BioPharma
CREDIT PLC

Annual Report 2017

for the period from incorporation
(24 October 2016) to 31 December 2017

DEBT CAPITAL FOR THE LIFE SCIENCES INDUSTRY

— Welcome to our Annual Report —

BIOPHARMA CREDIT PLC PROVIDES INVESTORS WITH THE OPPORTUNITY TO GAIN EXPOSURE TO THE FAST GROWING LIFE SCIENCES INDUSTRY.

OUR DIVERSIFIED PORTFOLIO IS SECURED BY ROYALTIES OR CASH FLOWS DERIVED FROM SALES OF APPROVED LIFE SCIENCES PRODUCTS.

Visit bpcruk.com for more information

"We seek to build a diversified portfolio with downside protection, high visibility and stability of cash flows."

Pedro Gonzalez de Cosio
Co-founder and CEO, Pharmakon

Look out for our 'Recent Investments' which profile new additions to the portfolio.

— Financial and Investment Highlights —

ORDINARY SHARES
as at 31 December 2017

Share price
$1.0470
(30 March 2017*: $1.0000) + 4.7%

NAV per share
$1.0091
(30 March 2017*: $0.9800) + 3.0%

Premium to NAV per share
3.8%
(30 March 2017: 2.0%)

Shares in issue
914.3m
(30 March 2017: 761.9m)

ASSETS
as at 31 December 2017

Net assets
$922.6m
(30 March 2017: $746.6m) + 23.6%

Leverage
0%
(30 March 2017: 0%)

* The opening share price is the issue price as of 30 March 2017 and the opening net asset value ("NAV") per share is issue price less initial expenses, capped at 2 per cent of the gross issue proceeds, as set out in the IPO Prospectus dated 1 March 2017.

Portfolio composition

Key statistics ($ in millions)	As at 31 December 2017	As at 30 March 2017	% Change
Cash and cash equivalents	350.82	423.30	-17.1%
Limited partnership interest in BioPharma III	123.48	153.50	-19.6%
RPS Note	99.65	185.10	-46.2%
Tesaro senior secured loan	222.00	–	–
Lexicon senior secured loan	124.50	–	–
Other	2.12	(15.30)	113.9%
Total net assets	**922.57**	**746.60**	**23.6%**

TESARO

- $500 million senior secured loan

Lexicon pharmaceuticals

- $200 million senior secured loan

See Recent Investments on pages 16 to 19 for additional information on the Tesaro and Lexicon senior secured loans

— What We Do —

OUR MISSION:

TO BECOME THE PREMIER DEDICATED PROVIDER OF DEBT CAPITAL TO THE GLOBAL LIFE SCIENCES INDUSTRY.

Target Investments:

The Company will mainly invest in debt secured by rights to approved life sciences products or royalties from sales of approved life sciences products.

DEBT

Investments seek predictable cash flows with downside protection

SECURED

Product rights or royalties will serve as collateral for the debt

RIGHTS

Intellectual property, regulatory and other rights that give a life sciences company exclusivity on products and methods of treating certain diseases

LIFE SCIENCES PRODUCTS

Products may include pharmaceuticals, bio-pharmaceuticals, medical devices and clinical diagnostics

ROYALTIES

Right to receive a pre-determined percentage of product sales derived from a licence agreement

COMMERCIALLY APPROVED

Product has met regulatory requirements and is available to patients

INVESTMENT OBJECTIVE:

TO GENERATE PREDICTABLE INCOME FOR SHAREHOLDERS OVER THE LONG TERM.

Providing debt capital for the life sciences industry is an attractive investment opportunity with strong risk-adjusted returns.

1
LIFE SCIENCES DEBT IS A LARGE & ATTRACTIVE MARKET

Annual pharmaceutical sales of $1.1 trillion and growing

Large capital needs, private sector spent $160 billion in R&D during 2016

No large dedicated lender or specialised debt market

See Market Overview page 08

2
INDUSTRY DYNAMICS CREATE NEW DEBT INVESTMENT OPPORTUNITIES

The specialisation and fragmentation in the industry results in new revenue generating companies every year

Companies with products that have predictable revenues yet large R&D budgets are ideal borrowers

See Recent Investments page 16

3
PRODUCT & STRUCTURAL EXPERTISE HELP OPTIMISE RISK/REWARD

Life sciences products have predictable uncorrelated cash flows with a long runway of visibility

The Company has a highly experienced investment manager with a strong track record

See Introduction to the Investment Manager page 10

Source: Pharmakon Advisors

THE BOARD IS PLEASED TO PRESENT THE COMPANY'S FIRST ANNUAL RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2017.

Introduction

This is the first Annual Report of BioPharma Credit PLC (the "Company"), covering the period from its date of incorporation on 24 October 2016 to 31 December 2017.

The Company successfully listed on the Specialist Fund Segment ("SFS") of the Main Market of the London Stock Exchange ("LSE") and The International Stock Exchange ("TISE") on 30 March 2017, raising $761.9 million. This was the largest IPO on the LSE in the first half of 2017.

The proceeds of the IPO included the contribution in exchange for shares of $338.6 million of seed assets. These comprised of a $185.1 million note secured by royalties on sales from 22 biotechnology and pharmaceutical products, including some of the world's largest, (the "RPS Note") together with a $153.5 million interest in BioPharma III Holdings LP, through which the Company gained exposure to an interest in five loans, also secured by rights to approved life sciences products. The remaining $423.3 million of IPO proceeds was initially held in cash pending investment in new assets.

During the last quarter of 2017 the Company announced three new investment commitments totalling up to a maximum of $713.2 million, available to be drawn over the next two years. As a result of this activity, together with the development of a pipeline of additional investment opportunities, the Board decided to carry out a follow-on issue of new ordinary shares which was successfully placed on 14 December 2017, raising gross proceeds of $154.1 million. Through the combination of these two share issues, the Company raised more proceeds than any other listed investment company in London last year.

Shareholder returns and investment performance

On 31 December 2017 the Company's shares closed at $1.0470, a 4.7 per cent premium to the IPO price of $1.0000. NAV at admission was $746.6 million or 98.00 cents per share and on 31 December 2017 was $922.6 million or 100.91 cents per share. During the period, the Company paid or declared dividends totalling $0.02 per share, in line with our initial target dividend of 4 per cent per annum.

As more fully described in the Investment Manager's Report which follows, the Company made a total of four investment commitments during the period totalling between $693.2 million and $713.2 million, depending on certain conditions. One of these investments was also exited within the period. A total of $363.7 million has already been funded ($344 million net of the exited investment), leaving an additional amount of between $329.5 million and $349.5 million that may be funded by early 2020. In the period ending 31 December 2017 the Company's seed assets declined through capital repayments by $115.5 million to $223.1 million.

As of 31 December 2017, the Company had total assets of $925.5 million, represented by $569.6 million in investments, $5.1 million in trade receivables, and $350.8 million in cash.

Outlook

As demonstrated by the Company's announced investment activity, target debt issuers have been receptive to the forms of debt financing that the Company offers. A leadership position has been established in the market through the execution of highly visible transactions such as the important loan to Tesaro, Inc. (TSRO:NASDAQ), which is reported to have been the largest non-convertible debt issue by a biotech company with a market cap of less than $10 billion, the Company's target market.

Your Board has been encouraged by the deployment of the proceeds raised at the IPO and the development of a most encouraging pipeline of further possible investment opportunities. This has already led to the follow-on issue of ordinary shares referred to above and, as we consider the evolution of these opportunities in the coming months, I expect the Board to be giving further consideration to sources of additional capital which, as envisaged in the IPO Prospectus, may include both equity and debt.

I should like to thank all our shareholders for their support in 2017 and I look forward to updating you on the Company's further progress later this year.

Jeremy Sillem
Chairman

7 March 2018

LIFE SCIENCES IS A LARGE, VITAL INDUSTRY WITH STRONG, CONSISTENT GROWTH.

Size and growth dynamics of the industry

The life sciences industry consists of pharmaceutical and biotechnology firms and is a large and vital industry with consistent growth. Worldwide industry revenues today are approximately $1.1 trillion and are expected to reach $1.5 trillion by 2021, reflecting a compounded annual growth rate of six per cent. While medical and scientific advances contribute to a portion of that increase, other growth drivers include more basic demographic and macroeconomic factors such as a growing population, an aging population and increasing prosperity in developing countries which is improving access to healthcare for millions of patients. The increase in spending is expected to be largely driven by brands and increased usage in emerging markets, offset by expiring patents.

Product lifecycle

Pharmaceutical and biotechnology products have a long life cycle, which can provide considerable downside protection for the Company. Worldwide patents can lead to more than 20 years of protection, which frequently translates into as long as 15 years of exclusivity from the time the products are first approved by regulatory agencies such as the FDA. Some governments also provide for regulatory exclusivity which provides for six to ten years of commercial exclusivity independent of an approved patent, if an innovator performs clinical trials. On average, sales growth is very robust for the first 12 years of a product's life cycle, after which some of these products begin to lose exclusivity, and their sales growth slows and starts to decline shortly thereafter. A key driver of initial sales growth is increasing prescriptions from physicians in the early-launch markets, but subsequent commercialisation rates in additional geographic markets, as well as expanding indications, frequently drive attractive growth for more than a decade.

Market dynamics creating fragmentation of the industry and more lending opportunities

Despite growth in the pharmaceutical market, large pharmaceutical companies continue to face mounting pressure on top-line sales from patent expirations on blockbuster products and failures in their R&D pipelines. The internal R&D departments of larger pharmaceutical companies have struggled to replace lost revenue with new products. Dramatically escalating R&D costs have also put pressure on industry participants to adapt their business model and seek partners to reduce risk. The amount of R&D investment per FDA-approved product is now approximately $1.4 billion. As a result of these factors, large pharmaceutical companies have evolved and are increasingly relying on in-licensing and corporate acquisitions for new products.

Over the last 30 to 40 years, the landscape of the pharmaceuticals industry has been transformed from one dominated by fully integrated pharmaceutical companies to a more dynamic and entrepreneurial R&D ecosystem comprised of thousands of participants. As a result of this R&D evolution, smaller companies, investor groups, universities and non-profit research institutes increasingly have rights to royalty streams on products that have been out-licensed to larger pharmaceutical companies. This broader shift in R&D approach provides an expanding landscape of lending opportunities for the Company, as smaller companies are increasingly partnering with large pharmaceutical companies.

The pharmaceutical and biotechnology ecosystem has evolved to one where innovation and commercialisation, which was once centralised in fewer than 100 big pharmaceuticals, has now spread among more than 5,000 academic labs, government-funded entities and more than 5,000 biotech companies. The pool of creditworthy borrowers has increased exponentially.

MARKET DRIVERS:

Strong expected growth over foreseeable future fuelled by four strong growth drivers.

1. Growing population

1960: **3bn**

2000: **6bn**

2050: **9bn**

2. Ageing population

3. Emerging markets

4. R&D innovation

Known diseases

Existing treatments (approx. 20%)

Global pharmaceutical sales: historical & projected ($trn)

Source: Pharmakon Advisors

PHARMAKON ADVISORS, THE FUND'S INVESTMENT MANAGER, WAS FOUNDED IN 2009 AND HAS INVESTED $1.9 BILLION IN 27 TRANSACTIONS ON BEHALF OF ITS CLIENTS.

As of 31 December 2017, Pharmakon clients included four previous BioPharma Funds (I, II, III & IV) and two managed co-investor accounts. The four BioPharma Funds have now reached the end of their investment period and are expected to generate net returns ranging from 7% to 12% with zero defaults:

Historical performance of Pharmakon-managed funds as of 31 December 2017

BioPharma Fund	I	II	III	IV
Launch date	June 2009	March 2011	February 2013	December 2015
End of investment period	May 2010	March 2013	August 2015	December 2017
Invested amount	$263.7 million	$343.0 million	$463.0 million	$512.0 million
Distributions to investors	$329.2 million	$410.1 million	$423.8 million	$181.7 million
Net IRR	11.3%	6.8%	10.9%*	10.0%*

* Reflects historical performance through 31 December 2017 and estimated returns thereafter.

The Pharmakon team has extensive expertise investing in debt and other cash flows backed by life sciences products.

Through a shared services agreement with Royalty Pharma, Pharmakon has access to the complementary expertise of the team behind the market-leading investor in pharmaceutical royalties. Royalty Pharma, an affiliate of Pharmakon, was established in 1996 and acquires revenue-producing intellectual property, with over $17 billion in royalty assets.

Pharmakon team prides itself on its ability to identify and structure investments that meet its target returns while minimising risk through its rigorous diligence process and industry expertise.

Pedro Gonzalez de Cosio,
Investment Manager
Co-founder and CEO

Mr. Gonzalez de Cosio is the CEO and a Co-founder of the Investment Manager and will manage the Company's portfolio. During the 14 years prior to founding the Investment Manager, Mr. Gonzalez de Cosio held various positions in the structured finance divisions of Deutsche Bank and JP Morgan in New York, where he was responsible for structuring various forms of collateralised financings and derivatives for US and international clients, including several years covering clients in the life sciences industries.

Mr. Gonzalez de Cosio's prior experience also includes various positions in the investment banking division of Nomura Securities in New York, the leasing division of Société Générale in Paris, and coordinating the issuance of external debt for the Mexican Ministry of Finance. Mr. Gonzalez de Cosio earned a B.A. degree (Summa Cum Laude) in Business Administration from the University of San Diego and an M.B.A. from INSEAD in Fontainebleau, France.

Pablo Legorreta,
Investment Manager
Co-founder and Principal

Mr. Legorreta is Founder and CEO of Royalty Pharma, an affiliate of the Investment Manager and a Principal and Co-founder of the Investment Manager providing advisory oversight. Founded in 1996, Royalty Pharma is the industry leader in acquiring revenue-producing intellectual property, with over $17 billion in royalty assets. Royalty Pharma funds innovation in life sciences, indirectly, when it acquires existing royalty interests from the original innovators (academic institutions, research hospitals, foundations and inventors) or, directly, when it partners with life sciences companies to co-develop and co-fund products in late-stage human clinical trials.

Prior to founding Royalty Pharma, Mr. Legorreta spent a decade at Lazard Frères in Paris and New York where he provided cross-border merger and acquisition and corporate finance advisory services to European and US corporations. Mr. Legorreta serves on the Board of Governors of the New York Academy of Sciences, and the Boards of Trustees of Rockefeller University, The Hospital for Special Surgery, The Pasteur Foundation (US affiliate of the French Institut Pasteur), The Open Medical Institute, The Park Avenue Armory and Grace Church School. Mr. Legorreta founded and is currently Chairman of Alianza Médica para la Salud ("AMSA"), a privately-funded, not-for-profit foundation whose goal is to educate Latin American doctors and healthcare providers to improve the quality of healthcare in Latin America. Mr. Legorreta received a degree in industrial engineering from Universidad Iberoamericana (Mexico City).

Martin Friedman,
Investment Manager
Principal

Mr. Friedman is a Principal of the Investment Manager, having joined in 2011. Mr. Friedman has spent the past 22 years in various positions in the healthcare finance industry, most recently as the co-head of the US life sciences banking at Bank of America/ Merill Lynch. He has worked very closely with both large cap and emerging pharmaceutical, biotech, specialty pharmaceutical, device and diagnostic companies, having advised on M&A transactions and raised equity and debt capital.

Mr. Friedman's prior experience also includes his 12 years at JPMorgan, including four years at JPMorgan Partners, and several years as the Head of M&A and Collaborations at Novartis AG based in Switzerland. Mr. Friedman earned a B.A. degree in English and History from Columbia College and an M.B.A. (Honours) in Finance and Accounting from Columbia Business School.

