ARIX

Annual Report and Accounts
for the year ended 31 December 2018

Generating Value From Innovation

In Healthcare and Life Sciences

WELCOME TO THE ARIX BIOSCIENCE PLC ANNUAL REPORT 2018

Who are we?

Arix Bioscience is a global venture capital company focused on investing in and building breakthrough biotech companies around cutting-edge advances in life sciences.

We collaborate with exceptional entrepreneurs and provide the capital, expertise and global networks needed to help accelerate their ideas into important new treatments for patients. As a listed company, we are able to bring this exciting growth phase of our industry to a broader range of investors.

CONTENTS

AT A GLANCE

HIGHLIGHTS

NET ASSET VALUE (NAV)

£270m

(2017: £146m)

NAV PER SHARE*

£2.00

(2017: £1.52)

GROSS PORTFOLIO VALUE*

£175m

(2017: £54m)

£52m

INVESTED IN GROSS PORTFOLIO

(2017: £41m)

26

CLINICAL TRIALS ACROSS THE PORTFOLIO

(INCLUDES MARCH 2019 IMARA INVESTMENT)

19

DATA READOUTS EXPECTED IN 2019

£70m*

NET POSITIVE REVALUATION IN THE GROSS PORTFOLIO

$555m

CAPITAL RAISED BY PORTFOLIO COMPANIES IN 2018

* Alternative Performance Measures, as defined on pages 32, 33 and 37

AT A GLANCE CONTINUED

DIFFERENTIATED PROPOSITION

FLEXIBLE LONG-TERM CAPITAL

Our plc balance sheet enables us to take a longer-term view. We can provide companies with the flexible, long-term capital they require to grow.

BIOTECH VENTURES FOR PUBLIC MARKETS

Arix provides public market investors with game changing life science innovation across a range of therapeutic areas and geographies.

HANDS-ON SUPPORT

We provide more than just capital when we invest. We take a board seat and play an active role to support our companies as they grow. We provide scientific and commercial experience to help navigate clinical and operational hurdles.

PHARMA PARTNERS

Partnerships with Takeda, UCB, Fosun and Ipsen provide access to extensive R&D insights and due diligence capabilities.

EXTENSIVE GLOBAL NETWORKS

Premium access to innovation through our transatlantic team and high-quality global venture capital, biotech and academic networks.

UNCONSTRAINED MODEL

Unconstrained by institution, geography or stage of company development; ability to source the best life science innovation without restriction.

WHAT WE HAVE ACHIEVED IN 2018

February
- Partnerships with pharmaceutical companies Fosun and Ipsen added

March
- Raised £87m (gross) on LSE
- Positive Ph2 COPD data from Verona
- Amplyx receives QIDP (Qualified Infectious Disease Product) for APX001 from the FDA

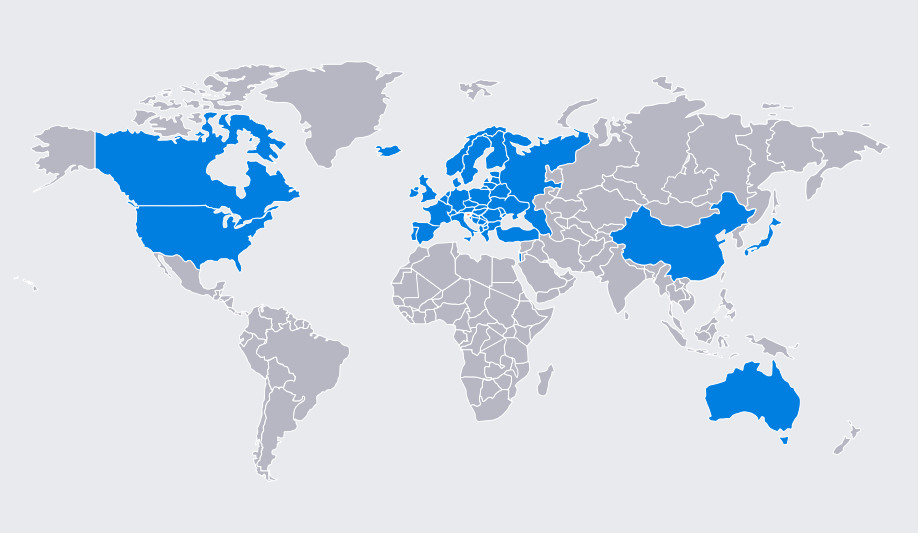
May
- Iterum completes NASDAQ IPO
- AtoxBio initiates Phase 2 clinical trial of Acute Kidney Injury (AKI)

June
- Autolus completes $150m NASDAQ IPO

ARIX'S GLOBAL REACH

Our global network and transatlantic team provide us with access to a large pool of opportunities, wide scientific networks and a deep understanding of the industries and markets that we invest in.

Academic and pharmaceutical partnerships provide access to extensive R&D insights and due diligence capabilities. Through these networks we can provide portfolio companies with the additional capital, expertise and networks they need to become global leaders.



Read more on our business model on pages 30 to 31

HOW WE SOURCE

Arix has developed a wide network that includes research accelerators, universities, venture capital networks and pharmaceutical companies. Through this network, Arix is able to identify new technologies and discoveries that provide a rich pipeline of potential investments.

Pharmaceutical partnerships

Academic and research

Biotech networks

Venture capital networks

Read more on our partnerships on page 12

August

- Arix announces first VIPE investment, in Pharmaxis
- Artios completes £65m Series B funding – Arix becomes the largest shareholder in the company
- Harpoon initiates HPN424 Phase 1 Prostate Cancer Trial

September

- Art Pappas appointed as NED
- Iterum initiates SURE 2 and SURE 3 Phase 3 clinical trials of Complicated Urinary Tract Infecttions and Complicated Intra-abdominal Infections

October

- Arix co-leads $58m Series A funding for VelosBio,
- Pharmaxis releases positive Phase 1 data for first LOXL2 compound
- LogicBio completes $80m NASDAQ IPO

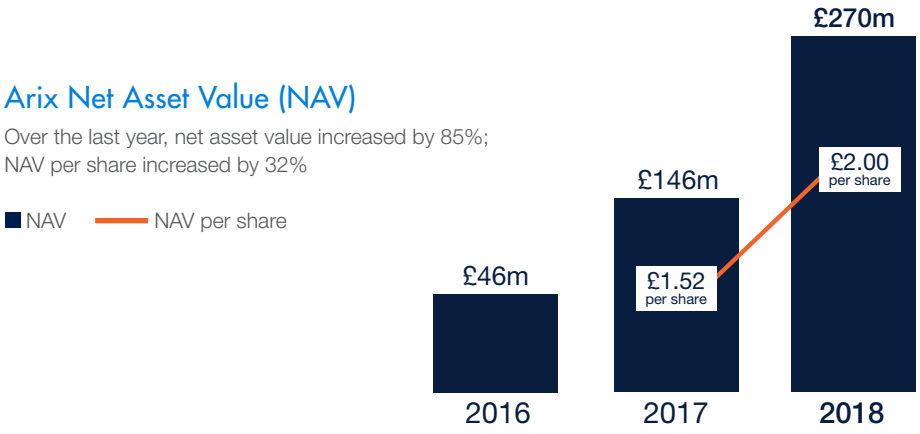
- Iterum initiates SURE 1 Phase 3 trial in uncomplicated UTI
- Verona initiates a Phase 2 trial evaluating Nebulized RPL554 as an add-on to Dual Bronchodilator Therapy for COPD Maintenance Treatment

- Aura announces positive Phase 1b/2 data from AU-011, its' lead product candidate for the primary treatment of choroidal melanoma

AT A GLANCE CONTINUED

Arix Net Asset Value (NAV)

Over the last year, net asset value increased by 85%; NAV per share increased by 32%



Cash

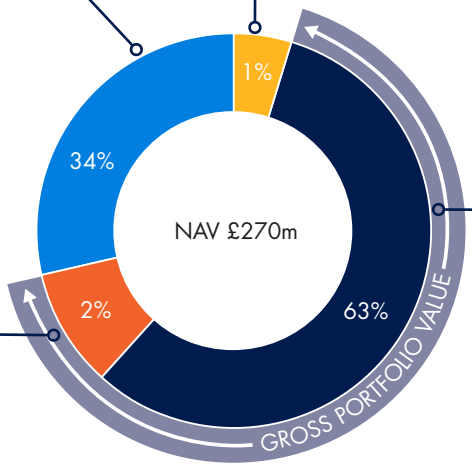
Well positioned to exploit new life science opportunities. When companies are exited, the capital generated will be returned to the balance sheet to reinvest in new opportunities.

£91m
(2017: £75m)

Other

Other Net Assets includes non-portfolio investments and other balance sheet lines such as deferred tax liabilities.

£4m
(2017: £14m)



Discovery portfolio

Seed investments in promising life science discoveries. These companies are start-ups in the initial stages of research and development. They have the potential to become core portfolio companies, when milestones are met.

£6m
(2017: £3m)

Core portfolio

Our later stage companies make up 96% of gross portfolio value. We provide follow on capital and build stakes when milestones are met, reserving funds to back our winners and minimise risk.

£169m
(2017: £54m)

Read more on Portfolio Review on pages 38 to 51

WHAT WE HAVE ACHIEVED IN 2018 CONTINUED

November

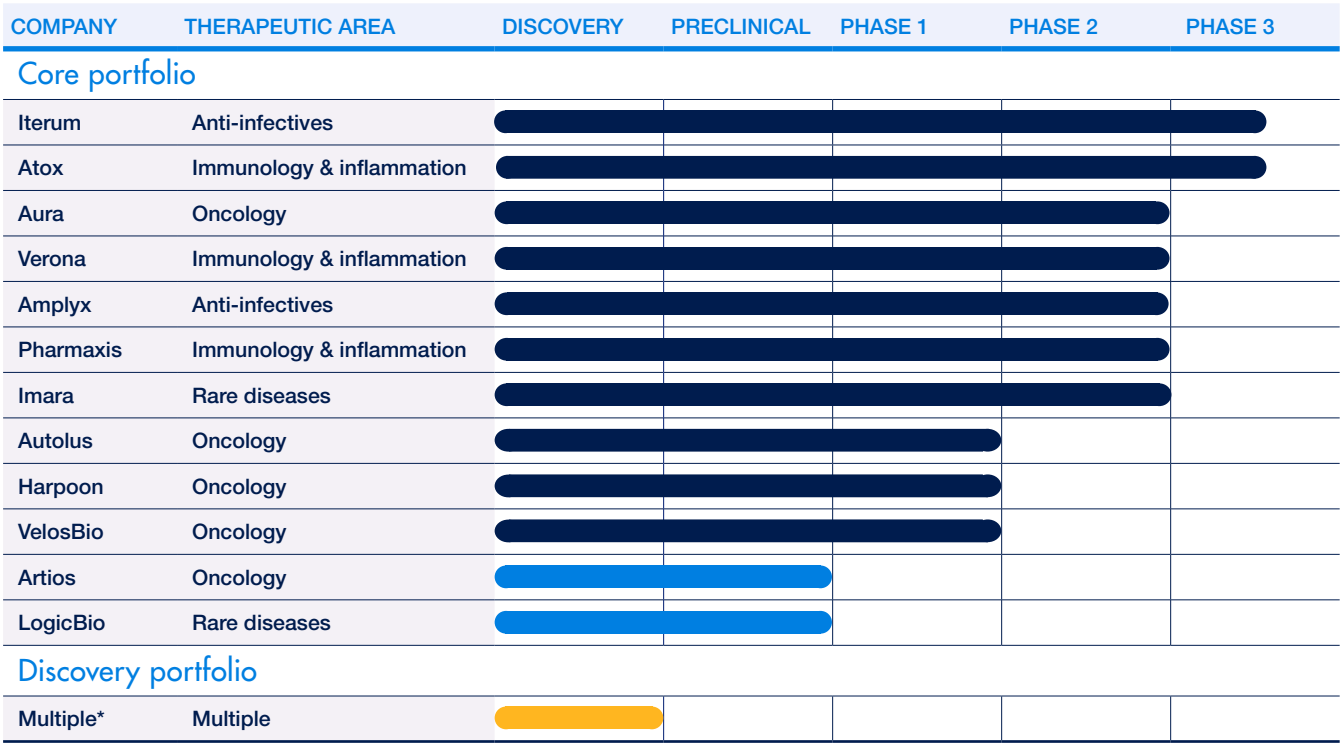
- Harpoon completes $70m Series C fundraise
- Pharmaxis releases positive Phase 1 clinical trial results for second LOXL2 inhibitor Compound
- Amplyx doses first patient in Phase 2 APX001 trial in patients with Candida Infection

December

- Autolus:presents positive initial data from its AUTO3 programme at ASH, which includes ongoing Phase 1/2 trials in pediatric Acute Lymphoblastic Leukaemia (AMELIA trial) and Diffuse B-cell Lymphoma (ALEXANDER trial)
  - positive preclinical data for AUTO5 programme, targeting TRBC2-positive peripheral T-cell Lymphoma
  - first patient dosed in Phase 1/2 trial of AUTO4 in TRBC1-positive peripheral T-cell lymphoma
- Arix expands investment team with the addition of Dr Christian Schetter as Entrepreneur-in-Residence
- Harpoon announces proposed NASDAQ IPO

OUR DIVERSE AND INNOVATIVE PORTFOLIO

96% of gross portfolio value is concentrated in later stage companies within our core portfolio.

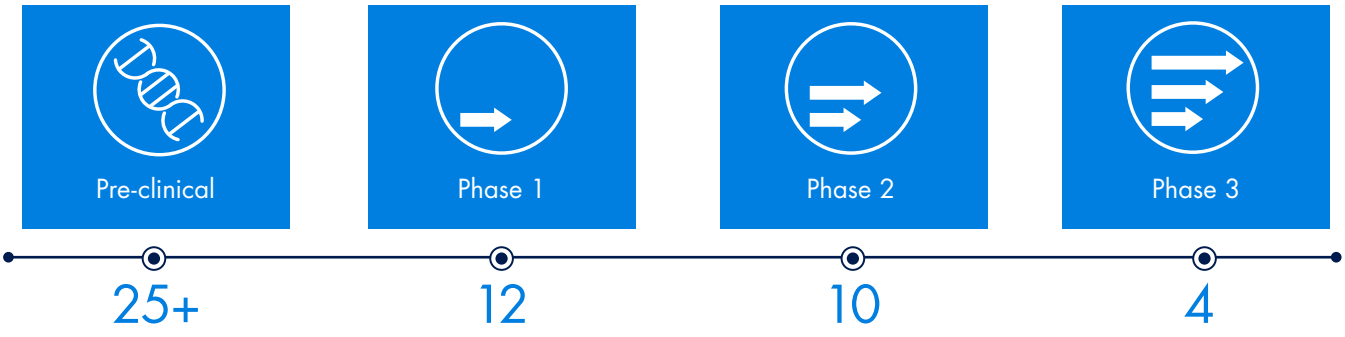


COMPANY	THERAPEUTIC AREA	DISCOVERY	PRECLINICAL	PHASE 1	PHASE 2	PHASE 3
Core portfolio						
Iterum	Anti-infectives					
Atox	Immunology & inflammation					
Aura	Oncology					
Verona	Immunology & inflammation					
Amplyx	Anti-infectives					
Pharmaxis	Immunology & inflammation					
Imara	Rare diseases					
Autolus	Oncology					
Harpoon	Oncology					
VelosBio	Oncology					
Artios	Oncology					
LogicBio	Rare diseases					
Discovery portfolio						
Multiple*	Multiple					

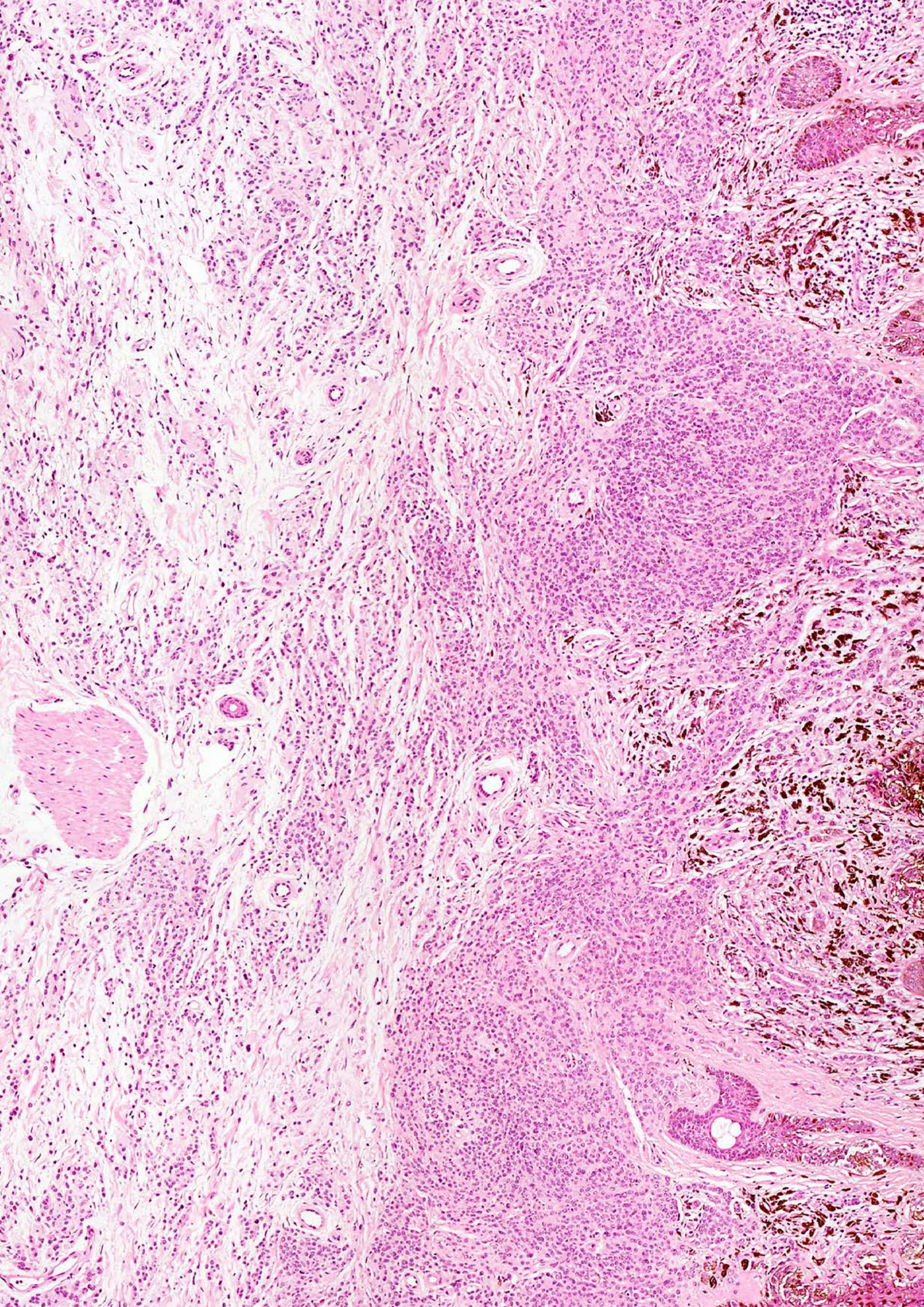
* This includes Depixus, PreciThera, Mitoconix, OptiKira and a new company focused on inhibiting highly inflammatory processes in the innate immune system.

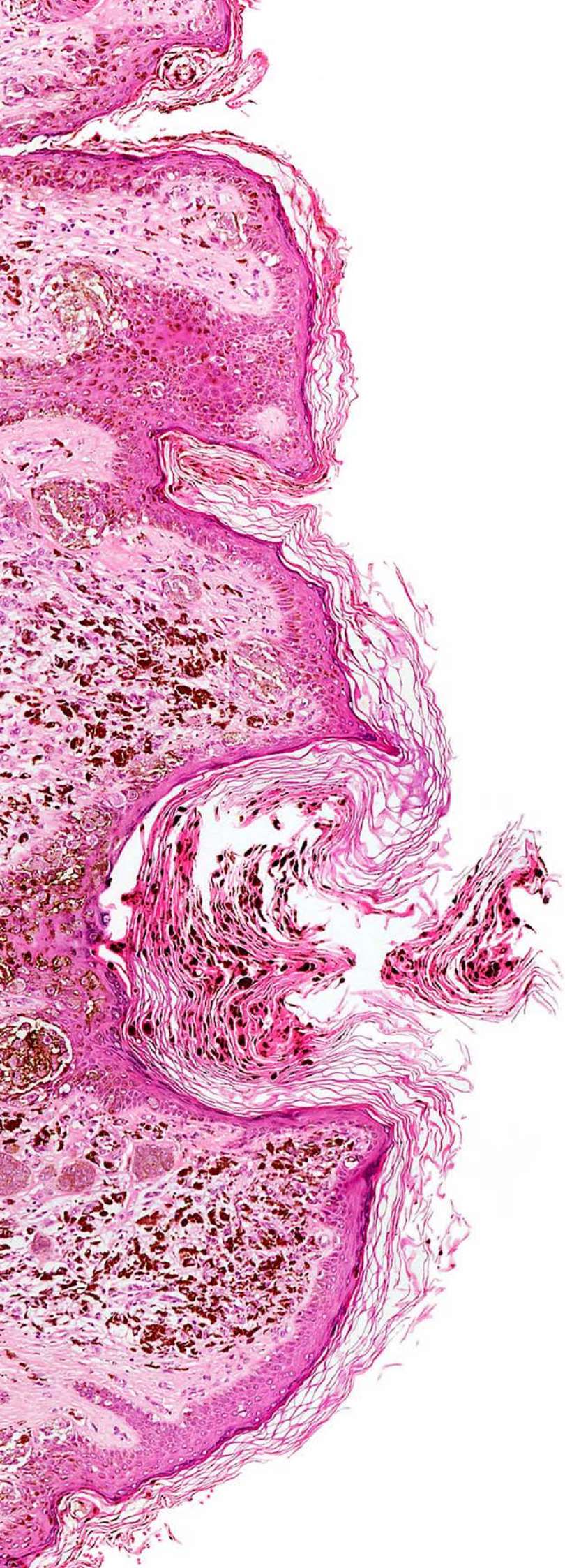
■ Core Portfolio (clinical) ■ Core Portfolio (pre-clinical) ■ Discovery Portfolio

Pipeline



Expected catalysts in 2019





STRATEGIC REPORT

CHAIRMAN'S STATEMENT

"OUR SECONDARY OFFERING IN MARCH 2018 RAISED ADDITIONAL FUNDING FOR THE COMPANY, BRINGING THE TOTAL FUNDS RAISED TO £250M SINCE WE FORMED THE COMPANY IN 2016"

Jonathan Peacock
Chairman

Building on the momentum of 2017, I'm pleased to report that 2018 has proven to be another year of accelerated progress and growth in the size and value of our portfolio, in our operating platform, and in capital raised and deployed.

Our gross portfolio now comprises 17 innovative young companies all working on breakthroughs in the treatment of serious diseases, led by experienced and highly expert management teams. Together these companies are conducting 26 clinical trials that are expected to read out over the next 12-18 months. The value of our holdings in these companies reached £175m at the end of 2018, driven by four successful IPOs on NASDAQ and two private financing events. These events were underpinned by strong underlying progress in the development programmes of these companies.

In building our operating platform at Arix, we have paid special attention to the industry and academic partnerships that support our activities. We are certainly proud of the strong partnerships we have built with Fosun, Ipsen, Takeda and UCB, all global leaders in the biopharma world. And our academic partnerships with Fred Hutch in Seattle and Max Planck in Germany are showing great promise in enabling us to identify and create new biotech companies from their most promising therapeutic research.

Our secondary offering in March 2018 raised additional funding for the Company, bringing the total funds raised to £250m since we formed the Company in 2016. These funds are being productively deployed into new and existing portfolio companies, including two new investments into our core portfolio and a seed investment in our discovery portfolio during the year.

Most importantly, our talented investment and corporate team are the drivers of the Company's progress and will sustain its continued growth and success in the years ahead.

The governance of Arix has continued to evolve over the past year. Sir Chris Evans played a key role with Joe Anderson and I in building the company over the last three years. With the platform and the team we now have in place, it was time to establish a clearer executive leadership model and we announced these changes in February 2019. With the continued progress we have seen over the last year I feel confident in handing this executive responsibility to Joe Anderson to lead Arix in its next phase of growth.

I'm also very grateful to Meghan FitzGerald, who played an important role on our Board in supporting the Company's early development; we wish her well in her growing US endeavours. I'd also like to welcome Art Pappas and Mark Breuer to our Board. Art brings many years of experience in the biopharma industry and in building a successful venture capital firm. Mark brings important UK board and capital markets experience after a long and successful career at JP Morgan. I look forward to working with both of them.

Jonathan Peacock
Chairman

FOUR IPOS RAISED $415m

Autolus

$173m

ITERUM therapeutics

$80m

LogicBio therapeutics

$81m

HARPOON Therapeutics

$81m*

*POST YEAR END

CEO STATEMENT

"I AM PLEASED TO REPORT A YEAR OF POSITIVE PROGRESS; NAV INCREASED OVER THE YEAR FROM 152P PER SHARE TO 200P PER SHARE, A 32% INCREASE"

Joe Anderson, PhD,
Chief Executive Officer

A year of significant progress

I am pleased to report a year of positive progress at Arix. Our Net Asset Value (NAV) at year end was £270m, a £124m (85%) increase over the year. This resulted from upward revaluations in portfolio companies, as well as a successful raise of £87m (gross) to support further investments. On a per share basis, NAV increased over the year from 152p per share to 200p per share, a 32% increase. Across our portfolio, we saw meaningful scientific and technical developments in the companies we are supporting. This, along with our strong pipeline of new opportunities, supports our confidence of further growth in 2019.

Portfolio progression

Since Arix's IPO two years ago, we have been building a portfolio of high-potential companies in the life sciences sector, in each of which we have taken an active, supportive role. As the portfolio has grown we have categorised companies into our Core Portfolio and Discovery Portfolio. The Core Portfolio comprises both clinical and pre-clinical companies that we see as material to driving Arix NAV in the near to medium term. Our Discovery Portfolio includes companies which are typically seed investments; start-ups in the initial stages of research and development. We manage these higher risk investments by investing small amounts early and reserving funds for later stage rounds, seeking to grow our investments as the businesses de-risk. After meeting key milestones, these companies have the potential to move into the Core Portfolio. We now have 12 companies in the Core Portfolio and a further five companies in the Discovery Portfolio. Four of our Core Portfolio companies have already had successful IPOs on the NASDAQ and are beginning to drive increases in Arix NAV.

At year end our Gross Portfolio Value (the combined holding value of our Core and Discovery Portfolios) was £175m, which includes a net positive revaluation of £70m. The strong performance has predominantly been driven by valuation increases in Autolus, LogicBio and Harpoon (and offset by a decline in value of Iterum). The most substantial of these uplifts, Autolus, delivered an increase of £56m over the year, following the successful completion of an IPO on NASDAQ and subsequent positive share price momentum. Autolus continued to make clinical progress in the period, initiating further clinical trials and reporting initial Phase 1 safety and efficacy data in its AUTO3 programmes in paediatric Acute Lymphoblastic Leukaemia (pALL) and Diffuse Large B-cell Lymphoma (DLBCL).

Five other companies (Iterum, AtoxBio, Amplyx, Harpoon and Verona) initiated new clinical trials, taking our total number of live trials across the portfolio to 23 at year end. Additionally, Aura, Verona and Pharmaxis reported positive Phase 1/2 data and LogicBio, Harpoon and Artios completed financing rounds at valuation uplifts. These are significant milestones for our companies as they advance towards important valuation inflection points and delivery of important new treatments to patients.

New investments

In March 2018 we raised £87m (gross) from new and existing investors, bringing the total equity raised to over £250m since Arix was founded three years ago. The additional capital has allowed us to invest larger amounts in new and existing companies, building our positions in the fastest growing and most exciting opportunities.

In the period, we increased our position in Artios, a leading DNA Damage Response (DDR) company, becoming the largest shareholder following the Series B investment round, which attracted interest from leading venture groups, as well as new pharmaceutical investors Pfizer Ventures and Novartis Venture Fund.

Our focus continues to be on investing in high-impact science and partnering with disruptive, fast-growing companies which have the potential to improve outcomes for patients. In 2018 we provided new capital amounting to £52m ($68m) across the gross portfolio, including follow-on funds to existing companies and investments into new portfolio companies. In addition, these companies have raised another $487m through syndication with expert global life sciences investors, creating a well financed group of companies at the cutting edge of life sciences. Over the reporting period, we added two new companies into our core portfolio, including our first VIPE (Venture Investment in Public Equity) in Pharmaxis (a small public company in Australia, focused on fibrosis) and VelosBio (a private company focused on armed antibody therapies, which we co-invested in with our pharmaceutical partner, Takeda). We also co-founded our first company. This is based on novel discoveries in the innate immune system emerging from the Max Planck Lead Discovery Center, one of our key academic partnerships.

Our Core Portfolio continues to make good clinical and development progress and we are excited by the potential for growth within these companies.

Venture investing in a listed vehicle

As a listed venture-capital company, owners of our shares gain exposure to a diverse portfolio of innovative life science companies.

Our global network and transatlantic team provide us with access to a large pool of opportunities, wide scientific networks and a deep understanding of the industries and markets in which we invest. Through these networks we can provide portfolio companies with access to potential acquirers and commercial partners, as well as the long-term capital, expertise and networks they need to bring innovative new treatments to market.

Pharmaceutical companies are one of our key partners as they continue to focus on sourcing medical innovation outside of their own laboratories. At the beginning of 2018, we added two new partners: Ipsen, a global specialty-driven biopharmaceutical, and Fosun International, a large Chinese group with global reach. These, alongside existing partners UCB and Takeda, give us access to broad scientific knowledge, R&D capabilities, market intelligence and commercial due diligence. Our new investment in VelosBio, sourced through our pharmaceutical partner Takeda, illustrates the potential of these partnerships, as not only future acquirers and partners of our companies, but also as a further source of investment opportunities.

We take a hands-on approach, providing more than just capital when we invest. We take board seats and play an active role supporting our companies' growth. From developing a business strategy, recruiting experienced management, securing additional funding, shaping drug development, navigating the regulatory process and helping with the ultimate exit, we strive to be collaborative and supportive partners.

Outlook

The year ahead will be important for a number of our portfolio companies as they reach significant clinical and development milestones during the year. We also continue to see a strong pipeline of opportunities through our global networks and partnerships, and expect to invest in new and existing portfolio companies over the course of the year. New investments will continue to be guided by the quality of the science, the commercial opportunity and, importantly, the potential benefits for patients.

Following on from the management changes announced in February 2019, we will create a leaner organization, with reduced overheads, while continuing to focus on the core of our business: backing the best entrepreneurs and helping them to build their companies.

We are encouraged by progress in 2018, with a number of positive developments in our business and a healthy increase in the value of our portfolio companies. This performance is an early sign, I believe, of the potential in our business and the strength of the portfolio we have built. We are well positioned for further growth and investment in 2019 and look forward to the year ahead with confidence and optimism.

Joe Anderson, PhD
Chief Executive Officer

NEW PARTNERS IN 2018

Pharmaceutical partnerships

New strategic agreements were added in 2018 with two major pharmaceutical companies, Fosun and Ipsen. These partnerships, alongside existing partnerships with Takeda and UCB Pharma, give Arix access to deep scientific knowledge, R&D capabilities, market intelligence and commercial due diligence.

FOSUN 复星

Arix has a strategic partnership with Fosun to invest in and create new companies focused on the development of innovative clinical therapies across a broad range of therapeutic areas, with a particular emphasis on the Chinese market, which is the second largest pharmaceutical market in the world after the United States. The relationship with Fosun will provide a unique footprint and network in the region via sharing of potential investment opportunities in China. Arix provides Fosun with access to its portfolio companies and the potential to promote its services as distribution partner in China.

IPSEN
Innovation for patient care

Ipsen is a global specialty-driven biopharmaceutical group focused on innovation and specialty care. The group develops and commercialises innovative medicines in three key therapeutic areas – Oncology, Neurosciences and Rare Diseases.

