange-listed companies held by the Company's Executive Directors are: Jon Peacock (Bellerophon Therapeutics Inc, Nasdaq-listed) and Sir Chris Evans (Reneuron Group plc, AIM-listed).



Financial Statements

Independent Auditors' Report

to the members of Arix Bioscience plc

Report on the audit of the financial statements

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 2017 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); 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.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2017; the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in the note 5 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

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 (a 100% owned direct subsidiary of Arix Bioscience plc), Arthurian Life Sciences SPV GP Limited and Arthurian Life Sciences Carried Interest Partner LP were acquired during the prior 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: £1.46 million (2016: £463,000), based on 1% of net assets.
- Overall Company materiality: £1.45 million (2016: £460,000), based on 1% of net assets capped at lower than Group materiality.

- 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 83% 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 (Group).
- Financial interest in Wales Life Sciences Investment Fund (Group).
- Share based payments expense (Group and Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, Companies Act 2006, the Listing Rules and the UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, and enquiries of management that there is no undisclosed litigation against the Arix Group.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of unquoted investments Refer to pages 83 and 84 (Accounting policies), pages 89 and 90 (notes) and page 48 (Report of the Audit and Risk Committee). The fair value of the unquoted investments is £58.8m as at 31 December 2017. This is an area of focus due to the fact that unquoted investments ("investee entities") 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 entities, we performed the following: • Agreed the price of recent investments to supporting documentation, such as purchase agreements, funding drawdown requests 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.

Independent Auditors' Report continued

to the members of Arix Bioscience plc

Key audit matter	How our audit addressed the key audit matter
Financial interest in The Wales Life Sciences Investment Fund Refer to pages 83 and 84 (Accounting policies), pages 89 and 90 (notes) and page 48 (Report of the Audit and Risk Committee). In 2017 Arthurian Life Sciences Limited ("ALS") invested directly into the Wales Life Science Investment Fund ("the WLSIF"). The direct investment into the WLSIF is held at Fair Value and was valued at £5.85m at the year end. This value is derived from the amounts entitled to ALS from WLSIF as at 31 December 2017 based on its Net Asset Value ("NAV"). This is an area of focus due to the fact that WLSIF does not have a readily determinable price and the underlying investments consist of unquoted securities. 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 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 £3.8m 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. As noted above, this is an area of focus due to the fact that WLSIF does not have a readily determinable price and the underlying investments consist of unquoted securities.	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 for the carried interest valuation and tested the mathematical accuracy of the model and agreed the calculation to the supporting 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 value 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 values. • 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 WLSIF and carried interest, including assumptions used in the valuation was supported by the audit evidence we obtained.
Share based payments expense Refer to page 85 (Accounting policies), pages 92 and 93 (notes) and page 48 (Report of the Audit and Risk Committee). 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 and the Monte Carlo valuation models. 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 £3.6m for the year.	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 year 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 year 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 year 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 structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

This is a first audit for the Group since listing on the London Stock Exchange and therefore we have held a number of early planning discussions with those charged with governance and with management from the listing date 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 Company and three significant subsidiaries of the Group, which together account for 83% 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 the Group's significant North American investments, which is a specific risk and a key audit matter 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 in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£1.46 million (2016: £463,000).	£1.45 million (2016: £460,000).
How we determined it	1% of net assets.	1% of net assets, capped at lower than Group materiality.
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 a business such as the Group, which invests in other businesses for capital appreciation.	Net assets is the primary measure used by the shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark for a business such as the Company, which invests in other businesses for capital appreciation.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £300,000 and £1.45 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £73,000 (Group audit) (2016: £23,000) and £72,000 (Company audit) (2016: £22,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent Auditors' Report continued

to the members of Arix Bioscience plc

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement on page 49 about internal controls and risk management systems in relation to financial reporting processes and on pages 37 to 39 about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement on pages 40 to 43 with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a Corporate Governance Statement has not been prepared by the Company. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on pages 26 and 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 27 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 39, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 46 to 49 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in respect of this responsibility.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 39, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors on 9 December 2016 to audit the financial statements for the period ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the period ended 31 December 2016 to 31 December 2017.

Other voluntary reporting

Going concern

The directors have requested that we review the statement on page 27 in relation to going concern as if the Company were a premium listed Company. We have nothing to report having performed our review.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

The directors have requested that we perform a review of the directors' statements on pages 26 and 27 that they have carried out a robust assessment of the principal risks facing the Group and in relation to the longer-term viability of the Group, as if the Company were a premium listed Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. We have nothing to report having performed this review.