BIOPHARMA CREDIT IS WELL ON ITS WAY TO BUILDING AN ATTRACTIVE PORTFOLIO.

With the execution of four investments during the period, representing total commitments of $693.2 – $713.2 million, BioPharma Credit is well on its way to meeting its objective of building an attractive portfolio of life sciences debt investments.

We are delighted with the results of our first nine months as a public company. Pharmakon's engagement with multiple potential counterparties resulted in the execution of four investments on behalf of the Company while continuing to build an attractive pipeline for future investments. BioPharma Credit saw significant investment activity during the last half of the year, having made four investments totalling $363.7 million, with additional commitments ranging between $329.5 – $349.5 million subject to certain conditions, and selling one investment for $19.7 million. Below is a summary of this investment activity together with an update on the seed assets acquired at the time of IPO.

Investments

Depomed, Inc.

Between 13 September 2017 and 31 October 2017, the Company purchased 2.5 per cent senior unsecured convertible notes issued by Depomed Inc. (NASDAQ: DEPO) with a face value of $23.5 million, at an average price of 72.9 cents for a total consideration of $17.2 million. Between 5 December 2017 and 8 December 2017, the Company sold the entire position at an average price of 83.4 cents and received proceeds of $19.7 million including accrued interest, generating a net gain of $2.5 million.

Tesaro, Inc.

On 21 November 2017, the Company and BioPharma Credit Investments IV, S.àr.L. ("BioPharma IV"), another entity managed by Pharmakon, entered into a definitive loan agreement for up to $500 million with Tesaro, Inc. (NASDAQ: TSRO) ("Tesaro"). Under the terms of the transaction, the Company will invest up to $370 million ($222 million in the first tranche and up to an additional $148 million by 20 December 2018 at Tesaro's option) and BioPharma IV will invest up to $130 million in parallel with the Company, which will act as collateral agent. The loan has a term of seven years and is secured by Tesaro's US rights to ZEJULA® and VARUBI®. The first $300 million tranche bears interest at LIBOR plus 8 per cent, with the second optional tranche bearing interest at LIBOR plus 7.5 per cent. The LIBOR rate is subject to a floor of 1 per cent and certain caps. Each tranche of the loan is interest only for the first two years, amortises over the remaining term, and can be prepaid at Tesaro's discretion at any time, subject to prepayment fees. The first $300 million tranche was funded on 6 December 2017.

Investments continued

Lexicon Pharmaceuticals, Inc.

On 4 December 2017, the Company and BioPharma IV entered into a definitive term loan agreement for up to $200 million with Lexicon Pharmaceuticals, Inc. (NASDAQ: LXRX) ("Lexicon"), a fully integrated biopharmaceutical company with a market capitalisation of approximately $1.0 billion as of 31 December 2017. The $200 million loan will be available in two tranches, each maturing in December 2022 and bearing interest at 9.0 per cent per annum. The first $150 million is available immediately and an additional tranche of $50 million is available for draw down by March 2019 at Lexicon's option if net XERMELO® sales are greater than $25 million in the preceding quarter. Under the terms of the transaction, the Company will invest up to $166 million ($124.5 million in the first tranche and up to an additional $41.5 million by 30 March 2019) and BioPharma IV will invest up to $34 million in parallel with the Company which will act as collateral agent. The loan is secured by substantially all of Lexicon's assets, including its rights to XERMELO and Sotagliflozin. The first $150 million tranche was funded on 18 December 2017.

Bristol-Myers Squibb, Inc.

On 8 December 2017, the Company's wholly-owned subsidiary entered into a purchase, sale and assignment agreement with a wholly-owned subsidiary of Royalty Pharma Investments ("RPI"), an affiliate of the Investment Manager, for the purchase of a 50 per cent interest in a stream of payments (the "Purchased Payments") acquired by RPI's subsidiary from Bristol-Myers Squibb (NYSE: BMY) through a purchase agreement dated 14 November 2017. As a result of the arrangements, RPI's subsidiary and the Company's subsidiary will each be entitled to the benefit of 50 per cent of the Purchased Payments under identical economic terms. The Purchased Payments are linked to tiered worldwide sales of Onglyza and Farxiga, diabetes agents marketed by AstraZeneca, and related products. The Company is expected to fund $140 to $160 million during 2018 and 2019, determined by product sales over that period, and will receive payments from 2020 through 2025. The Purchased Payments are expected to generate attractive risk-adjusted returns in the high single digits per annum.

Update on seed assets

The Company acquired $338.6 million in seed assets at the time of the IPO in March 2017, consisting of a $185.1 million investment in the RPS Note and a 46 per cent limited partnership interest in BioPharma III, valued at $153.5 million at the time of the IPO.

BioPharma III

From the time of the IPO in March through 31 December 2017, BioPharma Credit received distributions from BioPharma III totalling $41.8 million, including $30.0 million in capital distributions which reduced the value of the investment from $153.5 million in March to $123.5 million at 31 December 2017. The table below provides the change in the balance of the individual investments held by BioPharma III:

Counterparty/ borrower	Investment amount ($ in millions)	Asset value at 30 March 2017 ($ in millions)	Asset value at 31 December 2017 ($ in millions)
Vivus	$50	$32	$7
Valneva	$41	$39	$28
Novocure	$100	$102	$100
Depomed	$150	$127	$94
iRhythm	$30	$33	$30
Total	**$371**	**$333**	**$259**

During this period, the investments held by BioPharma III performed as expected. One of these investments, a loan to Depomed, Inc. (NASDAQ: DEPO), was subject to an amendment that allowed it to enter into a commercialisation agreement with a third party, Collegium Pharmaceuticals. The key terms to the amendment provided for: 1) a replacement of a $330 million annual sales covenant with an annual EBITDA covenant of $90 million through the third quarter of 2018 and $125 million thereafter; and 2) a change in the amortisation schedule to allow for quarterly as opposed to annual amortisation.

RPS Note

From the time of the IPO in March 2017 through 31 December 2017, BioPharma Credit received payments from the RPS Note totalling $94.8 million, including $85.5 million in amortisation payments which reduced the value of the investment from $185.1 million in March 2017 to $99.6 million at 31 December 2017.

End of investment period of BioPharma IV

The investment period of BioPharma IV, an entity managed by Pharmakon, expired on 8 December 2017. As a result, in line with our policy outlined at the IPO, the Company will be entitled to participate in a minimum of 50 per cent of any future investment opportunity by value, regardless of its size (subject always to compliance with the investment restrictions applicable to the Company). From the time of the IPO in March 2017 through 8 December 2017, BioPharma IV executed five transactions, investing $211.9 million and committing to invest an additional $80.5 million. In addition to a share of the Tesaro and Lexicon transactions described above, BioPharma IV entered into three transactions ranging in size from $20 to $60 million.

Investment outlook

The life sciences industry has continued to perform well during these past months. Through December 2017, the New York Stock Exchange Biotechnology Index ("BTK Index") had increased by 18.4 per cent since 31 March 2017 and by 37.3 per cent since the start of the year. Beyond reflecting the overall health of the industry, this index is relevant to us because potential borrowers are more inclined to issue equity or convertible bonds at times when equity markets are strong, limiting the number and size of fixed-income investment opportunities for the Company.

Despite recent stock market performance, equity and convertible issuance during this period has been in line with the recent past. Global equity issuance by life sciences companies during 2017 was $58.1 billion, broadly in line with the $61.0 billion issued during 2016. US issuance of life sciences convertible bonds increased 13.4 per cent from $4.8 billion during 2016 to $5.5 billion in 2017.

Acquisition financing is a very important driver of capital needs in the life sciences industry. An active M&A market helps drive opportunities for investors such as the Company, as acquiring companies need to raise finance to fund acquisitions. Global life sciences M&A volume during 2017 was $168.6 billion, 14.4 per cent less than the $196.9 billion witnessed during 2016, reflecting a decline across the broader, all industry, M&A market that saw a 25 per cent reduction. It is widely believed that this decline in M&A activity was caused by uncertainty surrounding US tax reform which was resolved in December 2017, leading to the expectation of increased M&A activity in 2018. While this decline has reduced the number of past investment opportunities, we are encouraged by the number of M&A opportunities that are starting to build up and should lead to a more active market over the next few months.

In conclusion, there is a robust pipeline of investment opportunities but the timing of their execution is not completely within our control. In addition, given the recent pace of investment activities, we will continue to explore additional sources of capital in order to finance new investments and fund existing commitments. We remain focused on our mission of creating the premier dedicated provider of debt capital to the life sciences industry while generating attractive returns and sustainable income to investors. Further, we remain confident of our ability to deliver attractive returns that will enable the Company to pay a robust dividend yield for our investors.

Pedro Gonzalez de Cosio
Co-founder and CEO, Pharmakon

7 March 2018

— Portfolio Information —

Asset	Counterparty / borrower	Geography	Underlying product	Fair value ($m)	Expected maturity	% of net assets
Limited partnership interest in BioPharma III:						
1. Capped royalty	Vivus		Qsymia	3.05	2018	0%
2. Senior secured loan	Valneva		Ixiaro	12.77	2018	1%
3. Senior secured loan	Novocure		Optune	46.15	2020	5%
4. Senior secured loan	Depomed		Nucynta, Gralise, three others	43.59	2022	5%
5. Senior secured loan	iRhythm		Optune	13.84	2021	2%
6. Other net assets				4.08		0%
Limited partnership interest in BioPharma III		Cayman Islands		123.48	various	13%
RPS Note	RPS	Cayman Islands	22 products	99.65	2026	11%
Tesaro senior secured loan	Tesaro	United States	ZEJULA	222.00	2024	24%
Lexicon senior secured loan	Lexicon	United States	XERMELO and Sotagliflozin	124.50	2022	14%
Total investments				**569.63**		**62%**
Cash and cash equivalents				350.82		38%
Other net assets				2.12		0%
Net assets				**922.57**		**100%**

The above table excludes maximum unfunded commitments for the following investments:

1) Tesaro senior secured loan: $148.0 million.

2) Lexicon senior secured loan: $41.5 million.

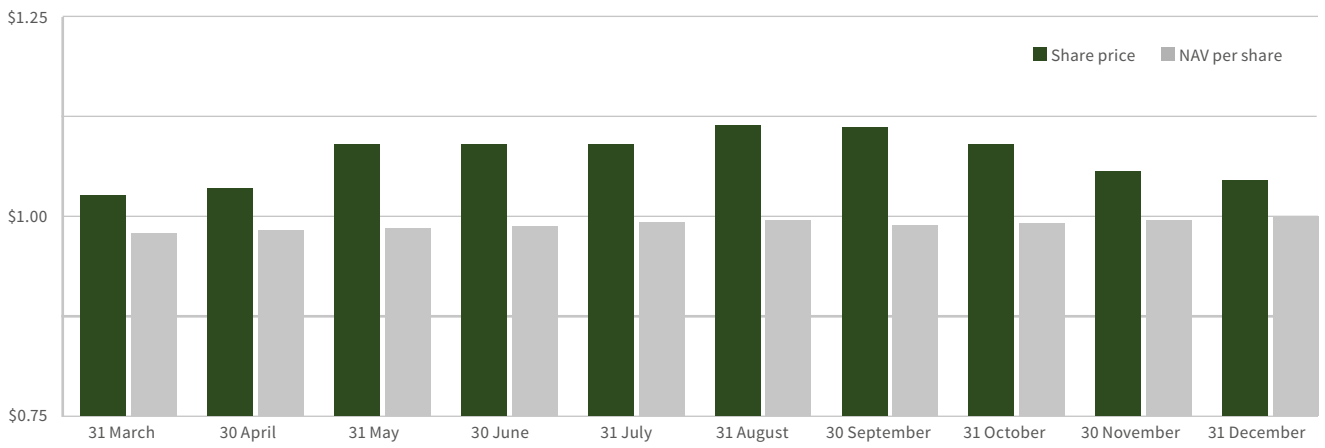
3) Bristol-Myers Squibb priority royalty tranche: $140 to $160 million.

See Recent Investments on pages 16 to 19 for additional information on Tesaro and Lexicon senior secured loans.

Performance

Cumulative Performance (%)	Since launch	1 month	3 months	6 months
Share price	4.70%	-1.04%	-5.93%	-4.12%
NAV per share [1]	2.97%	1.24%	1.94%	2.00%

1 As set out in the IPO Prospectus dated 1 March 2017, the Initial Expenses to be borne by the Company were capped at 2% of the Gross Issue Proceeds. The cumulative NAV performance since launch reflects the Company's performance against the opening NAV per share of 98 cents on the date of IPO.



$500 MILLION SENIOR SECURED LOAN TO TESARO, INC.

Tesaro is an oncology biopharmaceutical company focused on in-licensing and developing oncology-related product candidates, including rolapitant, niraparib, and product candidates under their immuno-oncology platform.

TESARO

Most recent product sales:

Zejula

$108.8m

2017

	US approval	EU approval
Zejula	March 2017	November 2017

Pedro Gonzalez de Cosio
Co-founder and CEO,
Pharmakon

> "We believe that TESARO is well on its way to becoming an oncology leader with an excellent management team, portfolio of commercial products with blockbuster potential in their current indications, and an exciting clinical development program that will one day offer patients additional indications for niraparib as well as new immuno-oncology therapies."

KEY TERMS OF LOAN

Size of facility:
$500 million to be funded in two tranches
> Tranche A: $300 million
> Tranche B: $200 million (prior to 20 December 2018)
> Company's share of Tranche A: $222 million
> Company's share of Tranche B: $148 million

Funding fee:
2% of Tranche A + 2% of Tranche B (draw)

Funding date:
6 December 2017

Interest rate:
> Tranche A: LIBOR +8.0% (subject to a floor and cap)
> Tranche B: LIBOR +7.5% (subject to a floor and cap)

Amortisation:
Two year interest only then 3% quarterly

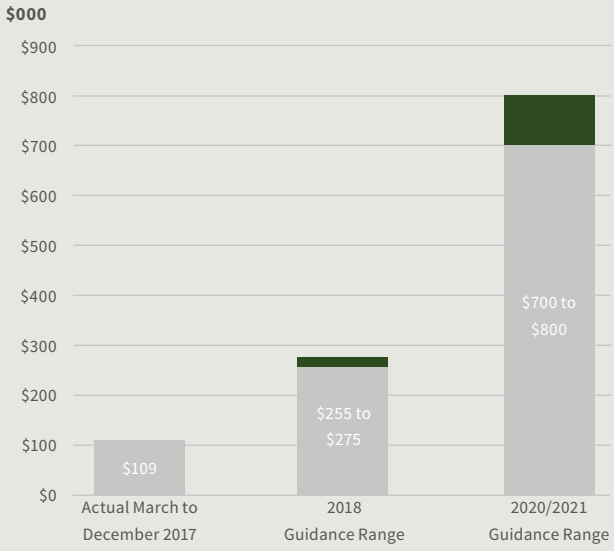
Maturity: Seven years

Prepayment:
Two years' interest less interest paid to date plus 3% if prior to the 2nd anniversary, 2% if prior to 3rd anniversary, or 1% if prior to the 4th anniversary.