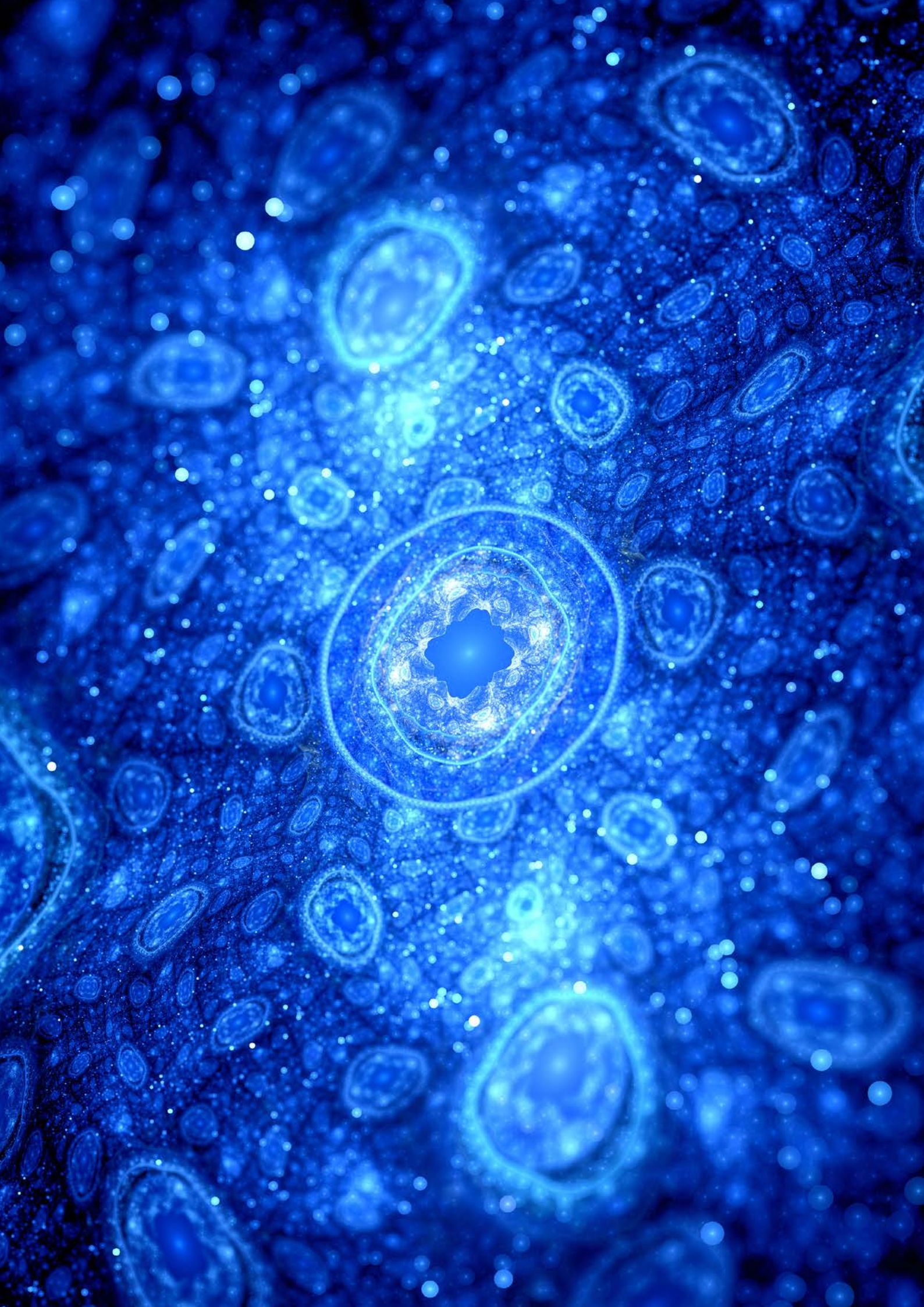
Arix has a strategic partnership with Ipsen to develop and commercialise innovative therapies. Ipsen will gain access to Arix's network of professional and scientific advisors, and the chance to invest in opportunities in Arix's new and existing portfolio companies. In return, Ipsen will contribute research, development, and commercial expertise to the partnership. Arix and Ipsen will collaborate to identify opportunities and jointly create new companies focused primarily on the development and commercialisation of innovative therapies for patients.

Research partnerships

FRED HUTCH
CURES START HERE™

In May 2018, Arix announced the formation of 'LAB591' together with Fred Hutchinson Cancer Research Center and Evotec. LAB591 aims to accelerate research discoveries at Fred Hutch and leverage these discoveries to form new companies focused on cancer and infectious disease drug development.

Arix, Evotec and Fred Hutch plan to jointly select promising LAB591 research projects from the Fred Hutch labs. After developing a research validation plan, Evotec will conduct research in collaboration with the Fred Hutch faculty which will be seed funded by Arix. Once completed, and subject to the results, Evotec and Arix have a pre-agreed option to form a new company.



MARKET OPPORTUNITY

INVESTING IN R&D STAGE BIOTECH IS ATTRACTIVE

1

HEALTHCARE FUNDAMENTALS REMAIN POSITIVE

- Drivers and demand for new drugs
- Scientific and clinical progress
- Translation to disease modifying therapies

2

BIG PHARMA INTENSIFIES SEARCH FOR INNOVATION

- Increasing pricing pressure
- Continuing threat from generics
- Decreasing R&D productivity

3

OPPORTUNITY IN EARLY STAGE BIOTECH

- Innovative drug development approaches
- Outsourcing of innovation
- M&A and ECM trends

Read more on Portfolio Review on page 38

The biotech sector is seeing growing demand for increasingly effective therapies supported by new and innovative scientific advances that are improving the understanding of diseases and generating transformative therapies for patients. However, the biopharma industry continues to face pressure from governments and healthcare payers, in particular around drug pricing, while branded drugs, which have traditionally funded R&D at large biopharmaceutical companies, face threats from generics as patents expire. This has resulted in an increase in the number of smaller biotech companies driving innovation and having the skills and capability to source, diligence and invest in these opportunities remains an attractive and rewarding proposition.

1

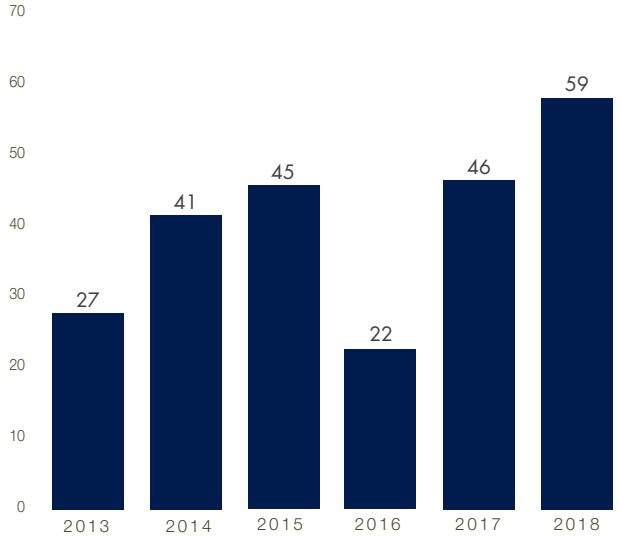
HEALTHCARE FUNDAMENTALS REMAIN POSITIVE

As life expectancy improves, an ageing population's expectations of what a successful therapy can achieve continues to grow. While scientific progress has reduced mortality for a wide range of communicable diseases, this has unveiled a greater prevalence of genetically-driven and lifestyle-related diseases such as cancer, diabetes and neurodegenerative diseases and there is huge demand for new therapies to treat these diseases.

Scientific advances in recent years have both improved the diagnosis and classification of patients as well as providing new targets for drug development. The pace of progression has increased rapidly, driven in large part by technological advances supporting biological data generation (e.g. genomics, proteomics, metabolomics etc.) as well as the ability to process this data (e.g. machine learning etc.). Leading academic institutions and researchers, which themselves receive significant internal, grant and government funding, have increasingly been the source of tractable leads for drug development and improved patient management.

These new opportunities have translated into a substantial number of novel, and often transformational, therapies approved in recent years. There has also been substantial innovation around drug modalities, with completely new classes of drugs being approved over the past ten years such as gene therapy, cell therapy, RNA-based therapies, oncolytic viruses, and others.

INNOVATION DRIVING INCREASING FDA APPROVALS



FDA drug approvals 2013-2018. Source: FDA

2

BIG PHARMA INTENSIFIES SEARCH FOR INNOVATION

The traditional business of big pharmaceutical companies faces increasing commercial pressure. As a result, they are turning to new technologies and searching for external sources of medical innovation and this creates additional opportunities for Arix. There are many challenges to big pharma in the market today. The most widely covered threat is the continuing debate around drug pricing in the developed world. In addition, patent expiry on blockbuster drugs results in increased competition from generic drug manufacturers. Such challenges constrain levels of investment by big pharma into drug discovery and medical innovation. A strong trend has developed in the industry where big pharma seeks to externalise the sourcing of medical innovation to companies like Arix Bioscience who offer a strong pipeline of emerging biotech technology. Arix is towards the front of this market trend, having deliberately positioned itself to work closely with young companies featuring high levels of medical innovation and new and market disruptive technology, while also developing strategic relationships with big pharma.

MARKET OPPORTUNITY

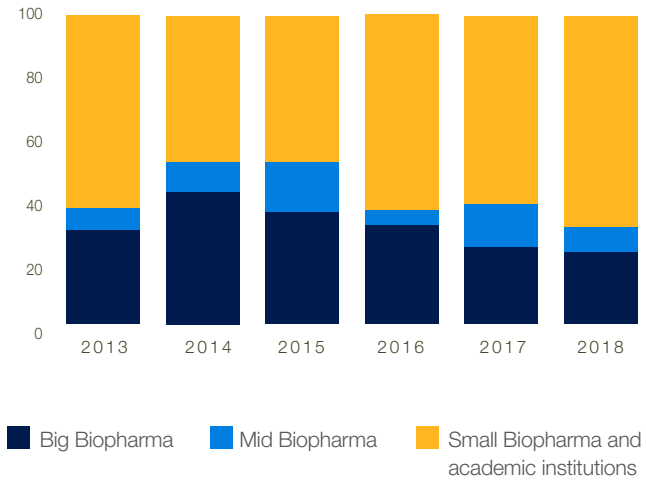
3

OPPORTUNITY

As well as opportunities for licensing deals, partnerships and M&A, improvements in the understanding of disease biology and the accompanying rise in 'precision medicine' and focus on rare diseases has created an environment in which smaller biotech companies are increasingly able to take products all the way through development and commercialise them without large biopharma support. Disruptive innovation is frequently originated in smaller biotech companies set up either by leading academics or industry veterans that have successfully developed novel technologies and drugs in the past. In 2018, 69% of drug approvals were discovered and developed by smaller biopharma companies and academic institutions (see graph below). Excitement continues to grow about this productive segment of the market, and senior executives from large biopharma are increasingly being drawn into smaller biotechs in recent years.

Smaller biopharma companies are playing an increasing role not only as originators, but also as developers and owners of drugs all the way to approval. Overall, the proportion of FDA approved drugs developed by large biopharma (at time of approval) has dropped from over 60% in 2013 to just 35% in 2018, reflecting the increased success that smaller biotechs are having.

INNOVATION CONTINUES TO BE DRIVEN BY SMALL BIOPHARMA



Drug approvals by size of drug originator. Source: FDA, HBM Analysis

RETURNS

In recent years, we have seen smaller biotech companies pursue multiple options to fund drug development through value inflection points, to exit or partner. From 2013 to 2015 there was a surge in biopharma M&A that supported exits in the sector. More recently there has been significant growth in IPOs in the sector providing an alternative route to liquidity for investors. Both routes offer smaller biotech companies potential to capture more value from their assets.

ONCOLOGY REVIEW

Overview

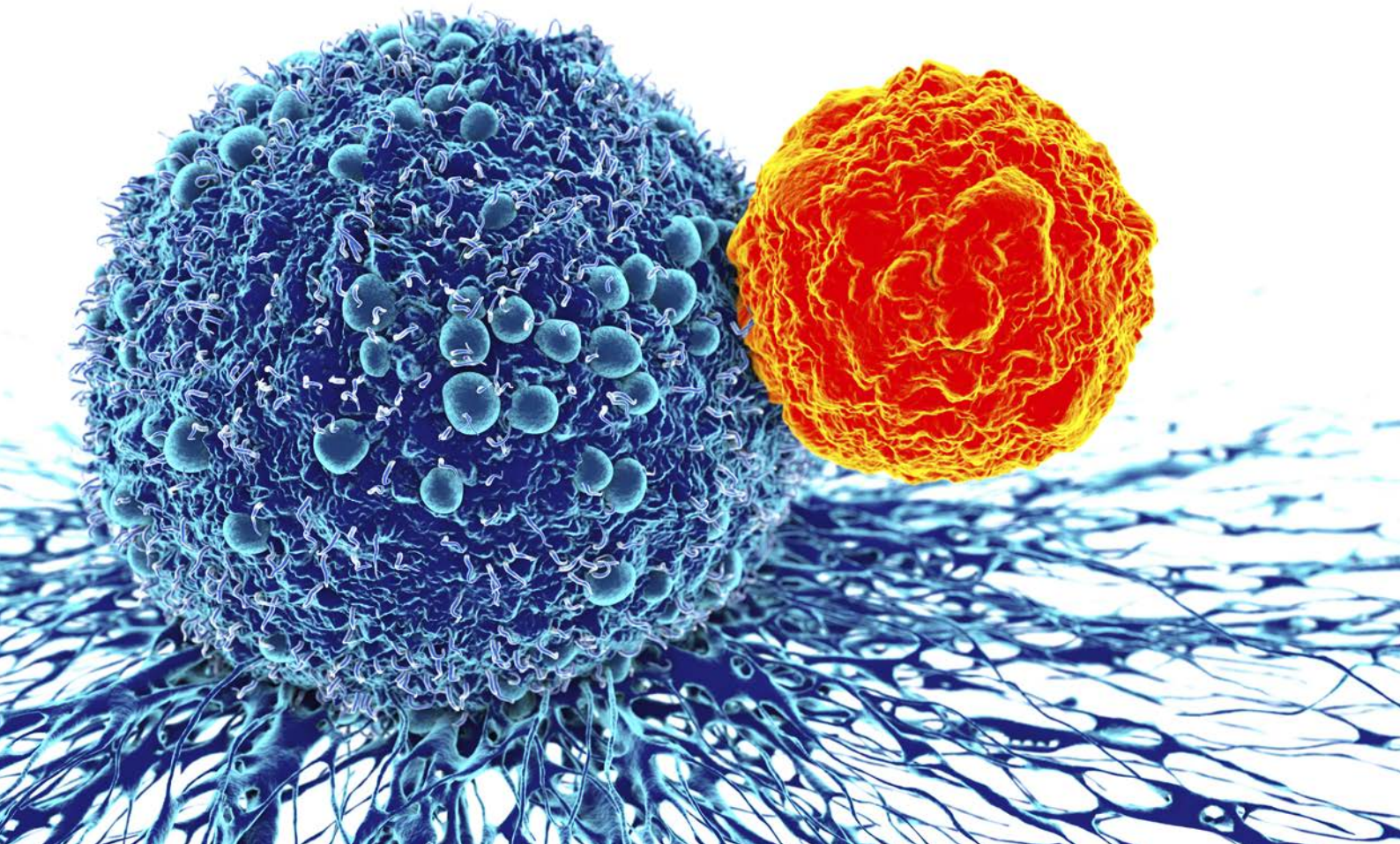
Although there has been steady innovation in the development of new therapies for a range of diseases over the past 20 years, the pace of progress has arguably been highest in oncology (the study and treatment of cancers). Despite this sustained innovation there remains a significant need for effective therapies that can improve health outcomes and survival for many of the >100 known types of cancer, which still collectively account for c.9.6 million deaths each year globally according to the World Health Organization (WHO, 2018).

The improvement in our understanding of the biology of cancer, and the increasing availability of data (e.g. genomics, transcriptomics, proteomics) have led to several major new approaches in cancer treatment such as immune-oncology (harnessing patients' immune systems to fight cancer) and precision medicine (using patient-specific data such as mutations to tailor therapy to individuals).

Immunotherapies have delivered durable responses across a broad range of cancers and there are two approved CAR-T therapies (engineered T-cells from patients) for blood cancers. The most widely used precision medicine approaches for cancer include drugs that target specific mutations or genetic aberrations present in a subset of patients, for example including areas such as lung, breast, skin and colorectal cancers.

There has also been substantial innovation around drug types in development for cancer, going well beyond the small molecule drugs that have been standard of care for the past 100 years. Technological innovation has resulted in novel modalities such as engineered cell therapy, tumour targeting viruses, antibody-drug conjugates, multispecific antibodies and more. This provides an even broader range of approaches that can deliver clinical benefit for patients as new modalities may be effective for pursuing drug targets that were intractable with small molecule approaches in the past.

Exciting advances in cancer drug development are often made in R&D stage biotechnology companies, and the pace of innovation in oncology is reflected in the flow of oncology opportunities seen by Arix Bioscience. The investment team reviewed >400 investment opportunities in 2018 alone and has been well placed to evaluate and select the highest quality opportunities in cancer treatment innovation, while ensuring that the portfolio is balanced across multiple approaches in the pursuit to tackle cancer. This approach maximises Arix's exposure to cutting-edge technologies while minimising the risk that some approaches will be more effective than others.

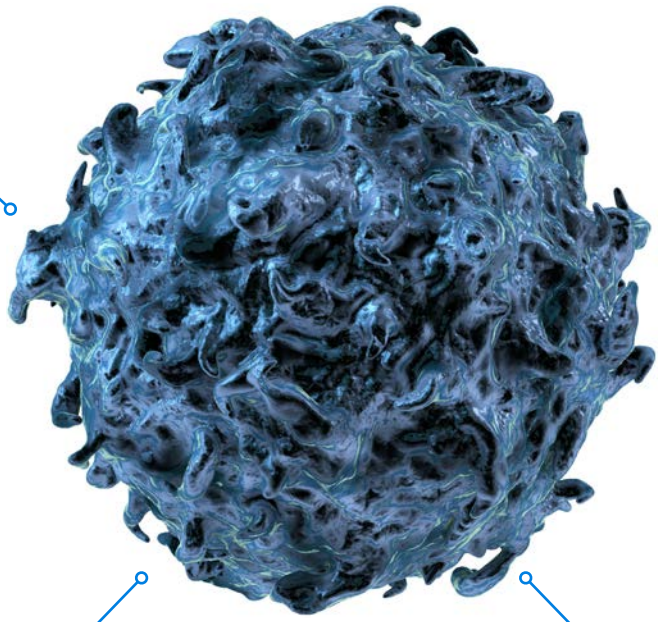


DIVERSE APPROACH TO SUPPORTING ONCOLOGY INNOVATION

Engineered CAR-T-cells

Patient immune cells (T-cells) engineered to target and kill cancer cells

Autolus



DDR inhibitors

Drugs that stop DNA damage repair in cancer cells

artios
DNA DAMAGE RESPONSE

Laser-activated nanoparticles

Virus particle that binds cancer cells and kills them when activated with a laser

aura

Trispecific T-cell engagers

Antibodies that bring immune cells (T-cells) in close contact with cancer cells

HARPOON Therapeutics

Antibody-drug conjugates

Antibody-drug conjugates deliver toxic chemicals to cancer cells

AVELOSBIO

PORTFOLIO COMPANY SPOTLIGHT

Pre-Clinical

artios
DNA DAMAGE RESPONSE

Artios is a leading DNA Damage Response (DDR) company focused on developing first-in-class treatments for cancer.

Overview – Leading DDR innovation

Artios is a leading DNA Damage Response (DDR) company focused on developing first-in-class treatments for cancer. Cancers change their DDR pathways to allow mutations in their DNA so that they can evolve and adapt. This helps cancers to become resistant and overcome many current therapies. Targeting the remaining DDR pathways has been proven to selectively kill cancer cells through a concept known as 'synthetic lethality'. Artios has in-licensed its lead DDR programme, Pol theta (Polθ)', from Cancer Research UK (CRUK). As an early investor in Artios, Arix continues to work with Artios' visionary team to build a world-leading DDR company and create significant value for both patients and investors. Arix first invested in Artios during the Series A in 2016, along with other VC investors. Following Artios' £65m Series B financing round, Arix is now the company's largest shareholder.

Team – Management team with a proven DDR track record

Artios' experienced leadership team is led by Niall Martin, CEO, who played a key role in identifying Lynparza™ (olaparib). He is supported by a scientific research and development team with vast experience in DDR and drug discovery.

- Niall Martin, Chief Executive Officer
- Graeme Smith, Chief Scientific Officer
- Andrew Muncey, Chief Financial Officer and Company Secretary
- Ian Smith, Chief Medical Officer
- Peter Harris, Clinical advisor
- Simon Boulton, VP of Scientific Strategy
- Harry Finch, Medicinal Chemist advisor

Market potential

40-50% cancers are potentially DDR targetable and the clinical potential for DDR therapeutics is broad:

- Novel synthetic lethalities
- PARP inhibitor resistance (innate and acquired)
- DDR-PARP inhibitor combinations
- DDR-IO combinations
- IR and DNA damaging combinations

DDR explained

DNA Damage Repair (DDR) is a vital process that helps cells survive and replicate. No cells, including cancer cells, can survive without DNA repair. Cancer cells however, like to rely on secondary DNA repair processes and this results in them being more mutational or unstable. Changes in a cancer cell's DNA repair processes are part of its development into a more advanced disease.

These changes can also become a cancer cell's Achilles' heel. Cancer can become much more reliant on alternative DNA repair processes in order to survive. Inhibitors to these retained DNA repair pathways, like Polθ, can selectively kill cancer cells through synthetic lethality.

Some of the mutational changes in DNA that drive tumour evolution can also lead to resistance to current treatments, as the cell starts to use alternative or reactivated DNA repair pathways. This kind of resistance can occur against many known DNA damaging agents and new DDR inhibitors like PARP inhibitors. As such, identifying other potential targets in the DDR processes could have significant impact on treating cancers in the future – both through use as a single agent and in combination approaches designed to limit resistance.

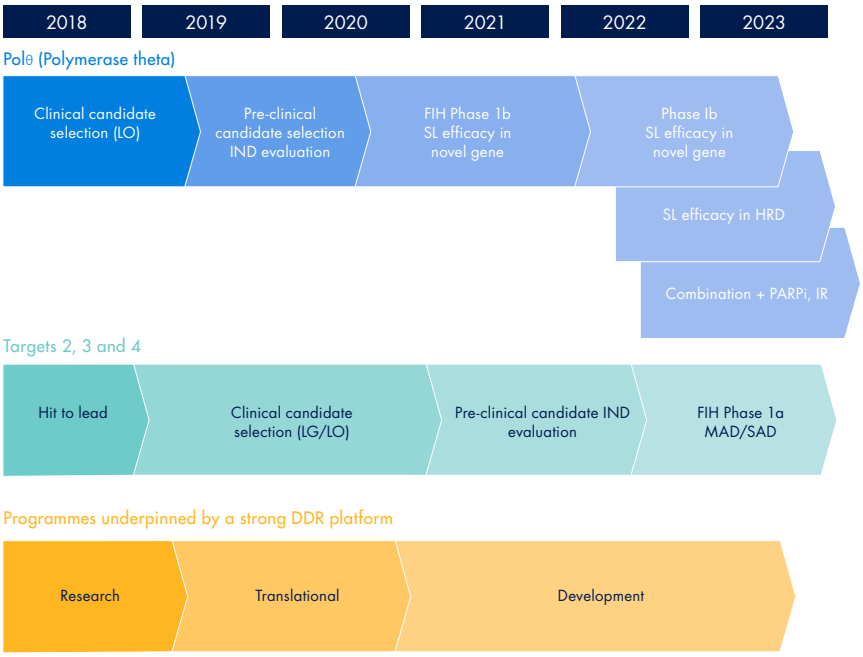
Novel technology – Pol theta (Polθ) – a major new DDR target to rival PARPi

Artios set out to identify and exploit novel protein classes across the DDR pathways. Polθ and the company's second and as yet undisclosed lead programme, represent two DDR targets that control key aspects of DNA repair. Mechanistically, these programmes have the ability to kill cancer cells as single agents, or to sensitise cancer cells to radiotherapy and other DNA-damaging agents, including novel treatments, such as PARP inhibitors or immunotherapies.

DNA polymerase theta (Polθ) is involved in multiple processes associated with DNA repair. Polθ expression is low in normal tissues but it is up-regulated in a number of tumour types such as breast, ovarian, HNSCC and lung. As such, Polθ inhibitors have the potential to be used in a broad range of clinical settings, specifically HR-deficient tumours such as breast and ovarian cancer, or in combination with DNA-damaging agents – chemotherapy and radiotherapy.

Pipeline

Artios has a leading position in developing Polθ drugs and a strong pipeline of DDR programmes in early discovery-



Scientific validation

DDR has been clinically validated by the first-generation PARP inhibitors currently on the market. They are being commercialised by multi-$bn market capitalised companies including AstraZeneca, Tesaro (GSK), Pfizer and Clovis Oncology.

Achieved and expected milestones

- Strong pipeline of several DDR programmes in early discovery
- Completed $84m Series B financing to drive Polθ and other programmes to clinic by 2020/2021
- IND application in H2 2020
- Financed out to the end of 2023

PORTFOLIO COMPANY SPOTLIGHT

Phase 1

HARPOON Therapeutics

Spearheading Immunotherapies

Overview

Harpoon Therapeutics is a clinical-stage immunotherapy company developing a novel class of T-cell engagers that harness the power of the body's immune system to treat patients suffering from cancer and other diseases. T-cell engagers are engineered proteins that direct a patient's own T-cells to kill targeT-cells that express specific proteins, or antigens, carried by the targeT-cells. Using its proprietary Tri-specific T-cell Activating Construct™ (TriTAC) platform, Harpoon is developing a pipeline of novel T-cell engagers, or TriTACs, initially focused on the treatment of solid tumours and hematologic malignancies.

Harpoon's lead TriTAC product candidate, HPN424, is currently in a Phase 1 clinical trial for the treatment of metastatic castration-resistant prostate cancer, or mCRPC. Its second TriTAC product candidate, HPN536, is expected to enter clinical development in the first half of 2019 for the treatment of ovarian cancer and other MSLN-expressing solid tumours. HPN217, targeting BCMA, is in pre-clinical development for the treatment of multiple myeloma. HPN328, targeting DLL3, is in pre-clinical development for the treatment for small cell lung cancer.

Team

Harpoon has a strong management team with deep experience in immunotherapy, redirected T-cell therapies, biologics drug discovery and development and protein engineering. This team brings a strong history of research and development innovation and a proven track record at other companies in the discovery, development and commercialisation of oncology therapeutics.

- Gerald McMahon, Chief Executive Officer and President
- Natalie R. Sacks, Chief Medical Officer
- Holger Wesche, Chief Scientific Officer
- Georgia L. Erbez, Chief Financial Officer
- Susan Dana Jones, Senior Vice President, Product Development
- Rachael Lester, VP of Corporate Development
- Che-Leung Law, VP of Translational Medicine

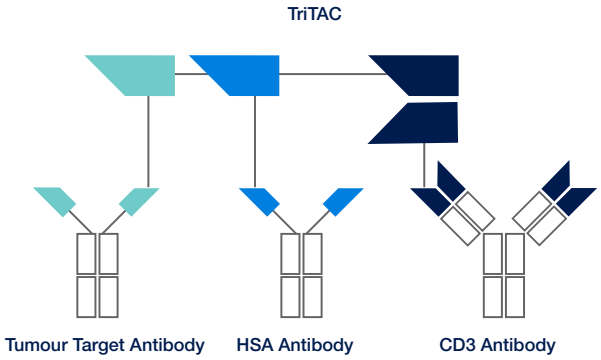
Unmet need and market opportunity

Solid tumours comprise a large set of diverse cancers, including prostate, ovarian, lung, and pancreatic. Prostate cancer is expected to have the second highest incidence rate in 2018 and the third highest mortality rate in 2018, including being the second leading cause of male cancer death in the United States. Ovarian cancer is the fifth leading cause of cancer-related death among women in the United States and is the deadliest of the gynecologic cancers with more than 70% of patients diagnosed with an advanced stage and over 14,000 patients dying from the disease each year. According to SEER, the five-year survival rate for women diagnosed with ovarian cancer is approximately 47%. Non-small cell lung cancer (NSCLC) is the most common type of lung cancer, estimated to comprise 80-85% of all lung cancer diagnoses. The five-year survival rate for late-stage NSCLC is about 10%. Pancreatic cancer is one of the most fatal cancers in the world. Of the 55,440 new cases in the United States, SEER estimates that fewer than 9% of patients diagnosed with pancreatic cancer survive five years.

While the five-year survival rate of local and regional prostate cancer is nearly 100%, more aggressive forms of the disease, of which approximately 23% are initially diagnosed, have a five-year survival rate of approximately 30%. Nearly all prostate cancer-specific deaths occur after patients develop mCRPC, for which the median overall survival period is only 13 months. Later-generation anti-androgen drugs such as Johnson & Johnson's Zytiga and Pfizer's/Astellas' Xtandi have widely become the standard of care and generated combined global sales of over $5bn in 2017. There is a significant need for treatments that offer a novel mechanism of action with the potential to modify or cure the disease.

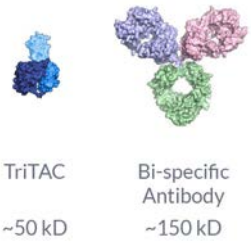
Novel technology: TriTAC – T-cell engagers for solid tumours

Harpoon's proprietary TriTAC™ (Tri-specific T-cell Activating Construct) platform offers the potential to develop drugs that could dramatically change the way in which we combat a variety of diseases. The bi-specific T-cell engager, Blincyto®, was approved in 2014 as a monotherapy treatment of acute lymphoblastic leukaemia (ALL). TriTACs, which are comprised of three binding domains, are designed to have an extended serum half-life and be about one-third the size of a monoclonal antibody.



TriTAC offers distinct advantages

- Extended half life and stability: Stable in bloodstream and long-serum half-life allows for convenient dosing (weekly)
- Active at low levels of antigen expression: Does not require high levels of target antigen expression to engage T-cells to kill disease cells
- MHC Independence: Direct T-cells to kill targeT-cells independent of MHC expression with expectation for more durable therapeutic responses than MHC dependent approaches
- Small size and tissue penetration: Small size (expected to allow for faster diffusion into human solid tumour tissue



Pipeline

Product Candidate	Target/Indication	STAGE OF DEVELOPMENT: PRE-CLINICAL	PHASE 1	PHASE 2	PHASE 3	Anticipated Milestones
HPN424	PSMA Prostate Cancer					H2 2019: Additional preliminary Phase 1 data
HPN536	MSLN Ovarian Cancer and Other Solid Tumours					H2 2019: Initiate Phase 1/2a
HPN217	BCMA Multiple Myeloma					H2 2019: Initiate Phase 1
HPN328	DLL3 Small Cell Lung Cancer					H2 2020: Initiate Phase 1

Milestones achieved

- Initiated first clinical trial In 2018; first patient dosed in HPN424 trial for Prostate Cancer
- Announced preliminary data from Phase 1 clinical trial of HPN424 (Prostate Cancer) in January 2019
- Successful NASDAQ IPO in February 2019, raising $81m of gross proceeds

Anticipated milestones

- H2 2019: Additional preliminary Phase 1 data from HPN424 (Prostate Cancer)
- H2 2019: Initiation of Phase 1/2a trial for HPN536 (Ovarian Cancer and other MSLN-expressing solid tumours)
- H2 2019: Initiation of Phase 1 HPN217 (Multiple Myeloma) trial
- H2 2020: Initiation of Phase 1 trial of HPN328 (Small Cell Lung Cancer)

PORTFOLIO COMPANY SPOTLIGHT

Phase 2

aura

Redefining Targeted Therapies

Overview

Aura Biosciences, based in Boston, MA is developing a new class of therapies to target and destroy cancer cells selectively, while leaving surrounding tissue unharmed and stimulating the immune system. By safely eliminating cancer locally, the goal is to can transform the lives of people with a wide range of cancers that are poorly managed today. Their lead clinical programme in ocular melanoma (OM), also known as choroidal or uveal 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 and avoiding the comorbidities of radioactivity. The goal is to treat small ocular melanomas locally, potentially long before the disease progresses and metastasizes to the liver, where it almost always is fatal. Development of a first-in-class, non-radioactive treatment option to selectively destroy cancer cells stimulating the immune system would create the possibility to transform the treatment of this and other cancers where the disease can be detected early. By enabling physicians to treat cancer more selectively, effectively and safely than they can do today, Aura aim's to eliminate the need for invasive procedures that carry significant morbidity, including vision loss, and which often do little to improve a patient's overall survival.

Team

The Aura team combines expertise in cancer cell biology, ophthalmology and targeted therapies together with experience in the development and commercialisation of orphan drugs for highly unmet medical needs

- Elisabet de los Pinos, Chief Executive Officer
- Julie Feder, Chief Financial Officer
- Cadmus Rich, Chief Medical Officer
- Stephen Monks, Senior Vice President of Development
- Michele Keough, Senior Vice President of R&D operations

Unmet need

Choroidal melanoma is a rare and aggressive type of eye cancer. There are no drugs approved and current radiotherapy treatments are associated with severe visual loss and other long-term sequelae such as dry eye, glaucoma, cataracts and radiation retinopathy.

Market potential

- 11,000 patients diagnosed annually
- Estimates of ~$700m market worldwide

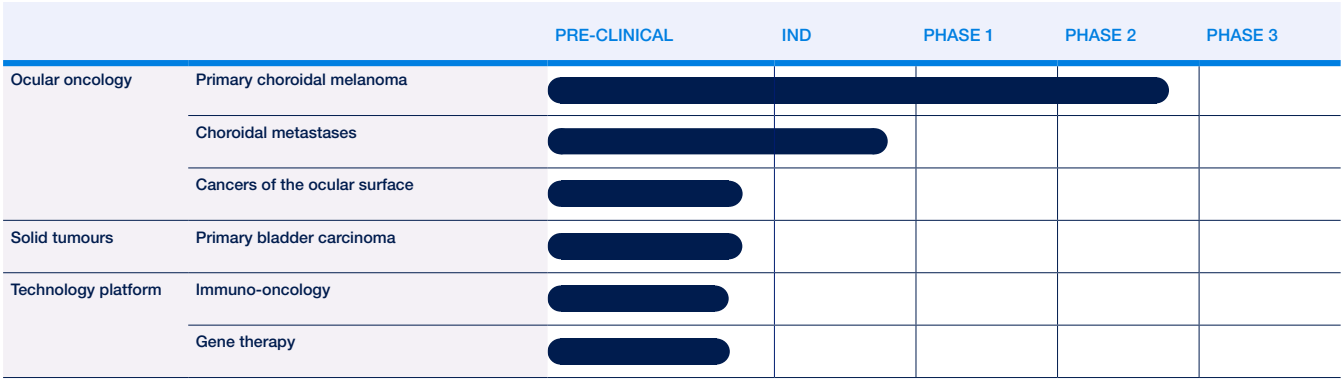
Novel technology – Tumour targeted viral-like particle bioconjugates

Aura's light-activated technology consists of virallike particles, modelled on the human papillomavirus (HPV), conjugated to infrared-activated small molecules. The particles are administered through an intravitreal injection into the eye. The viral-like particle bioconjugates (VPBs) then bind selectively to cancer cells in the eye.