Richard McGuire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 April 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

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

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Non-Current Assets			
Investments held at fair value	11	71,331	17,115
Intangible assets	12	2,057	2,344
Property, plant and equipment	13	523	750
		73,911	20,209
Current Assets			
Cash and cash equivalents	15	74,938	28,929
Trade and other receivables	14	1,266	3,262
		76,204	32,191
TOTAL ASSETS		150,115	52,400
LIABILITIES			
Current liabilities			
Trade and other payables	16	(3,670)	(5,791)
Deferred tax liability		–	(280)
		(3,670)	(6,071)
TOTAL LIABILITIES		(3,670)	(6,071)
NET ASSETS		146,445	46,329
EQUITY			
Share capital and share premium	17	105,125	51
Retained earnings		42,088	45,844
Other reserves		(768)	434
		146,445	46,329
TOTAL EQUITY		146,445	46,329

The accompanying notes form an integral part of the financial statements. The financial statements on pages 76 to 98 were approved by the Board of Directors and authorised for issue on 23 April 2018, and were signed on its behalf by

James Rawlingson
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

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

For the period from 15 September 2015 to 31 December 2016

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 £'000	15 Sept 15 to 31 Dec 2016 £'000
Net cash from operating activities	19	(8,768)	(7,457)
Finance expenses paid		(16)	–
Net cash from operating activities		(8,784)	(7,457)
Cash flows from investing activities			
Purchase of equity investments		(50,239)	(12,385)
Purchase of property, plant and equipment		(5)	(888)
Acquisition of subsidiaries, net of cash and other assets acquired		–	(359)
Net cash from investing activities		(50,244)	(13,632)
Cash flows from financing activities			
Net proceeds from issue of shares		105,074	50,018
Net cash from financing activities		105,074	50,018
Net increase in cash and cash equivalents		46,046	28,929
Cash and cash equivalents at start of period .		28,929	–
Effect of exchange rate changes		(37)	–
Cash and cash equivalents at end of period		74,938	28,929

Notes to the Financial Statements

1. General information

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

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

2. Accounting policies

a. Basis of preparation

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

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

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

Use of judgements and estimates

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

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

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

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

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 11 to the financial statements. Similarly, those investments which may not have qualified as Associate but fall within the wider scope of significant holdings and so are subject to Section 409 disclosure acts are also included in Note 11 to the financial statements.

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

Notes to the Financial Statements

2. Accounting policies continued

c. Adoption of new and revised standards

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

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

d. Revenue recognition

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

e. Foreign currency translation

The assets and liabilities of foreign operations are translated to the Arix Group's presentational currency (British pounds sterling) at foreign exchange rates ruling at the period-end date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

f. Leases

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

g. Exceptional items

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

2. Accounting policies continued

h. Property, plant and equipment

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

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

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

i. Financial Assets

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

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

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

Equity Investments

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

Fair value hierarchy

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

Level 1	The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.
Level 2	The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
Level 3	If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Valuation of investments

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

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

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

Notes to the Financial Statements

2. Accounting policies continued

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

The following factors are considered when calculating the fair value:

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

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

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

Treatment of gains and losses arising on fair value

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

Recognition of financial assets

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

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

Impairment of financial assets

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

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

2. Accounting policies continued

j. Cash and cash equivalents

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

k. Goodwill and intangible assets

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

l. Share capital

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

m. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer).

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

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

n. Current and deferred taxation

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheets. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

o. Share-based payments

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

p. Financial risk management

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

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

Notes to the Financial Statements

2. Accounting policies continued

Market risk

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

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

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

Interest rate risk

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

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

Credit risk

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

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

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

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

Liquidity risk

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

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

Capital risk management

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

3. Revenue

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

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

4. Segmental Information

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

5. Loss Before Taxation

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

6. Administrative Expenses

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

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

7. Net Finance Income

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

8. Employee Costs

Employee costs (including Directors) comprise:

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

Notes to the Financial Statements

9. Income Tax

Current year tax charge	2017 £'000	2016 £'000
Current Tax	59	–
Deferred tax	(221)	(692)
Total tax credit	**(162)**	**(692)**
Reconciliation of tax charge		
Profit before tax	(7,690)	(9,527)
Expected tax based on 19.25% (2016: 20.00%)	(1,481)	(1,906)
Effects of:		
Expenses not deductible for tax purposes	378	890
Adjustments in respect of previous periods	59	–
Income not taxable	–	(792)
Impact of rate between deferred tax and current tax	(11)	187
Deferred tax not recognised	893	929
Total tax credit	**(162)**	**(692)**
Tax creditor		
Brought forward	(31)	–
Relating to Acquisition	–	(31)
Relating to Profit and Loss	–	-
Carried forward	**(31)**	**(31)**
Recognised deferred tax provisions		
Brought forward	(280)	–
Relating to Acquisition	–	(972)
Relating to Profit and Loss	221	692
Relating to Other Comprehensive Income	59	–
Carried forward	**–**	**(280)**
Represented by:		
Unutilised tax losses	1,076	575
ACAs	5	5
Intangibles	(374)	(398)
Employee benefits	374	118
Investments	(1,081)	(580)
	–	**(280)**
Unrecognised deferred tax provisions		
Unutilised tax losses	1,868	839
Employee benefits	79	–
Other timing differences	1	–
	1,948	**839**