ZEJULA (niraparib)

ZEJULA is a once-daily, oral poly (ADP-ribose) polymerase ("PARP") 1/2 inhibitor approved for the maintenance treatment of women with recurrent epithelial ovarian, fallopian tube, or primary peritoneal cancer who are in a complete or partial response to platinum-based chemotherapy in the US. It is the market-leading PARP inhibitor in the US. PARP inhibition interferes with DNA repair, leading to accumulation of single-strand breaks. Single-strand breaks become double-strand breaks, which are not repaired due to deficient DNA repair pathways present in many ovarian tumours. In the Phase 3 NOVA trial, the median PFS for patients treated with ZEJULA was nearly 4x higher than placebo in the gBRCAmut cohort and more than 2x higher than placebo in the non-gBRCAmut cohort. Treatment with ZEJULA reduced the risk of disease progression or death by 74 per cent in patients with germline BRCA mutations and by 55 per cent in patients without germline BRCA mutations. ZEJULA received US FDA approval in March 2017 and EMEA approval in November 2017. TESARO has ongoing and planned trials for 1st line and recurrent ovarian cancer and expansion into certain other solid tumours.

ZEJULA sales guidance (current indication):



Source: Tesaro, Inc.

$200 MILLION SENIOR SECURED LOAN TO LEXICON PHARMACEUTICALS, INC.

Lexicon is a biopharmaceutical company developing drugs for cancer, diabetes, and pain including Xermelo for the treatment of Carcinoid Syndrome diarrhoea and Sotagliflozin for Type 1 and Type 2 diabetes.

Lexicon pharmaceuticals

Most recent product sales:

Xermelo
$15.9m
2017

	US approval	EU approval
Xermelo	February 2017	September 2017
Sotagliflozin	Pending	Pending

Pablo Legorreta
Co-founder and Principal, Pharmakon

> "We are impressed with the LEXICON team and the commercial opportunities for XERMELO and are thrilled to support LEXICON in its ramp up of this product that fills a well-defined unmet patient need."

KEY TERMS OF LOAN

Size of facility:
$200 million to be funded in two tranches
> Tranche A: $150 million
> Tranche B: $50 million (prior to 20 March 2019)
> Company's share of Tranche A: $124.5 million
> Company's share of Tranche B: $41.5 million

Funding date:
18 December 2017

Interest rate:
9.0%

Amortisation:
Principal amount five years post funding date

Maturity: Five years

Prepayment:
Three years' interest less interest paid to date plus 2% if prior to the 4th anniversary or 1% if prior to the 5th

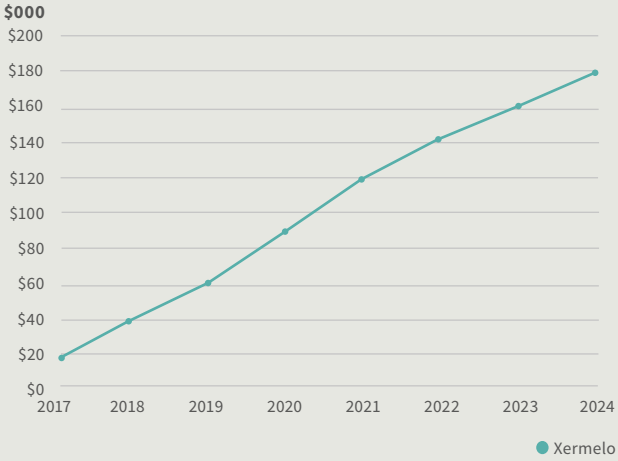
XERMELO (telotristat ethyl)

XERMELO is the first and only orally administered therapy for the treatment of carcinoid syndrome diarrhoea in combination with somatostatin analog ("SSA") therapy in adults inadequately controlled by SSA therapy. Carcinoid syndrome is a rare and debilitating condition that affects people with metastatic neuroendocrine tumours ("mNETs"). XERMELO targets the overproduction of serotonin inside mNET cells, providing a new treatment option for patients suffering from carcinoid syndrome diarrhoea.

SOTAGLIFLOZIN (LX4211)

An orally-delivered phase 3 compound for Type 1 and Type 2 diabetes that inhibits both sodium-glucose cotransporter type 2, or SGLT2, a transporter responsible for glucose reabsorption performed by the kidney and sodium-glucose cotransporter type 1, or SGLT1, a transporter responsible for glucose and galactose absorption in the gastrointestinal tract.

Analyst consensus sales estimates:



Source: Pharmakon, using median analyst consensus

Investment objective

The Company aims to generate long-term shareholder returns, predominantly in the form of sustainable income distributions from exposure to the life sciences industry.

Investment policy

The Company will seek to achieve its investment objective predominantly through direct or indirect exposure to Debt Assets.

The Company may acquire Debt Assets:

- directly from the entity issuing the Debt Asset (a ''Borrower''), which may be: (i) a company operating in the life sciences industry (a''LifeSci Company''); or (ii) an entity other than a LifeSci Company which directly or indirectly holds an interest in royalty rights to certain Products, including any investment vehicle or special purpose vehicle (''Royalty Owner''); or
- in the secondary market.

The Company may also invest in equity issued by a LifeSci Company, acquired directly from the LifeSci Company or in the secondary market.

''Debt Assets'' will typically comprise:

- **Royalty debt instruments**

  Debt issued by a Royalty Owner where the Royalty Owner's obligations in relation to the Debt are secured as to repayment of principal and payment of interest by Royalty Collateral.

- **Priority royalty tranches**

  Contract with a Borrower that provides the Company with the right to receive payment of all or a fixed percentage of the future royalty payments receivable in respect of a Product (or Products) that would otherwise belong to the Borrower up to a fixed monetary amount or a pre-set rate of return, with such royalty payment being secured by Royalty Collateral in respect of that Product (or Products).

- **Senior secured debt**

  Debt issued by a LifeSci Company, and which is secured as to repayment of principal and payment of interest by a first priority charge over some or all of such LifeSci Company's assets, which may include: (i) Royalty Collateral; or (ii) other intellectual property and marketing rights to the Products of that LifeSci Company.

- **Unsecured debt**

  Debt issued by a LifeSci Company which is not secured or is secured by a second lien on assets of the Borrower.

- **Credit linked notes**

  Derivative instruments referencing Debt Assets, being a synthetic obligation between the Company and another party where the repayment of principal and/or the payment of interest is based on the performance of the obligations under the underlying Debt Assets.

''Royalty Collateral'' means, with respect to a Debt Asset, (i) future payments receivable by the Borrower on a Product (or Products) in the form of royalty payments or other revenue sharing arrangements; or (ii) future distributions receivable by the Borrower based on royalty payments generated from a Product (or Products); or (iii) both limb (i) and limb (ii). ''Debt'' includes loans, notes, bonds and other debt instruments and securities, including convertible debt, and Priority Royalty Tranches. Borrowers will predominantly be domiciled in the US, Europe and Japan, though the Company may also acquire Debt Assets issued by Borrowers in other jurisdictions.

Investment restrictions and portfolio diversification

The Company will seek to create a diversified portfolio of investments by investing across a range of different forms of Debt Assets issued by a variety of Borrowers. In particular, the Company will observe the following restrictions when making investments in accordance with its investment policy:

- no more than 30 per cent of the Company's gross assets will be exposed to any single Borrower, other than in the case of the RPS Note;
- no more than 35 per cent of the Company's gross assets will be invested in Unsecured Debt; and
- no more than 15 per cent of the Company's gross assets will be invested in equity securities issued by LifeSci Companies.

Each of these investment restrictions will be calculated as at the time of investment. In the event that any of the above limits are breached at any point after the relevant investment has been made (for instance, as a result of any movements in the value of the Company's total assets), there will be no requirement to sell any investment (in whole or in part).

Cash management

The Company's uninvested capital may be invested in cash instruments or bank deposits for cash management purposes.

Hedging

The Company does not propose to enter into any hedging or other derivative arrangements other than as may from time to time be considered appropriate for the purposes of efficient portfolio management. The Company will not enter into such arrangements for investment purposes.

Business and status of the Company

The Company is registered in England as a public limited company and is an investment company in accordance with the provisions of Section 833 of the Companies Act 2006.

The principal activity of the Company is to carry on business as an investment trust. The Company intends at all times to conduct its affairs so as to enable it to qualify as an investment trust for the purposes of Sections 1158/1159 of the Corporation Tax Act 2010 ("S1158/1159"). The Directors do not envisage any change in this activity in the foreseeable future.

The Company has been granted approval from HM Revenue & Customs ("HMRC") as an investment trust under S1158/1159 and will continue to be treated as an investment trust company, subject to there being no serious breaches of the conditions for approval. The Directors are of the opinion that the Company has conducted its affairs for the period ended 31 December 2017 so as to be able to continue to qualify as an investment trust.

The Company has a wholly-owned subsidiary, BPCR Ongdapa Limited, details of which can be found in Note 14 to the financial statements.

Key performance indicators

The Company assesses its performance in meeting its investment objectives using the following Key Performance Indicators ("KPIs"):

NAV performance

The NAV at 31 December 2017 was $1.0091 per share, compared to $0.98 per share upon IPO, an increase of 3.0 per cent.

A full description of the Company's performance for the year ended 31 December 2017 is included in the Investment Manager's Report on pages 12 to 14.

Share price return

The Company's share price at IPO was $1.00 and increased to $1.0470, for a return since IPO of 4.7 per cent as of 31 December 2017.

Share price premium to NAV per share

The Company's share price was at a premium to the NAV per share consistently throughout the period, ending the period at a premium of 3.8 per cent. The daily closing price of the Company's shares ranged from $1.02 – $1.13 throughout the period.

If the share price declines to a point where the shares trade on average at a discount to NAV per share in excess of 5 per cent in any three-month rolling period, the Company has certain discount control mechanisms in place, one of which requires the Company to repurchase shares until such time the share price discount to NAV per share moves below 1 per cent.

Dividend yield

The Company declared and paid dividends during the period in line with the expected 4 per cent annual yield as disclosed in its IPO Prospectus dated 1 March 2017.

Ongoing charges

The Company's ongoing charges ratio as at 31 December 2017 was 1.2 per cent.

Dividends

Dividends totalling $15,238,000 per ordinary share have been paid in respect of the period ended 31 December 2017.

Principal risks and uncertainties

The Board of Directors has overall responsibility for risk management and internal control of the Company. The Board recognises that risk is inherent in the operation of the Company and that effective risk management is key to the success of the organisation. The Board has delegated responsibility for the assurance of the risk management process and the review of mitigating controls to the Audit and Risk Committee.

The Board, when setting the risk management strategy, also determines the nature and extent of the significant risks and its risk appetite in implementing this strategy. A formal risk identification and assessment process has been in place since the IPO, resulting in a risk framework document which summarises the key risks and their mitigation.

The Board undertakes a formal risk review with the assistance of the Audit and Risk Committee at least twice a year in order to assess the effectiveness of the Company's risk management and internal control systems. During the course of such review, the Board has not identified, nor been advised of any failings or weaknesses which it has determined to be of a material nature. The principal risks and uncertainties the Company faces are set out below.

The principal risks, the Company's policies for managing these risks and the policy and practice with regard to financial instruments are summarised in Note 16 to the financial statements.

Principal risks and uncertainties continued

The principal risks and uncertainties that could have a material impact on the Company's performance are set out below. The financial risks faced by the Company include, but are not limited to, market risk, liquidity risk and credit risk.

Failure to achieve target returns

The target returns are targets only and are based on financial projections that are themselves based on assumptions regarding market conditions, economic environment, availability of investment opportunities and investment-specific assumptions that may not be consistent with conditions in the future.

The Company seeks to achieve its investment objective predominantly through direct or indirect exposure to debt assets. Debt assets typically comprise royalty debt instruments, priority royalty tranches, senior secured debt, unsecured debt and credit-linked notes. A variety of factors, including lack of attractive investment opportunities, defaults and prepayments under debt assets, inability of the Company to obtain debt at an appropriate rate, changes in the life sciences industry, exchange rates, government regulations, the non-performance (or underperformance) of any life sciences product (or any life sciences company) could adversely impact the Company's ability to achieve its investment objective and deliver the target returns. A failure by the Company to achieve its target returns could adversely impact the value of the shares and lead to a loss of investment.

The Company has an investment policy to achieve a balanced Investment with a diversified asset base and has investment restrictions in place to limit exposure to potential risk factors. These factors enable the Company to build a diversified portfolio that should deliver returns that are in line with its stated target return.

The success of the Company depends on the ability and expertise of the Investment Manager

In accordance with the Investment Management Agreement, the Investment Manager is responsible for the investment management of the Company's assets. The Company does not have its own employees and all of its Directors are appointed on a non-executive basis. All investment and asset management decisions are made by the Investment Manager (or any delegates thereof) and not by the Company or the Directors and, accordingly, the Company is completely reliant upon, and its success depends on, the Investment Manager and its personnel, services and resources. The Investment Manager is required, under the terms of the Investment Management Agreement, to perform in accordance with the Service Standard. The Investment Manager does not submit individual investment decisions to the Board for approval and the Board does not supervise the due diligence performed by the Investment Manager. As part of its asset management decisions, the Investment Manager may from time to time make commitments for future investments for which the Company may need to raise funds in the future by issuing equity and/or debt or by selling all or part of other investments to raise liquidity.

The Company is entitled to terminate the Investment Management Agreement if the Investment Manager has (i) committed fraud, gross negligence or wilful misconduct in the performance of its obligations under the Investment Management Agreement, or (ii) breached its obligations under the Investment Management Agreement, and the Company is reasonably likely to suffer a loss arising directly or indirectly out of or in connection with such breach of an amount equal to or greater than 10 per cent of the NAV as at the date of the breach. The Investment Management Agreement may also be terminated at the Company's discretion on not less than six months' notice to the Investment Manager, such notice not to expire earlier than: (i) 36 months following Admission, unless approved by shareholders by ordinary resolution; and (ii) 18 months following Admission, in any event.

Under the terms of the Investment Management Agreement, the Investment Manager is only liable to the Company (and will only lose its indemnity) if it has committed fraud, gross negligence or wilful misconduct or acted in bad faith, or knowingly violated applicable securities' laws. The performance of the Company is dependent on the diligence, skill and judgement of certain key individuals at the Investment Manager, including Pedro Gonzalez de Cosio and other senior investment professionals and the information and investments' pipeline generated through their business development efforts. On the occurrence of a Key Person Event (as defined in the Investment Management Agreement), the Company may be entitled to terminate the Investment Management Agreement with immediate effect (subject to the Investment Manager's right to find an appropriate replacement to be approved by the Board (such approval not to be unreasonably withheld or delayed) within 180 days)). However, if the Company elects to exercise this right, it would be required to pay the Investment Manager a termination fee equal to either 1 per cent or 2 per cent of the invested NAV (depending on the reason for the Key Person Event), as at the date of such termination. If the Company elects not to exercise this right, the precise impact of a Key Person Event on the ability of the Company to achieve its investment objective and target returns cannot be determined and would depend inter alia on the ability of the Investment Manager to recruit individuals of similar experience, expertise and calibre. There can be no guarantee that the Investment Manager would be able to do so and this could adversely affect the ability of the Company to meet its investment objective and target returns and may adversely affect the NAV and shareholder returns and result in a substantial loss of a shareholder's investment.

Pharmakon Advisors, the Investment Manager, has extensive expertise and a track record of successfully investing in debt and other cash flows backed by life sciences products. The Investment Management Agreement provides attractive incentives for the Investment Manager to perform prudently and in the best interests of the Company. In addition, the Investment Manager and its affiliates own approximately 13 per cent of the Company as at 31 December 2017, creating a strong alignment of interests between the Investment Manager and its affiliates and shareholders of the Company.