Upon activation with an ophthalmic laser, the small molecules generate reactive oxygen species that selectively destroy the membrane integrity of cancer cells, leading to acute cellular necrosis and activating the immune system without damaging the overlaying retina, with the goal of enabling vision preservation for patients.

Pipeline

AU-011 is a first-in-class targeted therapy in development for the primary treatment of choroidal melanoma. The therapy consists of proprietary viral-like particle bioconjugates (VPB) that are activated with an ophthalmic laser. AU-011 for the treatment of choroidal melanoma has been granted orphan drug and fast track designations by the U.S. Food and Drug Administration and is currently in clinical development.



Intellectual property

- 11 Patents issued; 4 Allowed Applications; 24 Pending Applications
- Patent protection to end of 2034
- Claims cover AU-011 composition of matter and method of use as well as technology platform
- All patents owned/co-owned by Aura or exclusively licensed to Aura
- Worldwide commercial rights

Milestones achieved

Summary of results of AU-011 Phase 1b/2 study

Safety	• Single and multiple administrations of AU-011 are well tolerated • Inflammation is manageable, starts around the tumour and supports MOA • Steroids can be started after inflammation is observed – allows immune response • Preliminary results show re-treatment after 12 months is safe and well tolerated
Biological activity	• Reduction in tumour thickness and loss of orange pigment in multiple patients • Biopsy eight months after treatment demonstrates no remaining melanoma cells and presence of inflammatory and RPE cells
Efficacy endpoints	**Tumour control** • 90% of subjects at therapeutic dose with single cycle up to six months follow-up • Durability of tumour response observed >12-18 months, even at subtherapeutic doses in SAD (first two subjects with 24-month follow-up in March 2019) **Vision Preservation** • Vision is preserved at six months or longer (up to 18 months) • Vision preserved after treatment even in high-risk patients

Future milestones

- Phase 3 trial expected to start in 1H 2020, interim results at ~18 months and primary at 24 months
- Possibility for NDA filing in 2023

PORTFOLIO COMPANY SPOTLIGHT

Phase 1

Autolus

Overview

Autolus is a clinical-stage biopharmaceutical company developing next-generation, programmed T-cell therapies for the treatment of cancer. Using a broad suite of proprietary and modular T-cell programming technologies, the company is engineering precisely targeted, controlled and highly active T-cell therapies that are designed to better recognise cancer cells, break down their defence mechanisms and eliminate these cells. Autolus has a pipeline of product candidates in development for the treatment of haematological malignancies and solid tumours.

Team

Management team with a strong track record of accomplishment in redirected T-cell therapies, gene therapy, transplantation and oncology.

- Christian Itin, Chairman & Chief Executive Officer
- Andrew Oakley, Chief Financial Officer
- Chris Vann, SVP, Chief Operating Officer
- Vijay Peddareddigari, SVP, Chief Medical Officer
- Martin Pulé, SVP, Chief Scientific Officer
- Matthias Alder, SVP, Chief Business Officer

Critical unmet medical need for improved T-cell therapies

- Loss of target antigen reported for CD19, CD22 and BCMA-targeting Chimeric Antigen Receptor (CAR) T-cell products
- Complexity of tumour biology greater in solid tumours vs. haematological cancers
- Managing safety (toxicity, elimination of normal cells via on-target off-tumour recognition)
- Upregulation of checkpoint inhibitors or other negative regulators of T-cell action
- Lack of cost-efficient, scalable treatment delivery model and manufacturing
- Lack of T-cell persistence

Market potential

CAR-T has had dramatic success in treating certain late-stage blood cancers and the first two CAR-T therapies (Novartis's Kymriah and Kite's Yescarta) were approved and launched in the US in H2 2017. The cell therapy market is forecast to grow to $10bn+ by 2024 (Source: Evaluate Pharma) and significantly beyond, as signalled by Gilead's $12bn acquisition of Kite (H2 2017) and Celgene's $9bn acquisition of Juno (H1 2018).

Novel technology

Autolus has developed a modular approach towards developing advanced CAR-T-cells, with tailored therapies to address specific cancers. The company has a wide array of programming modules relative to its peers within CAR-T, providing scope to improve the efficacy and durability of products currently on the market.

Advanced Programming Modules		Key intended Benefits
Advanced Targeting	Innovative Binders	• Improve activity and safety pf programmed T-cells • Improve ability to bind to target
	Dual targeting	• Reduce the risk of negative antigen relapse • Support a response in patients with low levels of target antigen
	Pattern recognition	• Enhance the selectivity for the tumour • Spare healthy cells and unwanted side effects
Pharmacological control	Safety switches	• Remove the therapy in the event a patient suffers a severe adverse event or chronic toxicity
	Tunable T-cells	• Dampen activity of the therapy to manage patients through periods of acute toxicities such as cytokine release syndrome of neurotoxicity
Enhance T-cell activity	Immune Checkpoint Blockade	• Prevent shutdown of T-cell activity by tumour microenvironment • Acting across a range of immune checkpoint pathways
	Enhanced T-cell Persistence	• Enhance activity against solid tumours • Continued stimulation to help T-cells survive and persist for extended periods of time

Milestones achieved

Positive clinical progression:

- Encouraging early data from AUTO3 supports Autolus's hypothesis that dual-targeting can result in less antigen escape and superior long term outcomes.
- Initiated Phase 1 AUTO4 trial for T-cell Lymphoma (TCL), an aggressive cancer with very poor prognosis for patients
- Updated AUTO1 data showed comparable to better persistence and comparable survival of patients comparable to Kymriah and with a better safety profile. This is despite the fact that the study included patients post CD19 and CD22 targeted therapies, which were excluded from the Kymriah trial
- Successful NASDAQ IPO, raising $172m
- Well financed, with approximately $217.5m at 31 December 2018. Cash runway projected to last into CY 2021

Pipeline

Product	Indication	Target	PRECLINICAL	PHASE 1/2	PHASE 2/3
B-Cell Malignancies					
AUTO1	Paediatric Acute Lymphoblastic Leukaemia (pALL)	CD19	UCL – CARPALL		
AUTO1	Adult Acute Lymphoblastic Leukaemia (aALL)	CD19	UCL – CARPALL		
AUTO3	Paediatric Acute Lymphoblastic Leukaemia (pALL)	CD19 & CD22			
AUTO3	Diffuse Large B Cell Lymphoma	CD19 & CD22			
AUTO3 NG	B-Cell Malignancies	Undisclosed			
Multiple Myeloma					
AUTO2	Multiple Myeloma	BCMA & TACI			
AUTO2 NG	Multiple Myeloma	Undisclosed			
T-cell Lymphoma					
AUTO4	TRBC1+ Peripheral T-cell Lyphoma (TCL)	TRBC1			
AUTO5	TRBC1+ Peripheral T-cell Lymphoma	TRBC2			
GD2+ Tumours					
AUTO6	Neuroblastoma	GD2	CRUK		
AUTO6 NG	Neuroblastoma; Melanoma; Osteeosarcoma; SCLC	GD2			
Prostate Cancer					
AUTO7	Prostate Cancer	Undisclosed			

Expected milestones in 2019

- First AUTO1 data presentation for adult ALL (Phase 1 data) in Q2 2019 and full Phase 1 data in Q4 2019
- AUTO2 full Phase 1 data in Q4 2019
- Further interim Phase 1 AUTO3 (DLBCL and pALL) data in Q2 2019 and full Phase 1 data in Q4 2019
- Initial Phase 1 AUTO4 (TCL) in Q4 2019
- Plan to start two registration trials in the second half of 2019

INVESTMENT STRATEGY

We are science led investors, focusing on innovative technologies in areas of high unmet need. Unconstrained by institution, geography or stage of company development, we have the ability to source the best life science innovation without restriction.

INVESTMENT CRITERIA

FOCUS

Novel therapeutics with first or best in class approach.

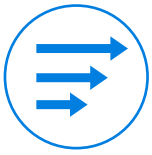
We focus on on investing in high impact science, which has the potential to improve outcomes for patients.

SOURCE

Unconstrained approach to sourcing innovation. Arix benefits from extensive global networks including deep VC and biotech networks, pharmaceutical and academic partners

GEOGRAPHY

Extensive global networks provide easy access to the best life science innovation across the globe



STAGE OF DEVELOPMENT

Flexible to the point of entry. We invest in seed stage companies, preclinical and clinical stage assets – private or public

VENTURE STRATEGIES

Seeds

Identify and build the next generation of biotech companies around high impact science

- We collaborate with exceptional scientists, researchers and academic institutions to turn scientific discoveries into successful biotech start-up companies.
- We take a hands-on approach, either in an operational role or through a board seat. We can help secure initial funding, develop business strategy, make connections and recruit experienced and talented management.

Ventures

Early and late stage venture capital

- We provide flexible, long-term capital to exceptional entrepreneurs building the next generation of breakthrough biotech companies.
- We take a hands-on approach when we invest, provide access to our global networks and position our companies for growth and clinical success.

VIPEs

Venture Investments in Public Equity (VIPEs)

- There are many undervalued small public companies running out of cash and some outstanding technologies are hidden in ‘orphaned’ companies. Recapitalising and rebuilding such companies can lead to significant investment returns.
- We take a significant stake and a board seat when we invest, just as we would with a typical venture investment. We play an active role in the company and facilitate introductions to potential partners and acquirers through our extensive global networks.

HOW WE ADD VALUE TO OUR PORTFOLIO COMPANIES

FLEXIBLE, LONG TERM CAPITAL

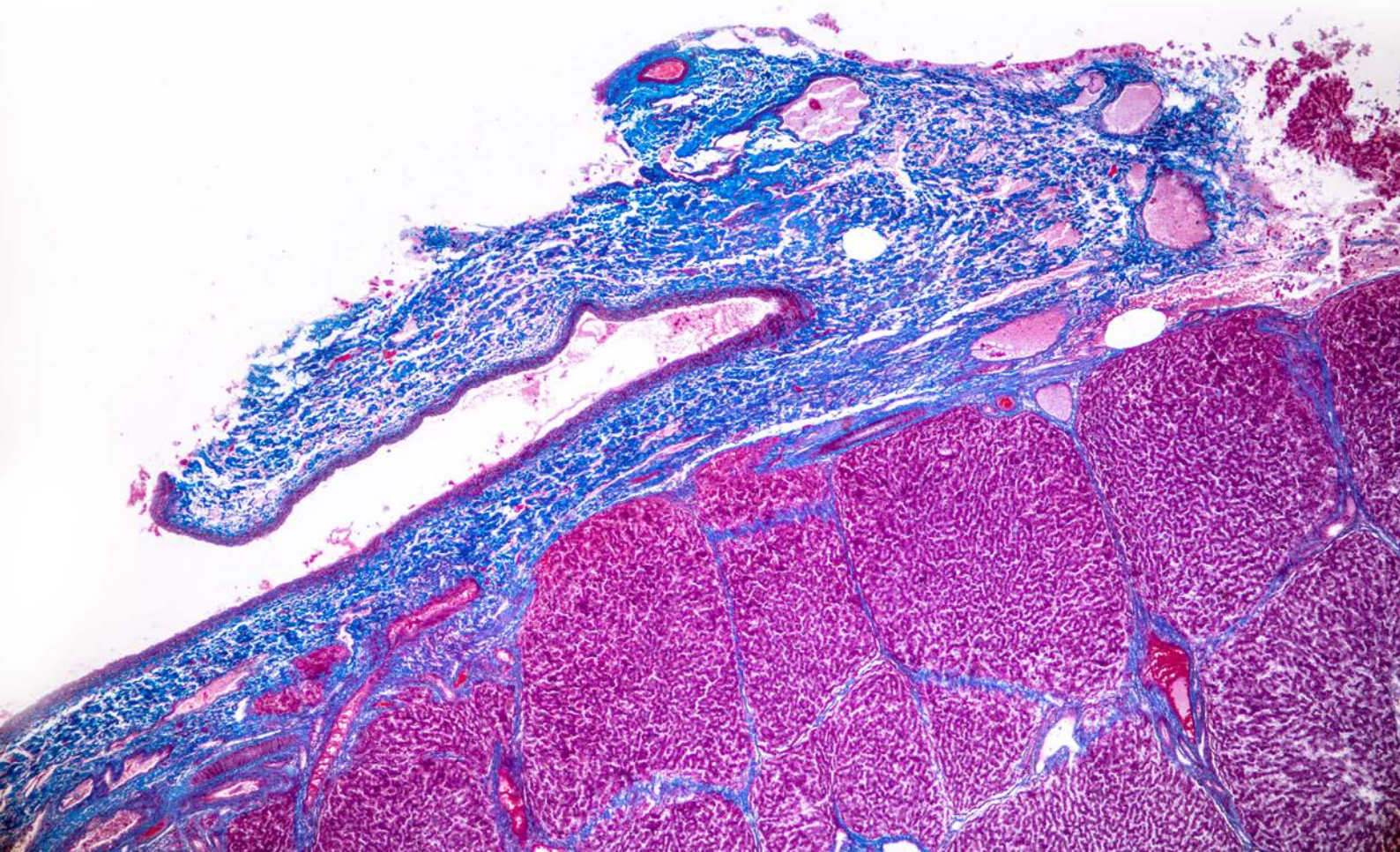
As a public company we are able take a longer term view than our non listed peers. We focus on creating value, with a flexible approach to the length of time that we retain an ownership stake in our portfolio companies. This cushions our portfolio companies against the normal volatility in funding for life sciences companies, while allowing us to pursue the optimal course of action in order to capture value for our shareholders.

HANDS-ON SUPPORT

We take a hands-on approach to investing and provide more than just capital when we invest. We take a board seat and play an active role to help our companies as they grow. From developing a business strategy, recruiting experienced management, securing additional funding and drug development to navigating the regulatory process and IPO, we strive to be collaborative and meaningful board members at all stages of development.

GLOBAL NETWORK

Through our extensive global networks we can provide our portfolio companies with access to potential acquirers and partners, as well as the additional capital, expertise and networks they need to become global leaders.



BUSINESS MODEL

Arix Bioscience's primary business is to source, finance and develop innovative technologies.

HOW WE SOURCE

- Pharmaceutical partners
- Academic networks
- Biotech networks
- Venture capital networks

HOW WE CREATE VALUE

1. Discover

- Unconstrained approach; ability to source the best life science innovation without restriction
- Extensive global networks and partnerships enable easy access to the most innovative biotech entrepreneurs

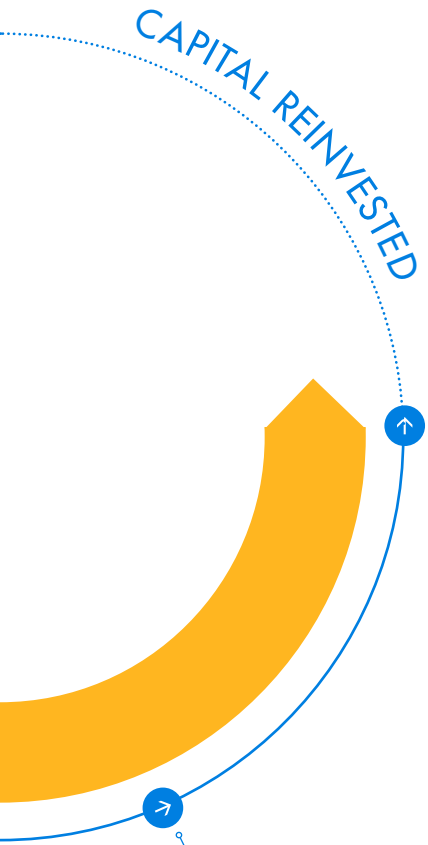
2. Evaluate

- Thorough due diligence to evaluate scientific and commercial opportunity for both new and follow-on investments
- Access to extensive R&D resources and due diligence capabilities at pharmaceutical partners
- Invest in breakthrough science innovation with a clear commercial pathway

Read case studies on pages 20 to 27

3. Invest

- Flexible on point of entry, geography and therapeutic area
- Tend to be a lead investor
- Plc balance sheet allows us to support companies through all stages of growth



5. Exit

- We will exit when the optimum value has been reached
- Capital is recycled onto the balance sheet to be reinvested in new opportunities, creating a sustainable model for the future

4. Develop

- We take a hands-on approach when we invest, positioning our companies for growth and clinical success. Our portfolio companies get access to our global networks and partners and the flexible, long term capital they need to grow
- We have the experience to navigate scientific and commercial hurdles, mitigating risk for our shareholders

OUTCOME

Capital growth

Shareholder value

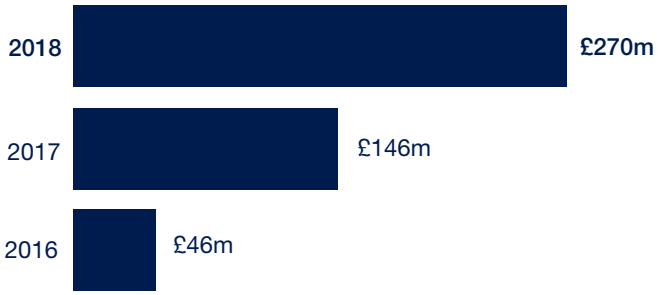
Breakthrough treatments for patients

KEY PERFORMANCE INDICATORS

1
NAV

MEASURED BY
GPV + cash + other assets

COMMENTARY
NAV increased by 85% to £270m in 2018, reflecting another year of strong portfolio growth and additional capital raised in March 2018



2
NAV PER SHARE

MEASURED BY
Net Asset Value divided by shares outstanding at the year-end

COMMENTARY
NAV per share increased by 32%, reflecting upward portfolio revaluations in 2018, notably Autolus, LogicBio and Harpoon. Arix's share price at year-end 2018 was £1.67 (2017: £1.95)

Arix has been listed since 2017

3

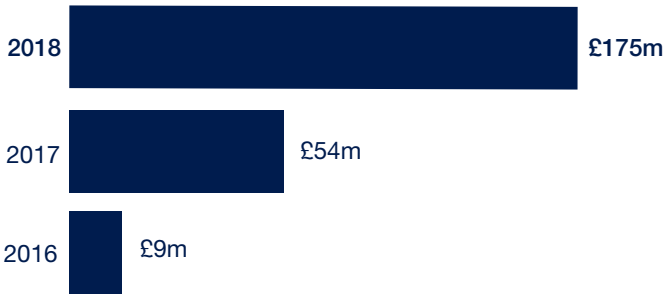
GROSS PORTFOLIO VALUE (GPV)

MEASURED BY

The valuation of investments in the Core and Discovery portfolios at year-end, as defined on page 37

COMMENTARY

Gross portfolio value increased by 225% in 2018, driven by investment of new capital into the portfolio and upward revaluation in the existing portfolio



4

PIPELINE PROGRESSION

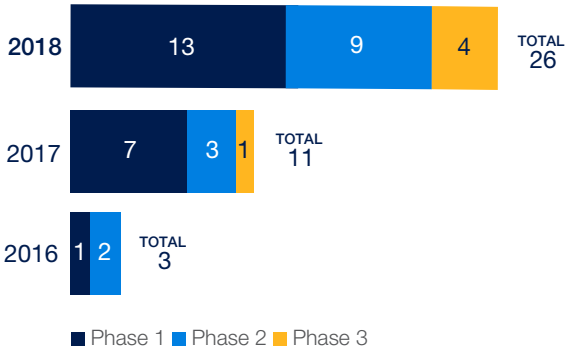
MEASURED BY

Number of trials in clinical development

COMMENTARY

At the end of 2018 Arix had 23 clinical programmes in its pipeline, up from 11 at the end of 2017, with a further three added post-year-end

- 7 new clinical trials were initiated by Harpoon, Autolus, Iterum, AtoxBio and Amplyx
- Positive data readouts from Aura, Pharmaxis, Autolus and Verona
- The pipeline was further strengthened following our investment in Phamaxis, adding additional clinical programmes to the pipeline



OPERATIONAL AND FINANCIAL REVIEW

CFO STATEMENT

"OUR DISCOVERY PORTFOLIO IS IMPORTANT TO THE FUTURE DEVELOPMENT OF THE CORE PORTFOLIO AS IT PROVIDES A CRÈCHE TO DEVELOP EMERGING INNOVATION AND EXPLORE COMMERCIAL OPPORTUNITIES"

James Rawlingson
Chief Financial Officer

Overview

The year to December 2018 has been one of significant financial progress, particularly in driving growth in our Gross Portfolio Value, which has increased to £175.5m (2017 £53.9m). This is reflected in the increased strength of the Group balance sheet, where the Net Asset Value (NAV) of the Arix Group has grown by over £100m to £270.2m (2017: £146.4m).

This growth in Group NAV has been supported by a strong net revaluation gain for the year of £51.2m (2017: £5.5m) which has helped deliver a profit before tax of £42.8m (2017: £9.5m loss).

The Gross Portfolio Value (GPV), comprising our Core Portfolio, and Discovery Portfolio, is shown at fair value at £175.5m (2017: £53.9m) at the year-end, representing an increase of 225% over the last 12 months.

The remaining component of Investments is our Other Interests. At the balance sheet date these are held at a fair value of £8.5m (2017: £17.4m), the movement being predominantly due to impairments to the carried interest of The Wales Life Sciences Invesment Fund and in BioMotiv.

Core Portfolio

The Core Portfolio has grown from nine companies to 11 in 2018, with the value of these companies increasing from £50.6m to £169.3m, driven by both the investment activity in the year and the strong revaluation gains enjoyed in the period – notably by Autolus, which listed on the Nasdaq exchange in June.

Autolus was not alone, as Iterum Therapeutics and LogicBio Therapeutics also listed during 2018. In addition, Harpoon Therapeutics was in preparation for its IPO at year-end and went on to successfully list early in 2019.

All of our quoted investments are shown at the closing market price at the balance sheet date. The valuation of Harpoon reflects a portion of the uplift arising between its November 2018 funding round and its February 2019 IPO.

Discovery Portfolio

Our emerging investments are held within our Discovery Portfolio. This asset class is important to the future development of the Core Portfolio as it provides a crèche to develop emerging innovation and explore commercial opportunities.

The Discovery Portfolio is held at a fair value of £6.2m (2017: £3.3m) and includes a number of pre-clinical investments plus other seed investments made during the year.

As new projects become established they will be moved from the Discovery Portfolio to the Core Portfolio.

Portfolio Valuation Methodology

I have highlighted in previous reports the strong focus on high levels of integrity when it comes to the valuation of our investments. This is both embedded in our culture and in our governance as it is overseen by our Audit and Risk Committee. Arix follows International Private Equity and Venture Capital (IPEV) Guidelines, which are compliant with International Financial Reporting Standards. You can read the detailed accounting policy on pages 108 to 109.

In determining the valuation of its portfolio, Arix applies a valuation hierarchy; for example, a quoted market price has the highest integrity and is used as a source of valuation wherever possible.

As an alternative for unquoted stocks, Arix may use a recent arm's length market transaction as this is considered to have an acceptably high level of integrity.

A Discounted Cash Flow (DCF) methodology is considered to have the lowest level of integrity and is not used where a methodology with a higher level of integrity is available. No investments within our Core Portfolio or Discovery Portfolio have been valued using DCF methodology at December 2018.

Consolidated Profit and Loss

Strong performance in the year has delivered a Profit Before Tax (PBT) of £42.8m (2017: loss of £9.5m). The key feature of the Consolidated Statement of Comprehensive Income is the net revaluation gains of £51.2m (2017: £5.5m).

This strong PBT has created the need for a deferred tax liability of £5.9m this year.

The net revaluation gains of £51.2m were driven principally by Autolus Therapeutics, which showed a positive revaluation of £55.9m in the year, along with LogicBio Therapeutics, which also had a significant upward valuation in the period of £14.1m. These were partially offset by Iterum Therapeutics, which following its successful IPO recorded a negative revaluation of £8.4m in the period.

Revenues of £1.3m (2017: £1.9m) are predominantly management fees in Arix Capital Management; these have decreased year-on-year in line with expectations as the fully invested Wales Life Sciences Investment Fund enters the second half of its investment life. A significant exit for the fund was successfully completed early in 2019 and this will contribute to a reduced fee level going forward.

Administrative expenses for the year were £11.7m (2017: £11.0m). These costs included CEO search fees of £0.3m.

The Board changes announced on 19 February 2019 enable a leaner management team in Arix. The cost savings from these changes, along with other expected savings from a premises review which is currently under way, will reduce annual run-rate costs by approximately £1.5m going forwards; 2019 will reflect the part-year implementation of these cost reductions.

Cash Position

Cash and deposits on the balance sheet has also strengthened during the year to £91.2m (2017: £74.9m) following a successful capital raising in March 2018, which delivered net proceeds of £83.5m. This cash position will allow investment momentum to be carried into 2019.

The consolidated balance sheet shows that of the £91.2m held, £60.2m is held on long term deposit, which is defined as a term of over three months. The use of longer term deposits has contributed to improved levels of interest income earned this year.

Treasury Policy

The main objectives of the Treasury Policy are the preservation of shareholders' funds for investment purposes and the mitigation of counterparty risk. The policy achieves these twin aims by requiring that cash balances are held at a number of UK banks with strong credit ratings.

The Treasury Policy was revised and reapproved by the Board this year to allow a greater proportion of funds to be placed as term deposits, and as a result net interest income increased to £0.7m (2017: £nil).

Speculation on currency movements is specifically not permitted by the policy and foreign currency hedging transactions are also outside of the policy. Therefore, no currency hedging transactions were entered into during the year and balance sheet assets in foreign currency are not hedged against sterling.

The impact of currency exchange rates is shown on the face of the Consolidated Statement of Comprehensive Income as a gain of £4.6m; however, it should be noted that these are not realised amounts.

During the second half of 2018, due to the foreseen risk of Brexit weakening sterling particularly against US dollars, our cash balances held in non-sterling were positioned to include sufficient US dollars to allow us to match our known future dollar funding commitments to portfolio companies for 2019.

In this way we have been able to protect our investment activity against expected volatile foreign exchange rates for the coming year.

Employee Benefit Trust

During the year under review an Employee Benefits Trust (EBT) was created. This Trust is managed by an independent Board of Trustees.

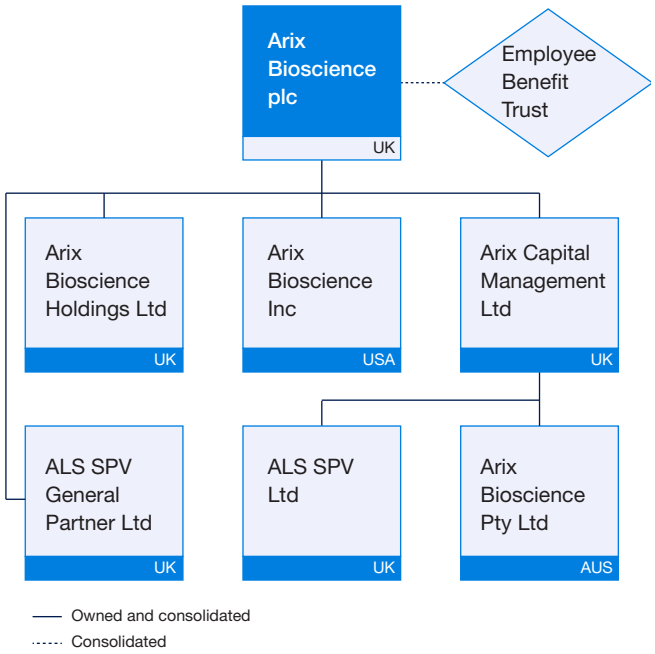
The role of the Trust is to efficiently provide employment benefits to Arix employees, which is particularly important to the retention proposition for key staff such as our investment team.

In line with International Financial Reporting Standards, the results of the Trust are consolidated into the Group financials within this Annual Report. A diagram showing the consolidated entities that make up our consolidated balance sheet, including the EBT, is shown on the next page.

OPERATIONAL AND FINANCIAL REVIEW

CFO STATEMENT

Principal entities consolidated into these results



Impact of Brexit

The Arix business model requires the sourcing and funding of biotech and life science investment opportunities and this is not expected to materially change after Brexit. This is because Arix sources investment opportunities globally and is not constrained to the UK or European markets.

There is a risk that possible reductions in research grants could affect the number of biotech investment opportunities becoming available, but this is considered unlikely to have a material impact on Arix's global pipeline of opportunities.

Future trends

The implementation of new CFIUS legislation in the US is intended to protect US technology from foreign interest and will bring increased administration and operational risk to many US investment opportunities, including those in the biotech sector.

Whilst Arix as a UK company is well positioned to continue to take part in US biotech investment opportunities going forward, we will continue to monitor this and other emerging legislation as we go through 2019.

Emerging regulation

Arix Capital Management is a subsidiary of Arix Bioscience plc and regulated by the FCA. Accordingly, it will be subject to the new Senior Management & Certification Regime (SM&CR) with effect from 9 December 2019.

The SM&CR is part of the UK regulator's drive to improve culture, governance and especially accountability across the financial services sector and preparation is under way to ensure a seamless adoption of SM&CR ahead of the implementation date later this year.

After the balance sheet date

On 14 February 2019, Harpoon Therapeutics, one of our Core Portfolio companies, successfully listed on Nasdaq at $14 per share. This is above its fair value included in these consolidated financial statements. Arix invested a further £4.6m at IPO, and now owns 12.1% of Harpoon.

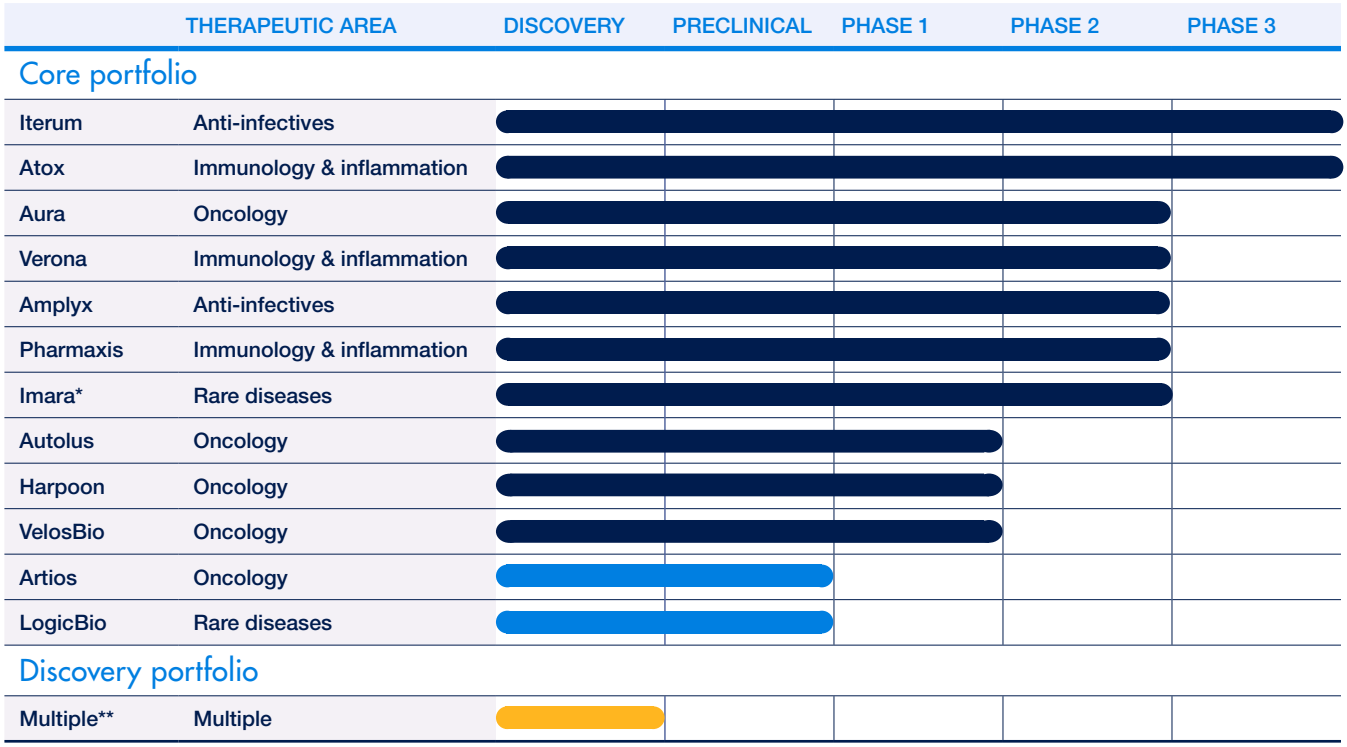
On 19 February 2019, changes were announced to the membership of Arix's Board. Joe Anderson, previously Chief Investment Officer, was appointed Chief Executive Officer; Jonathan Peacock, previously Executive Chairman, became Non-Executive Chairman; and Sir Chris Evans, previously Deputy Chairman, stepped down from the Board but will remain a consultant with the Company. These changes enable a leaner management team in Arix and will bring associated cost savings.