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

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

10. Earnings per Share

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

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

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

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

	Year ended 31 Dec 2017 £'000	Period ended 31 Dec 2016 £'000
Loss attributable to equity holders of Arix Bioscience plc	(8,612)	(8,401)
Weighted average number of shares in issue	78,725,677	23,030,546
Basic and diluted loss per share	**(0.11)p**	**(0.36)p**

11. Investments

Equity Investments

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

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

Notes to the Financial Statements

11. Investments continued

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

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

In addition, at 31 December 2017, 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
Amplyx Pharmaceuticals, Inc	USA	12730 High Bluff Drive, Suite 160, San Diego, CA 92130, USA	2.8%
BioMotiv, LLC	USA	20600 Chagrin Boulevard, Suite 210, Cleveland, OH 44122	17.8%
Mitoconix Bio Limited	Israel	2 Ilan Ramon St. , 3rd Floor, P.O.Box 4044, Ness Ziona 7403635, Israel	2.2%
Verona Pharma plc	England	3 More London Riverside, London, SE1 2RE	2.5%

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

12. Intangible Assets

	Year Ended 31 Dec 2017 £'000	Period Ended 31 Dec 2016 £'000
Brought forward	2,344	–
Additions	–	2,486
Amortisation	(287)	(142)
At 31 December 2017	**2,057**	**2,344**

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

13. Property, Plant and Equipment

Year ended 31 December 2017

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

Period ended 31 December 2016

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

14. Trade and Other Receivables

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

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

15. Cash and Cash Equivalents

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

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

Notes to the Financial Statements

16. Trade and Other Payables

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

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

17. Share Capital

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

A restructure of the Company's share capital took place in February 2017, resulting in the conversion of 88,245,473 shares into deferred shares. A further 754,527 deferred shares were issued; this was followed by a consolidation of the deferred shares, resulting in 89 deferred shares of £1.00 per share.

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

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

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

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

18. Share Options

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

Executive Share Option Plan

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

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

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

18. Share Options continued

Executive Incentive Plan

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

IPO Award

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

Employee Share Plan

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

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

Non-Executive Director Awards

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

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

Notes to the Financial Statements

19. Notes to the Statement of Cash Flows

	Year Ended 31 Dec 2017 £'000	Period Ended 31 Dec 2016 £'000
Loss before income tax	(7,690)	(9,527)
Adjustments for:		
Change in fair value of investments	(5,544)	(1,354)
Exceptional gain	–	(3,962)
Foreign exchange loss/(gain)	432	(97)
Share-based payment charge	3,654	4,712
Depreciation and Amortisation	506	278
Finance income	(1)	(36)
Changes in Working Capital		
Decrease/(increase) in trade and other receivables	1,996	(3,262)
(Decrease)/increase in trade and other payables	(2,121)	5,791
Cash used in Operations	**(8,768)**	**(7,457)**

20. Financial Commitments

Operating Leases

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

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

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

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

21. Financial Instruments

Financial Assets

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

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

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

21. Financial Instruments continued

Financial Liabilities

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

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

22. Guarantees

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

23. Exceptional Gain in Prior Period

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

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

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

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

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

24. Related Party Transactions

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

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

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

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

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

25. Events After the Reporting Date

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

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

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

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

Company Statement of Financial Position

As at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Non-Current Assets			
Investments in subsidiary undertakings	2	891	891
Intangible assets		–	–
Property, plant and equipment		–	–
Amounts due from subsidiary undertakings	4	77,221	16,357
		78,112	17,248
Current Assets			
Cash and cash equivalents	3	72,574	28,771
Trade and other receivables		423	1,940
Deferred tax asset		–	–
		72,997	30,711
TOTAL ASSETS		151,109	47,959
LIABILITIES			
Current liabilities			
Trade and other payables		(1,468)	(57)
		(1,468)	(57)
TOTAL LIABILITIES		(1,468)	(57)
NET ASSETS		149,641	47,902
EQUITY			
Share capital and share premium		105,125	51
Loss for the period		(6,989)	(6,828)
Other components of retained earnings		51,505	54,679
		149,641	47,902
TOTAL EQUITY		149,641	47,902

Company Statement of Changes in Equity

As at 31 December 2017

	Share Capital £'000	Share Premium £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2017	51	–	–	47,851	47,851
Loss for the period	–	–	–	(6,989)	(6,989)
Other comprehensive income	–	–	–	–	–
Contributions of equity, net of transaction costs and tax	–	105,074	–	–	105,074
Share-based payment charge	–	–	–	3,654	3,654
As at 31 December 2017	51	105,074	–	44,516	149,641

	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

	2017 £'000	2016 £'000
At 1 January 2017	891	–
Additions	–	891
Impairments	–	–
Disposals	–	–
At 31 December 2017	**891**	**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 2017 £'000	As at 31 Dec 2016 £'000
Cash at bank and in hand	72,574	28,771

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

4. Amounts Due from Subsidiary Undertakings

	2017 £'000	2016 £'000
Opening balance	16,357	–
Additions during the period	60,864	16,357
Repayments during the period	–	–
At 31 December 2017	**77,221**	**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.

Shareholder notes

Advisers

Directors, Secretary, Registered Office

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

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