The Company may from time to time commit to make future investments that exceed its current liquidity

From time to time, the Company may commit to make future investments for which the Company will need to raise funds by issuing equity and/or debt, or by selling all or part of other investments. Investment opportunities may require the Company to fund transactions in two or more tranches, with the later tranches to be funded six or more months in the future. Refusing to offer such later tranches would decrease the attractiveness of the Company's investment proposals and harm the Company's ability to successfully deploy its capital. Requiring the Company to maintain low-yielding cash balances sufficient to fund all such later tranches at the time of the initial commitment would decrease the average yield on the Company's assets, adversely impacting the returns to investors, and may also result in missed investment opportunities. However, in order to fund all such later tranches, the Company could be forced to issue debt, sell assets or renegotiate with the party to which it has committed the funding on unattractive terms. Furthermore, there can be no assurance that the Company will always be able to raise sufficient liquidity (by issuing equity and/or debt, or by selling investments) to meet its funding commitments. If the Company were to fail to meet its funding commitments, the Company could be in breach of its contractual obligations, which could adversely affect the Company's reputation, could result in the Company facing legal action from its counterparty, and could adversely affect the Company's financial results.

Pharmakon Advisors, the Investment Manager, together with its affiliate Royalty Pharma, believes that the risks associated with such unfunded commitment is manageable without undue risk. Pharmakon Advisors has extensive expertise raising debt secured by cash flows from life sciences products and has extensive relationships with banks and other financial institutions who can be called on to provide debt financing to the Company in order to raise liquidity. In addition, Pharmakon Advisors has expertise purchasing and selling life sciences debt assets in the secondary market and has extensive relationships with the major participants in the life-sciences debt market who would be the likely purchasers of any assets offered for sale by the Company in order to raise liquidity.

The Investment Manager's ability to source and advise appropriately on investments

Returns on the shareholders' investments will depend upon the Investment Manager's ability to source and make successful investments on behalf of the Company. There can be no assurance that the Investment Manager will be able to do so on an ongoing basis. Many investment decisions of the Investment Manager will depend upon the ability of its employees and agents to obtain relevant information. There can be no guarantee that such information will be available or, if available, can be obtained by the Investment Manager and its employees and agents. Furthermore, the Investment Manager will often be required to make investment decisions without complete information or in reliance upon information provided by third parties that is impossible or impracticable to verify. For example, the Investment Manager may not have access to records regarding the complaints received regarding a given life science product or the results of R&D related to products. Furthermore, the Company may have to compete for attractive investments with other public or private entities, or persons, some or all of which may have more capital and resources than the Company. These entities may invest in potential investments before the Company is able to do so or their offers may drive up the prices of potential investments, thereby potentially lowering returns and, in some cases, rendering them unsuitable for the Company. An inability to source investments would have a material adverse effect on the Company's profitability, its ability to achieve its target returns and the value of the shares.

The Investment Manager believes that sourcing investments is one of its competitive advantages. The Investment Manager's professionals, together with those at its affiliate Royalty Pharma, accessible through the Shared Services Agreement, have complementary scientific, medical, licensing, operating, structuring and financial backgrounds which the Investment Manager believes provide a competitive advantage in sourcing, evaluating, executing and managing credit investments in the life sciences industry.

There can be no assurance that the Board will be able to find a replacement investment manager if the Investment Manager resigns

Under the terms of the Investment Management Agreement, the Investment Management Agreement may be terminated by: (A) the Investment Manager on not less than six months' notice to the Company, such notice not to expire earlier than 18 months following Admission; or (B) the Company on not less than six months' notice to the Investment Manager, such notice not to expire earlier than: (i) 36 months following Admission, unless approved by shareholders by ordinary resolution; and (ii) 18 months following Admission, in any event. The Board would, in these circumstances, have to find a replacement investment manager for the Company and there can be no assurance that a replacement with the necessary skills and experience would be available and/or could be appointed on terms acceptable to the Company. In this event, the Board may have to formulate and put forward to shareholders proposals for the future of the Company which may include its merger with another investment company, reconstruction or winding up. It is possible that, following the termination of the Investment Manager's appointment, the Investment Manager will continue to have a role in the investment management of certain assets, where a debt asset is shared with one or more other entity managed by the Investment Manager that continue to retain the Investment Manager's services.

In the event the Investment Manager resigns, the Board will put forward to shareholders proposals for the future of the Company which may include its merger with another investment company, reconstruction or winding up. Entities affiliated with the Investment Manager own approximately 13 per cent of the Company as of 31 December 2017. This affiliate ownership level, coupled with the fact that the Investment Manager is fairly compensated, provide further incentive to remain as Investment Manager to the Company.

Concentration in the Company's portfolio may affect the Company's ability to achieve its investment objective

The Company's published investment policy allows the Company to invest up to 30 per cent of the Company's assets in a single debt asset or in debt assets issued to a single borrower. While the investment limits in the investment policy have been set keeping in mind the debt capital requirements of the life sciences industry and the investment opportunities available to the Investment Manager, it is possible that the Company's portfolio may be significantly concentrated at any given point in time.

Concentration in the Company's portfolio may increase certain risks to which the Company is subject, some or all of which may be related to events outside the Company's control. These would include risks around the creditworthiness of the relevant borrower, the nature of the debt asset and of any life sciences product(s) in question. The occurrence of these situations may result in greater volatility in the Company's investments and, consequently, its NAV, and may materially and adversely affect the performance of the Company and the Company's returns to shareholders. Such increased concentration of the Company's assets could also result in greater losses to the Company in adverse market conditions than would have been the case with a less concentrated portfolio, and have a material adverse effect on the Company's financial condition, business, prospects and results of operations and, consequently, the Company's NAV and/or the market price of the shares.

Principal risks and uncertainties continued

The Company may be unable to reduce its total exposure to Tesaro (funded and unfunded) to below 30 per cent before it is obligated to fund the second tranche of its senior secured loan to Tesaro

On 21 November 2017, the Company and BioPharma Credit Investments IV, S.àr.L. ("BioPharma-IV") entered into a definitive loan agreement for up to $500 million with Tesaro, Inc. Under the terms of the transaction, the Company will invest up to $370 million ($222 million in the first tranche and up to an additional $148 million by 20 December 2018) and BioPharma-IV will invest up to $130 million in parallel with the Company acting as collateral agent. The first tranche was funded on 6 December 2017. At the time of entering into the transaction, the Company's exposure in relation to the first funded tranche ($222 million) was below 30 per cent, calculated on the basis of 31 October 2017 gross assets of $757.4 million. The Company may be required to fund its $148 million share of the second tranche at any time from 30 June 2018 to 20 December 2018 with 90-day prior notice. The Company plans to undertake efforts to reduce its investment concentration prior to 30 June 2018 and will consider options such as raising additional capital (equity and/or debt), selling a participation in the Tesaro loan, or a combination of the three.

There can be no assurance that the Company will be able to complete a successful equity or debt raise on attractive terms, or at all. There is no liquid market for the Tesaro loan. If the Company is unable to sufficiently increase its assets, it may be unable to sufficiently reduce the size of its Tesaro investment in a timely manner or at a reasonable price.

The Company has various liquidity options which it intends to pursue to decrease its exposure to any one Borrower, including raising equity and/or debt or by selling a portion of the Tesaro loan. If the Company receives a 90-day funding notice from Tesaro prior to increasing its total assets to reduce the exposure below 30 per cent, the Company will endeavour to identify potential solutions and execute a plan to remediate by reducing the investment to a permissible level. Pharmakon Advisors has expertise purchasing and selling life sciences debt assets in the secondary market and has extensive relationships with the major participants in the life-sciences debt market who would be the likely purchasers of a portion of the Tesaro loan if necessary to reduce the concentration. The success of such solutions or plan however, cannot be guaranteed.

An increased concentration of the Company's assets could result in greater losses to the Company in adverse market conditions than would have been the case with a less concentrated portfolio, and could have a material adverse effect on the Company's financial condition, business, prospects and results of operations and, consequently, the Company's NAV and/or the market price of its shares.

Life sciences products are subject to intense competition and various other risks

The biopharmaceutical and pharmaceutical industries are highly competitive and rapidly evolving. The length of any life sciences product's commercial life cannot be predicted. There can be no assurance that the life sciences products will not be rendered obsolete or non-competitive by new products or improvements made to existing products, either by the current marketer of the life sciences products or by another marketer. Adverse competition, obsolescence or governmental and regulatory life sciences policy changes could significantly impact royalty revenues of life sciences products which serve as the collateral or other security for the repayment of obligations outstanding under the Company's investments. If a life sciences product is rendered obsolete or non-competitive by new products or improvements on existing products or governmental or regulatory action, such developments could have a material adverse effect on the ability of the borrower under the relevant debt asset to make payment of interest on, and repayments of the principal of, that debt asset, and consequently could adversely affect the Company's performance. If additional side effects or complications are discovered with respect to a life sciences product, and such life sciences product's market acceptance is impacted or it is withdrawn from the market, continuing payments of interest on, and repayment of the principal of, that debt asset may not be made on time or at all. It is possible that over time side effects or complications from one or more of the life sciences products could be discovered, and, if such a side effect or complication posed a serious safety concern, a life sciences product could be withdrawn from the market, which could adversely affect the ability of the borrower under the relevant debt asset to make continuing payments of interest on, and repayment of the principal of, that debt asset, in which case the Company's ability to make distributions to investors may be materially and adversely affected.

Furthermore, if an additional side effect or complication is discovered that does not pose a serious safety concern, it could nevertheless negatively impact market acceptance and therefore result in decreased net sales of one or more of the life sciences products, which could adversely affect the ability of borrowers under the relevant debt asset(s) to make continuing payments of interest on, and repayment of the principal of, that debt asset(s), in which case the Company's ability to make distributions to investors may be materially and adversely affected.

The Investment Manager engages in a thorough diligence process before entering into any debt instrument with the counterparty and interacts with each counterparty as needed to evaluate the status of its investment on an ongoing basis.

Investments in debt obligations are subject to credit and interest rate risks

Debt instruments are subject to credit and interest rate risks. Credit risk refers to the likelihood that the borrower will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of a borrower are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt asset may affect its credit risk. Credit risk may change over the life of an instrument. Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt asset indirectly (especially in the case of fixed rate debt assets) and directly (especially in the case of debt assets whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt asset and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. In addition, interest rate increases generally will increase the interest carrying costs to the Company (or any entity through which the Company invests) of leveraged investments.

The Company will often seek to be a secured lender for each Debt Asset. However, there is no guarantee that the relevant borrower will repay the loan or that the collateral will be sufficient to satisfy the amount owed under the relevant Debt Asset. Credit risk will be assessed on an ongoing basis along with interest rate risk, and is further mitigated by the Company's investment policy permitting up to 30 per cent of the Company's assets to be invested in a single Debt Asset or in Debt Assets issued to a single borrower. Interest rate risk can be managed in a variety of ways, including with the use of derivatives.

Counterparty risk

The Company intends to hold Debt Assets that will generate an interest payment. There is no guarantee that any borrower will honour their obligations. The default or insolvency of such borrowers may substantially affect the Company's business, financial condition, results of operations, the NAV and shareholder returns.

The Company will often seek to be a secured lender for each Debt Asset. However, there is no guarantee that the relevant borrower will repay the loan or that the collateral will be sufficient to satisfy the amount owed under the relevant Debt Asset.

Sales of life sciences products are subject to regulatory actions that could harm the Company's ability to make distributions to investors

There can be no assurance that any regulatory approvals for indications granted to one or more life sciences products will not be subsequently revoked or restricted. Such revocation or restriction may have a material adverse effect on the sales of such products and on the ability of borrowers under the relevant Debt Asset to make continuing payments of interest on, and repayment of the principal of, that Debt Asset, in which case the Company's ability to make distributions to investors may be materially and adversely affected. Changes in legislation are monitored with the use of third-party legal advisers and the Investment Manager will maintain awareness of new approvals or revoked approvals.

Net asset values published will be estimates only and may differ materially from actual results

Generally, there will be no readily available market for a significant number of the Company's investments and hence, the majority of the Company's investments are not valued based on market-observable inputs.

The valuations used to calculate the NAV on a monthly basis will be based on the Investment Manager's unaudited estimated fair market values of the Company's investments. It should be noted any such estimates may vary (in some cases materially) from the results published in the Company's financial statements (as the figures are published at different times) and that they, and any NAV figure published, may vary (in some cases materially) from realised or realisable values.

The Investment Manager sends valuations on a monthly basis to the administrator for calculation of the NAV. The NAV is prepared by the administrator on the basis of information received from the Investment Manager and, once finalised, is reviewed and approved by a representative of the Investment Manager. Once approved, the Investment Manager notifies the Board and the NAV is released to the market.

Changes in taxation legislation or practice may adversely affect the Company and the tax treatment for shareholders investing in the Company

Any change in the Company's tax status, or in taxation legislation or practice in the UK or elsewhere, could affect the value of the Company's investments and the Company's ability to achieve its investment objective, or alter the post-tax returns to shareholders. It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval of the Company by HMRC as an investment trust under section 1158 of the Corporation Tax Act 2010 (as amended) and pursuant to regulations made under Section 1159 of the Corporation Tax Act 2010. However, although the approval has been obtained, neither the Investment Manager nor the Directors can guarantee that this approval will be maintained at all times. The Company was granted approval from HMRC as an investment trust during the accounting period and will continue to have investment trust status in each subsequent accounting period, unless the Company fails to meet the requirements to maintain investment trust status, pursuant to the regulations. For example, it is not possible to guarantee that the Company will remain a non-close company, which is a requirement to maintain investment trust status, as the shares are freely transferable. Failure to maintain investment trust status could, as a result, (inter alia) lead to the Company being subject to UK tax on its chargeable gains. Existing and potential investors should consult their tax advisers with respect to their particular tax situations and the tax effects of an investment in the Company.

Environmental, human rights, employee, social and community issues

The Board recognises the requirement under the Companies Act 2006 to detail information about employees, human rights and community issues, including information about any policies it has in relation to these matters and the effectiveness of these policies. These requirements do not apply to the Company as it has no employees, all the Directors are non-executive and it has outsourced all its functions to third-party service providers. The Company has therefore not reported further in respect of these provisions.

The Company is not within the scope of the Modern Slavery Act 2015 because it has not exceeded the turnover threshold and therefore, no further disclosure is required in this regard.

Board diversity

The Directors acknowledge the benefits of greater diversity on the Board and will consider this as part of a future appointment of an additional Director, which is expected to take place in 2018. The Company's diversity policy is set out on page 35.

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

Jeremy Sillem
Chairman

7 March 2018

— Board of Directors —

Jeremy Sillem
Chairman

Jeremy Sillem is the managing partner of Spencer House Partners LLP, a London-based firm focused on providing financial advice and capital to the asset and wealth management industry. Prior to founding the firm in 2005, he was, from 2000 to 2004, Chairman of Bear Stearns International in London. Before that, he spent a 28-year career with Lazard LLC and its predecessor entities in London and New York. He has served on the boards of a number of asset management and related businesses including those of CDC Group, Martin Currie, RHJ International, Kleinwort Benson Group, Harbourmaster Holdings and WP Stewart. Mr Sillem is an advisory Director of Partners Capital LLC and is the former Chairman of the World Trust Fund. He is a Trustee of Reform, the public policy think tank; a member of the investment committee of the National Portrait Gallery and a former member of the investment advisory committee of Brasenose College, Oxford. He received an M.A. (Honours) in Politics, Philosophy and Economics from the University of Oxford.

Mr Sillem was appointed as a Director of the Company on 24 October 2016.