On 15 March 2019, Arix completed an investment in Imara Therapeutics, Inc., committing £11.3m (US$15.0m) for a 9.9% stake on a fully diluted basis.

Investment summary

	31 December 2017 Value £m	Net Investment in Period £m	Change in Valuation (including FX) £m	31 December 2018 Value £m	Fully Diluted Equity Interest %	Funding Committed, Not Yet Invested £m	Fully Diluted Equity Interest When Fully Committed %
CORE							
Amplyx Pharmaceuticals	2.8	–	0.4	**3.2**	2.9%	1.9	3.7%
Artios Pharma	3.7	5.8	1.4	**10.9**	13.4%	4.3	12.4%
Atox Bio	3.0	–	0.2	**3.2**	3.7%	3.1	6.4%
Aura Biosciences	2.5	1.2	0.2	**3.9**	6.6%	–	6.6%
Autolus	20.1	5.5	55.9	**81.5**	7.9%	–	7.9%
Harpoon Therapeutics	5.1	10.3	8.5	**23.9**	11.3%	–	11.3%
Iterum Therapeutics	5.7	7.0	(8.4)	**4.3**	7.8%	–	7.8%
LogicBio Therapeutics	4.8	5.4	14.1	**24.3**	12.9%	–	12.9%
Pharmaxis	–	8.0	(1.6)	**6.4**	11.1%	–	11.1%
VelosBio	–	5.1	0.1	**5.2**	8.9%	3.4	11.3%
Verona Pharma	2.9	–	(0.4)	**2.5**	2.5%	–	2.5%
	50.6	**48.3**	**70.4**	**169.3**		**12.7**	
DISCOVERY							
Depixus	1.1	0.3	–	**1.4**	18.6%	0.1	19.2%
Mitoconix Bio	0.4	0.4	(0.6)	**0.2**	3.5%	0.8	9.0%
OptiKira	1.3	–	(0.3)	**1.0**	21.9%	–	21.9%
PreciThera	0.5	0.7	(0.1)	**1.1**	20.9%	4.6	23.4%
New SeedCo	–	2.4	0.1	**2.5**	25.6%	2.8	32.2%
	3.3	**3.8**	**(0.9)**	**6.2**		**8.3**	
GROSS PORTFOLIO VALUE	53.9	52.1	69.5	175.5		21.0	
Other Interests	17.4	3.2	(12.1)	**8.5**	N/A	–	N/A
TOTAL INVESTMENTS	**71.3**	**55.3**	**57.4**	**184.0**		**21.0**	

PORTFOLIO REVIEW



* Imara acquired post year-end **This includes Depixus, PreciThera, Mitoconix, OptiKira and a new seed company

■ Core Portfolio (clinical) ■ Core Portfolio (pre-clinical) ■ Discovery Portfolio

Overview

We are pleased to report a year of strong growth, with positive commercial, operational and developmental progress across the portfolio. At 31 December 2018 Arix's gross portfolio value had increased to £175m, from £54m in 2017. Our gross portfolio value is underpinned by the value of our core portfolio, which accounts for 96% of the total value, with the remaining value spread across five holdings in our discovery portfolio. At 31 December our core portfolio consisted of 11 biotech companies and was valued at £169m, a £118m (231%) increase from last year. This reflects a net positive revaluation of £70m across the core portfolio driven by financing events at higher valuations (Autolus, LogicBio, Harpoon and Artios), new investments (Pharmaxis, VelosBio) and follow-on investments into the existing portfolio companies.

Over the reporting period, we have seen strong clinical progression within the portfolio; notable highlights include positive data readouts from Autolus, Aura, Verona and Pharmaxis and new trial initiations from Iterum, AtoxBio, Amplyx, Autolus, Harpoon and Verona. The pipeline continues to expand, with 26 live clinical trials across the portfolio and multiple pre-clinical studies under way.

Our core portfolio comprises our clinical stage companies and pre-clinical companies that we see as key to driving value over the next two years. Clinical stage companies are those in clinical development, which have begun testing their treatments in patients. These companies will have at least one live clinical trial, in either Phase 1, Phase 2 or Phase 3. We have included two pre-clinical companies (Artios, LogicBio) in our core portfolio that we believe could drive value over the next two to three years. These are earlier stage companies that are making strong progress towards human trials and have validating pre-clinical data. These companies have raised significant capital, supported by a strong syndicate of leading venture investors. They have novel approaches, and operate in particularly 'hot' areas making them potential early acquisition targets.

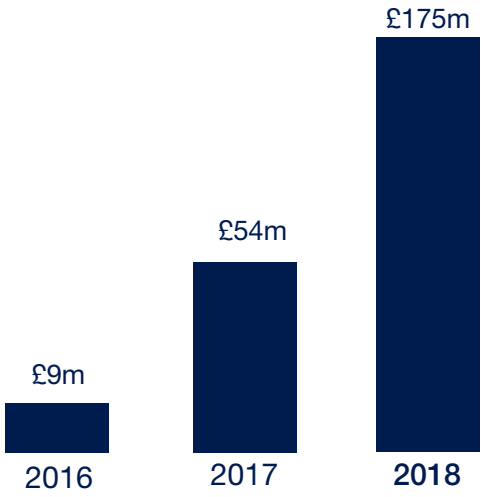
Companies within our discovery portfolio are typically seed investments. These are start-ups in the initial stages of research and development. They have made promising life science discoveries and have secured initial funding to test and validate the science. We minimise risk by investing small amounts early, reserving funds for later stage rounds. After key milestones are met, these companies have the potential to move into the core portfolio.

Highlights FY2018

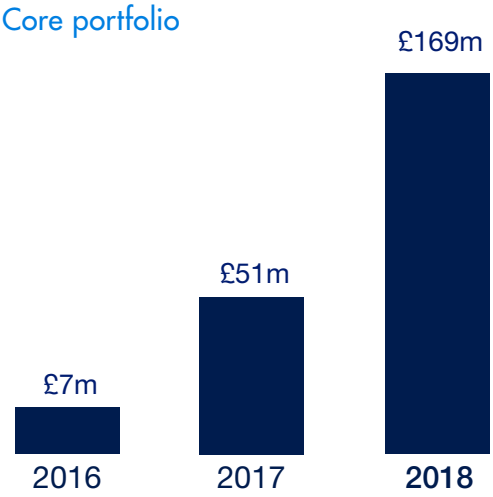
- 26 CLINICAL TRIALS ACROSS THE PORTFOLIO, INCLUDING IMARA ADDED POST YEAR END
- £70M NET POSITIVE REVALUATION IN THE PORTFOLIO
- POSITIVE PHASE 1/PHASE 2 DATA FROM AUTOLUS, VERONA, AURA AND PHARMAXIS
- 4 NASDAQ IPOs, INCLUDING HARPOON POST YEAR END
- 7 NEW TRIAL INITIATIONS
- $555M RAISED BY PORTFOLIO COMPANIES IN 2018

PORTFOLIO SNAPSHOT

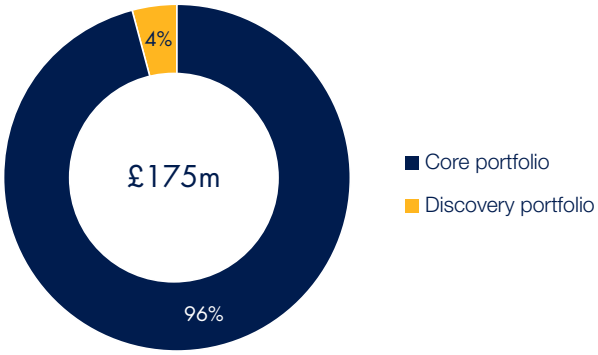
Gross Portfolio Value



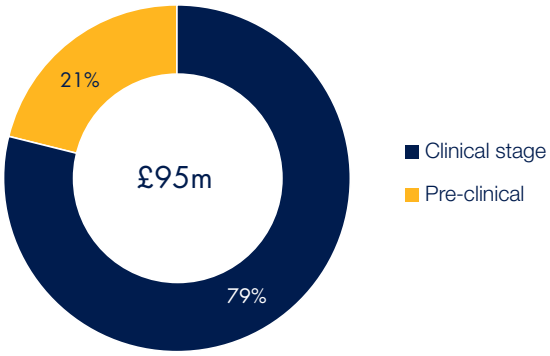
Core portfolio



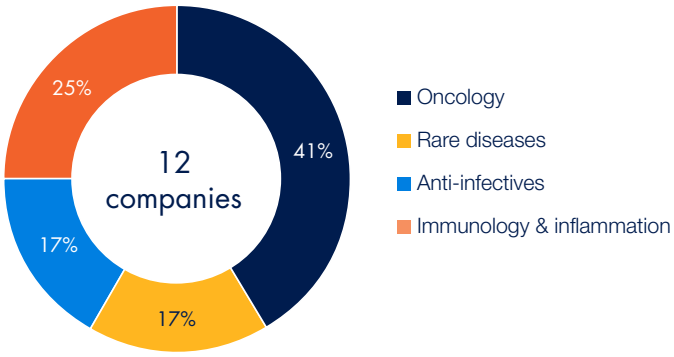
Core portfolio as a % of GPV



Core portfolio: capital deployed by stage of development



Core portfolio split by therapeutic area



CLINICAL PIPELINE

INNOVATION AT ALL STAGES OF DEVELOPMENT

Across our portfolio we now have 26 programmes in the clinic, focusing on areas of high unmet medical need

Discovery

Very initial stages of testing and validating scientific discoveries.

LOGICBIO	LB-101 Hae mophilia B
LOGICBIO	LB-201 A1ATD (liver disease)
LOGICBIO	LB-301 Crigler-Najjar
OPTIKIRA	OPK-546 Retinitis Pigmentosa
MITOCONIX	MTC-1203 Huntington's Disease
MITOCONIX	MTC-1203 Parkinson's Disease
PHARMAXIS	SSAO/MPO Inflammation
PHARMAXIS	LOX (topical) Scarring
PRECITHERA	TGF-θ Orphan Bone Disease

Pre-clinical

At this, the focus is on researching the feasibility and safety of a treatment before commencing clinical trials.

ARTIOS	Pol Theta (Polθ)
ARTIOS	Target 2 (Helicase)
ARTIOS	TARGET 3 and 4 (Nucleases)
AUTOLUS	AUTO 7 Prostate Cancer
AUTOLUS	AUTO2 NG Multiple Myeloma
AUTOLUS	AUTO3 NG B-Cell Malignancies
AUTOLUS	AUTO6 NG Neuroblastoma; Melanoma; Osteosarcoma; SCLC (GD2)
AUTOLUS	AUTO5 T-Cell Lymphoma (TRBC2)
HARPOON	HPN536 Varios Solid Tumours (TriTAC) - Mesothelin
HARPOON	HPN217 Multiple Myeloma BCMA (TriTAC)
HARPOON	HPN823 Small Cell Lung Cancer (TriTAC)
HARPOON	Various - oncology (ProTriTAC)
LOGICBIO	LB-001 methylmalonic acidemia (MMA)
VERONA	COPD Maintenance (MDI)

KEY

Respiratory | Anti-infectives | Immunology & inflammation | Rare diseases | Oncology

Phase One

This is the first time a product is tested in humans. The focus at this stage is testing the side effects and safety.

- **AUTOLUS** AUTO2 Multiple myeloma
- **AUTOLUS** AUTO3 DLBCL
- **AUTOLUS** AUTO3 Paediatric ALL
- **AUTOLUS** AUTO6 Neuroblastoma
- **AUTOLUS** AUTO1 Paediatric ALL
- **AUTOLUS** AUTO1 Adult ALL
- **AUTOLUS** AUTO4 T-cell lymphoma
- **HARPOON** HPN424 Prostate Cancer
- **PHARMAXIS** LOXL-2 NASH, Fibrosis
- **VERONA** Severe Asthma (Nebulizer)
- **VELOSBIO** VLS 101 Haematological Cancers
- **PHARMAXIS** LOX-oral (cancer)

Phase Two

Phase 2 involves further trials testing the efficacy and safety and different dosing levels.

- **ATOX BIO** REAKT Acute Kidney Injury
- **VERONA** COPD Acute (Nebulizer)
- **VERONA** COPD Fibrosis (Nebulizer)
- **VERONA** COPD Maintenance (Nebulizer)
- **AMPLYX** APX001 Invasive candidiasis
- **VERONA** COPD Maintenance (DPI)
- **AURA** AU-011 Ocular Melanoma
- **IMARA** IMR-687 (Sickle Cell Disease)
- **PHARMAXIS** SSAO NASH
- **PHARMAXIS** SSAO Diabetic Retinopathy

Phase Three/Pivotal

This is the final stage of testing before registration. Phase 3 trials focus on testing the effectiveness of the new product compared to existing treatments or to a placebo.

- **ATOX BIO** ACCUTE NSTI
- **ITERUM** Complicated UTI
- **ITERUM** Uncomplicated UTI
- **ITERUM** Complicated intra abdominal infections

ALL: Acute Lymphoblastic Leukemia

DLBCL: Difuse Large B-Cell Lymphoma

NASH: Non-alcoholic Steatohepatitis

NSTI: Necrotising Soft Tissue Infections

UTI: Urinary Tract Infection

PORTFOLIO REVIEW

Continued

Investments

During the financial year a total of £52m (2017: £41m) was deployed into the portfolio, including three new and nine existing portfolio companies. Arix continues to balance risk by deploying small amounts (approximately 4% of gross portfolio capital) into very early stage seed ventures (discovery portfolio), with 96% of portfolio capital deployed in later stage ventures – either clinically or pre-clinically validated companies (core portfolio).

New investments

Highlighted below are some of the notable investments that were made in the financial year. These include new investments into existing portfolio companies (not including previously tranched capital) and investments into new portfolio companies

New core portfolio companies

- VelosBio: £5.1m invested in Series A fundraise, Tranche 1 (£8.4m committed in total)
- Pharmaxis: £8m VIPE investment

Discovery portfolio

- New SeedCo: £2.4m investment

Existing portfolio companies

- Autolus: £5.5m invested in the IPO
- Artios: £5.8m invested (£1.5m Series A tranche 3, £3.7m Series B tranche 1, £0.6m from an existing shareholder)
- Harpoon: £6.1m invested in the Series C fundraise
- LogicBio: £5.4m invested in the IPO
- Iterum: £3.3m invested in the IPO, £0.3m invested in the market

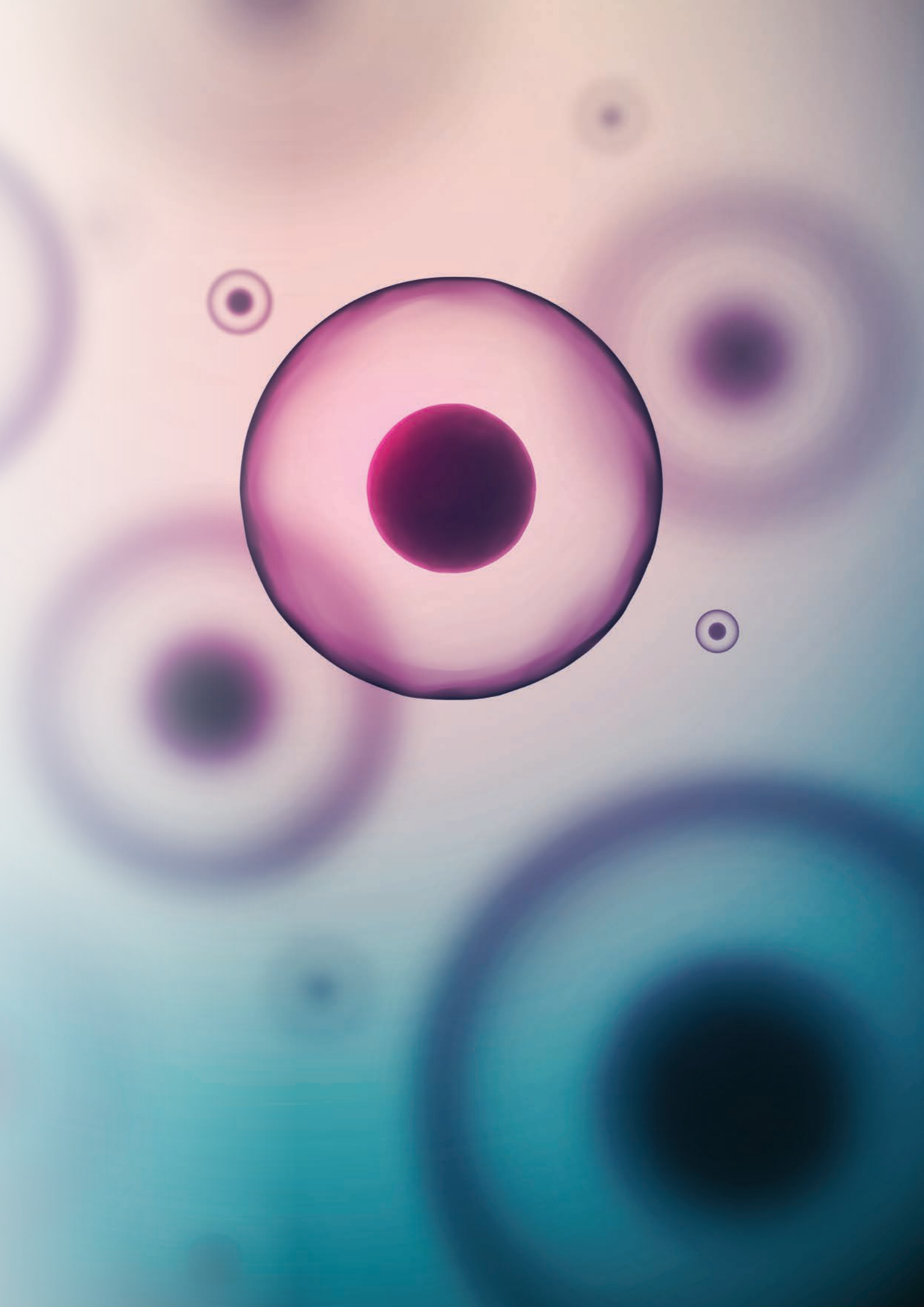
Post year-end investments

A further £15.9m has been committed or invested post year-end, into Harpoon Therapeutics and Imara, a new portfolio company

- Harpoon: £4.6m invested in the IPO
- Imara: £11.3m committed in the Series A fundraise

New hire

In 2018 we expanded our investment team, with the appointment of Christian Schetter as Entrepreneur-in-Residence. Christian has over 20 years industry experience across the life sciences sector, and joins Arix from German immuno-oncology company Rigontec GmbH, where he was CEO for four years before its acquisition by Merk & Co. He has a track record of creating companies that foster exciting science and securing impressive exits and his extensive experience of building companies in the life science industry will greatly benefit Arix as we continue to build on our existing investments and leverage our extensive pipeline.



PORTFOLIO REVIEW

Continued

Core Portfolio

Autolus

- Significant period of clinical progress with encouraging data from AUTO1 and AUTO3 programmes
- Dosed first patient in AUTO4 and pre-clinical data read-outs for AUTO5
- Successful IPO on NASDAQ, raising $172m

Autolus made significant progress in 2018 and notably completed an oversubscribed IPO on NASDAQ, raising $172.2m. Arix invested a further £5.5m in the IPO, retaining a 7.9% stake, which was valued at £81.5m at 31 December, a £55.9m increase in value over the last 12 months.

The company reported positive initial Phase 1 data from its AUTO3 programme in Diffuse Large B-cell lymphoma (DLBCL) and paediatric Acute Lymphoblastic Leukaemia (pALL). Early efficacy data is encouraging, with notable dose responses and manageable safety data. Autolus also announced that it had dosed its first patient in the Phase 1/2 trial of AUTO4 in TRBC1-positive peripheral T-cell lymphoma and reported encouraging pre-clinical data from its sister programme, AUTO5 targeting TRBC2-positive lymphoma. Additionally, Autolus licensed two new clinical stage programmes: AUTO1 in paediatric ALL and adult ALL (UCL) and the AUTO6 programme in Neuroblastoma (in partnership with Cancer Research UK.)

Post year end, Autolus presented interim results from the ongoing Phase 1 CARPALL trial (Pediatric Acute Lymphoblastic Leukaemia) of AUTO1. Updated AUTO1 data showed comparable to better persistence and survival of patients comparable to Kymriah, all with a better safety profile. This is despite the fact that the study included patients post CD19 and CD22 targeted therapies, which were excluded from the Kymriah trial. Data is supportive for the company's activities in adult patients with first update scheduled for April 2019. The company expects to see full Phase 1 data from AUTO1, AUTO2 and AUTO3 programmes by the end of 2019, with initial AUTO4 data in H2. (See case study on page 26 for more details.)

Aura

- Positive Phase 1b/2 data
- Phase 3 ready

Aura released positive data from the its Phase 1b/2 study with light-activated AU-011 in 2018. The study has shown that the drug was well tolerated, with clear evidence of tumour control and preservation of visual acuity at long term follow-up. This data provides the evidence that AU-011 can be a minimally invasive, in-office procedure with no radiation for early intervention of small lesions and tumours.

Post year end Aura announced that it has received written confirmation from the U.S. Food and Drug Administration (FDA) regarding agreement on the design of its Phase 3 trial; the result of a successful 'End of Phase 2' meeting with the FDA. In addition to the design of the Phase 3 trials, the FDA agreed with Aura's proposed safety database. The FDA also agreed that no further non-clinical studies are needed.

Read more about Aura on page 24.

Harpoon

- Dosed first patient in HPN424 Prostate Cancer Trial
- Successful Series C at 68% uplift to Series B price
- $81m IPO on NASDAQ post year end

Harpoon met a significant milestone this year, with the first patient dosed in its HPN424 prostate cancer trial. In November 2018, Harpoon completed a $70m Series C investment round at a 68% uplift to the Series B price resulting in a notable uplift to our holding. Arix invested $8m (£6.1m) in the round to retain an 11.3% stake.

In December 2018, Harpoon announced that it had filed for a proposed initial public offering in the United States, a process that completed post year end. The company listed on NASDAQ in February 2019, raising total proceeds of $81m. Arix invested a further $6m (£4.6m) in the IPO to retain a stake of 12.1% in Harpoon, which was valued at £31.3m at the IPO price of $14 (at the close of business on 13 February 2019). This represents a gain of £12.1m on total cash invested in Harpoon by Arix. At year-end, Arix's pre-IPO stake in Harpoon was valued at £23.9m.

Proceeds from the Series C and IPO will be used to advance Harpoon's pre clinical and clinical trials. The company plans to initiate further Phase 1 clinical trials for HPN536 (a mesothelin- targeting TriTAC) for the treatment of mesothelin-expressing tumours, and HPN217 (a BCMA-targeting TriTAC) for the treatment of multiple myeloma in 2019. We also expect to see initial Phase 1 data from HPN424 this year.

Iterum

- IPO on NASDAQ, raising $81m
- Initiated three pivotal Phase 3 trials

Iterum made significant progress during the year, notably initiating three Phase 3 pivotal trials in uncomplicated urinary tract infections (uUTI), complicated urinary tract infections (cUTI) and complicated intra-abdominal infection (cIAIs). Iterum's lead product candidate sulopenem's is potentially the first penem drug that is available as an oral drug. (To date these drugs have only been via IV, limiting their use to hospital setting.) Sulopenem's clear commercial pathway is supported by rising resistance rates to existing treatment options and its ability to provide significant cost-saving advantages for hospitals, by allowing earlier patient discharge by switching from IV to oral treatment. There is also a significant opportunity for oral sulopenem in the community setting, where rising rates of resistance, safety concerns with fluoroquinolones, and a lack of new treatment options make sulopenem an attractive treatment for elevated risk patients with urinary tract infections. Iterum expects Phase 3 data from all three trials (uUTI, cUTI and cIAI) in 2H2019 and expects to file its new drug applications (NDAs) with the FDA by the end of 2019.

Furthermore, Iterum was the first Arix portfolio company to IPO, raising total proceeds of $81m. Since the IPO in May, Iterum shares have suffered due to a weak anti-infectives backdrop but our fundamental belief in the company has not changed. Despite the struggles of the public market comps, we strongly believe that Iterum is a commercially differentiated asset that has much potential.

Atox

- Initiated Phase 2 AKI trial
- Completed enrollment of Phase 3 NSTI trial

During 2018 Atox continued to make good operational progress, notably initiating the Phase 2 REAKT (Reltecimod Efficacy for Acute Kidney Injury Trial) study.

Reltecimod, Atox Bio's lead product, is initially being developed to treat Necrotizing Soft Tissue Infections (NSTI), a rare, life-threatening infection with high morbidity and mortality. The Phase 3 trial, also known as the ACCUTE trial (Reltecimod Clinical Composite Endpoint Study in Necrotizing Soft Tissue Infections), is designed as a single pivotal study to assess the efficacy and safety of Reltecimod versus placebo in patients with NSTI. Previously, Reltecimod completed a phase 2 study in NSTI. Results demonstrated that patients treated with Reltecimod had a meaningful improvement across multiple end points. In a subset of patients from the phase 2 NSTI study, characterised as suffering from AKI as part of the disease process, initial data suggest that Reltecimod provides a treatment benefit (improved renal function and recovery from AKI).

Data from the Phase 3 NSTI trial is expected by the end of 2019.

Amplyx

- Initiated Phase 2 APX001 trial
- Phase 2 data in 2019

Amplyx Pharmaceuticals is developing a new class of antifungal medicine to overcome the limitations of existing therapeutic options. Amplyx's lead programme APX001 is a broad-spectrum antifungal drug with a novel mechanism of action for the treatment of life-threatening, invasive fungal infections caused by Candida. There has not been a new class of antifungal drug approved since 2001, and many existing antifungal agents are difficult to use, poorly tolerated or ineffective due to the rise of drug-resistant strains.

In November 2018 Amplyx dosed the first patient in its Phase 2 clinical programme to evaluate the efficacy and safety of APX001 in the treatment of infections caused by Candida. This trial will aim to validate robust preclinical and Phase 1 data and demonstrate clinical proof-of-concept for APX001 as a novel treatment for patients with difficult-to-treat and often deadly Candida infections. Initial results are expected by the end of 2019.

Verona

- Good clinical progress in 2018; positive Phase 2 COPD data readouts and new trial initiations

Verona Pharma plc is an LSE and NASDAQ-listed clinical stage biopharmaceutical company focused on the development of ensifentrine (RPL554), a dual inhibitor of enzymes phosphodiesterase 3 and phosphodiesterase 4 (PDE3/4 inhibitor). This is an inhaled novel compound that aims to provide both bronchodilation (PDE3) and anti-inflammatory (PDE4) effects in a single molecule - it will be the first dual action product and the first new class of bronchodilator for many years. The aim is to treat respiratory diseases such as chronic obstructive pulmonary disease (COPD) and cystic fibrosis (CF) where there is a need for incremental lung function improvement.

The company continued to make solid clinical progress in 2018 for maintenance treatment of COPD, with the nebulizer formulation achieving positive top-line data in a four-week Phase 2b placebo-controlled clinical trial in 403 patients. Reporting initial results in March, ensifentrine met the primary endpoint at all doses ($P<0.001$), showing a clinically meaningful and statistically significant bronchodilator effect after four weeks of dosing and encouraging performance on other measures of the disease.

Post year end, Verona reported mixed top line data from its 79-patient Phase 2a COPD trial evaluating nebulized ensifentrine treatment over three days on top of dual therapy of a long-acting muscarinic antagonist (LAMA) and a long-acting ßeta2-agonist (LABA). With a challenging trial design that promoted a large response to underlying standard of care of LAMA plus LABA, ensifentrine added some further lung function improvement, but the effect for the primary endpoint was not statistically significant. However, the combination of all 13 clinical studies completed to date, including this equivocal Phase 2, has prepared the way for a six-month Phase 2b study due to start in 2019 that will set the programme up for a pair of pivotal Phase 3 trials. The company is positioning ensifentrine as an add-on to first line therapy in COPD, which is generally a LAMA.

Advanced Dry Powder Inhaler (DPI) and Metered Dose Inhaler formulations of ensifentrine are also in development, with the potential to reach a substantially larger number of COPD patients than via nebulizer administration. The first DPI clinical trial in COPD patients was initiated in December 2018; initial results expected in the first quarter of 2019. The company calculates the market for nebulised therapy on top of LAMA alone or dual LAMA/LABA to be 280,000 patients in the USA; the DPI/MDI inhaler market in moderate-to-severe COPD is 1.72million people in the US.

In March 2018 Verona also released positive top-line data from a small, ten patient Phase 2a clinical trial in Cystic Fibrosis (CF). Development in CF will build upon the upcoming COPD Phase 2b.

Pharmaxis

- Positive Phase 1 LOXL2 data
- Initiated Phase 1 LOX-oral (cancer) trial

Pharmaxis is a research and development company working on new therapies to treat inflammatory and fibrotic diseases such as NASH, pulmonary fibrosis, kidney and liver fibrosis, inflammatory bowel diseases and cancer.

In 2018 Pharmaxis consolidated its position as a significant competitor in the NASH market as the Company's LOXL2 inhibitor completed phase 1 studies, demonstrating a best in class profile for two compounds. Positive Phase 1 clinical trial results were reported on both compounds, confirming long lasting inhibition of the target LOXL2 enzyme. In January 2019 Pharmaxis announced that, following completion of 13 week toxicity studies, the programme was ready to enter phase 2 clinical studies for diseases such as NASH, IPF and cardiac fibrosis.

In addition, Pharmaxis announced the dosing of the first patient in Boehringer Ingelheim's Phase 2a clinical trial in patients with diabetic retinopathy (DR), triggering a €10 million (~A$15million) milestone payment to Pharmaxis. DR is the second disease to be targeted with the drug known as BI 1467335 which was discovered by Pharmaxis.

Post year end, Pharmaxis made further clinical progress, launching a Phase 1 clinical trial of a new compound targeting pancreatic cancer. Dosing of the first subjects has begun, trialling an anti-fibrotic Lysyl Oxidase (LOX) inhibitor which has delivered positive results in pre-clinical testing. The compound is an oral once-a-day drug that inhibits all lysyl oxidase family members (LOX, LOXL1, 2, 3 & 4). It has shown significant reductions in fibrosis in in-vivo models of kidney fibrosis, lung fibrosis, myelofibrosis and pancreatic cancer. It is potentially suited to the treatment of severe fibrosis as well as cancer with prominent stroma (connective tissue) or fibrotic metastatic niches.

PORTFOLIO REVIEW

Continued

Imara

- Expands breadth of portfolio with investment in sickle cell disease via a later-stage clinical asset in phase 2
- Phase 2 data in 2019

Post year end, we co-led the $63m Series B for Imara; we committed to invest $15.0 million (£11.3m) for a 10% stake on a fully diluted basis.

Imara is a company dedicated to developing novel therapeutics for chronic treatment of Sickle Cell Disease ('SCD') and other hemoglobinopathies. Imara's lead programme, IMR-687, is designed to be a disease-modifying therapy that acts on both red and white blood cells with the potential to help healthcare providers create better treatment outcomes for patients. Its profile is attractive as it has a dual mechanism of action on red and white blood cells, once daily dosing, very clean safety profile, and potential impact on fetal hemoglobin.

Imara adds a new therapeutic area and expands the breadth of our portfolio into non-oncology haematology and also adds another later-stage clinical asset to the portfolio. Imara's lead programme, IMR-687, is at an exciting point in clinical development and is currently being evaluated in a Phase 2a study in sickle cell patients. We expect to see Phase 2a data soon; initial data in 2H 2019 and full data in Q1 2020.

Artios

- Oversubscribed Series B attracting interest from big pharma
- Arix became the largest shareholder following the Series B

Artios a leading DNA Damage Response (DDR) company developing innovative treatments for cancer. The company closed an oversubscribed $84m Series B in August in a round pulled together by Arix, co-led by Andera Partners (Paris) and LSP (Amsterdam). New investors included Novartis and Pfizer venture funds.

As part of the Financing, Arix, committed to invest £8m over two tranches; completed its remaining £1.5m Series A commitment and invested a further £0.6m by purchasing a stake from an existing shareholder. Following this investment, Arix became the largest shareholder in Artios, retaining a 12.4% stake on a fully diluted basis.

The financing recognised a 26% uplift in the book value of Arix's Series A investment in Artios. Arix's total interest in Artios, including current commitments, has risen to £15.3m, from £5.1m at December 2017.

Artios is now funded through five proof of concept studies – three for lead asset Polymerase Theta, and two for additional assets. The company has four first-in-class, highly differentiated assets in pipeline and a leading position on Pol Theta – the hottest target after PARP in DDR. We expect to select clinical candidates in the first half of 2019 and to start clinical testing in 2020

LogicBio

- Successful NASDAQ IPO, raising $80m
- Clinical trials commencing in 2019

LogicBio Therapeutics is a genome editing company focused on developing medicines to durably treat rare diseases in patients with significant unmet medical needs using GeneRide™, its proprietary technology platform.

Logic completed a key milestone in 2018 following its successful NASDAQ IPO in October. The company raised gross proceeds of $80 million and is now well positioned to develop ground-breaking solutions for patients with severe genetic diseases. Arix retains a stake of 12.9% in LogicBio following the IPO; at year-end the total value of Arix's shareholding in LogicBio is £24.3m, a £14.1m increase on total cash invested by Arix. We expect Phase 1 clinical trials to commence in Q4 2019.