Colin Bond
Chairman of the Audit and Risk Committee

Colin Bond has been chief financial officer of the pharmaceutical company Vifor Pharma based in Zürich since 2016. From 2010 to 2016, he was the chief financial officer of Evotec AG, the early drug discovery company listed on the Frankfurt Stock Exchange as part of TecDax. Prior to that, he held CFO positions at several companies including Ecolab and Novelis. During his early career, he worked as a pharmacist, auditor, and management consultant for Procter & Gamble, Arthur Andersen, and Pricewaterhouse Coopers, respectively. He holds a university degree in Pharmacy from the University of Aston (Birmingham) and an M.B.A. degree from London Business School. He is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Royal Pharmaceutical Society of Great Britain. Mr Bond is a citizen of Great Britain and Switzerland.

Mr Bond was appointed as a Director of the Company on 15 November 2016.

Duncan Budge
Director

Duncan Budge is Chairman of Dunedin Enterprise Investment Trust plc and Artemis Alpha Trust plc, and a non-executive director of Lazard World Trust Fund ("SICAF"), Lowland Investment Company plc, Menhaden Capital plc and Asset Value Investors Limited. He was previously a Director of J. Rothschild Capital Management from 1988 to 2012 and a Director and Chief Operating Officer of RIT Capital Partners plc from 1995 to 2011. Between 1979 and 1985 he was with Lazard Brothers & Co. Limited. He received an M.A. (Honours) in History from the University of Oxford.

Mr Budge was appointed as a Director of the Company on 24 October 2016.

Harry Hyman
Senior Independent Director

Harry Hyman is the founder and Managing Director of Primary Health Properties PLC ("PHP"), a listed company that specialises in the ownership of property leased on a long-term basis to healthcare providers. PHP is managed externally by Nexus Tradeco Limited ("Nexus"). After graduating from Christ's College Cambridge, Mr Hyman qualified as a chartered accountant with Price Waterhouse. In 1983 he joined Baltic PLC where he was Deputy Managing Director, Finance Director, and Company Secretary. He left to establish PHP and Nexus in February 1994. Harry is the Non-executive Chairman of Summit Germany Limited, an AIM listed property vehicle. He is also the Non-executive Chairman of Derriston Capital PLC. Mr Hyman is the founder of The International Opera Awards. He has been a Non-executive Director of a number of listed investment trusts.

Mr Hyman was appointed as a Director of the Company on 27 February 2017.

All Directors in office at the date of this report are Non-executive and independent of the Investment Manager.

— Directors' Report —

The Directors are pleased to present the Annual Report and financial statements for the period ended 31 December 2017.

Directors

The Directors in office during the period and at the date of this report are shown on pages 28 and 29. Hugh Willis was appointed as a Director of the Company on 15 November 2016 and resigned on 3 February 2017.

Share capital

The Company was incorporated with 1 ordinary share issued at $0.01 and 5,000,000 redeemable preference shares issued at £0.01.

At the general meeting held on 28 February 2017, the Company was granted authority to allot shares up to an aggregate nominal amount of $20 million on a non pre-emptive basis.

On 27 March 2017, 526,747,199 ordinary shares were issued at $0.01 each fully paid, pursuant to a placing and offer for subscription as part of the Initial Admission. As a result of Subsequent Admission on 30 March 2017, 235,130,160 ordinary shares were issued at $0.01 each fully paid.

On 30 June 2017, the Company's share premium account of $739,021,000 was cancelled in order to create distributable reserves for the payment of dividends. Simultaneously, the redeemable preference shares were cancelled in accordance with the Company's Articles of Association (the "Articles").

Following the result of a placing by the Company announced on 14 December 2017, the Company issued 152,375,471 ordinary shares. These shares were admitted to trading on the SFS of the LSE and to listing and trading on the Official List of the TISE on 18 December 2017. Following the issue of new shares in December 2017 and as at the date of this report, the Company may allot shares up to an aggregate nominal amount of $10,857,471.

At 31 December 2017, and as at the date of this report, there are 914,252,831 ordinary shares in issue, none of which are held in treasury. At general meetings of the Company, shareholders are entitled to one vote on a show of hands and on a poll, to one vote for every share held. The total voting rights of the Company at 31 December 2017 were 914,252,831.

As set out in the Company's Prospectus dated 1 March 2017, BioPharma III investors and RPS investors who purchased shares at IPO, together with Pablo Legorreta have agreed not to transfer, dispose or grant any options over any shares held by them without the prior written consent of the Company until one year after the date on which their shares were issued. These arrangements are subject to certain exceptions customary for an agreement of this nature.

Substantial shareholdings

The Directors have been informed of the following notifiable interests in the Company's voting rights as at 31 December 2017:

	Number of ordinary shares	% of voting rights
Prudential plc	137,258,520	15.01
Inteligo Bank Ltd	78,525,801	8.59
Pharmaceutical Investors LP	71,990,100	7.87
Interseguro Compania de Seguros S.A.	44,008,384	4.81
Pablo Legorreta	34,767,015	3.80
Phemus Corporation	32,688,075	3.58

At the date of this report the Company has been advised that Invesco Limited has an interest in 180,002,730 shares, representing 19.69% of the total voting rights of the Company. There have been no other changes notified between 31 December 2017 and the date of this report.

Dividends

Dividends paid or payable in respect of the period ended 31 December 2017 are set out on in Note 6 to the financial statements.

Dividend policy

The Company pays dividends in US dollars or GBP Sterling on a quarterly basis. The Company may, where the Directors consider it appropriate, use the reserve created by the cancellation of its share premium account to pay dividends.

The Company's target dividend for the first financial year following IPO was 4 per cent (calculated by reference to the Issue Price at IPO) and, once substantially invested, the Company will target an annual dividend yield of 7 per cent on the ordinary shares (calculated by reference to the issue price at IPO), together with a net total return on NAV of 8 to 9 per cent per annum on the ordinary shares in the medium term.

Financial risk management

The principal financial risks and the Company's policies for managing these risks are set out in the Strategic Overview on pages 21 to 25 and Note 16 to the financial statements.

Corporate governance

The Corporate Governance Statement on pages 33 to 36 forms part of the Directors' Report.

Going concern

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the Directors have considered the liquidity of the portfolio and the Company's ability to meet obligations as they fall due for a period of at least 12 months from the date that these financial statements were approved.

Viability statement

The Board has assessed the principal risks facing the Company over a five-year period, including those that would threaten its business model, future performance, solvency or liquidity. The five-year period was selected to align with the average duration of the Company's investments and the timing for the Company's continuation vote, which will be held on the fifth anniversary of its IPO. The Board has developed a matrix of risks facing the Company and has put in place certain investment restrictions which are in line with the Company's investment objective and policy in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to mitigate these risks are presented on pages 21 to 25.

The Company believes its borrowing capabilities provide further flexibility and help ensure it is in a position to finance its funding obligations in the event that internally generated cash flow in the period is insufficient to finance the unfunded portion of a lending commitment. The Board reviews the Company's financing arrangements quarterly to ensure that the Company is in a strong position to fund all outstanding commitments on existing investments as well as being able to finance new investments. In addition, the Board regularly reviews the prospects for the Company's portfolio and the pipeline of potential investment opportunities which provide comfort that the Company is able to continue to finance its activities for the medium-term future.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five-year period.

Greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within its underlying investment portfolio.

Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4.

Management arrangements

The Company has appointed Pharmakon Advisors L.P., a limited partnership established under the laws of the State of Delaware, as its Investment Manager and Alternative Investment Fund Manager ("AIFM"). The Investment Manager is a registered investment adviser under the Advisers Act and is regulated by the SEC.

The Company and the Investment Manager have entered into an Investment Management Agreement dated 1 March 2017, pursuant to which the Investment Manager has been given responsibility, subject to the overall supervision of the Board, for the active investment management of the Debt Assets and all other investments of the Company from time to time, including sourcing and advising on investment opportunities and proposals which are in accordance with the Company's investment objective and policy. The Investment Management Agreement may be terminated by: (A) the Investment Manager on not less than six months' notice to the Company, such notice not to expire earlier than 18 months following Admission; or (B) the Company on not less than six months' notice to the Investment Manager, such notice not to expire earlier than: (i) 36 months following Admission, unless approved by shareholders by ordinary resolution; and (ii) 18 months following Admission, in any event.

Details on the management and performance fee can be found in Note 4 to the financial statements.

The Investment Manager consists of three principals: Pedro Gonzalez de Cosio, Pablo Legorreta and Martin Friedman. Further details of the principals are set out on page 11. In addition, the Investment Manager may draw on the expertise of certain employees of its affiliate, Royalty Pharma. For these purposes, the Investment Manager and Royalty Pharma entered into a Shared Services Agreement on 30 November 2016, whereby Royalty Pharma provides the services of its research, legal and compliance, and finance teams to the Investment Manager.

The Investment Manager is responsible for the acts of Royalty Pharma personnel pursuant to the Shared Services Agreement.

Under the Shared Services Agreement, each of Royalty Pharma and the Investment Manager has agreed to reimburse the other for reasonable internal and third-party expenses incurred by the other on its behalf, or for its benefit, as a result of rendering such services. Such expenses include (without limitation) business development, due diligence, legal, consulting, compliance, research and similar expenses.

Under the Shared Services Agreement, subject to each party's fiduciary duties to its clients, each of Royalty Pharma and the Investment Manager has agreed to refer to the other any business opportunities that fit the other's investment objectives. To the extent that a business opportunity involves both equity and debt-like financing transactions, each of Royalty Pharma and the Investment Manager shall be free to negotiate an offer aligning with its own investment objectives and is under no obligation to take the other party's investment objectives into consideration during such a negotiation.

The Shared Services Agreement is governed by the laws of the State of New York and may be terminated by either Royalty Pharma or the Investment Manager upon 30 days' written notice.

Continuing appointment of the Investment Manager

The Board keeps the ongoing performance of the Investment Manager under continual review and will conduct an annual appraisal of the Investment Manager, along with the performance of all other third-party service providers.
The Investment Manager has executed the investment strategy according to the Board's expectations and it is the opinion of the Directors that the continuing appointment of Pharmakon is in the interests of shareholders as a whole.

Future Developments

Looking ahead, there are likely to be challenges during 2018 as the UK continues to deal with the uncertainty arising from the Brexit vote and the long-term effects of the UK leaving the European Union become clearer. The impact on the portfolio from Brexit has been considered. Whilst it is difficult to quantify the impact of such a change, it is not believed to fundamentally impact the business of the Company or to make the sector any less attractive as an investment.

Anti-bribery and corruption policy

The Company has reviewed the statements regarding compliance with the Bribery Act 2010 by the Company's Investment Manager and key service providers.
These statements are reviewed regularly by the Audit and Risk Committee.

Auditor

The Directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Annual General Meeting

The Notice of Annual General Meeting ("AGM") will be circulated to shareholders separately.

By order of the Board

Link Company Matters Limited
Company Secretary

7 March 2018

— Corporate Governance Statement —

This Corporate Governance Statement forms part of the Directors' Report.

Introduction from the Chairman

I am pleased to introduce this period's Corporate Governance Statement. In this statement, the Company reports on its compliance with the AIC Code of Corporate Governance (the "AIC Code") and sets out how the Board and its Committees have operated during the past year. The Board is accountable to shareholders for the governance of the Company's affairs and is committed to maintaining the highest standard of corporate governance for the long-term success of the Company.

Compliance with the AIC Code

The Company reviews its standards of governance against the principles and recommendations of the AIC Code. The Board considers that reporting against the principles and recommendations of the AIC Code, as explained by the AIC Guide, provides better information to shareholders as it addresses all the principles set out in the UK Code of Corporate Governance (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts, and is endorsed by the Financial Reporting Council (the "FRC"). The terms of the FRC's endorsement mean that AIC members who report against the AIC Code and the AIC Guide fully meet their obligations under the UK Code and the related disclosure requirements contained in the Listing Rules of the UKLA. A copy of the AIC Code and the AIC Guide can be found at www.theaic.co.uk. A copy of the UK Code can be obtained at www.frc.org.uk.

The Board recognises the importance of a strong corporate governance culture and has established a framework for corporate governance which it considers to be appropriate to the business of the Company.

The UK Code includes provisions relating to:

- the role of the chief executive; and
- executive directors' remuneration.

For the reasons set out in the AIC Guide, and as explained in the AIC Code, the Board considers these provisions are not relevant to the Company, being an externally managed investment company.

The Company has therefore not reported further in respect of these provisions.

The Board has reviewed the principles and recommendations of the AIC Code by reference to the AIC Guide, and considers that it has complied throughout the year, except as disclosed below:

- Directors are not appointed for a specific term as all Directors are non-executive and the Company has adopted a policy of all Directors standing for annual re-election. The Board has determined that no further policy on tenure is required.
- Given the structure and size of the Board, the Board does not consider it necessary to appoint separate nomination, management engagement or remuneration committees. The roles and responsibilities normally reserved for these committees are matters for the full Board.

Board of Directors

The Board of Directors is collectively responsible for the long-term success of the Company. It provides overall leadership, sets the strategic aims of the Company and ensures that the necessary resources are in place for the Company to meet its objectives and fulfil its obligations to shareholders within a framework of high standards of corporate governance and effective internal controls. The Directors are responsible for the determination of the Company's investment policy and investment strategy and have overall responsibility for the Company's activities, including the review of investment activity and performance and the control and supervision of the Investment Manager.

The Board consists of four Non-executive Directors. It seeks to ensure that it has an appropriate balance of skills and experience, and considers that, collectively, it has substantial recent and relevant experience of investment trusts and financial and public company management. The Chairman of the Audit and Risk Committee, Mr Bond, has recent and relevant financial experience.

The terms and conditions of the appointment of the Directors are formalised in letters of appointment, copies of which are available for inspection from the Company's registered office. None of the Directors has a contract of service with the Company nor has there been any other contract or arrangement between the Company and any Director at any time during the year. Directors are not entitled to any compensation for loss of office

Chairman and Senior Independent Director

The Chairman, Mr Sillem, is deemed by his fellow independent Board members to be independent in character and judgement and free of any conflicts of interest. He considers himself to have sufficient time to spend on the affairs of the Company. Mr Sillem has no significant commitments other than those disclosed is his biography on page 28.

Mr Hyman is the Senior Independent Director of the Company. He provides a channel for any shareholder concerns regarding the Chairman and takes the lead in the annual evaluation of the Chairman by the independent Directors.

Board operation

The Directors have adopted a formal schedule of matters specifically reserved for their approval. These include the following:

- approval of the Company's investment policy, long-term objectives and commercial strategy;
- approval of the gearing policy of the Company;
- approval of Annual and Half-yearly Reports and financial statements and accounting policies, prospectuses, circulars and other shareholder communications;
- raising new capital;
- Board appointments and removals;
- appointment and removal of the Investment Manager, Auditor and the Company's other service providers; and
- approval of the Company's annual expenditure budget.

Board meetings

The Company has four scheduled Board meetings a year with additional meetings in respect of share issuances, acquisitions and regulatory matters arranged as necessary.

At each Board meeting, the Directors follow a formal agenda which is circulated in advance by the Secretary. The Secretary, the Administrator and the Investment Manager regularly provide the Board with financial information, including an annual expenses budget, together with briefing notes and papers in relation to changes in the Company's economic and financial environment, statutory and regulatory changes and corporate governance best practice. A description of the Company's risk management and internal control systems is set out in the Strategic Report on page 21.

The Company's main functions are delegated to a number of service providers, each engaged under separate contracts. The management of the Company's portfolio is delegated to the Investment Manager, which manages the assets in accordance with the Company's objectives and policies. At each Board meeting, representatives from the Investment Manager are in attendance to present reports to the Directors covering the Company's current and future activities, portfolio of assets and its investment performance over the preceding period. The Board and the Investment Manager operate in a fully supportive, co-operative and open environment and ongoing communication with the Board is maintained between formal meetings.

Audit and Risk Committee

The Board has established an Audit and Risk Committee to assist its operations. The Committee's delegated responsibilities are clearly defined in formal terms of reference, which are available on the Company's website.

The Committee comprises all Directors and meets twice a year. Given the size and nature of the Board it is felt appropriate that all Directors are members of the Audit and Risk Committee. Its responsibilities are detailed in the Audit and Risk Committee Report on pages 37 to 38. The Committee has direct access to the Company's Auditor, and provides a forum through which the Auditor reports to the Board. Representatives of the Auditor attend meetings of the Committee at least twice a year.

Further details about the Audit and Risk Committee and its activities during the year under review are set out on pages 37 to 38.

Meeting attendance

The number of scheduled Board and Audit and Risk Committee meetings held during the period ended 31 December 2017 and the attendance of the individual Directors is shown below:

	Board meetings		Audit and Risk Committee meetings	
	Number of meetings	Number attended	Number of meetings	Number attended
Jeremy Sillem	3	3	1	1
Colin Bond	3	3	1	1
Duncan Budge	3	3	1	1
Harry Hyman	3	3	1	1

A number of additional Board meetings were held by the Company during the period ended 31 December 2017. These meetings were held in respect of the Company's IPO in March 2017, the Placing in December 2017 and its investments during the period.

Performance evaluation of the Board

The Directors are aware that they need continually to monitor and improve Board performance and recognise that this can be achieved through regular Board evaluation, providing a valuable feedback mechanism for improving Board effectiveness. While no formal Board evaluation took place during the period ended 31 December 2017, being the first year of the Company, the Directors have agreed, going forward, this process of review will be conducted on an annual basis by way of completion of a formal questionnaire.

Independence of Directors

The independence of the Directors was reviewed as part of the IPO process and will be reviewed as part of the annual evaluation process going forward. Each Director is considered to be independent in character and judgement and entirely independent of the Investment Manager. None of the Directors sit on the boards of any other companies managed by the Investment Manager.

Induction of new Directors

A procedure for the induction of new Directors has been established, including the provision of an induction pack containing relevant information about the Company, its processes and procedures. New appointees have the opportunity of meeting with the Chairman and relevant persons at the Investment Manager.

Election/re-election and retirement of Directors

Under the Company's Articles and in accordance with the AIC Code, Directors are subject to election by shareholders at the first Annual General Meeting after their appointment. Thereafter, at each Annual General Meeting any Director who has not stood for re-election at either of the two preceding Annual General Meetings shall retire. In addition, one-third of the Directors eligible to retire by rotation shall retire from office at each Annual General Meeting. Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's Annual General Meetings.

In accordance with the above policy, all Directors will be standing for election at the Company's first AGM.

Diversity

In accordance with the AIC Code, the Board is comprised of a mixture of individuals who have an appropriate balance of skills and experience to meet the future opportunities and challenges facing the Company. The Board regularly reviews its composition and effectiveness and intends to recruit an additional Director in 2018. Appointments are made first and foremost on the basis of merit and taking into account the recognised benefits of all types of diversity. The Board ensures that diversity is an important consideration and part of the selection criteria used to assess candidates to achieve a balanced Board.

Conflicts of interest

It is the responsibility of each individual Director to avoid an unauthorised conflict of interest situation arising. The Director must request authorisation from the Board as soon as he becomes aware of the possibility of an interest that conflicts, or might possibly conflict, with the interests of the Company ("situational conflicts"). The Company's Articles authorise the Board to approve such situations, where deemed appropriate.

A register of conflicts is maintained by the Secretary and is reviewed at Board meetings, to ensure that any authorised conflicts remain appropriate. The Directors are required to confirm at these meetings whether there has been any change to their position.

The Board is responsible for considering Directors' requests for authorisation of situational conflicts and for deciding whether or not the situational conflict should be authorised. The factors to be considered will include: whether the situational conflict could prevent the Director from properly performing their duties; whether it has, or could have, any impact on the Company; and whether it could be regarded as likely to affect the judgement and/or actions of the Director in question. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to take the relevant decision, and in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances.

Insurance and indemnity provisions

The Board has agreed arrangements whereby Directors may take independent professional advice in the furtherance of their duties. The Company has Directors' and Officers' liability insurance and professional indemnity insurance to cover legal defence costs and public offering of securities insurance in place in respect of the IPO. Under the Company's Articles, the Directors are provided, subject to the provisions of UK legislation, with an indemnity in respect of liabilities which they may sustain or incur in connection with their appointment. Apart from this, there are no third-party indemnity provisions in place for the Directors.

Relations with shareholders

Communication with shareholders is given a high priority by both the Board and the Investment Manager. The Investment Manager and the Company's Brokers are in regular contact with major shareholders and report the results of all meetings and the views of those shareholders to the Board on a regular basis. The Chairman and the other Directors are available to attend these meetings with shareholders if required.

All shareholders are encouraged to attend and vote at annual general meetings, during which the Board and the Investment Manager will be available to discuss issues affecting the Company and answer any questions. Shareholders wishing to communicate directly with the Board should contact the Secretary at the address on page 68.

Internal control review and assessment process

Details of the Company's internal control review and the assessment process are outlined in the Strategic Report on pages 21 to 25.

Company Secretary

The Board has direct access to the advice and services of the Secretary, Link Company Matters Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable regulations are complied with. The Secretary is also responsible to the Board for ensuring timely delivery of the information and reports which the Directors require and that the statutory obligations of the Company are met.

Internal control review

The Board is responsible for the systems of internal controls relating to the Company including the reliability of the financial reporting process and for reviewing the systems' effectiveness. The Directors have reviewed and considered the guidance supplied by the FRC on risk management, internal control and related finance and business reporting and an ongoing process has been established for identifying, evaluating and managing the risks faced by the Company. This process, together with key procedures established with a view to providing effective financial control, was in place during the year under review and at the date of this report.

The internal control systems are designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made and which is issued for publication is reliable, and that the assets of the Company are safeguarded.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Directors have carried out a review of the effectiveness of the systems of internal control as they have operated over the period and up to the date of approval of the report and financial statements. There were no matters arising from this review that required further investigation and no significant failings or weaknesses were identified.

Internal control assessment process

Robust risk assessments and reviews of internal controls are undertaken regularly in the context of the Company's overall investment objective. The Board, through the Audit and Risk Committee, has categorised risk management controls under the following key headings:

In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in light of the following factors:

- the nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective;
- the threat of such risks becoming reality;
- the Company's ability to reduce the incidence and impact of risk on its performance;
- the cost to the Company and benefits related to the review of risk and associated controls of the Company; and
- the extent to which third parties operate the relevant controls.

A risk matrix has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. This risk matrix is reviewed twice a year by the Audit and Risk Committee and at other times as necessary.

The principal risks that have been identified by the Board are set out on pages 22 to 25.

The Board reviews financial information produced by the Investment Manager and the Administrator on a regular basis.

Most functions for the day-to-day management of the Company are sub-contracted, and the Directors therefore obtain regular assurances and information from key third-party suppliers regarding the internal systems and controls operated in their organisations. In addition, each third party is requested to provide a copy of its report on internal controls each year, which is reviewed by the Audit and Risk Committee.

— Audit and Risk Committee Report —

I am pleased to present the Audit and Risk Committee Report for the period ended 31 December 2017.

Meetings

The Audit and Risk Committee (the "Committee") met once during the year under review and once following the year end. Details of the composition of the Committee are set out in the Corporate Governance Statement on page 34.

Responsibilities of the Committee

The primary responsibilities of the Committee are as follows:

- monitor the integrity of the financial statements of the Company, the financial reporting process and the accounting policies of the Company;
- keep under review the effectiveness of the Company's internal control environment and risk management systems;
- review the scope and effectiveness of the audit process undertaken by the Auditor;
- make recommendations to the Board in relation to the appointment, re-appointment or removal of the external Auditor and to approve its remuneration and terms of engagement;
- review and monitor the Auditor's independence, objectivity and effectiveness; and
- approve any non-audit services to be provided by the Auditor and monitor the level of fees payable in that respect.

Activities in the period

During the period, the Committee has:

- conducted a review of the internal controls and risk management systems of the Company and its third-party service providers;
- agreed the audit plan and fees with the Auditor in respect of the interim review of the Half-yearly Report for the period ended 30 June 2017 and the statutory audit of the Annual Report for the period ended 31 December 2017, including the principal areas of focus;
- received and discussed with the Auditor its report on the results of the review of the half-yearly financial statements and the period-end audit;
- reviewed the Company's half-yearly and annual financial statements and recommended these to the Board for approval; and
- examined in detail the methodology and assumptions applied in revaluing the assets of the Company.

Significant issues

The Committee considered the following key issues in relation to the Company's financial statements during the year. A more detailed explanation of the consideration of the issues set out below, and the steps taken to manage them, is set out in the principal risks and uncertainties on pages 21 to 25.

Valuation of unlisted investments

During the period the Committee reviewed the valuation process of the Company's unlisted investments and the systems in place to ensure the accuracy of these valuations, particularly in view of the fact that the unlisted investments represent the principal element of the NAV.

Internal controls

The Committee carefully considers the internal control systems by continually monitoring the services and controls of its third-party service providers.

The Committee reviewed, and where appropriate, updated the risk matrix during the period under review. This is done on a bi-annual basis. The Committee received a report on internal control and compliance from the Investment Manager and the Company's other service providers and no significant matters of concern were identified.

The Company does not have an internal audit function. During the period, the Committee reviewed whether an internal audit function would be of value and concluded that this would provide minimal additional comfort at considerable extra cost to the Company. While the Committee believes that the existing system of monitoring and reporting by third parties remain appropriate and adequate, it will continue, on an annual basis, to actively consider possible areas within the Company's controls environment which may need to be reviewed in detail.

Going concern and long-term viability of the Company

The Committee considered the Company's financial requirements for the next 12 months and concluded that it has sufficient resources to meet its commitments. Consequently, the financial statements have been prepared on a going concern basis. The Committee also considered the longer-term viability statement within the Annual Report for the period ended 31 December 2017, covering a five-year period, and the underlying factors and assumptions which contributed to the Committee deciding that this was an appropriate length of time to consider the Company's long-term viability. The Company's viability statement can be found on page 31.

Audit fees and non-audit services provided by the Auditor

The Committee reviewed the audit plan and fees presented by the Auditor and considered its report on the financial statements. Total audit fees for the year amounted to $406,000. This incorporates a fee of $256,000 for the audit of the Annual Report and financial statements for the period ended 31 December 2017.

Further information on the fees paid to the Auditor is set out in Note 4 to the financial statements.

Effectiveness of the external audit

The Committee reviews the effectiveness of the external audit carried out by the Auditor on an annual basis. The Chairman of the Committee maintained regular contact with the Company's audit partner throughout the year and also met with her prior to the finalisation of the audit of the Annual Report and financial statements for the period ended 31 December 2017, without the Investment Manager being present, to discuss how the external audit was carried out, the findings from such audit and whether any issues had arisen from the Auditor's interaction with the Company's various service providers.

Independence and objectivity of the Auditor

The Committee has considered the independence and objectivity of the Auditor and has conducted a review of non-audit services which the Auditor has provided during the year under review. The Committee receives an annual assurance from the Auditor that its independence is not compromised by the provision of such non-audit services.

The Committee is satisfied that the Auditor's objectivity and independence is not impaired by the performance of these non-audit services and that the Auditor has fulfilled its obligations to the Company and its shareholders.

Pricewaterhouse Cooper LLP was appointed as Auditor to the Company in 2017. The Committee will review the continuing appointment of the Auditor on an annual basis and give regular consideration to the Auditor's fees and independence, along with matters raised during each audit.

Appointment of the Auditor

Following consideration of the performance of the Auditor, the services provided during the year and a review of its independence and objectivity, the Committee has recommended to the Board the appointment of Pricewaterhouse Cooper LLP as Auditor to the Company in 2018.

Colin Bond
Audit and Risk Committee Chairman

7 March 2018

— Remuneration Report —

Statement from the Chairman

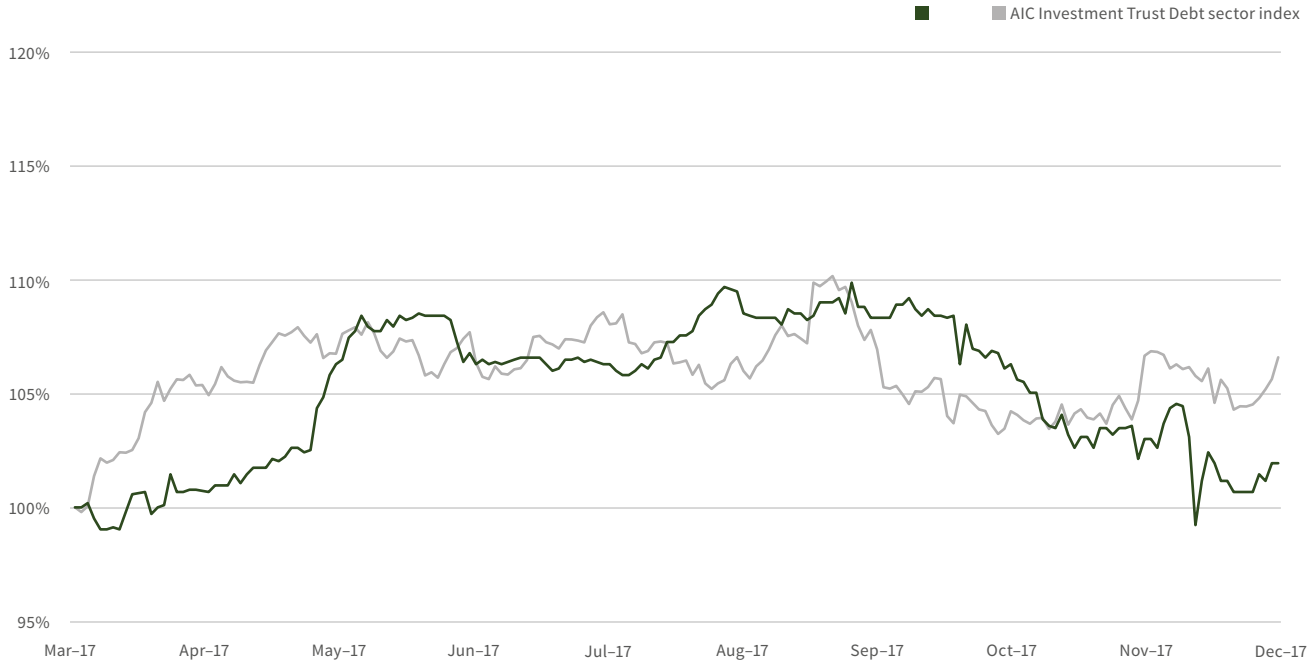
I am pleased to present the Directors' Remuneration Report for the period ended 31 December 2017.

As set out in the Corporate Governance Statement on page 33, Directors' remuneration is determined by the Board as a whole. The Board reviews Directors' fees on an annual basis. During the period ended 31 December 2017, the annual fees were set at the rate of $100,000 for the Chairman, $85,000 for the Chairman of the Audit and Risk Committee and $70,000 for a Director. No changes to these fee levels are proposed for the year ended 31 December 2018.

Ordinary resolutions will be put to shareholders at the forthcoming AGM to be held in 2018 to receive and approve the Directors' Remuneration Report and to receive and approve the Directors' remuneration policy.

Performance of the Company

The graph below compares the total return to ordinary shareholders compared to the AIC Investment Trust Debt sector index. The performance of the AIC Investment Trust Debt sector index (USD) is shown as a market reference for investors.