VelosBio

- Co-investment with pharmaceutical partner Takeda
- Experienced team with a track record in generating value
- Phase 1 trial initiated in 2019

VelosBio, is a next-generation oncology company, developing novel antibody-drug conjugates (ADCs) to treat haematological cancers and solid tumours. ADCs are highly potent drugs designed as a targeted therapy for the treatment of people with cancer. In contrast to traditional chemotherapeutic drugs, ADCs only target cancer cells so that healthy cells are less affected. Velos was founded by the former Acerta team, which developed the approved blood cancer treatment, CALQUENCE (acalabrutinib), acquired by AstraZeneca for up to $7bn in 2015. This is a team with extensive experience in M&A, navigating clinical pathways and mitigating risk to get a drug to market.

Velos is a new portfolio company for 2018; we co-led the Series A with Sofinnova Ventures, investing $11m (£8.4m) for an 11.2% stake. Importantly this is a company sourced through our pharmaceutical partner Takeda, illustrating the importance of these partnerships, as not only potential acquirers and partners of our companies, but also as a further source of investment opportunities.

This investment broadens our oncology portfolio adding ADCs alongside a range of different therapeutic modalities including CAR-T, DNA damage response / synthetic lethality, bi-specific antibodies, and targeted viruses (Harpoon, Aura, Autolus, Artios).

Discovery Portfolio

Our discovery portfolio contains our earliest stage companies: Depixus, Mitoconix, PreciThera, OptiKira and a new seed company sourced through our relationship with The Max Planck Lead Discovery Center. These investments collectively are valued at £6.2m, accounting for 3.5% of gross portfolio value.

These investments offer exciting opportunities, but also carry higher risk. We invest small amounts at this stage, until milestones are met. We take a conservative approach to valuation, with a focus on preserving shareholder capital. To this end, OptiKira was written down by £0.3 million in the period to reflect slower than expected progress on delivering pre-clinical proof-of-concept and a pharmaceutical lead candidate. We have not reached the level of conviction in Mitoconix's lead programme necessary to justify maintaining its current valuation in our portfolio; as result our holding was written down by £0.6 million in 2018.

There remains cause for optimism about the portfolio more broadly, notably Depixus, which raised significant non dilutive funding in 2018 and is well poised for its next stage of development. In addition, we co-founded our first company, based on novel discoveries in the innate immune system emerging from the Max Planck Lead Discovery Center.

Outlook & catalysts

The year ahead will be important for a number of our portfolio companies as they reach significant clinical and development milestones during the year. We also continue to see a strong pipeline of opportunities through our global networks and partnerships, and expect to invest in new and existing portfolio companies over the course of the year. New investments will continue to be guided by the quality of the science, the commercial opportunity and, importantly, the potential benefits for patients.

Over the next 12 months, we expect to see 19 data readouts across the core portfolio, including four pivotal Phase 3 trials. Additionally we expect a further eight new trials to initiate within the next 12 months, including first clinical trials from LogicBio.

Catalysts expected in 2019:

Data readouts: 19 Trial initiations: 8+

PHASE 1
Data readouts:

8

1. Harpoon: HPN424 (Prostate Cancer)
2. Autolus: AUTO1 (Adult ALL)
3. Autolus: AUTO1 (Pediatric ALL)
4. Autolus: AUTO2 (Multiple Myeloma)
5. Autolus : AUTO 3 (Adult DLBCL)
6. Autolus : AUTO 3 (Pediatric ALL)
7. Autolus: AUTO4 (T Cell Lymphoma)
8. Pharmaxis: Lox-oral (Cancer)

PHASE 2
Data readouts:

7

1. Amplyx : APX001 (Invasive fungal infections)
2. Aura: AU-011 (Ocular melanoma) – additional update
3. Verona: RPL554 COPD (DPI)
4. Verona: RPL554 COPD (MDI)
5. Verona: RPL554 COPD (as add onto LAMA+LABA)
6. Pharmaxis: SSAO (NASH)
7. Imara: IMR-687 (Sickle Cell Disease)

PHASE 3
Data readouts:

4

1. AtoxBio- ACCUTE (Necrotising Soft Tissue Infections)
2. Iterum - SURE 3 (Complicated Intra-Abdominal Infections)
3. Iterum - SURE 2 (Complicated Urinary Tract Infections)
4. Iterum - SURE 1 (Uncomplicated Urinary Tract Infections)

PHASE 1/2
trial initiations:

7

1. Autolus: AUTO5 (Peripheral TCL)
2. Harpoon: HPN536 (MSLN/ Ovarian Cancer and other solid tumours)
3. Harpoon: HPN127 (Multiple Myeloma)
4. Logic Bio: Methylmalonic acidemia (MMA)
5. Pharmaxis : LOX (oral) – myelofibrosis
6. Pharmaxis: LOX (oral) for pancreatic cancer
7. Verona RPL1554 COPD (MDI)

PHASE 3
initiations: 1

1+

Autolus data could result in up to three Phase 2-3 trials commencing in H2 2019

PORTFOLIO REVIEW

Continued

Core Portfolio

ITERUM Therapeutics

Focus area: Anti-infectives
Value: £4.3m
Cost: £13.0m
% of gross portfolio: 2.5%
Remaining commitment: £nil

Developing novel anti-infectives aimed at combatting the global crisis of multi-drug resistant pathogens

AtoBio

Focus area: Immunology/anti-inflammatory
Value: £3.2m
Cost: £3.0m
% of gross portfolio: 1.7%
Remaining commitment: £3.1m

Novel immunomodulators for acute, life-threatening conditions resulting from severe acute inflammation caused by severe infections

aura

Focus area: Oncology
Value: £3.9m
Cost: £3.8m
% of gross portfolio: 2.2%
Remaining commitment: £nil

Novel, selective treatment for ocular melanoma

Verona Pharma

Focus area: Immunology/anti-inflammatory
Value: £2.5m
Cost: £3.6m
% of gross portfolio: 1.4%
Remaining commitment: £nil

Development and commercialisation of innovative prescription medicines to treat respiratory diseases with significant unmet medical needs

amplyx

Focus area: Anti-infectives
Value: £3.2m
Cost: £2.8m
% of gross portfolio: 1.8%
Remaining commitment: £1.9m

Novel small molecule therapy, APX001, for life-threatening fungal infections

pharmaxis

Focus area: Immunology/anti-inflammatory
Value: £6.4m
Cost: £8.0m
% of gross portfolio: 3.6%
Remaining commitment: £nil

Australian pharmaceutical R&D company focused on inflammation and fibrosis with a portfolio of products at various stages of development and approval

imara

Focus area: Rare diseases
Value: N/A – acquired post year-end
Cost: N/A
% of gross portfolio: N/A
Remaining commitment: N/A

Developing an orally-administered, highly potent and selective inhibitor developed to treat the underlying causes of the pathology of sickle cell disease

Autolus

Focus area: Oncology
Value: £81.5m
Cost: £20.8m
% of gross portfolio: 46.5%
Remaining commitment: £nil

Developing next-generation, programmed T-cell therapies for the treatment of cancer

HARPOON Therapeutics

Focus area: Oncology
Value: £23.9m
Cost: £14.5m
% of gross portfolio: 13.6%
Remaining commitment: £nil

Antibody-derived T-Cell Engaging Platform targeting solid tumours

VELOSBIO

Focus area: Oncology
Value: £5.2m
Cost: £5.1m
% of gross portfolio: 3.0%
Remaining commitment: £3.4m

Next-generation oncology company, developing novel antibody-drug conjugates ('ADCs') to treat haematological cancers and solid tumours

artios
DNA DAMAGE RESPONSE

Focus area: Oncology
Value: £10.9m
Cost: £9.6m
% of gross portfolio: 6.2%
Remaining commitment: £4.3m

A precision oncology medicine company targeting DNA damage response pathways in defined cancer populations

LogicBio
therapeutics

Focus area: Gene therapy/rare diseases
Value: £24.3m
Cost: £10.3m
% of gross portfolio: 13.9%
Remaining commitment: £nil

Gene therapy & editing for early-onset rare diseases

Discovery Portfolio

Depixus

Focus area: Epigenetic Sequencing
Value: £1.4m
Cost: £1.3m
% of gross portfolio: 0.8%
Remaining commitment: £0.1m

Completely novel approach for epigenomic sequencing & analysis

PRECITHERA

Focus area: Rare diseases
Value: £1.1m
Cost: £1.2m
% of gross portfolio: 0.6%
Remaining commitment: £4.6m

Precision medicine for orphan bone diseases

Mitoconix

Focus area: Rare diseases
Value: £0.2m
Cost: £0.8m
% of gross portfolio: 0.1%
Remaining commitment: £0.8m

Developing disease-modifying therapeutics for neurodegenerative diseases

OptiKira

Focus area: Rare diseases
Value: £1.0m
Cost: £1.3m
% of gross portfolio: 0.6%
Remaining commitment: £nil

Developing drugs that inhibit the unfolded protein response (UPR)

New SeedCo

Focus area: Imunology/anti-inflammatory
Value: £2.5m
Cost: £2.4m
% of gross portfolio: 1.4%
Remaining commitment: £2.8m

Inhibiting highly inflammatory processes in the innate immune system

PORTFOLIO REVIEW

Continued

INVESTMENT TEAM

Joe Anderson, PhD

Chief Executive Officer

Joe has over 30 years experience in the life sciences industry with a successful track record of generating investment returns. He was a partner at Abingworth LLP for 12 years, where he led venture-capital style investments in public companies. He has founded and managed public equities funds and been a director of Algeta (acquired by Bayer AG for $2.9 billion), Amarin plc, Cytos (merged with Kuros) and Epigenomics AG, and is currently a director of Autolus Therapeutics plc, which recently listed on the Nasdaq.

Joe began his career at the Ciba (now Novartis) Foundation, before joining 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 science companies.

Jonathan Tobin, PhD

Investment Director

Jonathan specialises in biotechnology investments. He currently sits on the board of Artios Pharma, Atox Bio, Mitoconix Bio and Arix's New SeedCo. Prior to joining Arix Bioscience, Jonathan spent five years at Touchstone Innovations (formerly 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. Jonathan also 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.

Mark Chin

Investment Director

Mark has over ten years of experience in the life sciences industry. He was previously a principal at Longitude Capital, where he focused on investments in both private and public biotechnology and medical technology companies. Prior to Longitude, he was a consultant at the Boston Consulting Group, where he was responsible for strategy and corporate development projects for pharmaceutical and biotechnology companies. Before BCG, Mark worked in corporate development at Gilead Sciences and market planning at Genentech. Mark has an MBA from The Wharton School at the University of Pennsylvania, an MS in Biotechnology from the University of Pennsylvania, and a BS in Management Science from the University of California at San Diego.

Christian Schetter, PhD

Entrepreneur in Residence

Christian has over 20 years experience in the life science industry. Prior to joining Arix Bioscience he was for four years CEO of Rigontec GmbH, a German Biotech start-up company in the immune oncology space. Christian led Rigontec to a successful acquisition mid 2017 by MSD valuing EUR 115 MM in upfront payment and additional EUR 349 MM in potential milestones. Between 2008 and 2014 Christian was President and CEO of Neovii Biotech, previously Fresenius Biotech. During his tenure one antibody product was brought to market and the indication for another product expanded. Christian was instrumental in selling Fresenius Biotech to the Neopharm Group, Israel, to form Neovii Biotech and positioning it as a successful stand-alone business. Before joining Fresenius, Christian was Senior Vice President, European Operations of Coley Pharmaceutical Group, Inc, a pioneer in the development of immunostimulatory oligonucleotides, and served as Managing Director of Coley GmbH. He was part of the leadership team which built Coley Pharmaceuticals from inception through multiple financing rounds, a NASDAQ IPO and, following a number of significant pharma deals, to a trade sale to Pfizer in 2007.

Before entering the life science industry Christian was successfully performing academic research at the Max Planck Institute in Martinsried, Germany. He received his undergraduate degree and PhD from the University of Cologne and did postdoctoral research in oncology and virology at the Scripps Research Institute in La Jolla, California.

Edward Rayner

Investment Director

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

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

Daniel O'Connell, MD, PhD

Investment Director

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

John Cassidy, PhD

Investment Associate

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.

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.

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.

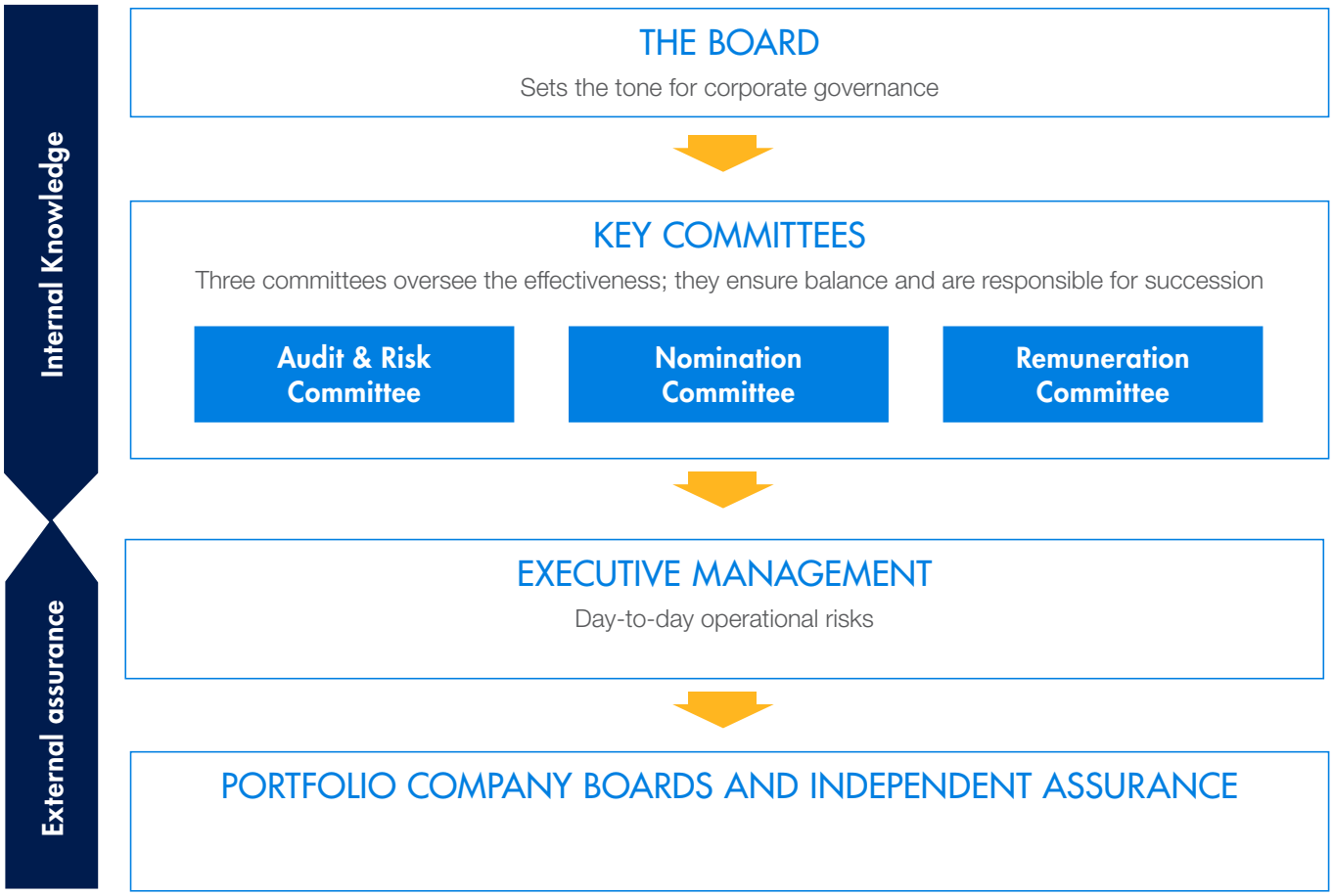
Executive management

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

Portfolio Company boards and independent assurance

The boards of our Portfolio Companies 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 Arix Capital Management, Arix Bioscience's FCA-regulated fund management subsidiary.



Principal risks and uncertainties

The principal risks to Arix have been robustly assessed in light of the current environment; these, along with the steps taken by Arix to manage such risks, are detailed below.

Risk	Impact	Mitigation
1 **Arix's portfolio companies may not generate the financial returns that are anticipated**	Arix's net assets increasingly comprise a range of portfolio companies; below-forecast performance from a portfolio company may adversely affect Arix's profitability and ability to generate positive cash flows from future realisations.	Arix has an experienced team responsible for identifying and developing portfolio companies, 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 portfolio companies and continues to develop 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 portfolio companies 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.
2 **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 portfolio companies and, as such, is reliant on its key personnel. Loss of key individuals could affect Arix's financial performance and future prospects.	Arix has a market-appropriate remuneration scheme for its senior employees. This includes share incentive schemes which reward personnel for long-term service and performance. Arix has three senior management members making up the Executive Committee performing active day-to-day roles who are able to provide emergency cover for each other over a short period. The Investment team comprises five individuals who offer cross-team support in the event of an absence. Therefore, the loss of a single key member of the investment or management team would be mitigated by the stature and experience of others within the organization. Arix's Nomination Committee is responsible for appropriate succession planning.
3 **Adverse market conditions may impact Arix's operational model**	An economic downturn may reduce opportunities for Arix to realise capital from portfolio companies, affecting cash flow and financial performance if business valuations are reduced. The availability of capital for any external fundraising by Arix or its portfolio companies may also be affected.	Arix's strategy is to deploy capital into innovative businesses which have unique, high impact outcomes; Arix believes that such businesses are less susceptible to macroeconomic cycles. Arix has funded portfolio companies across a range of geographies, including the UK, USA, Europe, Canada, Israel and Australia. 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 throughout the period assessed in the viability statement.

RISK MANAGEMENT

Continued

Risk	Impact	Mitigation
4 **Changes to government policy or regulation in the research, healthcare or life sciences industries**	A change in government regulation (for example CFIUS in the United States) may adversely affect the profitability of the healthcare and life sciences industry, reducing possibly the number of investment opportunities, availability of external funding or potential exit opportunities.	Arix's portfolio is diversified by geography, with exposure to the UK, USA, Europe, Canada, Israel and Australia. As such, the portfolio is diversified against the adverse actions of any one government.
5 **Brexit may have an impact beyond the risks described above in terms of by severity of a downturn or the nature of the impact**	Specific impacts could include: • a depressed UK capital market that does not support the raising of capital • a reduction in government-funded research in biotech, leading to reduced investment opportunities	Arix has the ability to withstand a depressed capital market, including the ability to dispose of a portion of its listed investments; withhold funds that are reserved for the existing portfolio; the ability to issue up to 10% of share capital to a new investor; and the possibility to arrange loan finance secured on its balance sheet assets. Arix also holds cash reserves to cover two years of operating costs. Arix's investment appetite is unconstrained globally resulting in a pipeline with a broad geographical spread. This means that a variation in the pipeline of opportunities coming from one country would not materially damage Arix's ability to continue its core business.

Viability statement

The Board has assessed the prospects of Arix over a period greater than 12 months. We have considered a period of three years from the balance sheet date, as the Board expects the majority of Arix's current commitments and new proceeds raised to be committed over the next three years.

The Board has carried out a rigorous assessment of the principal risks and their mitigants, noted above. The Board assessed Arix's business model, particularly its approach to future cash commitments to existing portfolio companies. One key area modelled is the ability to manage the risk of over-commitment to portfolio companies by reviewing cash flow projections, which included scenarios with differing impacts to the cash flow forecast inputs. Key judgements reflected how future cash requirements may change from restrictive regulations, and how availability of capital may be restricted from the loss of key personnel.

Based on its review, and the consideration of any changes that had occurred post year-end, 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 from the date of this report and confirm that preparing the financial statements on a going concern basis is appropriate.

Jonathan Peacock
Chairman
28 March 2019

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.

Organization 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 with the Group's consolidated financial statement.

An operational control approach has been used in order to define our organizational 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 ended 31 December 2018 were:

- 29.8 tonnes of CO_2 equivalent (tCO2e) using a 'location-based' emission factor methodology for Scope 2 emissions;
- 22.0 tonnes of CO_2 equivalent (tCO2e) using a 'market-based' emission factor methodology for Scope 2 emissions.

Intensity Ratio

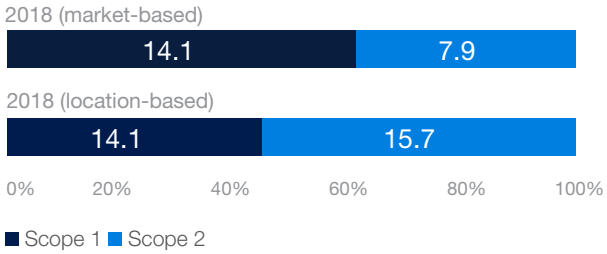
As well as reporting the absolute emissions, the Group's GHG emissions are reported below on the metrics of tonnes of CO_2 equivalent per employee and tonnes of CO_2 equivalent per square foot of the occupied areas. These are the most appropriate metrics given that the majority of emissions result from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

Breakdown of emissions by scope

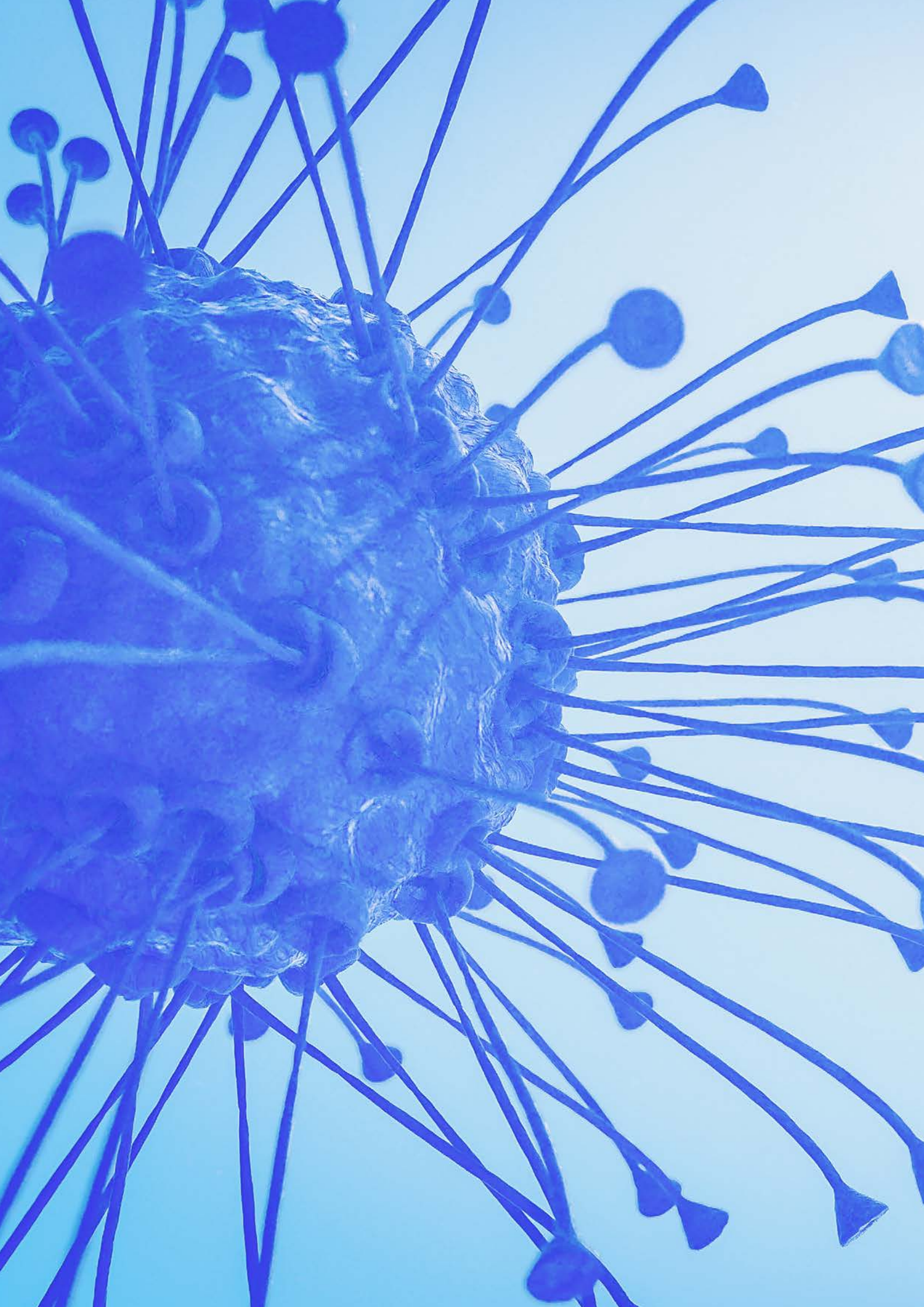


GHG emissions	2018			2017		
	Tonnes CO_2e	tCO_2e / emp.[4]	tCO_2e / sq. ft.[5]	Tonnes CO2e	tCO_2e / emp.[4]	tCO_2e / sq. ft.[5]
Scope 1	14.1	0.88	0.002	14.1	0.88	0.002
Scope 2	15.7	0.98	0.002	18.5	1.15	0.002
Scope 3	7.9	0.49	0.001	7.0	0.44	0.001
Total GHG emissions (Location-based Scope 2)	**29.8**	**1.86**	**0.003**	**32.6**	**2.04**	**0.004**
Total GHG emissions (Market-based Scope 2)	**22.0**	**1.37**	**0.003**	**21.2**	**1.32**	**0.003**

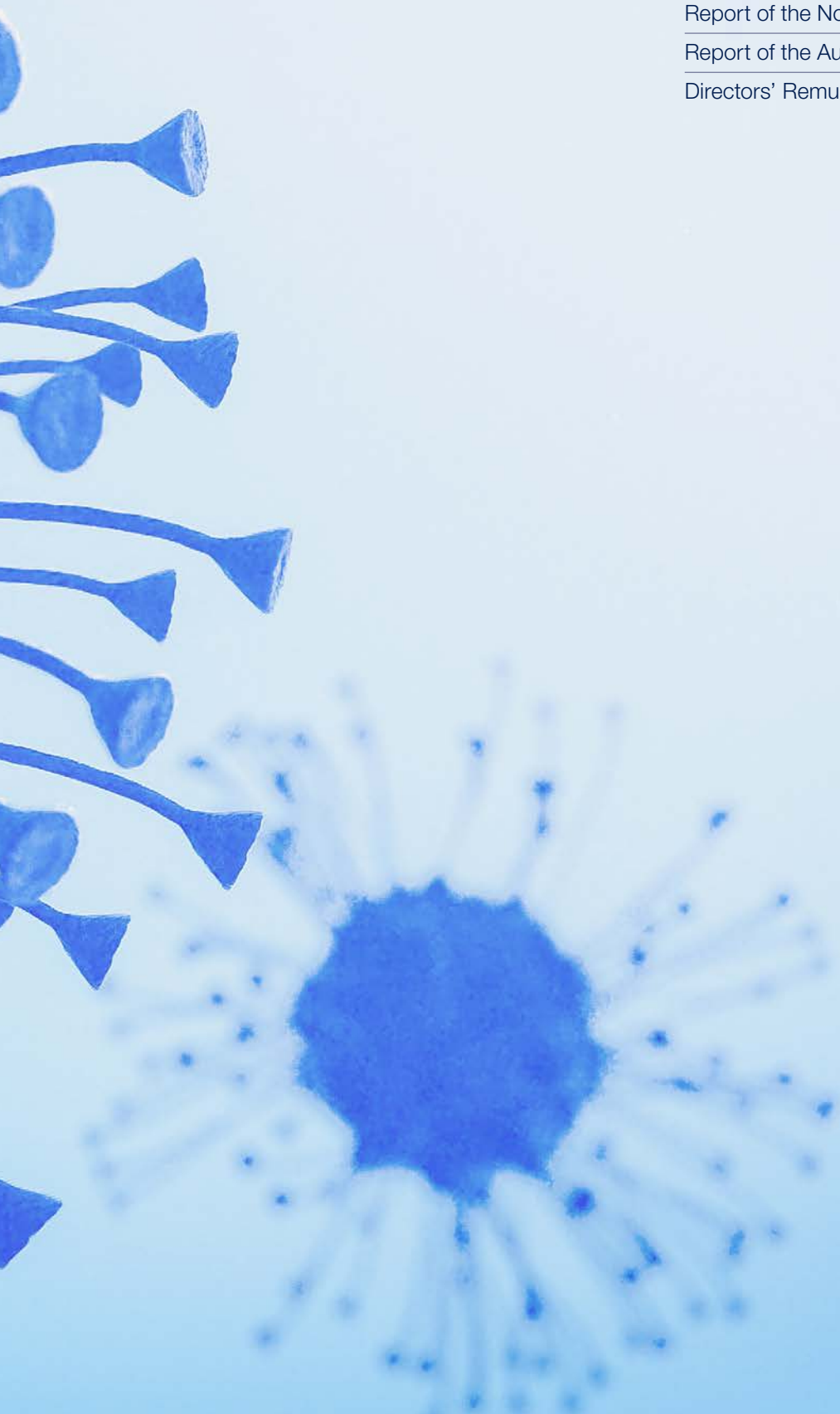
[1] Scope 1 being emissions from the Group's combustion of fuel and operation of facilities.
[2] Scope 2 being electricity (from location-based calculations), heat, steam and cooling purchased for the Group's own use.
[3] Scope 2 being electricity (from market-based calculations), heat, steam and cooling 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



MANAGEMENT TEAM

Joe Anderson, PhD

Chief Executive Officer

Joe has over 30 years experience in the life sciences industry with a successful track record of generating investment returns. He was a partner at Abingworth LLP for 12 years, where he led venture-capital style investments in public companies. He has founded and managed public equities funds and been a director of Algeta (acquired by Bayer AG for $2.9 billion), Amarin plc, Cytos (merged with Kuros) and Epigenomics AG, and is currently a director of Autolus Therapeutics plc, which recently listed on the Nasdaq.

Joe began his career at the Ciba (now Novartis) Foundation, before joining 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 science companies.

Robert Lyne

Chief Operating Officer

Robert has over 10 years' experience working with high growth technology companies. In addition to his role as Chief Operating Officer, Robert acts as the Company's General Counsel and Company Secretary.

He began his career as a lawyer at international law firm Bird & Bird LLP in London. He has advised on over 60 venture capital financings in Europe and North America as well as multiple trade exits and IPOs, working with both company boards and investors to execute complex cross-border transactions.

Robert Joined Arix in 2017 from Touchstone Innovations plc where he worked with a number of venture-backed biotechnology companies, both private and public.

Robert has a BA from the University of Oxford and an LLB from Oxford Brookes University.

James Rawlingson

Chief Financial Officer

James has over 20 years experience at board and senior management level gained across financial services, investment companies and public companies. His former roles include Group CFO of Coutts, the red carpet UK bank and wealth management division of RBS, where he held global responsibility for the finance function, and Group CFO of Charles Stanley plc, a leading UK wealth manager and fund manager.

In 1991 James joined Chase Manhattan Bank where he restructured the UK finance division following a merger with Chemical Bank. He joined UBS Investment Bank as CFO of SG Warburg & Co in 1996 where he de-authorised the UK bank ahead of a merger of UBS and SBC banks.

In 2001 James became the UK CFO of UBS Wealth Management and in 2004 moved into a global role with UBS Wealth based in Zurich. During his time at UBS he was also a director of UBS Hedge Funds Solutions Ltd.

In 2005 James joined Coutts and became global CFO whilst also serving on the boards of Coutts Finance Co, Adam & Company plc (a Scottish private bank) and was also a Non Executive Director of RBS Collective Investments Ltd where he chaired the Audit Committee.

In 2011 he moved to Charles Stanley plc, a leading wealth manager and fund manager, as Group CFO.

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

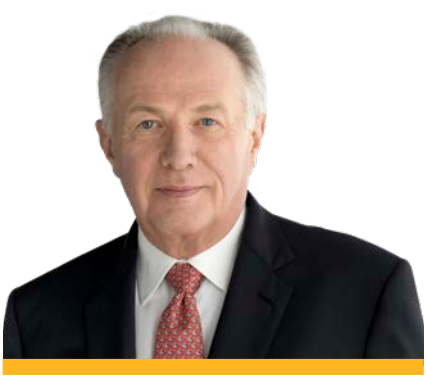
BOARD OF DIRECTORS

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 November 2016 and is currently the Chairman; he also sits on the board of Avantor, Inc. He was formerly 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.



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 Chairman 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 – Nomination Committee and 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 – Audit and Risk Committee

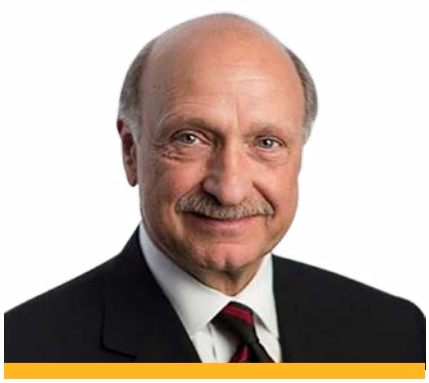
BOARD OF DIRECTORS

Giles Kerr

Non-Executive Director

Giles has over 35 years experience in finance across a broad range of industrial sectors with a particular focus on life sciences. He was formerly CFO of the University of Oxford and during his tenure he established a successful investment office with £4bn 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 Abcam plc and Adaptimune Therapeutics plc. Prior to joining Amersham plc he was an audit partner with Arthur Anderson & Co.