Directors' remuneration for the period ended 31 December 2017

The remuneration paid to the Directors during the period ended 31 December 2017 is set out in the table below:

	Pro-rated fees for the period 27 March 2017 to 31 December 2017 $	Additional fees period ended 31 December 2017* $	Total period ended 31 December 2017 $
Jeremy Sillem	76,923	50,000	126,923
Colin Bond	65,385	42,500	107,885
Duncan Budge	53,846	35,000	88,846
Harry Hyman	53,846	35,000	88,846
Hugh Willis**	–	–	–
	250,000	**162,500**	**412,500**

* In consideration for the work undertaken by the Directors in respect of the Company's IPO, following completion of the IPO, each Director in office at the date of this report received additional fees as follows: $35,000 for a Director, $42,500 for the Chairman of the Audit and Risk Committee and $50,000 for the Chairman.

** Hugh Willis was appointed as a Director of the Company on 15 November 2016 and resigned on 3 February 2017.

Relative importance of spend on pay

The table below sets out, in respect of the period ended 31 December 2017:

a) the remuneration paid to the Directors; and
b) the distributions made to shareholders by way of dividend.

	Period ended 31 December 2017 $000
Directors' remuneration	412,500
Dividends paid to shareholders	15,238,000*

* Includes dividend which went ex-dividend on 14 December 2017 payable to shareholders on the register on 15 December 2017.

Directors' interests

There is no requirement under the Company's Articles for Directors to hold shares in the Company.

As at 31 December 2017, the interests of the Directors and any connected persons in the ordinary shares of the Company are set out below:

	Period ended 31 December 2017 Number of shares
Jeremy Sillem	300,000
Colin Bond	100,000
Duncan Budge*	100,000
Harry Hyman	100,000

* The legal and beneficial interest in 50 per cent of Mr Budge's shares is held by Mrs Budge.

There have been no changes to any of the above holdings between 31 December 2017 and the date of this report.

None of the Directors or any persons connected with them has a material interest in the Company's transactions, arrangements or agreements during the period.

Approval

The Directors' Remuneration Report was approved by the Board and signed on its behalf by:

Jeremy Sillem
Chairman

7 March 2018

The Directors' remuneration policy is put to a shareholder vote in the first year of a company or in any year where there is to be a change to the policy and, in any event, at least once every three years. Accordingly, the Company's remuneration policy will be put to shareholders at the AGM to be held in 2018. It is intended to take effect from the conclusion of that meeting and continue for the year ending 31 December 2018. The Company's proposed remuneration policy is set out below.

Remuneration policy

The Company follows the recommendation of the AIC Code that Non-executive Directors' remuneration should reflect the time commitment and responsibilities of the role. The Board's policy is that the remuneration of Non-executive Directors should reflect the experience of the Board as a whole, and be determined with reference to comparable organisations and appointments.

All Directors are non-executive, appointed under the terms of letters of appointment. There are no service contracts in place. The Company has no employees. In line with the majority of investment trusts, there are no performance conditions attached to the remuneration of the Directors as the Board does not consider such arrangements or benefits necessary or appropriate for Non-executive Directors.

The Board has set three levels of fees: for a Director, for the Chairman of the Audit and Risk Committee and for the Chairman of the Board. Fees are reviewed annually in accordance with the above policy. The fee for any new Director appointed to the Board will be determined on the same basis.

The approval of shareholders would be required to increase the aggregate limit of $750,000, as set out in the Company's Articles.

The Company is committed to ongoing shareholder dialogue and any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing the Directors' remuneration policy and in the annual review of Directors' fees.

Directors' fee levels

	Expected annual fees for the year ending 31 December 2018
Chairman	$100,000
Chairman of the Audit and Risk Committee	$85,000
Director	$70,000

— Statement of Directors' Responsibilities —

In respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section of this Annual Report confirm that, to the best of their knowledge:

- the Company Financial Statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Jeremy Sillem
Chairman

7 March 2018

— Independent Auditor's Report —

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, BioPharma Credit PLC's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit and cash flows for the 14 month period (the "period") then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the period then ended,
- the cash flow statement for the period then ended,
- the statement of changes in equity for the period 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 Company 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 Company.

Other than those disclosed in Note 4 to the financial statements, we have provided no non-audit services to the Company in the period from 24 October 2016 to 31 December 2017.

Our audit approach

Context

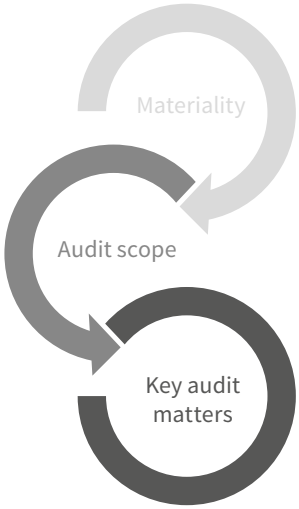
The context for our audit is set by this being BioPharma Credit PLC's initial accounting period following incorporation in October 2016 and the major activities of the Company since listing on the Specialist Fund Segment of the Main Market of the London Stock Exchange and the Official List of The International Stock Exchange in March 2017.

The Company's focus since listing in March 2017 has been to acquire investments in line with the investment objective of generating long-term shareholder returns from exposure to the life sciences industry, predominantly through direct or indirect exposure to Debt Assets.

Since listing, the Company entered into a number of significant investments and made a further issue of ordinary shares in December 2017.

Overview

- Overall materiality: $9.2 million, which represents 1 per cent of net assets.
- The Company is an Investment Trust Company and engages Pharmakon Advisors L.P. (the "Investment Manager") to manage its assets.
- We conducted our audit of the financial statements using information from Link Alternative Fund Administrators Limited (the "Administrator") to whom the Directors delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place at both the Investment Manager and the Administrator, and adopted a fully substantive testing approach using reports obtained from the Administrator.



Our key audit matters comprise:

- Valuation and existence of unlisted investments.
- Accuracy, occurrence and completeness of investment income
- Related party transactions, including investment manager and performance fees

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We designed audit procedures that focused on the risk of non-compliance related to section 1158 of the Corporation Tax Act 2010. Our work included testing the Company's compliance with section 1158 in the current period as well as testing the tax disclosures in Note 5. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation and existence of unlisted investments The investment portfolio at the period end comprised unlisted investments valued at $570 million (100 per cent). We focused on the existence unlisted investments as they are, individually and in aggregate, material to the financial statements. We focused on the valuation of unlisted investments because they represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements and require estimates and significant judgements to be applied by the Investment Manager. Changes to the estimates and/or judgements can result, either on an individual or aggregate basis, in a material change to the valuation of unquoted investments. When assessing the valuation of these unlisted investments, we also examined the compliance with the requirements of International Private Equity and Venture ("IPEV") Capital Valuation Guidelines, as incorrect application could indicate a misstatement in the valuation	We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent confirmation. No differences were identified by our testing which required reporting to those charged with governance. We understood and evaluated the controls around the pricing of unlisted investments including the final approval of the valuation by the Investment Manager and the Board. We assessed the appropriateness of the valuation methodology used by the Investment Manager, including whether the valuation methodology is in line with IFRS and IPEV Guidelines, together with assessing the key assumptions applied by the Investment Manager in determining the value of unlisted investments. Our audit procedures over these unlisted investments were as follows: We assessed the reasonableness of the valuation methodology, and the adjustments applied within fair value calculation. Our valuation experts examined the valuation methodology applied and the key assumptions within the valuation. We re-performed the calculations, assessed the reasonableness of inputs used in the valuation and performed benchmarking. We performed an analysis of discount rates used, including determining the valuation's sensitivity to discount rates. We agreed inputs in the discounted cash flow calculation to independent reports. Based on the procedures detailed above, no misstatements were identified which required reporting to those charged with governance.
Accuracy, occurrence and completeness of investment income Income from investments comprised unfranked investment income from BioPharma III and fixed and floating interest investment income. We focused on the accuracy, completeness and occurrence of investment income recognition as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover. We also focused on the accounting policy for investment income recognition and the presentation of investment income in the Statement of Comprehensive Income for compliance with the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP"), as incorrect application could indicate a misstatement in income recognition.	We assessed the accounting policy for investment income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. We tested accuracy of unfranked investment income receipts from BioPharma III by recalculating the investment income received in the period. No misstatements were identified which required reporting to those charged with governance. To test for completeness, we obtained a confirmation from the counterparty of the total repayments made in the period. Our testing did not identify any incorrectly recorded or omitted income. We tested occurrence by tracing all amounts received to bank statements. Our testing did not identify any misstatements which required reporting to those charged with governance. We also tested the allocation and presentation of the income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP by determining reasons behind distributions. Our procedures did not identify any misstatements which required reporting to those charged with governance. We tested fixed and floating interest income by recalculating the expected coupon interest for each payment period, using the opening and closing portfolios and coupon rates and maturity dates as agreed to the signed credit agreements. No misstatements were identified by our testing which required reporting to those charged with governance. To test for completeness, we fully recalculated the expected income from the period and compared this to the amount recognised. No misstatements were identified by our testing which required reporting to those charged with governance. We tested occurrence by tracing all fixed and floating interest income recorded and received in the period to bank statements and recalculating the accrued fixed interest income at period-end using the portfolio balance following the final repayment in the period. Our testing did not identify any misstatements which required reporting to those charged with governance.

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 Company, the accounting processes and controls, and the industry in which it operates.

The Company's accounting is delegated to the Administrator who maintains the Company's accounting records and who has implemented controls over those accounting records. The Investment Manager, Pharmakon Advisors, L.P., are responsible for the investment management of the Company's assets.

We obtained our audit evidence from substantive tests. However, as part of our risk assessment, we understood and assessed the internal controls in place at both the Investment Manager and the Administrator to the extent relevant to our audit. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

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:

Overall materiality	$9.2 million.
How we determined it	1 per cent of net assets.
Rationale for benchmark applied	We applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $0.46 million as well as misstatements below that amount 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 Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

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

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

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 period ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

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 page 36 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, 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 31 of the Annual Report as to how they have assessed the prospects of the Company, 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 Company 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 41, 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 Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 37 and 38 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 Directors' Responsibilities Statement set out on page 41, 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 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 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 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 2 November 2016 to audit the financial statements for the period ended 31 December 2017 and subsequent financial periods. This is therefore our first period of uninterrupted engagement.

OTHER VOLUNTARY REPORTING

Going concern

The Directors have requested that we review the statement on page 30 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 Company and of the principal risks that would threaten the solvency or liquidity of the Company

The Directors have requested that we perform a review of the Directors' statement on page 36 that they have carried out a robust assessment of the principal risks facing the Company and in relation to the longer-term viability of the Company, 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 Company and its environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions

The Directors have prepared a corporate governance statement and requested that we review it as though the Company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Jessica Miller
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors London

7 March 2018

— Statement of Comprehensive Income —

For the period from 24 October 2016 (Date of Incorporation) to 31 December 2017
(In US dollars $000s except per share amounts)

		Period ended 31 December 2017		
	Note	Revenue	Capital	Total
Income				
Investment income	3	33,218	–	33,218
Other income	3	3,774	–	3,774
Net gains on investments at fair value	7	–	2,265	2,265
Currency exchange gains		–	51	51
Total income		**36,992**	**2,316**	**39,308**
Expenses				
Management fee	4	(5,830)	–	(5,830)
Directors' fees	4	(250)	–	(250)
Other expenses	4	(1,062)	(471)	(1,533)
Total expenses	4	**(7,142)**	**(471)**	**(7,613)**
Return on ordinary activities before finance costs and taxation		**29,850**	**1,845**	**31,695**
Finance costs	4	(4)	–	(4)
Return on ordinary activities after finance costs and before taxation		**29,846**	**1,845**	**31,691**
Taxation on ordinary activities	5	–	–	–
Return on ordinary activities after finance costs and taxation		**29,846**	**1,845**	**31,691**
Net revenue and capital return per ordinary share (basic and diluted)	11	**$0.0389**	**$0.0024**	**$0.0413**

The total column of this statement is the Company's Statement of Comprehensive Income prepared in accordance with IFRS as endorsed by the EU. The supplementary revenue and capital columns are presented for information purposes as recommended by the Statement of Recommended Practice ("SORP") issued by the Association of Investment Companies ("AIC").

All items in the above statement derive from continuing operations.

There is no other comprehensive income, and therefore the return on ordinary activities after finance costs and taxation is also the total comprehensive income.

The Notes on pages 54 to 67 form part of these financial statements.

— Statement of Changes in Equity —

For the period from 24 October 2016 (Date of Incorporation) to 31 December 2017
(In US dollars $000s)

	Note	Share capital	Share premium account	Special distributable reserve*	Capital reserve	Revenue reserve*	Total equity attributable to shareholders of the Company
Net assets attributable to shareholders at 24 October 2016		–	–	–	–	–	–
Gross proceeds of share issue		9,143	906,847	–	–	–	915,990
Share issue costs		–	(17,447)	–	–	–	(17,447)
Transfer to special distributable reserve	13	–	(739,021)	739,021	–	–	–
Share premium cancellation costs	13	–	–	(41)	–	–	(41)
Return on ordinary activities after finance costs and taxation		–	–	–	1,845	29,846	31,691
Dividends paid	6	–	–	(4,624)	–	(2,995)	(7,619)
Net assets attributable to shareholders at 31 December 2017		**9,143**	**150,379**	**734,356**	**1,845**	**26,851**	**922,574**

* The special distributable and revenue reserves can be distributed in the form of dividends.

The Notes on pages 54 to 67 form part of these financial statements.

— Statement of Financial Position —

As at 31 December 2017
(In US dollars $000s except per share amounts)

	Note	31 December 2017
Non-current assets		
Investments at fair value through profit or loss	7	569,630
Current assets		
Trade and other receivables	8	5,038
Cash and cash equivalents	9	350,822
		355,860
Total assets		**925,490**
Current liabilities		
Trade and other payables	10	2,916
Total liabilities		**2,916**
Total assets less current liabilities		**922,574**
Net assets		**922,574**
Represented by:		
Share capital	13	9,143
Share premium account	13	150,379
Special distributable reserve	13	734,356
Capital reserve		1,845
Revenue reserve		26,851
Total equity attributable to shareholders of the Company		**922,574**
Net asset value per ordinary share (basic and diluted)	12	**$1.0091**

The financial statements of BioPharma Credit PLC registered number 10443190 were approved and authorised for issue by the Board of Directors on 7 March 2018 and signed on its behalf by:

Jeremy Sillem
Chairman

The Notes on pages 54 to 67 form part of these financial statements.

— Cash Flow Statement —

For the period from 24 October 2016 (Date of Incorporation) to 31 December 2017
(In US dollars $000s)

	Note	Period ended 31 December 2017
Cash flows from operating activities		
Investment income received		28,872
Other income received		3,384
Investment management fee paid		(3,826)
Finance costs paid		(2)
Other expenses paid		(1,515)
Cash generated from operations	15	26,913
Taxation paid		–
Net cash flow generated from operating activities		**26,913**
Cash flow from investing activities		
Purchase of investments		(548,728)
Redemptions of investments		115,474
Sales of investments		19,385
Net cash flow used in investing activities		**(413,869)**
Cash flow from financing activities		
Gross proceeds of share issue	13	762,508
Share issue costs		(17,121)
Dividends paid	6	(7,619)
Share premium cancellation costs		(41)
Net cash flow generated from financing activities		**737,727**
Increase in cash and cash equivalents for the period		**350,771**
Cash and cash equivalents at start of period		–
Revaluation of foreign currency balances		51
Cash and cash equivalents at end of period	9	**350,822**

The Notes on pages 54 to 67 form part of these financial statements.