Committee membership – Audit and Risk Committee



Art Pappas

Non-Executive Director

Art Pappas has over 30 years experience as a pharmaceutical and biotechnology industry executive, and venture capital investor in life science companies. He is the founder and managing partner of Pappas Capital, a leading US venture firm. Prior to founding Pappas Capital in 1994, Art was an executive member of the board of directors of Glaxo Holdings plc (NYSE: GLX, now GSK), and served as Glaxo's chief executive responsible for international operations, including research, development and manufacturing. Prior to Glaxo, Art held various senior executive positions with Abbott International, Merrell Dow Pharmaceuticals, and the Dow Chemical Company. He previously served as Chairman and founding CEO of CoLucid Pharmaceuticals (NASDAQ: CLCD) (acquired by Eli Lilly), and on the boards of Afferent Pharmaceuticals (acquired by Merck), Chimerix (NASDAQ: CMRX), Quintiles Transnational Corp. (NASDAQ: QTRN, now NASDAQ: IQV), TYRX (acquired by Medtronic), Syntonix Pharmaceuticals (acquired by Biogen), LEAD Therapeutics (acquired by BioMarin), and Embrex (NASDAQ: EMBX) (acquired by Pfizer). Art is a member of the Board of Directors of the North Carolina Biotechnology Center, where he was a past chair, and the Medical University of South Carolina Foundation for Research Development. He is a member of the Board of Trustees of The Wistar Institute (a National Cancer Institute centre), and the Board of Advisors of the Duke Cancer Institute. He previously served on the Board of Directors of the National Venture Capital Association. Art is a decorated Vietnam veteran, having served as an officer in the US Army 101st Airborne Division and the 2nd PSYOP Airborne Group JFK Special Warfare Center.

Committee membership – Nomination Committee and Remuneration Committee

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 Organization Commission on Intellectual Property Rights, Innovation and Public Health. In 2003 he was awarded the CBE for services to the pharmaceutical industry.

Committee memberships – Remuneration Committee

DIRECTORS' REPORT

For the year ended 31 December 2018

The Directors present their report for the year ended 31 December 2018. Additional information which is incorporated by reference into this Directors' Report, including information required in accordance with the Companies Act 2006, can be found as follows:

Disclosure	Location
Important events affecting the Company since the year-end, future business developments and research and development activities	Strategic Report pages 08 to 55
Financial risk management objectives and policies (including hedging policy and use of financial instruments)	Notes to the financial statements pages 106 to 120
Going concern	Strategic Report page 54
Statement of Directors' responsibilities	page 63
Diversity Policy	Report of the Nomination Committee pages 68 to 69
Details of long-term incentive schemes	Note 18 to the financial statements pages 106 to 120
Waiver of emoluments by a Director	Directors' Remuneration Report pages 74 to 93
Compensation for loss of office arrangements	Directors' Remuneration Report pages 74 to 93

For the purposes of LR 9.8.4CR, the information required to be disclosed by LR 9.8.4R can be found in the following locations:

Disclosure	Location
Interest capitalised	Not applicable
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Directors' Remuneration Report pages 74 to 93
Waiver of emoluments by a Director	Directors' Remuneration Report pages 74 to 93
Waiver of future emoluments by a Director	Directors' Remuneration Report pages 74 to 93
Non pre-emptive issues of equity for cash	Not applicable
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contract of significance in which a director is interested	Not applicable
Contract of significance with a controlling shareholder	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waiver of dividends	Not applicable
Shareholder waiver of future dividends	Not applicable
Agreements with controlling shareholder	Not applicable
Compensation for loss of office arrangements	Directors' Remuneration Report pages 74 to 93

The Strategic Report on pages 08 to 55 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

DIRECTORS' REPORT

For the year ended 31 December 2018

Directors

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

- Jonathan Peacock
- Professor Sir Chris Evans**
- Joe Anderson*
- James Rawlingson
- Dr Franz Humer
- Professor Trevor Jones
- Giles Kerr
- Meghan Fitzgerald
- Art Pappas *Appointed 12 September 2018*
- The Right Hon. Lord Hutton of Furness *Resigned 31 May 2018*
- David U'Prichard *Resigned 12 September 2018*

Non-independent
Independent
Past Directors

* Resigned 4 Septemeber 2018, re-appointed 19 February 2019

** Resigned 19 February 2019

Results and Dividend

The results for the year ended 31 December 2018 are set out in the Consolidated Statement of Comprehensive Income on page 102.

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 portfolio companies. Accordingly, the Board is not recommending a dividend for the year ended 31 December 2018.

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 2018, the Company's share capital consisted of:

- 134,823,243 Ordinary Shares of £0.00001 each (99.96% of total share capital by number, 2.64% by nominal value)
- 49,671 C Shares of £1.00 each (0.04% of total share capital by number, 97.36% by nominal value)

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 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 then anticipated date of admission (subject to certain usual and customary exemptions and exceptions on the transfer of shares); these agreements ended on 22 February 2018.
- 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.
- Pursuant to a lock-up deed dated 15 August 2018, Christopher Chipperton agreed following a sale of Ordinary Shares not to offer sell, pledge or otherwise dispose of any further Ordinary Shares held by him until 15 August 2019 (subject to usual and customary exceptions, for example when the Company has given consent to any such transfer). Christopher Chipperton further agreed that any disposals made in the 12 months after 15 August 2019 would be effected through the Company's broker to ensure an orderly market in the Ordinary Shares.

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 17 May 2018, 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 13,476,401 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 2019.

Directors' interests

The number of Ordinary Shares of the Company in which the Directors were beneficially interested at 31 December 2018, is set out in the Directors' Remuneration Report on page 90.

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 2018:

	As at 31 December 2018		As at 21 March 2019	
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	33,093,560	24.5%	33,093,560	24.5%
Fosun International	11,111,111	8.2%	11,111,111	8.2%
Ruffer	8,221,088	6.1%	8,221,088	6.1%
Takeda Ventures	7,497,583	5.6%	7,497,583	5.6%
Christopher Evans (including restricted shares)	7,316,039	5.4%	7,316,039	5.4%
Christopher Chipperton (incl. restricted shares)	7,037,914	5.2%	7,037,914	5.2%
Ipsen	6,666,666	5.0%	6,666,666	5.0%
Barclays Wealth	5,922,694	4.4%	5,865,446	4.4%
UCB	5,647,679	4.2%	5,647,679	4.2%
FIL Investment International	5,008,727	3.7%	4,736,462	3.5%
Wicklow Family Office	4,607,999	3.4%	4,607,999	3.4%

Political donations

The Group 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 3 June 2019 at 10.30am. The Notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

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 58 to 60, 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
28 March 2019

CORPORATE GOVERNANCE REPORT

Chairman's Introduction to Corporate Governance

Jonathan Peacock
Chairman

Dear Shareholders,

Following the listing of the company's ordinary shares on the London Stock Exchange Main Market in February of 2017, the Board has focused on both supporting the company to achieve its strategic goals set out during the listing process and on high standards of corporate governance. At listing we appointed a number of highly experienced Non-Executive Directors. This year there have been further changes which I believe have strengthened the Board and the executive governance of the Company in preparation for the further growth. In February 2019 we clarified the executive governance of the Company when the Board confirmed Dr Joe Anderson in the CEO role and at the same time I stepped into a Non-Executive Chairman role and Sir Chris Evans stepped off the Board but remains a consultant to the Company. Three years after founding the company and with important contributions by all three founders to building Arix, this was an important and natural evolution of our governance model. Also in September 2018, the Board welcomed Mr Art Pappas, who joined the Board as an independent Non-Executive Director. Mr Pappas has extensive experience both as a senior executive in the pharmaceutical industry and in building his own leading life sciences firm in the United States, Pappas Capital. Mr Pappas has already made a great contribution in his short tenure so far, and I'm sure he will continue to do so.

During the year Lord Hutton and David U'Prichard retired from the Board. Both helped to oversee the Company's growth as a private company and since its successful IPO. It was a pleasure and a privilege to work with Lord Hutton and David, I would like to thank them both for their invaluable 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 UK Corporate Governance Code throughout 2018. We also discuss our focus for the coming year with reference to the revised UK Corporate Governance Code, published in July 2018 (the "New Code").

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. During the year 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.

B.6.1 – The Board has not carried out a performance evaluation to date. Since the IPO in February 2017 there have been a number of changes to the membership of the Board, some of which took place more recently. In 2018, the Board considered a performance evaluation and it has been agreed it would be most appropriate to conduct a review towards the end of 2019, which would then be reported on in the following year's Annual Report and Accounts. A high level review process of the Board's processes and governance practices is also planned to be carried out internally during the course of 2019.

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 eight Directors (including the Chairman), five of whom are considered to be independent.

Senior Independent Director

Franz Humer is the Senior Independent Director (SID). The SID's role is to act as a sounding board for the Chairman and serve as an intermediary for the other Directors when necessary. The SID will meet other Non-Executive Directors without the Chairman present at least once a year, to appraise the Chairman's performance, taking into account the views of Executive Directors, plus on such other occasions as are deemed appropriate. The SID is also available to shareholders should they wish to discuss concerns they have failed to resolve through the normal channels of Chairman, Chief Executive Officer or Executive Directors or for which such contact is inappropriate.

Responsibilities of the Board

Focus	Operation
Leadership, strategy and management	• Providing leadership and setting values and standards • Approving the Company's strategic aims and objectives • Overseeing operations
Structure and capital	• Changes to the Group's capital or corporate structure • Changes to the Group's management and control structure
Financial reporting	• Approval of financial statements • Approval of the dividend policy • Approval of material changes in accounting policies • Approval of major capital expenditure
Risk management and internal controls	• Ensuring maintenance of a sound system of internal control and risk management • Determining the principal risks of the Company and how they are managed and mitigated • Reviewing the effectiveness of the risk and controls processes
Board membership	• Changes to the structure, size and composition of the Board • Ensuring adequate succession planning • Appointment or removal of the Chairman, CEO, SID and Company Secretary
Corporate governance	• Review of Group's overall governance framework • Determining the independence of Directors • Considering the balance of interests between shareholders and other stakeholders • Authorising any conflicts of interest
Remuneration	• Determining the policy for remuneration of Chairman, the Executive Directors, Company Secretary and other senior executives • Determining the remuneration of the Non-Executive Directors • Introducing new share incentive plans or major changes to existing plans
Other	• Approval and monitoring of the share dealing code • Approval and monitoring of CSR • Approving policies and political and charitable donations • Approval of the overall levels of insurance for the Group

CORPORATE GOVERNANCE REPORT

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. The Board reviewed and considered the feedback received from the proxy voting advisers during the year, particularly around the external directorship of Jonathan Peacock on the board of Bellorophon Therapeutics, Inc. and the Board is satisfied that Mr Peacock devotes sufficient time to his role with the Company.

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.

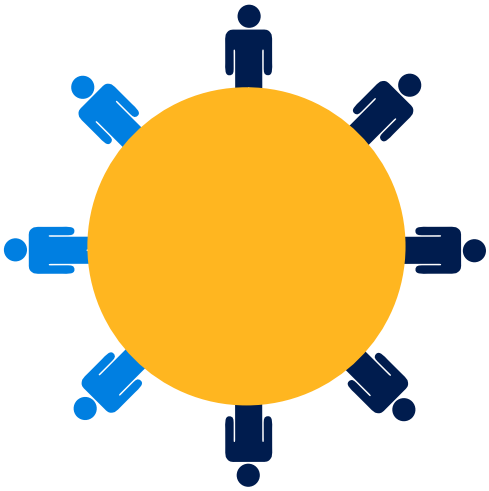
The Chairman and Non-Executive Directors have met without the Executive Directors present on a number of occasions throughout the year.

Board attendance

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

Attendance is expressed as the number of scheduled meetings attended out of the number of such meetings possible or applicable for the Director to attend

Board independence



Non-independent

- Jonathan Peacock
- Joe Anderson
- James Rawlingson

Independent

- Franz Humer
- Giles Kerr
- Art Pappas
- Trevor Jones
- Meghan Fitzgerald

* As at 27 March 2019. Meghan Fitzgerald stepping down 1 April 2019; Mark Breuer joining 25 April 2019

Read more about the Board of Directors on page 58 to 60

Training and development

The Company Secretary regularly provides the Board with updates on Corporate Governance and regulatory matters at Board meetings. A formal and tailored 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

All of the current Directors have either been appointed since the Company commenced trading in January 2016; or appointed as part of further changes in 2017 and 2018. Accordingly, the Board has considered the evaluation and has concluded that a meaningful evaluation of the Board will be conducted towards the end of 2019. The Board will consider an annual evaluation policy during 2019, alongside its high-level internal review of Board processes and governance practices.

Dialogue with shareholders

The Company has a Head of Investor Relations. 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.

Annual General Meeting

The Company's Annual General Meeting will take place on 3 June 2019 at the offices of Brown Rudnick, 8 Clifford Street, London W1S 2LQ at 10.30am.

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 as soon as practicable after the meeting.

Consideration of the 2018 UK Corporate Governance Code (the "New Code")

The Board has considered the New Code, which applies to financial years commencing on or after 1 January 2019.

The Board will carriy out a detailed analysis of the impact of the New Code during 2019. We will report further on any changes to the Company's governance framework in next year's Annual Report and Accounts.

Jonathan Peacock
Chairman

REPORT OF THE NOMINATION COMMITTEE

Art Pappas
Chairman of the Nomination Committee

Composition

- Art Pappas (Chairman)
- Franz Humer

Dear Shareholders,
On behalf of the Board, I am pleased to present the Nomination Committee report for the year ended 31 December 2018.

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:

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.

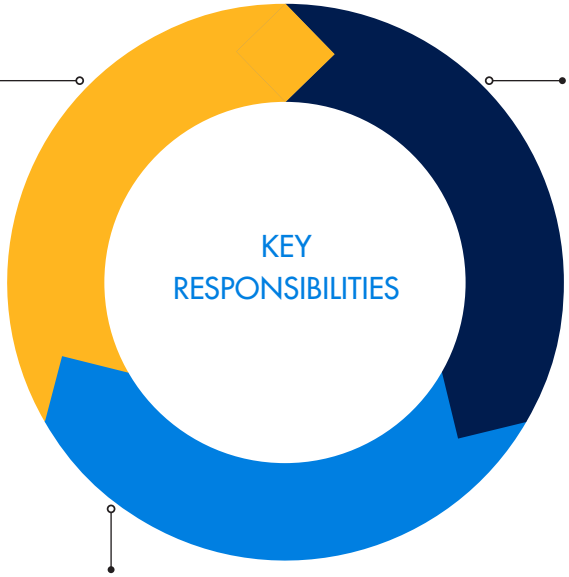
The Nomination Committee has met this year to discuss the following matters:

- 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

Board changes

There were a number of Board changes during the year as explained in the Corporate Governance Report. Following the appointment of Art Pappas, the Committee also recommended his appointment as a member of the Remuneration Committee and Nomination Committee. The Committee continues to monitor the membership of the Board's Committees to ensure that each Committee has a suitable balance of skills as well as taking into consideration the length of service of the members.

The Committee chose to use an independent external search consultant, Korn Ferry, for new Non-Executive Director appointments. The Committee set the profile and criteria to be used in the search.



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

Diversity

During 2018 the Company has had a Diversity Policy in place. 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 12.5% (one) female and 87.5% (seven) male board members. The Group consists of 71% (10) male employees and 29% (four) female employees; no employees other than board members are classified as senior managers. The Board intends to formally adopt a Gender Diversity Policy during the course of 2019 and we will report on this in our next Annual Report and Accounts.

Annual evaluation

As explained in the Corporate Governance Report, the Board and its Committees have not yet conducted a formal performance evaluation. An externally facilitated evaluation of this Committee's performance is planned to be carried out during 2019.

Art Pappas
Chairman of the Nomination Committee
28 March 2019

REPORT OF THE AUDIT AND RISK COMMITTEE

Giles Kerr
Chairman of the Audit and Risk Committee

Composition

- Giles Kerr (Chairman)
- Meghan Fitzgerald

Dear Shareholders,

On behalf of the Board, I am pleased to present the Audit and Risk Committee report for the year ended 31 December 2018.

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. In line with the Code, the Audit and Risk Committee as a whole is deemed to have competence relevant to the sector in which the Company operates.

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.

The Committee has 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
28 March 2019

Duties and responsibilities

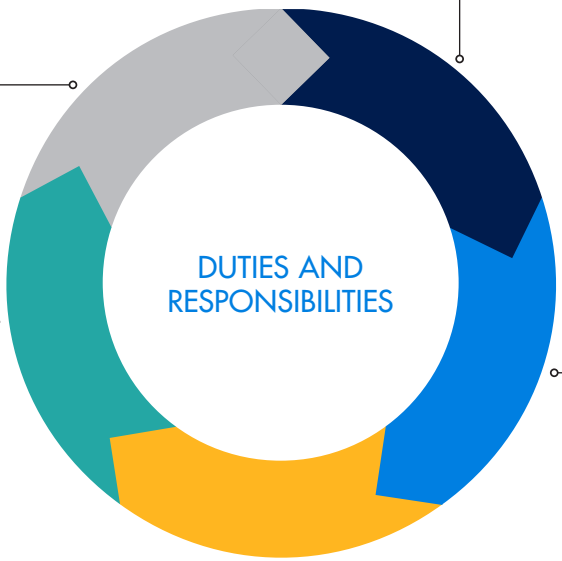
The Audit and Risk Committee's duties and responsibilities are set out in its terms of reference which are available on the Company's website.

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 during the year:

The Audit and Risk Committee has met three times during the year. Matters discussed have included:

- Reviewing the Committee's terms of reference and recommending changes to the Board
- Reviewing the Company's internal controls environment
- Reviewing the Company's Whistleblowing Policy
- Reviewing the Company's Treasury Policy for recommendation 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 Accounts 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 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 2018 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 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. The Audit and Risk Committee also reviewed and considered the key assumptions for the valuation of the financial interest in The Wales Life Sciences Investment Fund, 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 independent, external 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. The Committee noted that the inputs into, and disclosures and accounting policies included, in the annual report are reviewed by people with relevant financial experience and knowledge of the business, up to and including the Audit and Risk Committee. The Committee concluded that management has presented the report in a suitable manner, and that it is fair, balanced and understandable.

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 52 to 54.

The Group's system of internal control comprises entity-wide high level controls, controls over business processes and centre level controls. Policies and procedures are 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. Having discharged 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 organizational structure, with defined responsibilities and levels of authority;
- ensuring there are documented policies & procedures in place; and
- reviewing regular reports containing detailed information regarding financial performance, rolling forecasts, actual and forecast covenant compliance and financial and non-financial KPIs;

no significant failings or weaknesses were identified.

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 reviews the need for an internal audit function at least annually but following the most recent review in December 2018 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 three years.

PwC 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 2018, PwC was engaged to provide certain non-audit services as Reporting Accountant for the Company's capital raising in March 2018. This included the preparation of reports on the Company's financial position and prospects, working capital and reporting to the Company's sponsors on the Company's business and operations. PwC also provided reward services during the year in which they reviewed the Company's post-IPO reward structure and remuneration policies. In approving the use of PwC to provide these services, the Board took the view that PwC's knowledge of the Company and its operations meant it was best placed to provide the services, and was comfortable that PwC's independence would not be compromised.

The fees paid to PwC for non-audit services during the period totalled £195,000, representing 115% 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 reviews the policy periodically. The Audit and Risk Committee, on behalf of the Board, reviewed the Group's whistleblowing arrangements in December 2018 and it was considered that they were still appropriate in their current form.

Giles Kerr
Chairman of the Audit and Risk Committee
28 March 2019

DIRECTORS' REMUNERATION REPORT

Franz Humer
Chairman of the Remuneration Committee

Composition

- Franz Humer (Chairman)
- Trevor Jones
- Art Pappas

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 2018 Directors' Remuneration Report.

As discussed elsewhere in the Annual Report, Arix made significant progress during 2018, with significant increase in net asset value, driven by solid portfolio growth. The Company also underwent a period of management transition, culminating in the reappointment of Joe Anderson as CEO in February 2019, Jonathan Peacock becoming Non-Executive Chairman and Sir Chris Evans retiring from the Board.

The Committee has had a busy year. Early in 2018 we finalised our approach to the Executive Directors' pay arrangements for the year. We embarked on a detailed review of the Directors' remuneration policy to ensure that it remains fit for purpose in the context of Arix's development over the period since IPO and to take into account developments in corporate governance good practice. Korn Ferry were appointed as independent advisers to assist with this review and with other Committee matters. The appointment was made after a competitive selection process, and they have been retained on a clear mandate to provide objective and independent advice to the Committee.

After the year end we met to agree bonus outcomes in respect of 2018 and among other things set the parameters of the long-term Executive Incentive Plan ("EIP") award to be made in 2019. We also agreed the remuneration packages of Joe Anderson and Jonathan Peacock in their new roles and the termination arrangements for Sir Chris Evans.

Business Performance and Remuneration Outcomes for 2018

During the year, Arix's gross portfolio value increased by £122m, while four portfolio companies successfully listed on Nasdaq during or just after the year-end. Taking into account the performance achieved, the Committee determined that bonuses for the Executive Directors should be paid at levels of 75% of the maximum. A full breakdown of the performance conditions and level of performance achieved can be found on page 88. The Committee considered whether to require a portion of the bonus to be deferred into shares but agreed that this was not necessary at the current time given the significant shareholdings of the majority of the management team.

No shares vested under the EIP in respect of 2018 as the first grant under this three-year plan was made in 2017.

EIP grants are made to reflect performance in the preceding year and we made a further EIP grant in June 2018. Vesting of this award will take place in 2021 subject to the satisfaction of performance targets based on the growth in Arix's share price over the three-year vesting period. Share price remains a key barometer of Arix's success and is clearly aligned with shareholder interests. The award starts to vest for compound growth of 7% per annum, rising to full vesting for compound growth of 20% per annum. These targets are lower than those which applied to the 2017 EIP grant to recognise the impact of the capital raise in early 2018 which introduced a substantial amount of cash onto the balance sheet, thus potentially limiting the growth in the share price in the immediate term. The Committee believes that those targets remain very challenging.

Changes to the Board of Directors

During 2018 the Committee also agreed the termination of employment arrangements for Joe Anderson at the time of his change of role from CEO to CIO, a non-Board position. In early 2019 the Committee agreed new arrangements for Joe in light of his reappointment as CEO. Full details of what was agreed are set out on page 89. In brief, we have reappointed Joe on similar terms to those under which he served as CEO prior to moving to the CIO role. His basic salary and annual bonus opportunity remain the same and he will continue to be eligible for annual grants under the EIP. We considered carefully the appropriate treatment

for his outstanding equity awards, and decided to preserve the arrangements which were entered into in good faith at the time Joe left the Board in 2018. A portion of the awards, therefore, retain the good leaver status we assigned to Joe in 2018 so that he has not been penalised for agreeing to return to the CEO role. As part of negotiating Joe's return as CEO and to provide a further incentive to him to drive performance at Arix over the coming years, the Committee also agreed an amendment to his Founder Options such that the exercise price for these options will reduce on a gradual basis over the next five years. The Founder Options were a legacy arrangement granted prior to Arix's IPO in 2017 and are not part of the remuneration policy approved by shareholders at the 2017 AGM. The Committee believes that these arrangements are fair and appropriate in the context of Joe's return to the Board and will help ensure his ongoing alignment with shareholder interests.

We also agreed new remuneration terms for Jonathan Peacock following his move from Executive to Non-Executive Chairman in February 2019. In his new role, Jonathan will receive an annual fee of £100,000. He will not be eligible for a bonus for any part of 2019 or in any future year. He will receive an EIP award in 2019 as the grant of this award is considered by the Committee to be an element of his compensation in respect of 2018, when he served as an Executive Director. The award will be made at a level of 100% of the basic salary he received as an Executive Director in 2018. He will receive no further grants under the EIP.

Jonathan received a payment of £200,000 (less than his contractual entitlement) in respect of the termination of his executive service agreement without the notice being served. This was deemed appropriate in light of the other Board changes taking place at the time. The Committee has deemed Jonathan to be a good leaver for the purposes of his outstanding EIP awards; these will vest in the normal course, subject to the satisfaction of the relevant performance conditions. His unvested Founder Options will continue to vest provided that he remains a Director.

As also announced in February 2019, Sir Chris Evans stepped down from the Board although remains as a consultant to the Company. He received a payment in lieu of notice of £250,000, equivalent to 12 months' basic salary, in connection with the termination of his service agreement with the Company. The Committee took the view that a payment in lieu of notice was appropriate given the other changes taking place and the desire to move forward with a new Board structure. We also agreed how Sir Chris's outstanding share awards would be treated. In addition, he will be engaged on an amended consultancy agreement after April 2019 at a rate of £4,166 per month (equivalent to £50,000 per annum), which is significantly lower than his current consultancy fee. We look forward to continuing to having access to Sir Chris's expertise in his new role.

Full details of the above arrangements are included later in this report.

Our Revised Remuneration Policy and Its Implementation in 2019

As noted above, we have reviewed the Directors' remuneration policy during the year and we will be asking shareholders to approve a revised policy at the AGM on 3 June 2019. The policy remains based on the key principles agreed prior to approval of the current policy in 2017. These principles include ensuring strong alignment with shareholder interests, supporting a high-performance culture with appropriate rewards for superior performance and providing competitive remuneration which is set at an appropriate level to attract, retain and motivate high-quality executive management.

We are not proposing radical changes to the policy, and nor are we asking shareholders to approve any material increases to the current limits on incentive opportunities within the policy. The only change to quantum is to increase the individual annual bonus opportunity from 100% to 125% of basic salary. The purpose of this is to provide an appropriate level of flexibility for the Committee during the three-year period covered by the new remuneration policy. There is no current intention to apply a bonus limit beyond 100% of salary, which will be the maximum opportunity for 2019. We are also proposing a number of changes to reflect developments in corporate governance best practice, to increase the level of alignment with shareholders and to ensure that the policy is up to date. The changes include formally introducing a two-year post-vesting holding period to EIP awards (applying with effect from the awards granted in 2019), reducing the amount of an EIP award which vests for threshold performance from 66.7% to 25% of an award and introducing a provision which permits the Committee to use its discretion to override the formulaic outcomes of incentive schemes. A full list of the changes is set out on page 77.

At the time of writing, the Committee is in the process of consulting with major shareholders on these changes. In the notice to be published in advance of the AGM we will confirm whether any amendments to the policy have been agreed following the shareholder consultation exercise.

The Committee has considered carefully how the remuneration policy should apply throughout the organization and has determined that the principles and the overall structure of reward should be the same for other employees as for Executive Directors.

For 2019, it is our intention to implement the remuneration policy for Directors as follows:

- Joe Anderson's salary as CEO is set at £500,000, the same as he was paid prior to moving to the role of CIO in 2018. The salary of the CFO, James Rawlingson, has been increased by 3% with effect from 1 January 2019 and is now set at £278,100. This increase is consistent with (and in some cases less than) increases across the workforce as a whole.
- The annual bonus scheme will operate in the same way as in previous years. Bonuses for Executive Directors will be limited to 100% of basic salary and will be based on the achievement of tailored performance targets which are clearly linked to the short-term priorities of the business. Given the stage of Arix's development, the Committee continues to believe that this is more appropriate than using financial metrics. The specific bonus objectives and performance against them will be disclosed next year.
- Awards under the EIP will be granted to the Executive Directors at levels of 200% of basic salary for the CEO and 150% of basic salary for the CFO. For 60% of the award, we will apply a similar share price performance condition as used for the 2018 grant. The level of share price growth required for threshold vesting will remain at 7% per annum compound and the growth required for maximum vesting will be 15% per annum compound. The Committee has considered these targets carefully and believes that they are suitably challenging for a company at Arix's stage of development, particularly in the context of the current market environment and in recognition of the material reduction in the proportion of the award vesting for threshold performance under the revised remuneration policy. For the remaining 40% of the award, we have decided to introduce a new performance condition based on growth in NAV per share. This will require 7% per annum compound growth over

DIRECTORS' REMUNERATION REPORT

continued

the three-year period for threshold vesting, rising to 15% per annum compound growth for full vesting. The purpose of introducing this new measure is to incentivise and reward management for growing the value of Arix's assets, a critical measure of business performance. NAV per share growth will be calculated based on audited accounts. The Committee will exclude the funds raised during the performance period and their associated investment returns. The performance will be a true assessment of the performance of the assets including cash within the business at the start of each three-year period. Future fund raising will impact future award cycles. This approach reflects the significant lead time that typically exists between fund raising, investment and the first valuation change on the investment. Full disclosure will take place of this NAV performance calculation. To the extent that the 2019 EIP awards vest, they will be subject to a two-year post-vesting holding period.

- As noted above, the fee for Jonathan Peacock as Non-Executive Chairman has been set at £100,000. It has also been agreed that the fee for the Senior Independent Director role will reduce to £80,000. We will continue to pay additional fees for chairing the key Board Committees but, in line with common practice for companies of a similar size, we will no longer pay extra fees for membership of the Committees.

Legislative and Regulatory Developments

The Committee has considered the changes to the reporting regulations on Directors' remuneration which were finalised in 2018. These changes will apply to the 2019 Directors' remuneration report published next year and we will comply with the changes where relevant. The Committee is also aware of the changes brought about by the 2018 UK Corporate Governance Code. As a company with a standard listing, Arix is not required to adhere to the Code but the Board feels that it is entirely appropriate to do so. As a result, the Committee will adopt the new provisions in the Code or will explain where it does not feel that to comply would be in the interests of shareholders. The Committee 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.

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, where we will be asking shareholders to approve resolutions on the revised Directors' Remuneration Policy and, separately, the Annual Report on Remuneration. I look forward to your continued support.

Franz Humer
Chairman of the Remuneration Committee
28 March 2019

REMUNERATION SNAPSHOT

Topic	Description
Base salary	The base salaries for the Executive Directors for 2019 are as follows: • Joe Anderson £500,000 • James Rawlingson £278,100
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 2019 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 and invested into shares which must be held for a period of 3 years
Long term incentive	• For 2019, the Committee intends to grant awards to the Executive Directors at a level of 200% of basic salary for the CEO and 150% of basic salary for the CFO. • For awards to be granted in 2019, awards will vest after three years subject to performance conditions based on share price (60% of the award) and NAV per share growth (40% of the award). • Any awards which vest will be subject to a two-year post-vesting holding period
Shareholding guidelines	200% of salary for all Executive Directors

DIRECTORS' REMUNERATION POLICY

Introduction

The Directors' Remuneration Policy as set out below will be put to a binding shareholder vote at the AGM to be held on 3 June 2019 and will apply for a period of three years from the date of approval. Subject to shareholder approval, the policy replaces the policy approved at the AGM on 5 June 2017.

At the time of writing, the Remuneration Committee is in the process of consulting with major shareholders on the principal terms of the new Remuneration Policy. In the notice to be published in advance of the AGM we will confirm whether any amendments to the policy have been agreed following the consultation exercise and, if so, the resulting changes to the policy as set out below.

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

Policy summary

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

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

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

- Business strategy over the period;
- Overall corporate performance;
- Market conditions affecting the Company;
- The recruitment market;
- Changing practice in the markets where the Company competes for talent; and
- Changing views of institutional shareholders and their representative bodies.

Changes to the policy

The policy as set out below incorporates a number of changes to the policy approved by shareholders in 2017. These changes are listed below:

- The maximum individual opportunity under the annual bonus scheme has been increased to 125% of basic salary to provide an appropriate level of flexibility over the period covered by the new policy. As set out in the Annual Statement by the Chairman of the Remuneration Committee, bonuses for the Executive Directors for 2019 will be limited to 100% of basic salary.
- We have amended the wording around grant levels under the EIP to avoid any confusion about potential maximum vesting levels. The normal maximum level of EIP grant is confirmed at 225% of basic salary. We no longer refer to 150% vesting levels on base awards.
- In line with standard market practice, we no longer include the specific EIP performance targets within the policy table. The specific targets are disclosed within the Annual Report on Remuneration.
- The amount of an EIP award which vests for threshold performance has been reduced from 66.7% to 25% of an award, which is consistent with standard investor expectations and market practice.
- A post-vesting holding period has been introduced to EIP awards (applying with effect from the EIP awards granted in 2019) such that any shares which vest must be held for a further two-year period. During this period the shares cannot be sold (other than as required for tax purposes).
- We have added wording to the policy to ensure that the Remuneration Committee has the ability to use its discretion to override the formulaic outcomes of incentive schemes.
- Malus and clawback provisions have been reviewed and we have expanded (in the Annual Report on Remuneration) the circumstances in which they apply.
- We have taken the opportunity to review the full policy statement and ensure that the wording is up to date and aligned with expected market practice.
- The section on share ownership guidelines has been streamlined. We make it clear in the Annual Report on Remuneration that the share ownership guidelines are now set at 200% of basic salary for all Executive Directors (previously, the level of ownership guideline varied from 100-200% of salary depending on the individual Director's shareholding).
- The policy reflects amendments to the service agreements for the Executive Directors. Joe Anderson entered into a new service agreement with the Company following his reappointment as CEO which is terminable on 12 months' notice by the Company and six months' notice by the Director. James Rawlingson's service agreement has been amended and is now terminable on 12 months' notice by the Company or the Director.
- For Non-Executive Directors, we have reflected Arix's previous practice of awarding shares up to the value of the annual fee at the time of appointment. This is intended to help create alignment with shareholders and to cover the duration of the Director's time on the Board.

DIRECTORS' REMUNERATION REPORT

continued

Remuneration policy table

Element of Remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity and Performance metrics
Salary	Provide salaries 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 is 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 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 standard market practice 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.
Pensions	Provides a pension provision in line with standard market practice to enable the Company 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. 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 Annual Report on Remuneration the pension contributions for the Executive Directors within the above limits. No Executive Directors have a prospective entitlement to a Defined Benefit Pension.

Element of Remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity and Performance metrics
Annual bonus	The bonus plan 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 plan supports the Company's objectives allowing the setting of annual targets based on the business strategy at the time, meaning that a wider range of performance metrics can be used that are relevant and achievable.	The Board will determine the bonus to be delivered following the end of the relevant financial year. The Committee can require part of any bonus (up to 50% of the maximum bonus earned) to be deferred on a post-tax basis and invested into shares. These shares must be held for a minimum period, normally three years. The Group will set out in the Remuneration Report in the following financial year the decisions taken around any requirement to invest in shares. The bonus plan includes malus and clawback provisions which can be used in certain specific circumstances.	The maximum bonus deliverable under the plan will not exceed 125% of a participant's annual base salary. Bonus targets and weightings are set each year and will take into account the strategic priorities of the business at the time. The Group will set out in the Remuneration Report in the following financial year, the nature of the targets and their weighting for the 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. 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.	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 after 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. With effect from the EIP awards granted in 2019, a post-vesting holding period will apply to awards such that any shares which vest must be held for a further two-year period. During this period the shares cannot be sold (other than as required for tax purposes).	Normal maximum value of 225% of salary 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. The amount payable for threshold performance is 25% of maximum of the award. EIP awards will be subject to the achievement of challenging performance conditions set by the Remuneration Committee prior to each grant. Awards granted in 2019 will be subject to performance measures based on absolute share price and NAV per share growth. 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
Minimum Shareholding Requirement	The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up 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 Committee will determine the relevant shareholding guideline on an annual basis.		

Element of Remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity and Performance metrics
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 Board as a whole is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the pay of the Chairman. Non-Executive Directors are paid an annual fee and additional fees for chairmanship of committees. Fees are normally paid in cash. In addition, to create alignment with shareholders and to cover the duration of their time on the Board, Non-Executive Directors may be issued with shares up to the value of their annual fee at the time of their appointment. The Company may settle any tax incurred in relation to these shares. The shares must be held for the duration of their period on the Board. Fees are reviewed annually based in line with the review policy for the Executive Directors. With the exception of an EIP award to be made to the Chairman in 2019 (as disclosed in the Annual Statement from the Chairman of the Remuneration Committee), Non-Executive Directors do not participate in any variable remuneration arrangements. Non-Executive Directors may be eligible for benefits such as use of secretarial support or other benefits which may be appropriate for performing their duties.	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 business-related expenses incurred by the Non-Executive Directors and may settle any tax incurred in relation to these.

Performance conditions and target-setting

Performance measures applying to the annual bonus plan and the EIP are chosen by the Remuneration Committee on an annual basis taking into account the strategic priorities of the business. The chosen measures and the specific targets are designed to be consistent with the policy principles as set out on page 79. Full details of the performance conditions applying to any year's awards are set out in the Annual Report on Remuneration.

Legacy arrangements

Any historic awards that were granted under any previous share schemes operated by the Group but remain outstanding, remain eligible to vest. See the Annual Report on Remuneration for details of outstanding share awards.

Malus and Clawback

The annual bonus plan and the EIP include malus and clawback provisions. Malus is the adjustment of unpaid bonus awards under the bonus plan and outstanding EIP awards as a result of the occurrence of one or more specific circumstances. The adjustment may result in the value being reduced to nil. Clawback is the recovery of payments or vested awards under the bonus plan and vested EIP awards as a result of the occurrence of one or more specific circumstances. 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 set out in the Annual Report on Remuneration. The table below indicates the timeframe over which malus and clawback are applicable.

	Annual Bonus	EIP
Malus	Up to the date of payment of a bonus	To the end of the three-year vesting period
Clawback	Three years following determination of bonus	Two years post vesting

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

DIRECTORS' REMUNERATION REPORT

continued

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.

In addition, and as set out in the Annual Statement from the Chairman of the Remuneration Committee, the Committee retains the discretion to override the formulaic outcomes of incentive schemes. The purpose of this discretion is to ensure that the incentive scheme outcomes are consistent with overall Company performance and the experience of shareholders.

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 above. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role.

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

The 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 125% 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. This will take into account, among other things, the performance conditions attached to the vesting of these incentives, the likelihood of vesting and the vehicle of awards. The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.

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

These would be disclosed to shareholders in the remuneration report for the relevant financial year.

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

Payment for Loss of Office

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

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

Remuneration element	Treatment on Cessation of Employment
Salary, Benefits and Pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu. Joe Anderson's contract provides that, if terminated by the Company, he will receive a payment in lieu of notice for a minimum of six of the months of his 12-month notice period.
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.
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).

DIRECTORS' REMUNERATION REPORT

continued

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
Annual bonus	Normally 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
EIP	The number of shares subject to subsisting EIP awards will vest on a change of control, normally 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. The Committee has discretion regarding whether to prorate the EIP Award for time. The Committee's policy is that will prorate the EIP Award 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.

Service agreements and letters of appointment

The Executive Directors' service agreements are for a rolling term and may be terminated by the Company by giving 12 months' notice.

Name	Date of service agreement	Notice periods by Company (months)	Notice periods by Director (months)
Joe Anderson	26 March 2019	12	6
James Rawlingson	6 September 2016	12	12

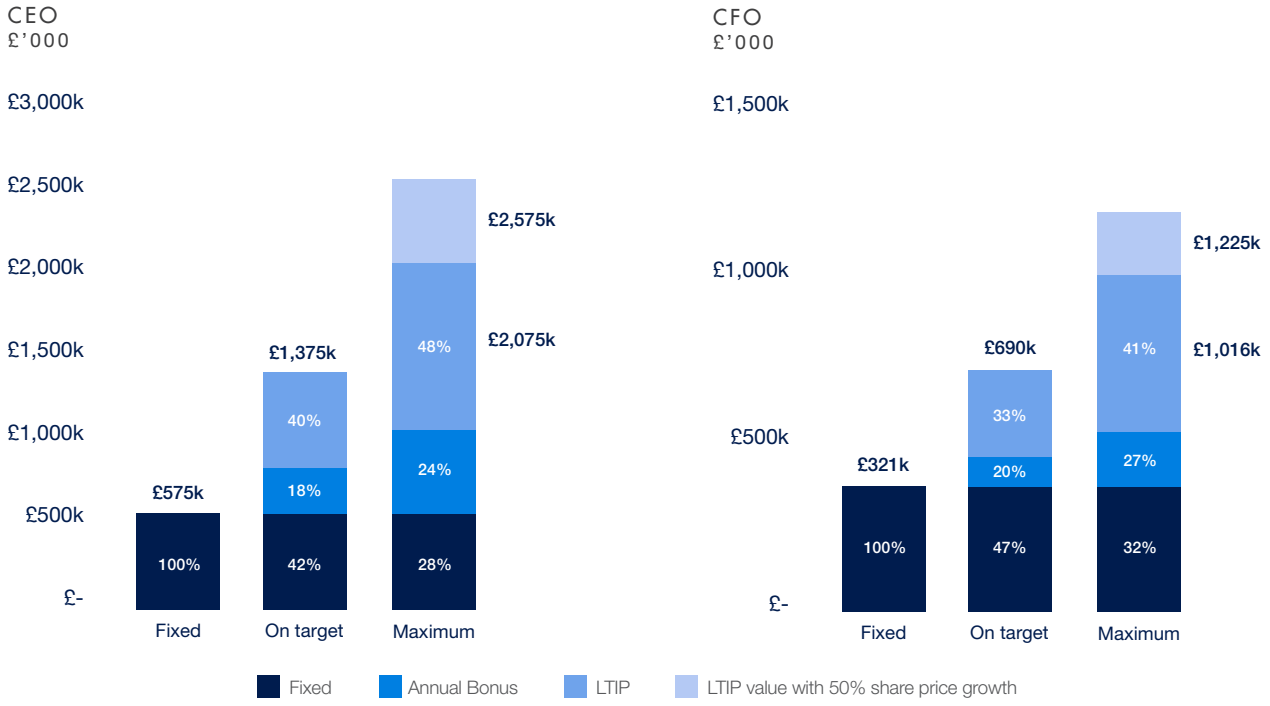
The Non-Executive Directors of the Company do not have service contracts, but are appointed by letters of appointment. Each Non-Executive Director's term of office runs for an initial period of three years unless terminated earlier upon written notice or upon their resignations.

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 3 June 2019 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)
Jonathan Peacock	8 February 2016	3	3	3
Franz Humer	7 June 2016	3	3	3
Professor Trevor Jones	8 February 2016	3	3	3
Meghan FitzGerald	21 July 2017	3	3	3
Giles Kerr	17 October 2017	3	3	3
Art Pappas	12 September 2018	3	3	3

Illustrations of the application of the remuneration policy



Notes:

The charts above illustrate the potential remuneration payable to each of the Executive Directors under different performance scenarios. In all three scenarios the fixed pay elements of the charts are based on 2019 basic salary levels, pension contributions at the standard rate of 7.5% of salary and benefits provision at a broadly similar level to 2018. Minimum performance assumes no bonus payment and no EIP vesting. On-target performance assumes a bonus payment at a level of 50% of maximum and EIP vesting at a level of 55% of the maximum opportunity. Maximum performance assumes a bonus payment at a level of 100% of maximum and EIP vesting at a level of 100% of the maximum opportunity. The EIP maximum opportunity is the level of EIP awards to be made in 2019, i.e. 200% of basic salary for the CEO and 150% of basic salary for the CFO.

In line with the new UK reporting requirements, the Maximum column has been extended to reflect the potential impact of 50% share price appreciation on the shares which vest.

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. The key components of pay for the Executive Directors are similar to those available to other employees, although the levels of pay for the Directors and their maximum variable opportunity are higher in light of their role and level of responsibilities. 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. The Committee is in the process of consulting its major shareholders on the details of the changes to the policy which are explained in this report.

DIRECTORS' REMUNERATION REPORT

continued

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 2018 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 Art Pappas (appointed to the Committee on 12 September 2018). Lord Hutton also served as a member of the Committee until his retirement from the Board on 31 May 2018.

The Committee met five times during the year under review. Meeting attendance is shown on page 66.

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.

Visit us online at
www.arixbioscience.com

The Committee's role includes:

- Setting the remuneration policy for all executive Directors of the Company, the Chairman of the Board and senior management (being the first layer of management below Board level (including the Company Secretary) and 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, 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, that the duty to mitigate loss is fully recognised and that any payments are consistent with the shareholder-approved remuneration policy.

In carrying out its duties the Remuneration Committee takes into account any legal and regulatory requirements, including the Code and the UK Listing Rules, as well as good practice guidance issued by investors and investor representative bodies. 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 during 2018 included:

- Review of the Directors' remuneration policy, ahead of the presentation of a new policy for shareholder approval at the 2019 AGM;
- Review of Executive Director and senior manager bonuses and equity incentive awards for 2018; and
- Appointment of new independent advisers to the Committee.

Advisers to the Committee

During 2018 the Committee appointed Korn Ferry as independent advisers to the Committee. Korn Ferry advises the Committee on all aspects of the Directors' remuneration policy and its implementation, and assisted the Committee in its review of the remuneration policy. The Committee is satisfied that the advice received was objective and independent. Korn Ferry is a member of the Remuneration Consultants Group. Korn Ferry received fees of £30,429 for its advice during the year (fees charged on a costs incurred basis). A separate practice within Korn Ferry provided recruitment advisory services to the Company during the year.

The General Counsel and Company Secretary, Robert Lyne, acts as Secretary to the Committee, ensures that the Committee fulfils its duties under its terms of reference and provides regular updates to the Committee on relevant regulatory developments in the UK. He is not present when matters relating to his own remuneration are discussed.

Single Figure Table – Executive Directors (audited)

	Basic salary		Benefits		Annual bonus		LTIP		Pension		Other*		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Jonathan Peacock	**400**	400	**14**	11	**300**	320	**–**	–	**22**	22	**–**	500	**736**	1,253
Sir Chris Evans	**250**	250	**15**	19	**–**	–	**–**	–	**18**	18	**454**	1,052	**737**	1,339
Joe Anderson**	**333**	500	**25**	39	**250**	400	**–**	–	**25**	37	**–**	750	**633**	1,726
James Rawlingson	**270**	270	**22**	20	**203**	216	**–**	–	**20**	20	**–**	337	**515**	863

* 2017 figures include one-off awards of share options 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.

** Stepped down from the Board on 4 September 2018 and employed by the Company as Chief Investment Officer for the remainder of 2018. Figures reflect service as a Director only. Reappointed as CEO and as a Director on 19 February 2019.

- Base salary: amount earned for the year.
- 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: see separate section below for explanation of determination of bonus amounts.
- Other: Sir Chris Evans' balance includes amounts paid via Merlin Scientific LLP, a limited liability partnership wholly owned and controlled by Sir Chris Evans
- 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 current Executive Directors are: Joe Anderson (Autolus Therapeutics plc, Nasdaq-listed).

Single Figure Table – Non-Executive Directors (audited)

	Fees		Benefits		Pension		Annual bonus		LTIP		Other*		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Franz Humer	**118**	88	**–**	–	**–**	–	**–**	–	**–**	–	**–**	70	**118**	158
Professor Trevor Jones	**58**	43	**–**	–	**–**	–	**–**	–	**–**	–	**–**	34	**58**	77
Meghan FitzGerald	**58**	27	**–**	–	**–**	–	**–**	–	**–**	–	**–**	23	**58**	50
Giles Kerr	**60**	13	**–**	–	**–**	–	**–**	–	**–**	–	**–**	24	**60**	37
Art Pappas	**20**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**20**	–
Lord John Hutton (retired)**	**24**	43	**–**	–	**–**	–	**–**	–	**–**	–	**–**	34	**24**	77
David U'Prichard (retired)**	**45**	44	**–**	–	**–**	–	**–**	–	**–**	–	**–**	34	**45**	78
Sir John Banham (retired)**	**–**	26	**–**	–	**–**	–	**–**	–	**–**	–	**–**	20	**–**	46

* Other amounts principally relate to additional one-off share awards made to Non-Executive Directors as previously disclosed

** Lord Hutton stepped down from the Board on 31 May 2018; David U'Prichard stepped down on 12 September 2018; Sir John Banham stepped down on 10 November 2017

DIRECTORS' REMUNERATION REPORT

continued

Annual Bonus Payout Table (audited)

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

Category	Performance Outcome	Bonus Contribution	Rationale
Portfolio companies • Increase number of portfolio companies • IPOs by portfolio companies • Positive revaluations in three portfolio companies		30%	*Goals achieved*. Three new portfolio companies (Pharmaxis, New SeedCo, Velos). Three IPOs by portfolio companies (Autolus, Iterum, LogicBio). Four positive revaluations (Autolus, Artios, Harpoon, LogicBio)
Business building • Create academic business building partnership • Hire Entrepreneur in Residence (EiR) for the EU and for the US • Create new companies		15%	*Goals partially achieved*. Partnership signed with Fred Hutch. EiR hired for the EU; ongoing discussions with US candidates. One EU company created (New SeedCo)
Europe • Hire Investment Director for EU • Source and close on EU investments		10%	*Goals partially achieved*. One European deal closed (New SeedCo). EU Investment Director not required given recruitment of EU EiR and appointment of CIO
US • Progress plans for potential US funding opportunities • Undertake non-deal roadshows in US • Increase research coverage by US analysts		10%	*Goals partially achieved*. Funding opportunities under consideration. Three non-deal roadshows in US. Analyst interest cultivated
Fund management • Progression of WLSIF		10%	*Goals achieved*. Simbec performance improved. Significant fund distribution post-year-end
Total		75%	

Taking into account the achievements against the bonus targets as set out above, the Remuneration Committee awarded bonuses to the Executive Directors at a level of 75% of the maximum. This resulted in bonus payments at levels of 75% of basic salary. The bonuses will be paid in cash.

LTIPs Vesting in the Year (audited)

During 2017, no shares vested under the EIP. The first grant of LTIP options was made in 2017 and are not eligible to vest until 2020, subject to performance conditions.

Scheme Interests Awarded in 2018 (audited)

During the year ended 31 December 2018, the Executive Directors were awarded nil-cost options (conditional share awards for Jonathan Peacock) 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	17/05/2018	298,507	2.01	600,000	150%	07/06/2021
Joe Anderson	17/05/2018	373,134	2.01	750,000	150%	07/06/2021
James Rawlingson	17/05/2018	201,492	2.01	405,000	150%	07/06/2021

Performance Measure	Weighting	Performance Period	Performance	% Vesting
Compound share price growth	100%	Grant to 17 May 2021	<7% per annum	0%
			7% per annum	66.7%
			≥20% per annum	100%

The market share price used to determine the size of awards was £2.01, being the 30-day trading average prior to the grant date.

Payments for Loss of Office (audited)

Joe Anderson, Arix's CEO, stepped down from the Board on 4 September 2018 and transitioned to the role of Chief Investment Officer to focus on new investments and work with existing Group companies to build and realise value. He entered into new remuneration arrangements with the Company in the role of CIO. His base salary was set at £360,000 and he had an entitlement to an annual bonus of up to 100% of base salary (pro-rated to his period of service as CIO during 2018). In connection with his transition from the CEO role, the following arrangements were agreed:

- The Board determined that Joe Anderson would be treated as a good leaver for incentive scheme purposes. This recognised his contribution to Arix since the Company's formation and his ongoing commitment to Arix's success as CIO. As set out in the Single Figure Table on page 87 above, he was eligible for an annual bonus for 2018, pro-rated to the date of his departure from the Board.
- 2,000,000 of Joe Anderson's 3,036,309 Founder Options were treated as having vested as at 3 September 2018. It was agreed with Joe Anderson that he will be entitled to exercise these options over the lifetime of the options, i.e. up to 4 February 2026. All other Founder Options will vest and remain exercisable in connection with their original terms, although the exercise period for these Founder Options has also been extended to 4 February 2026. None of the Founder Options were granted with performance conditions attached.
- His IPO Awards vested pro-rata as at 3 September 2018. The vested awards are exercisable from 21 February 2019 to 21 February 2027 and exercise is not conditional on continued employment. The remaining IPO Awards will continue to vest in line with their original terms. None of the IPO Awards were granted with performance conditions attached.
- His 2017 EIP Awards were pro-rated as at 3 September 2018 and will be eligible to vest in May 2020, subject to the Company having achieved the relevant performance condition. This applies to 242,192 of the 569,619 shares subject to the 2017 EIP Awards. The remaining 2017 EIP Awards will continue to vest in accordance with their original terms.

Following the decision to reappoint Joe Anderson as CEO and as a Director with effect from 19 February 2019, new remuneration arrangements were entered into. He was reappointed on the same basic salary and annual bonus opportunity as applied to his former employment as CEO, and he remains eligible for grants under the EIP. With regards to his outstanding equity awards, it was agreed that the arrangements as set out above which were entered into in good faith at the time he left the Board in 2018 should be preserved. As a result, a portion of his IPO Awards and EIP Awards will retain the good leaver status which they were accorded in 2018, with the remainder of the awards continuing to vest in line with their original terms.

As part of negotiating Joe's return as CEO and to provide a further incentive to him to drive performance at Arix over the coming years, the Committee also agreed an amendment to his Founder Options such that the exercise price will reduce on a gradual basis over the next five years. The Founder Options were granted with an exercise price of £1.80 per Founder Option. This price will be reduced by 18 pence (i.e. 10% of the original exercise price) each year for five years while Joe Anderson remains in full-time employment with Arix. As set out above, the Founder Options are exercisable up to 4 February 2026.

The Founder Options were granted in 2016 prior to Arix's IPO and are a legacy arrangement for the purposes of the Directors' remuneration policy.

DIRECTORS' REMUNERATION REPORT

continued

Jonathan Peacock

On 19 February 2019 Jonathan Peacock moved from the role of Executive Chairman to Non-Executive Chairman. The following arrangements were agreed in connection with his termination as an Executive Director:

- He received a payment of £200,000 in respect of the termination of his executive service agreement. This amount was less than his contractual entitlement.
- His 2017 EIP Award and 2018 EIP Award were pro-rated as at 19 February 2019 and will be eligible to vest in May 2020 and May 2021 respectively, subject to the Company having achieved the relevant performance conditions. The remaining 2017 EIP Award and 2018 EIP Awards will continue to vest in accordance with their terms.
- His unvested Founder Options will continue to vest for the duration of his service as a Director. Similar to the treatment agreed for the Founder Options held by Joe Anderson (see above), all Founder Options which vest will be exercisable up to February 2026. This is in recognition of his ongoing involvement with Arix.

Sir Chris Evans

Sir Chris Evans stepped down from the Board on 19 February 2019. The following arrangements were agreed in connection with his termination:

- He received a payment in lieu of notice of £250,000, equivalent to 12 months' basic salary.
- His outstanding IPO Awards, which had a vesting date of 22 February 2019, vested in full, taking into account the notional 12-month notice period in Sir Chris's contract. The IPO Awards do not have performance conditions attached.
- The final tranche of the Founder Incentive Shares held by Sir Chris and Ectoplasm Limited which had a vesting date of 8 February 2020 were deemed to have vested in full, taking into account the notional 12-month notice period in Sir Chris's contract. All of the Founder Incentive Shares are released subject to the payment of a fee of £1.80 per Founder Incentive Share. It was agreed as part of the termination discussions that Sir Chris and Ectoplasm will now have until 8 February 2026 to pay this fee. The Founder Incentive Shares were created in 2016 prior to Arix's IPO and are a legacy arrangement for the purposes of the Directors' remuneration policy.
- The Board has agreed to retain the services of Sir Chris as a consultant to the Company. Until April 2019 he will continue to receive his existing consultancy fee of £20,000 per month. After this time he will be engaged by the Company on a lower fee of £4,166 per month (equivalent to £50,000 per annum).

There were no payments to past Directors in 2018.

Executive Directors' Shareholdings and Share Interests (audited)

Executive Directors' interests in the Company as at 31 December 2018 are shown in the table below. Only the EIP Awards (2017 and 2018) are subject to performance conditions. As set out in the Annual Statement from the Chairman of the Remuneration Committee, shareholding guidelines are now set at 200% of salary for all Executive Directors.

No options were exercised during the year.

Director	Ordinary Shares Held #	C Shares Held #	Shareholding as % of Base Salary	IPO Awards* (unvested) #	2017 EIP Awards* (unvested) #	2018 EIP Awards* (unvested) #	Founder Options (not exercised) #	Founder Options (unvested) #
Jonathan Peacock	685,056	49,671	298%	241,545	379,746	298,507	1,966,699	517,551
Joe Anderson**	354,310	–	126%	362,318	569,619	373,134	2,403,746	632,563
Sir Chris Evans***	7,316,039	–	4,872%	295,893	–	–	–	–
James Rawlingson	37,484	–	23%	163,043	205,062	201,492	–	–

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

** Share position for Joe Anderson stated as at 4 September 2018, the date he stepped down from the Board. 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

Non-Executive Directors' Shareholdings (audited)

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

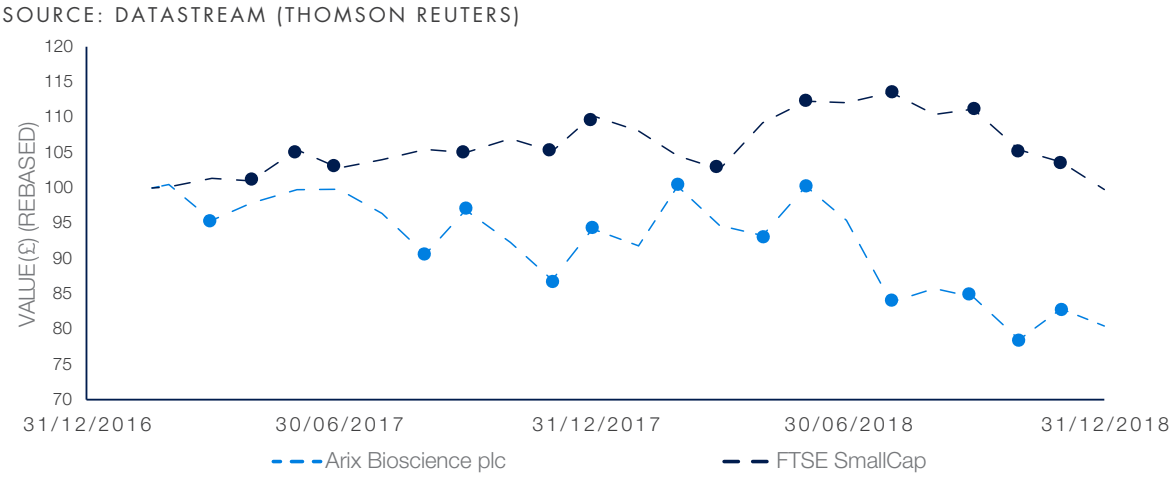
Non-Executive Director	Shareholding as at 31 December 2018
Franz Humer	**74,503**
Lord Hutton*	**27,777**
Professor Trevor Jones	**37,312**
David U'Prichard*	**38,318**
Meghan FitzGerald	**35,545**
Giles Kerr	**35,746**
Art Pappas	**–**

* Note: The stated shareholdings for Lord Hutton and David U'Prichard reflect the position as at the date of their departure from the Board (31 May 2018 and 12 September 2018 respectively).

Comparison of Overall Performance and Pay

The graph below shows the value of £100 invested in the Company's shares since listing in February 2017 compared to the FTSE SmallCap index. Although Arix is not a member of the FTSE SmallCap index, the index has been chosen as a broad equity market index, the constituents of which include companies of a similar size and scale to Arix.

Total Shareholder Return



CEO – Historic Remuneration Information (audited)

	2018 £'000	2017 £'000	2016 £'000
Single Figure Total	**633**	1,726	1,228
Annual Variable against maximum opportunity	**75%**	80%	N/A
EIP vesting rates against maximum opportunity	**N/A**	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 three periods of data are included above. No shares have yet vested under the EIP (the first awards were granted in 2017).

Percentage Change in Remuneration of CEO (audited)

Percentage change in 2018 remuneration compared with remuneration in 2017

	CEO	All employees excl. CEO
Base Salary	0%	12%
Annual Bonus	(6%)	(2%)
Benefits	0%	0%

CEO: reflects the percentage change in the single figure amounts for basic salary, annual bonus and benefits, assuming a full 12 months of service in 2018
Employees: changes in salaries and bonuses consider all employees who completed a full year of service in each year

DIRECTORS' REMUNERATION REPORT

continued

Relative Importance of Spend on Pay

	2018 £'000	2017 £'000
Underlying operating profit/(loss)	**40,803**	(3,589)
Dividends/share buybacks	**–**	–
Total company spend on remuneration	**6,537**	5,933

The table above shows the relative importance of total spend on pay in the 2018 and 2017 financial years compared with distributions to shareholders. The Company did not pay a dividend or undertake a share buyback programme in either 2018 or 2017. Underlying operating profit/(loss) is considered the most appropriate metric given the current stage of the Group.

Total Group spend on remuneration increased by 10% compared to the previous year.

Statement of Voting on Remuneration

The results of the voting on the Annual Report on Remuneration at the AGM held on 17 May 2018 are set out below:

	Votes For #	Votes For %	Votes Against #	Votes Against %	Votes Withheld #
To approve the Annual Report on Remuneration	50,988,886	90.12%	5,591,495	9.88%	4,020

The results of the voting on the Directors' Remuneration Policy at the AGM held on 5 June 2017 are set out below:

	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

Implementation of Remuneration Policy for 2019 for Executive Directors

Base Salary

Salary reviews normally take place in January of each year, and take effect from February. Joe Anderson was reappointed as CEO in February 2019 on a base salary of £500,000, the same as his CEO salary prior to his move to CIO in 2018. With effect from 1 January 2019, James Rawlingson's salary was increased by 3% from £270,000 to £278,100. This increase is consistent with increases (and in some cases less than) across the workforce as a whole.

Benefits and Pension

No changes are proposed to benefits or pension arrangements in 2019.

Annual Bonus

The operation of the bonus plan for 2019 will be consistent with the framework detailed in the Policy section of this report. The maximum opportunity for the year ending 31 December 2019 will be 100% of salary for all Executive Directors. The Remuneration Committee can require up to 50% of the bonus to be deferred and invested in shares.

Proposed target levels have been set to be challenging relative to the 2019 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 upfront 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 Executive Directors will be granted EIP awards in 2019 at a level of 200% of base salary for the CEO and 150% of base salary for the CFO. Reflecting performance in 2018 whilst he was Executive Chairman, Jonathan Peacock will be granted an EIP award at a level of 100% of the base salary he received as an Executive Director. The grants will be subject to performance targets, measured over a three-year period aligned with Arix's financial years, as set out below.

Performance Measure	Weighting	Performance	% Vesting
Compound share price growth	60%	<7% per annum	0%
		7% per annum	25%
		≥15% per annum	100%
NAV per share growth	40%	<7% per annum	0%
		7% per annum	25%
		≥15% per annum	100%

Straight-line vesting will apply between the different performance points.

Any shares which vest will be subject to a two-year post-vesting holding period.

Malus and Clawback

As set out in the Directors' remuneration policy, the rules of the Company's incentive schemes include malus and clawback provisions. These will continue to apply for 2019 bonuses and EIP awards made in 2019. The provisions apply in the following specific circumstances:

- 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 was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine cash or share awards was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct;
- corporate failure; 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.

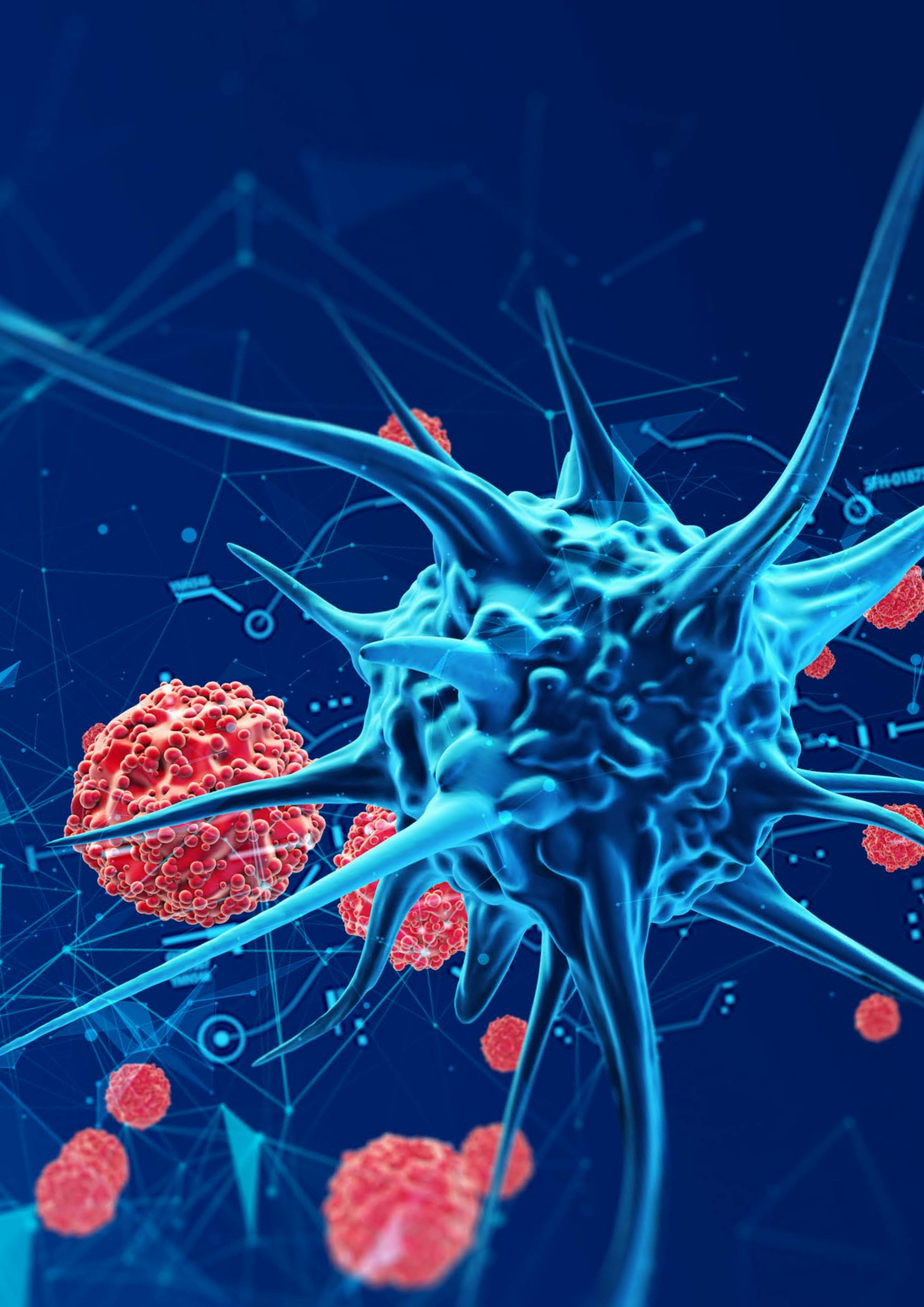
Implementation of Remuneration Policy for 2019 for Non-Executive Directors

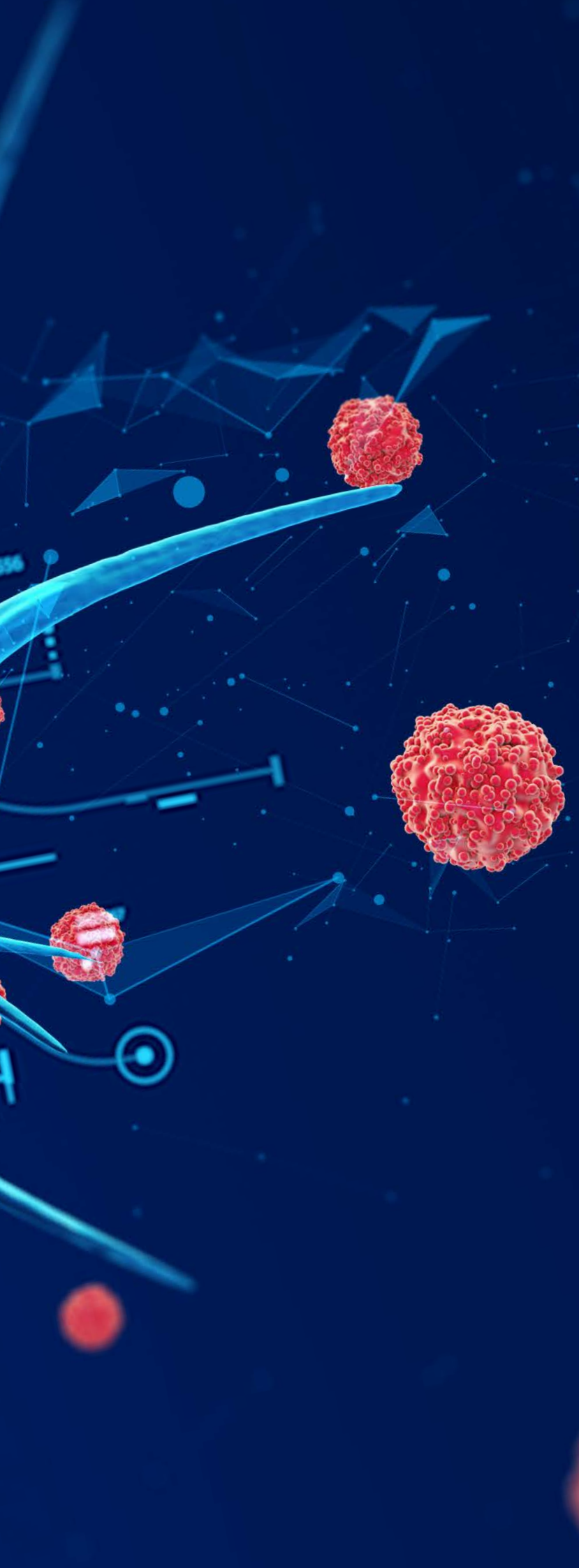
The table below includes details of the fees to be paid to the Non-Executive Directors for 2019.

	2019 £'000
Base Fees	
Non-Executive Chairman	**100**
Senior Independent Director	**80**
Non-Executive Director	**50**
Additional Fees	
Audit Committee Chair	**10**
Audit Committee Member*	**–**
Remuneration Committee Chair	**10**
Remuneration Committee Member*	**–**
Nomination Committee Chair	**10**
Nomination Committee Member*	**–**

* With effect from 2019, no additional fees will be payable to Non-Executive Directors for serving as members of these Committees.

As previously noted, the Non-Executive Chairman will receive an EIP award in 2019 as the grant of this award is considered by the Remuneration Committee to be an element of his compensation in respect of 2018 when he served as an Executive Director. He will receive no further grants under the EIP.





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 2018 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (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 2018; 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 and page 73 of the Report of the Audit and Risk Committee, we have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

Materiality

- Overall Group materiality: £2.70 million (2017: £1.46 million), based on 1% of net assets.
- Overall Company materiality: £2.31 million (2017: £1.45 million), based on 1% of net assets.

Audit Scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.
- We audited the Parent Company and the three significant subsidiaries of the Group, which together account for 127% of its profit before tax, and 99% of its net assets. The three significant subsidiaries subject to audit were Arix Bioscience Holdings Limited, Arix Capital Management Limited and Arthurian Life Sciences SPV GP Limited as they represent a significant portion of the Group income, profit before tax or net assets. In addition we have performed specified audit procedures over Arix Bioscience, Inc., which made a loss and is in a net liability position.

Key Audit Matters

- Valuation of unquoted investments (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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the UK regulatory principles, such as those governed by the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inaccurate journal entries to increase the value of assets, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of investments. Audit procedures performed by the Group engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Understanding and evaluation of management's controls designed to prevent and detect irregularities;
- Reviewing the correspondence with regulators and legal advisers in so far as it related to non-compliance with laws and regulations and fraud;

- Reviewing relevant meeting minutes, including those of the Board of Directors and the Audit and Risk Committee;
- Designing audit procedures to incorporate unpredictability around the nature, timing and extent of our testing of expenses;
- Reviewing of tax returns submitted by the Group;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to valuation of investments (see related key audit matter below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

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. Also, 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.

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 108 and 109 (Accounting Policies), pages 114 and 115 (notes) and page 72 (Report of the Audit and Risk Committee). The fair value of the unquoted investments is £ 70.3m as at 31 December 2018. 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 entity 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. Arix Capital Management Limited ("ACML") also has a direct investment in Wales Life Science Investment Fund ("the WLSIF"). The direct investment into the WLSIF is held at Fair Value and was valued at £4.5m at the year end. This value is derived from the amounts entitled to ACML from WLSIF as at 31 December 2018 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 ACML'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 nil. 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 investee entities. We performed the following: • Agreed the price of recent investments to supporting documentation such as purchase agreements, funding drawdown request or bank statements. • Held meetings with management to understand the performance of each investee entity in relation to its plan and the rationale for the valuation methodology applied (including any assumptions being used) and then obtained supporting financial information and board papers from the investee entities that corroborated those discussions held with management and the adjustments made to the valuations. For investment in WLSIF and carried interest: • We obtained management expert's report, the discounted cash flow model for the unquoted investments and tested the mathematical accuracy of the model and agreed the calculation to the supporting documents. • We assessed the management expert's qualifications and expertise and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity. We found no evidence to suggest that the objectivity of the management's expert was compromised. • 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 valuation. We found that management's valuation of investments including those relating to the investment in WLSIF and carried interest, and in particular that the assumptions used were supported by the audit evidence we obtained.

INDEPENDENT AUDITORS' REPORT

to the members of Arix Bioscience plc continued

Key audit matter	How our audit addressed the key audit matter
Share-based payments expense Refer to page 110 (Accounting Policies), page 118 (notes) and page 72 (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, estimates 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 £ 3.3m 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 period by checking that they were appropriately authorised, consistent with scheme plans, classified correctly as equity or cash settled and used an appropriate share price. • Obtained the valuation models for new schemes and grants made in the 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 the models were 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.

We have held a number of early planning discussions with those charged with governance and with management 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 127% of its profit 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, Arix Capital Management Limited and Arthurian Life Sciences SPV GP Limited as they represent a significant portion of the Group's income, profit 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., which holds certain Group investments, which is a specific risk and is part of the key audit matter on valuation of unquoted investments.

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	£2.70 million (2017: £1.46 million).	£2.31 million (2017: £1.45 million).
How we determined it	1% of net assets.	1% of net assets.
Rationale for benchmark applied	Net assets is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark for businesses 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 businesses 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 between £20,000 and £2.3m. 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 £135,000 (Group audit) (2017: £73,000) and £115,000 (Company audit) (2017: £72,000) 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 12 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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Company's trade, customers, suppliers and the wider economy.

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 Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

INDEPENDENT AUDITORS' REPORT

to the members of Arix Bioscience plc continued

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).

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 2018 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 Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on pages 58 to 93) about internal controls and risk management systems in relation to financial reporting processes and 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 Report (on pages 58 to 93) 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 53 and 54 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 54 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 63, 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 70 to 73 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 63, 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 year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the period ended 31 December 2016 to 31 December 2018.

Other voluntary reporting

Going concern

The Directors have requested that we review the statement on page 54 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 53 and 54 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

28 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Change in fair value of investments	11	**51,173**	5,544
Revenue	3	**1,328**	1,857
Administrative expenses	6	**(11,698)**	(10,990)
Operating profit / (loss)		**40,803**	(3,589)
Net finance income/(expense)	7	**708**	(15)
Foreign exchange gains/(losses)	11	**4,583**	(432)
Share-based payment charge	18	**(3,333)**	(3,654)
Profit / (loss) before taxation		**42,761**	(7,690)
Taxation	9	**(5,883)**	221
Profit / (loss) for the year		**36,878**	(7,469)
Other comprehensive income			
Exchange differences on translating foreign operations		**1,269**	(1,202)
Taxation	9	**-**	59
Total comprehensive income / (loss) for the year		**38,147**	(8,612)
Attributable to			
Owners of Arix Bioscience plc		**38,147**	(8,612)
Earnings per share			
Basic earnings per share (p)	10	**32.1**	(11.0)
Diluted earnings per share (p)	10	**29.7**	(11.0)

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 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Investments held at fair value	11	**183,981**	71,331
Intangible assets	12	**1,770**	2,057
Property, plant and equipment	13	**313**	523
		186,064	73,911
Current assets			
Cash and cash equivalents	15	**31,009**	74,938
Cash on long-term deposit	15	**60,209**	–
Trade and other receivables	14	**2,174**	1,266
		93,392	76,204
TOTAL ASSETS		**279,456**	150,115
LIABILITIES			
Current liabilities			
Trade and other payables	16	**(3,399)**	(3,670)
Deferred tax liability	9	**(5,883)**	–
		(9,282)	(3,670)
TOTAL LIABILITIES		**(9,282)**	(3,670)
NET ASSETS		**270,174**	146,445
EQUITY			
Share capital and share premium	17	**188,585**	105,125
Retained earnings		**82,018**	42,088
Other reserves		**(429)**	(768)
		270,174	146,445
TOTAL EQUITY		**270,174**	146,445

The accompanying notes form an integral part of the financial statements. The financial statements on pages 102 to 123 were approved by the Board of Directors and authorised for issue on 28 March 2019, and were signed on its behalf by

James Rawlingson
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2018

	Share Capital and Premium £'000	Other Equity £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2018	**105,125**	**–**	**(768)**	**42,088**	**146,445**
Profit for the period	**–**	**–**	**–**	**36,878**	**36,878**
Other comprehensive income	**–**	**–**	**1,550**	**(281)**	**1,269**
Contributions of equity, net of transaction costs and tax	**83,460**	**–**	**–**	**–**	**83,460**
Share-based payment charge	**–**	**–**	**–**	**3,333**	**3,333**
Acquisition of own shares	**–**	**(1,211)**	**–**	**–**	**(1,211)**
Issue of own shares to employees	**–**	**–**	**–**	**–**	**–**
As at 31 December 2018	**188,585**	**(1,211)**	**782**	**82,108**	**270,174**

For the year ended 31 December 2017

	Share Capital and Premium £'000	Other Equity £'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	105,125	–	(768)	42,088	146,445

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Net cash from operating activities	19	**(11,018)**	(8,768)
Finance expenses paid		**(12)**	(16)
Tax paid		**(28)**	–
Net cash from operating activities		**(11,058)**	(8,784)
Cash flows from investing activities			
Purchase of equity investments		**(55,228)**	(50,239)
Purchase of property, plant and equipment		**(2)**	(5)
Net cash placed on long-term deposit		**(60,209)**	–
Net cash from investing activities		**(115,439)**	(50,244)
Cash flows from financing activities			
Net proceeds from issue of shares		**83,460**	105,074
Purchase of own shares for share schemes		**(1,211)**	–
Net cash from financing activities		**82,249**	105,074
Net (decrease)/increase in cash and cash equivalents		**(44,248)**	46,046
Cash and cash equivalents at start of period		**74,938**	28,929
Effect of exchange rate changes		**319**	(37)
Cash and cash equivalents at end of period		**31,009**	74,938

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 Arix Capital Management Limited (a 100% subsidiary of Arix Bioscience plc), in its role as fund manager to WLSIF, and Arthurian Life Sciences SPV GP Limited (a 100% subsidiary of Arix Bioscience plc) in its role as general partner of the WLSIF, both exercise power over the activities of WLSIF, they do not have sufficient exposure to variability of returns from WLSIF to meet the definition of control and therefore acts as agents, rather than principals of WLSIF. Accordingly, WLSIF has not been consolidated into these financial statements.

B. Basis of consolidation

Subsidiaries

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

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

Entity	Country of Incorporation	Registered Address	Ownership
Arix Bioscience Holdings Limited	England and Wales	20 Berkeley Square, London, W1J 6EQ	100%
Arix Bioscience, Inc	United States	250 West 55th Street, 33rd Floor, New York NY 10019	100%
Arix Capital Management 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%
ALS SPV Limited	England and Wales	20 Berkeley Square, London, W1J 6EQ	100%
Arthurian Life Sciences SPV GP Limited	England and Wales	3 Assembly Square, Britannia Quay, Cardiff, CF10 4PL	100%
Arix Bioscience plc Employee Benefit Trust	Jersey	26 New Street, St Helier, Jersey, JE2 3RA	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 Arix Capital Management and 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 organizations to be excluded from its measurement methodology requirements where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Changes in fair value of associates are recognised in the Statement of Comprehensive Income in the period in which the change occurs. The Group has no interests in associates through which it carries on its business.

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

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

C. Adoption of new and revised standards

Certain new accounting standards and interpretations have been applied by the Group from 1 January 2018. 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 has 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 previous 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 previous treatment under IAS 39, so there is no change in treatment and no material impact on the financial statements.
- IFRS 15 – 'Revenue from contracts with customers' applies to the recognition of revenue. This has replaced IAS 18, which covered contracts for goods and services, and IAS 11, which covered 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 was no change in how each revenue source is recognised compared to the previous treatment under IAS18; therefore there has been no impact on the financial statements.

Certain new accounting standards and interpretations are effective for the annual period beginning on or after 1 January 2019, and have not been applied in preparing these financial statements.

- 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. The Group has carried out an assessment of the impact of the standard and concluded that there will be no significant impact on the financial statements. As such, the Group intends to apply a simplified transition approach and will not restate comparative amounts for years prior to the first application.

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 these services are provided. 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 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.

NOTES TO THE FINANCIAL STATEMENTS

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 amortised cost. The classification depends on the purpose for which the financial assets have been acquired and is determined on initial recognition.

Amortised cost 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 investments 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 IFRS 9 and are classified as financial assets at fair value through profit or loss. This includes investments in associated undertakings, as per Note 11. When financial assets are recognised initially they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. They are subsequently remeasured at their fair value if a valuation event occurs. A valuation event may include technical measures, such as product development phases, financial events, such as further injection of capital, and sales events, such as product launches.

Fair value hierarchy

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

Level 1 The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

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

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

Valuation of investments

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

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

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

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

The following factors are considered when calculating the fair value:

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

The valuation metrics used in these financial statements are discussed in Note 11.

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.

From 1 January 2019, the Group will adopt the International Private Equity and Venture Capital Valuation Guidelines December 2018.

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. The Group's financial assets that are subject to IFRS 9's new expected credit loss model are its loans and receivables, cash and cash equivalents and cash on long term deposit. The identified impairment loss is considered immaterial.

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

J. Cash and cash equivalents and Cash on long-term deposit

Cash and cash equivalents comprise cash at bank and in hand, call deposits and bank overdrafts. Cash on long-term deposit comprises cash held on term deposit for a period of at least three months.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting Policies continued

K. Goodwill and intangible assets

Intangibles were acquired by the Arix Group as part of the acquisition of Arix Capital Management 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.

Own shares represent shares of Arix Bioscience plc that are held by an employee share trust for the purpose of fulfilling obligations in respect of various employee share plans. Own shares are treated as a deduction from equity until the shares are cancelled, reissued or disposed of and when vest are transferred from own shares to retained earnings at their weighted average cost.

M. Trade payables

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

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

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

N. Current and deferred taxation

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

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

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

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

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

O. Share-based payments

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

P. Financial risk management

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

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

Market risk

Foreign exchange risk – the Arix Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and euros. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Arix Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk; at period-end the Arix Group held euro-denominated assets valued at €1.5m; Canadian dollar-denominated assets valued at C$2.0m; Australian dollar-denominated assets valued at A$11.6m; and US dollar-denominated assets valued at $200.6m. 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 the availability of its 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 2018: £31,009k (2017: 74,938k)); cash on long-term deposit (£60,209k (2017: £nil)); and trade and other receivables (£2,174k (2017: £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 2018, 100% of cash and cash equivalents and cash on long-term deposit was deposited with institutions that have a credit rating of at least category A+, according to Fitch ratings.

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

Liquidity risk

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

	Within one year £'000	Total £'000
Trade, Other Payables and Accruals (excluding non-financial liabilities)	3,399	**3,399**

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

	2018 £'000	2017 £'000
Fund management fee income	**866**	1,695
Other income	**462**	162
	1,328	1,857

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.

NOTES TO THE FINANCIAL STATEMENTS

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. Profit/loss Before Taxation

	2018 £'000	2017 £'000
Amortisation	**(287)**	(287)
Depreciation	**(216)**	(218)
Operating leases	**(642)**	(598)
Auditors' remuneration		
Statutory audit services		
Fees payable for the audit of the Arix Group accounts	**135**	152
Fees payable for the audit of the accounts of subsidiaries of the Arix Group	**40**	41
Non-audit services		
Other assurance and advisory services	**195**	187
Total auditors' remuneration	**370**	380

Non-audit services in the year relate to assurance services provided in relation to the Group's 2018 follow-on capital raise (£150k), remuneration advice (£10k), the Arix Bioscience plc interim review (£29k) and an FCA Client Asset Report (£6k).

6. Administrative Expenses

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

	2018 £'000	2017 £'000
Employment costs	**6,537**	5,933
Recruitment costs	**563**	255
Consultancy fees	**512**	999
Research and development costs	**–**	208
Other expenses	**4,086**	3,595
	11,698	10,990

7. Net Finance Income/(Expenses)

	2018 £'000	2017 £'000
Bank interest	**720**	1
Bank charges	**(12)**	(16)
	708	(15)

8. Employee Costs

Employee costs (including Directors) comprise:

	2018 £'000	2017 £'000
Salary and bonus	**5,651**	5,236
Social security costs	**580**	541
Pension and benefits costs	**306**	156
	6,537	5,933

9. Income Tax

Current year tax charge	2018 £'000	2017 £'000
Current tax	–	(59)
Deferred tax - current year	6,665	(221)
Deferred tax - effect of change in tax rates	(782)	–
Total tax charge/(credit)	**5,883**	(280)
Reconciliation of tax charge		
Profit before tax	42,761	(7,690)
Expected tax based on 19.00% (2017: 19.25%)	8,124	(1,481)
Effects of:		
Expenses not deductible for tax purposes	3,101	378
Adjustment in respect of previous periods	–	(59)
Income not taxable	(2,926)	–
Impact of rate between deferred tax and current tax	(777)	(11)
Recognition of items previously not recognised	(2,646)	–
Employee share options	23	–
Deferred tax not recognised	984	893
Total tax charge/(credit)	**5,883**	(280)
Recognised deferred tax provisions		
Brought forward	–	(280)
Relating to Profit and loss	5,883	221
Relating to Other comprehensive income	–	59
Carried forward	**5,883**	–
Represented by:		
Unutilised tax losses	(2,835)	(1,076)
ACAs	(17)	(5)
Intangibles	325	374
Employee benefits	(373)	(374)
Investments	8,784	1,081
Other timing differences	(1)	–
	5,883	–
Unrecognised deferred tax provisions		
Unutilised tax losses	(996)	(1,868)
Employee benefits	–	(79)
Other timing differences	–	(1)
	(996)	(1,948)

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 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 £996k in respect of losses amounting to £5,859k, which can be carried forward against future taxable income.

NOTES TO THE FINANCIAL STATEMENTS

10. Earnings per Share

On 20 March 2018, the Group issued 38,610,928 ordinary shares, following a capital raise. On 22 June 2018, the Group issued 59,225 ordinary shares, in relation to certain share awards. As at 31 December 2018, the Group had 134,823,243 ordinary shares in issue (31 December 2017: 96,153,090). At the year-end date, 7,451,521 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 profit 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. These have been included in the fully diluted earnings per share calculation.

Basic

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Profit/(loss) attributable to equity holders of Arix Bioscience plc	**38,147**	(8,612)
Weighted average number of shares in issue	**118,787,412**	78,725,677
Basic earnings/(loss) per share	**32.1p**	(11.0)p

Diluted

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Profit/(loss) attributable to equity holders of Arix Bioscience plc	**38,147**	(8,612)
Fully diluted weighted average number of shares in issue	**128,521,402**	78,725,677
Diluted earnings/(loss) per share	**29.7p**	(11.0)p

11. Investments

Equity Investments

	Level 1- Quoted Investments £'000	Level 3 - Unquoted Investments £'000	Total £'000
At 1 January 2018	2,846	68,485	71,331
Additions	22,416	32,812	55,228
Transfers	29,312	(29,312)	–
Capitalisations	–	234	234
Unrealised gain/(loss) on investments	55,154	(3,981)	51,173
Foreign exchange gains	3,955	2,060	6,015
At 31 December 2018	**113,683**	**70,298**	**183,981**

Transfers from Level 3 to Level 1 reflects companies which have listed during the year. Level 3 investments are valued with reference to either price of recent investment (£33.4m, 2017: £58.8m); net asset value (£4.5m, 2017: £5.9m); marked-based write-up (£23.8m, 2017: £nil); discretionary write-down (£3.2m, 2017: £nil); or by discounted cash flow (£nil, 2017: £3.8m); the latter used a discount rate of 33.5%, a discount for marketability (16.0%) and other assumptions relating to exit values and exit dates (see Note 2(i) for further details).

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. Significant influence is determined to exist when the Group holds more than 20% of the holding or when less than 20% is held but in combination with a certain level of board representation is deemed to be able to exert significant influence. As at 31 December 2018, the Arix Group is deemed to have significant influence over the following entities:

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
Depixus SAS (EUR)	France	3-5 Impasse Reille, 75014 Paris	18.6%	1,948	(1,439)	31 December 2017
OptiKira, LLC	USA	20600 Chagrin Boulevard, Suite 210, Cleveland, OH 44122	26.0%	N/A	N/A	Not publicly available
PreciThera, Inc	Canada	1010 Sherbrooke St West, Suite 408, Montreal QC	20.9%	N/A	N/A	Not publicly available
Quench Bio, Inc	USA	400 Technology Square, Cambridge, MA 02139	25.6%	N/A	N/A	Not publicly available

In addition, at 31 December 2018, the Group held the following investments in companies where it is not considered to have significant influence:

Company	% of Issued Share Capital Held
Amplyx Pharmaceuticals, Inc.	2.9%
Artios Pharma Limited	13.4%
Atox Bio, Inc.	3.7%
Autolus Therapeutics plc	7.9%
BioMotiv, LLC	17.8%
Harpoon Therapeutics, Inc.	11.3%
Iterum Therapeutics Limited	12.9%
LogicBio Therapeutics, Inc.	12.9%
Mitoconix Bio Limited	3.4%
Pharmaxis Limited	11.1%
VelosBio, Inc.	8.9%
Verona Pharma plc	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 £4.5m at year-end (2017: £9.6m); the Group's exposure is limited to the carrying value within Investments.

12. Intangible Assets

	Year Ended 31 December 2018	Year Ended 31 December 2017
Brought forward	**2,057**	2,344
Amortisation	**(287)**	(287)
	1,770	2,057

An intangible asset arose on Arix Bioscience plc's acquisition of ALS, relating to management fees due to Arix Capital Management 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.

NOTES TO THE FINANCIAL STATEMENTS

13. Property, Plant and Equipment

Year ended 31 December 2018

	Fixtures and Fittings £'000	Leasehold Improvements £'000	Office Equipment £'000	Total £'000
As at 1 January 2018	**410**	**34**	**79**	**523**
Exchange translation adjustments	**2**	**1**	**1**	**4**
Additions	**–**	**–**	**2**	**2**
Depreciation charge	**(154)**	**(10)**	**(52)**	**(216)**
At 31 December 2018	**258**	**25**	**30**	**313**

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

14. Trade and Other Receivables

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Trade receivables	**1,734**	275
Other receivables	**–**	571
Prepayments	**359**	306
VAT receivable	**81**	114
	2,174	1,266

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 and Cash on Long-Term Deposit

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Cash at bank and in hand	**31,009**	74,938
Cash on long-term deposit	**60,209**	–

The carrying value of cash and cash equivalents and cash on long-term deposit approximates to its fair value.

16. Trade and Other Payables

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

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Trade payables	**228**	544
Accruals and other payables	**3,171**	3,098
Current tax liabilities	**–**	28
	3,399	3,670

17. Share Capital

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Allotted and called up		
134,823,243 ordinary shares of £0.00001 each (2017: 96,153,090 shares)	**1**	1
49,671 Series C shares of £1 each	**50**	50

On 20 March 2018, the Group issued 38,610,928 ordinary shares, following a capital raise. The shares were issued at a price of £2.25 per share, raising gross proceeds of £86.9m. On 22 June 2018, the Group issued 59,225 ordinary shares, in relation to certain share awards. These shares were issued at par. As at 31 December 2018, the Group had 134,823,243 ordinary shares in issue (31 December 2017: 96,153,090).

At the year-end date, 7,451,521 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. There are no Treasury Shares in issue.

NOTES TO THE FINANCIAL STATEMENTS

18. Share Options

During 2018, 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 2018, a share-based payment charge of £582k (2017: £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 2018, a share-based payment charge of £348k (2017: £606k) was recognised in relation to these Founder Incentive Shares, calculated using the Black–Scholes model. Assumptions used in the model relating to the risk free interest rate and expected volatility were unchanged from those used in the prior period.

Executive Incentive Plan

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

IPO Award

In February 2017, the Executive Directors and certain employees were awarded one-off nil cost options or conditional awards in recognition of their contribution to the Company's initial public offering. The options were granted on 22 February 2017; all options vest after two years, on 22 February 2019. Options are conditional upon remaining in employment with the Arix Group during the vesting period. In the year ended 31 December 2018, a share-based payment charge of £1,470k (2017: £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 2018, a share-based payment charge of £430k (2017: £259k) was recognised in relation to the Employee Share Plan.

In May 2018, 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 17 May 2021, 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 2018, a share-based payment charge of £427k (2017: £nil) 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	£2.09
Risk free interest rate	0.93%
Time to vesting	3 years
Expected volatility	37%

Non-Executive Director Awards

Pursuant to their respective letters of appointment, the Non-Executive Directors agreed that 50% of their fees will be satisfied by the issue of ordinary shares. Shares were awarded in June 2018 for the year to 30 June 2018; as such, a share-based payment charge of £75k (2017: £73k) has been recognised in the year. It has been determined that from 1 July 2018 Non-Executive Directors will no longer receive ordinary shares in satisfaction of their fees.

19. Note to the Statement of Cash Flows

	Year Ended 31 December 2018 £'000	Year Ended 31 December 2017 £'000
Profit/(loss) before income tax	**42,761**	(7,690)
Adjustments for:		
Change in fair value of investments	**(51,173)**	(5,544)
Foreign exchange (gains)/losses	**(4,583)**	432
Share-based payment charge	**3,333**	3,654
Depreciation and amortisation	**503**	506
Finance income	**(708)**	(1)
Changes in working capital		
(Increase)/decrease in trade and other receivables	**(908)**	1,996
Decrease in trade and other payables	**(243)**	(2,121)
Cash used in operations	**(11,018)**	(8,768)

20. Financial Commitments

Operating Leases

At 31 December 2018, 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 December 2018 £'000	As at 31 December 2017 £'000
No later than one year	**681**	637
Later than one year but no later than five years	**865**	1,492
Later than five years	**–**	–
	1,546	2,129

The Group also has amounts committed to portfolio companies but not yet invested; at 31 December 2018 these totalled £21.0m (2017: £28.6m).

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 December 2018 £'000	As at 31 December 2017 £'000
Financial assets at fair value through profit or loss		
Equity investments	**183,981**	71,331
Loans and receivables		
Other receivables (excluding prepayments)	**1,734**	846
Long-term cash on deposit	**60,209**	–
Cash and cash equivalents	**31,009**	74,938

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.

NOTES TO THE FINANCIAL STATEMENTS

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 December 2018 £'000	As at 31 December 2017 £'000
Trade, other payables and accruals (excluding non-financial liabilities)	**3,399**	3,670

22. Guarantees

The Company has provided a rent deposit guarantee in respect of its US office for an amount of $261,657, (£205,474), unchanged from 2017.

23. Related Party Transactions

Consultancy fees plus expenses amounting to £544,336 (inclusive of VAT) (2017: £520,165) 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 2018, £nil (inclusive of VAT) (2017: £841) was owed to Merlin Scientific LLP by the Company.

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

24. Events After the Reporting Date

On 8 February 2019, Arix portfolio company Harpoon Therapeutics, Inc. began trading on the Nasdaq Global Select Market following the completion of its Initial Public Offering (IPO), priced at US$14 per share. This resulted in an increase in the value of Arix's existing holding in Harpoon to £26.7m; a £2.8m uplift to the 31 December 2018 value of £23.9m. Additionally, Arix has agreed to invest £4.6m (US$6.0m) in the IPO (amounting to 2,892,119 shares of common stock), giving a total new valuation of £31.3m and a new ownership stake in Harpoon of 12.1%.

On 27 February 2019, a further $4.2m (£3.2m) was invested in Atox Bio, Inc. The Arix Group's fully diluted shareholding in the company now stands at 6.4%.

On 15 March 2019, Arix completed its investment in Imara, Inc. Arix committed £11.3m (US$15.0m) for a 9.9% stake on a fully diluted basis. To date, Arix has invested £7.9m, and currently holds an 8.1% stake (fully diluted).

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	2	**891**	891
Amounts due from subsidiary undertakings	4	**139,849**	77,221
		140,740	78,112
Current assets			
Cash and cash equivalents	3	**30,587**	72,574
Cash on long-term deposit	3	**60,209**	–
Trade and other receivables		**261**	423
Deferred tax asset		**373**	–
		91,430	72,997
TOTAL ASSETS		**232,170**	151,109
LIABILITIES			
Current liabilities			
Trade and other payables		**(728)**	(1,468)
		(728)	(1,468)
TOTAL LIABILITIES		**(728)**	(1,468)
NET ASSETS		**231,442**	149,641
EQUITY			
Share capital and share premium		**188,585**	105,125
Loss for the period		**(3,782)**	(6,989)
Other components of retained earnings		**47,850**	51,505
Other reserves		**(1,211)**	–
		231,442	149,641
TOTAL EQUITY		**231,442**	149,641

COMPANY STATEMENT OF CHANGES IN EQUITY

As at 31 December 2018

	Share Capital and Premium £'000	Other Equity £'000	Other Reserves £'000	Retained Earnings £'000	Total £'000
As at 1 January 2018	**105,125**	**–**	**–**	**44,516**	**149,641**
Loss for the period	**–**	**–**	**–**	**(3,782)**	**(3,782)**
Contributions of equity, net of transaction costs and tax	**83,460**	**–**	**–**	**–**	**83,460**
Share-based payment charge	**–**	**–**	**–**	**3,334**	**3,334**
Acquisition of own shares	**–**	**(1,211)**	**–**	**–**	**(1,211)**
Issue of own shares to employees	**–**	**–**	**–**	**–**	**–**
As at 31 December 2018	**188,585**	**(1,211)**	**–**	**44,068**	**231,442**

	Share Capital and Premium £'000	Other Equity £'000	Other Reserves £'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

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 408 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

	2018 £'000	2017 £'000
Opening balance	**891**	891
Additions	**–**	–
Impairments	**–**	–
Disposals	**–**	–
At 31 December	**891**	891

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

3. Cash and Cash Equivalents and Cash on Long-Term Deposit

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Cash at bank and in hand	**30,587**	72,574
Cash on long-term deposit	**60,209**	**–**

The carrying value of cash and cash equivalents and cash on long-term deposit approximates to its fair value.

4. Amounts Due from Subsidiary Undertakings

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Opening balance	**77,221**	16,357
Additions during the period	**62,628**	60,864
Repayments during the period	**–**	–
At 31 December	**139,849**	77,221

The amounts due from subsidiary undertakings are interest free, repayable on demand and unsecured. Arix Bioscience plc currently has no intention to request repayment of any amounts due. Subsidiaries with cash liquidity will support other subsidiaries in meeting cash requirements in the event that the repayment of any loan is requested.

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.

ADVISERS

Directors, Secretary, Registered Office

Directors
Jonathan Peacock
Joe Anderson, PhD
James Rawlingson
Franz Humer
Professor Trevor Jones CBE
Meghan FitzGerald
Giles Kerr

Company Secretary
Robert Lyne

Registered Office
20 Berkeley Square
London
W1J 6EQ
United Kingdom

Company Number
09777975

Legal advisers
Brown Rudnick LLP
8 Clifford Street
London
W1S 2LQ
United Kingdom

One Financial Center
Boston
MA 02111
United States

Independent Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT
United Kingdom

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
United Kingdom

ARIX

20 Berkeley Square
London W1J 6EQ
United Kingdom

+44 (0)20 7290 1050

info@arixbioscience.com