— Notes to the Financial Statements —

For the period from 24 October 2016 (Date of Incorporation) to 31 December 2017

1. GENERAL INFORMATION

BioPharma Credit PLC is a closed-ended investment company incorporated and domiciled in England and Wales on 24 October 2016 with registered number 10443190. The registered office of the Company is Beaufort House, 51 New North Road, Exeter, EX4 4EP. On 6 February 2017 the Company changed its name from PRECIS (2772) PLC.

The Company carries on business as an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010.

The Company's Investment Manager is Pharmakon Advisors L.P. ("Pharmakon"). Pharmakon is a limited partnership established under the laws of the State of Delaware. It is registered as an investment adviser with the SEC under the United States Investment Advisers Act of 1940, as amended.

Pharmakon is authorised as an AIFM under the Alternative Investment Fund Managers Directive ("AIFMD").

2. ACCOUNTING POLICIES

a) Basis of preparation

The Company's annual financial statements covers the period from incorporation on 24 October 2016 to 31 December 2017 and have been prepared in conformity with IFRS as adopted by the EU, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and as applied in accordance with the AIC SORP (issued in November 2014, updated in January 2017 with consequential amendments) for the financial statements of investment trust companies and venture capital trusts, except to any extent where it is not consistent with the requirements of IFRS. The financial statements have adopted the following accounting policies in their preparation. As this is the first reporting period since the Company was incorporated, no comparative figures have been shown.

The financial statements are presented in US dollars, being the functional currency of the Company. The financial statements have been prepared on a going concern basis under historical cost convention, except for the measurement at fair value of investments designated at fair value through profit or loss.

Assessment as an investment entity

Entities that meet the definition of an investment entity within IFRS 10 Consolidated Financial Statements are required to measure their subsidiaries at fair value through profit or loss rather than consolidate the entities. The criteria which define an investment entity are as follows:

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Directors have concluded that the Company meets the characteristics of an investment entity, in that it has more than one investor and its investors are not related parties; holds a portfolio of investments, predominantly in the form of loans which generates returns through interest income. All investments, including its subsidiary BPCR Ongdapa Limited, are reported at fair value to the extent allowed by IFRS.

b) Presentation of Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been prepared alongside the Income Statement.

c) Segmental reporting

The Directors are of the opinion that the Company has one operating and reportable segment being the investment in debt assets secured by royalties or other cash flows derived from the sales of approved life sciences products.

d) Investments at fair value through profit or loss

The principal activity of the Company is to invest in interest-bearing debt assets with a contractual right to future cash flows derived from royalties or sales of approved life sciences products. In accordance with IFRS, the assets are measured at fair value through profit or loss. They are accounted for on their trade date at fair value, which is the cost of the investment. The fair value of the asset reflects any contractual amortising balance and accrued interest.

For unlisted investments where the market for a financial instrument is not active, fair value is established using valuation techniques which may include recent arm's length market transactions between knowledgeable, willing parties, if available; reference to the current fair value of another instrument that is substantially the same; and discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has proved reliable from estimates of prices obtained in actual market transactions, that technique is utilised.

The fair value is either bid price or the last traded price on the exchange where the investment is listed.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are recognised in the Statement of Comprehensive Income as gains or losses from investments held at fair value through profit or loss. Transaction costs incurred on the purchase and disposal of investments are included within the cost or deducted from the proceeds of the investments. All purchases and sales are accounted for on trade date.

e) Foreign currency

Transactions denominated in currencies other than US dollars are recorded at the rates of exchange prevailing on the date of the transaction. Items which are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the Statement of Comprehensive Income.

f) Income

There are three main sources of revenue for the Company: dividends, interest income and royalty revenue. Dividends are receivable on equity shares and recognised on the ex-dividend date. Where no ex-dividend date is quoted, dividends are recognised when the Company's right to receive payment is established. Dividends from investments in unquoted shares and securities are recognised when they become receivable.

Interest income is recognised when it is probable that the economic benefits will flow to the Company. Interest is accrued on a time basis, by reference to the principal outstanding and the effective interest rate that is applicable. Accrued interest is included within trade and other receivables on the Statement of Financial Position.

Any accrued income is reflected in the fair value of the Company's limited partnership interest, and is allocated to capital within the Statement of Comprehensive Income until the Company's right to receive the income is established, when it is transferred to revenue within the Statement of Comprehensive Income.

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably). Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Some investments include additional consideration in the form of structuring fees, which are paid on completion of the transaction. Such fees are recognised up front and are allocated to revenue within the Statement of Comprehensive Income.

Bank interest and other interest receivable are accounted for on an accruals basis.

g) Dividends paid to shareholders

Dividends to shareholders are recognised as a liability in the period which they are paid or approved by the Board and are taken to the Statement of Changes in Equity. Dividends declared and approved after the balance sheet date are not recognised as a liability of the Company at the balance sheet date.

The Company may, if it so chooses, designate as an ''interest distribution'' all or part of the amount it distributes to shareholders as dividends, to the extent that it has ''qualifying interest income'' for the accounting period. Were the Company to designate any dividend it pays in this manner, it should be able to deduct such interest distributions from its income in calculating its taxable profit for the relevant accounting period. The Company intends to elect for the ''streaming'' regime to apply to the dividend payments it makes to the extent that it has such ''qualifying interest income''. Shareholders in receipt of such a dividend will be treated for UK tax purposes as though they had received a payment of interest, which results in a reduction of the corporation tax payable by the Company.

h) Expenses

All expenses are accounted for on an accruals basis. Expenses, including investment management fees, performance fees and finance costs, are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are treated as capital costs and separately identified and disclosed in Note 4; and
- expenses of a capital nature are accounted for through the capital account.

i) Trade and other receivables

Trade and other receivables do not carry any interest and are measured at fair value through profit and loss and reduced by appropriate allowances for estimated unrecoverable amounts, where necessary.

j) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits, and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

k) Trade and other payables

Trade and other payables do not carry any interest and are measured at fair value through profit and loss.

l) Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Corporation tax is recognised in the Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous periods. The tax effect of different items of expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, using the Company's marginal method of tax, as applied to those items allocated to revenue, for the accounting period.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

m) Share capital and reserves

The share capital represents the nominal value of the Company's equity shares.

The share premium account represents the excess over nominal value of the fair value of consideration received for the Company's equity shares, net of expenses of the share issue.

The special distributable reserve was created on 30 June 2017 to enable the Company to buy back its own shares and pay dividends out of such distributable reserve, in each case when the Directors consider it appropriate to do so, and for other corporate purposes.

The capital reserve represents realised and unrealised capital and exchange gains and losses on the disposal and revaluation of investments and of foreign currency items. The realised capital reserve can be used for the repurchase of shares.

The revenue reserve represents retained profits from the income derived from holding investment assets less the costs and interest on cash balances associated with running the Company. This reserve can be distributed.

n) Critical accounting estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and therefore, the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, estimates and assumptions made in the valuation of unquoted investments for which there is no observable market may cause material adjustments to the carrying value of those investments. These are valued in accordance with Note 2(d) above.

o) Accounting standards not yet effective

The IASB have issued and endorsed the following standards and interpretations, applicable to the Company, which are not yet effective for the period ended 31 December 2017 and have therefore not been applied in preparing these financial statements.

The Company does not expect the adoption of IFRS 9 to have a material impact on its financial statements as all investments are measured at fair value through profit or loss. In addition, IFRS 15 does not apply to financial instruments, which comprise the business of the Company as an investment trust. The Company will continue to monitor future standards.

New/Revised IFRSs		Issued	Effective date for reporting periods beginning on or after
IFRS 9	Financial Instruments	24 July 2014	1 January 2018
IFRS 15	Revenue from Contracts with Customers	28 May 2014	1 January 2018
Amendments to IFRSs			
IAS 7	Disclosure Initiative	1 January 2016	1 January 2017*
IFRS 1	Annual Improvements to IFRS Standards 2014–2016 Cycle	1 December 2016	1 January 2018*
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 December 2016	1 January 2018*

* Not yet endorsed by the EU.

Other future developments include the IASB undertaking a comprehensive review of existing IFRSs. The Company will consider the financial impact of these new standards as they are finalised.

3. INCOME

	Period ended 31 December 2017 $000
Income from investments	
US unfranked investment income from BioPharma III	11,758
US fixed interest investment income	12,439
US floating interest investment income	1,468
Additional considerations received*	7,553
	33,218
Other income	
Interest from liquidity/money market funds	3,600
Fixed term deposit interest	172
Other interest	2
	3,774
Total income	**36,992**

* The Company's senior secured loans to Tesaro, Inc. and Lexicon Pharmaceuticals, Inc. included additional consideration in the form of structuring fees of $4,440,000 and $3,112,500, respectively, which were paid upon the completion of the transaction and are recognised as income in the period. Refer to Note 2(f).

4. FEES AND EXPENSES

Expenses

	Period ended 31 December 2017		
	Revenue $000	Capital $000	Total $000
Management fee (Note 4a)	5,830	–	5,830
Directors' fees (Note 4c)	250	–	250
Other expenses			
Company Secretarial fee	59	–	59
Administration fee	66	–	66
Legal & professional fees	12	471	483
Public relations fees	255	–	255
Auditor's remuneration – Statutory audit	256	–	256
Auditor's remuneration – Other audit related services – Half–year review	122	–	122
Auditor's remuneration – Other audit related services – Initial accounts	28	–	28
Other expenses	264	–	264
	1,062	471	1,533
Total expenses	**7,142**	**471**	**7,613**

The Directors' were also paid $162,500, as detailed in Note 4(c). This amount is not included within the Directors' fees figure above. The Auditors were also paid $176,000 for services performed in connection with the IPO. This amount is not included within the Auditor's remuneration figures above. Both these amounts were recognised as part of share issue costs in the Statement of Changes in Equity on page 51.

a) Investment management fee

With effect from the Initial Admission, the Investment Manager is entitled to a management fee (''Management Fee'') calculated on the following basis: (1/12 of 1 per cent of the NAV on the last business day of the month in respect of which the Management Fee is to be paid (calculated before deducting any accrued Management Fee in respect of such month)) minus (1/12 of $100,000).

The Management Fee payable in respect of any quarter will be reduced by an amount equal to the Company's pro rata share of any transaction fees, topping fees, break-up fees, investment banking fees, closing fees, consulting fees or other similar fees which the Investment Manager (or an affiliate) receives in connection with transactions involving investments of the Company (''Transaction Fees''). The Company's pro rata share of any Transaction Fees will be in proportion to the Company's economic interest in the investment(s) to which such Transaction Fees relate.

b) Performance fee

Subject to (i) the total return on NAV (calculated per ordinary share) exceeding 6 per cent over such performance period, (ii) the total return on NAV (calculated per ordinary share) as at the end of a performance period representing an increase of at least 6 per cent per annum compounded on the Company's IPO ordinary share issue price, and (iii) to high watermark (which is the total return on NAV (calculated per ordinary share) as at the end of the last performance period in respect of which a performance fee was payable to the Investment Manager), the Investment Manager will be entitled to receive a performance fee equating to 10 per cent of the total return over such performance period, on the basis of catch up arrangements whereby the Investment Manager will receive 50 per cent of the total return above 6 per cent (the "Excess Total Return") up to the point at which it has received 10 per cent of the overall total return allocated to itself and shareholders in this manner, and thereafter 10 per cent of the remaining Excess Total Return; provided always that the amount of any performance fee payable to the Investment Manager will be reduced to the extent necessary to ensure that, after account is taken of such fee, conditions (i), (ii) and (iii) above are still satisfied.

The Performance Fee for a Performance Period shall be paid as soon as practicable after the end of the relevant Performance Period and, in any event, within three calendar months as of the end of such Performance Period.

If, during the last month of a Performance Period, the shares have, on average, traded at a discount of 1 per cent or more to the NAV per share (calculated by comparing the middle market quotation of the shares at the end of each business day in the month to the prevailing published NAV per share (exclusive of any dividend declared) as at the end of such business day and averaging this comparative figure over the month), the Investment Manager shall (or shall procure that its Associate does) apply 50 per cent of any Performance Fee paid by the Company to the Investment Manager (or its Associate) in respect of that Performance Period (net of all taxes and charges applicable to such portion of the Performance Fee) to make market acquisitions of shares (the ''Performance Shares'') as soon as practicable following the payment of the Performance Fee by the Company to the Investment Manager (or its Associate) and at least until such time as the shares have, on average, traded at a discount of less than 1 per cent to the NAV per share over a period of five business days (calculated by comparing the middle market quotation of the shares at the end of each such business day to the prevailing published NAV per share (exclusive of any dividend declared) and averaging this comparative figure over the period of five business days). The Investment Manager's obligation:

1) shall not apply to the extent that the acquisition of the Performance Shares would require the Investment Manager to make a mandatory bid under Rule 9 of the Takeover Code; and

2) shall expire at the end of the Performance Period which immediately follows the Performance Period to which the obligation relates.

c) Directors

Each of the Directors is entitled to receive a fee from the Company at such rate as may be determined in accordance with the Articles. The Directors' remuneration is $70,000 per annum for each Director other than:

- the Chairman, who will receive an additional $30,000 per annum; and
- the Chairman of the Audit and Risk Committee, who will receive an additional $15,000 per annum.

In addition, in consideration for the work done between Incorporation and Admission, for the period up to 31 December 2017, each Director will be entitled to an additional $35,000 other than:

- the Chairman, who will receive an additional $50,000 for this period; and
- the Chairman of the Audit and Risk Committee, who will receive an additional $42,500 for this period.

Fees owed to Directors will be paid to each Director in three equal quarterly instalments for 2017.

A breakdown of Directors' fees is provided in the Remuneration Report on page 39.

d) Finance costs

	Period ended 31 December 2017 $000
Interest paid	4
	4

5. TAXATION

It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval of the Company by HMRC as an investment trust under Section 1158 of the Corporation Tax Act 2010 (as amended) and pursuant to regulations made under Section 1159 of the Corporation Tax Act 2010. As an investment trust, the Company is exempt from corporation tax on capital gains.

The current taxation charge for the period is different from the standard rate of corporation tax in the UK of 19.00 per cent, the effective tax rate was 0.00 per cent. The differences are explained below.

	Period ended 31 December 2017		
	Revenue $000	Capital $000	Total $000
Total return on ordinary activities before taxation	29,846	1,845	31,691
Theoretical tax at UK Corporation tax rate of 19.36%*	5,778	357	6,135
Effects of:			
Capital items that are not taxable	–	(357)	(357)
Tax deductible interest distributions	(5,778)	–	(5,778)
Actual tax charge	**–**	**–**	**–**

* The theoretical tax rate is calculated using a blended tax rate over the period.

At 31 December 2017, the Company had no unprovided deferred tax liabilities. At that date, based on current estimates and including the accumulation of net allowable losses, the Company had no unrelieved losses.

Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an Investment Trust company.

6. DIVIDENDS

Dividend paid in the period

	Revenue $000	Capital $000	Total $000
First interim dividend for the period ended 31 December 2017 in reference to the period ended 30 June 2017: $0.01 per ordinary share	**2,995**	**4,624**	**7,619**

Dividends declared but not yet paid

	Revenue $000	Capital $000	Total $000
Second interim dividend for the period ended 31 December 2017 in reference to the period ended 30 September 2017: $0.01 per ordinary share*	7,572	47	7,619
Third interim dividend for the period ended 31 December 2017 in reference to the period ended 31 December 2017: $0.01 per ordinary share	9,143	–	9,143
Special dividend for the period ended 31 December 2017 in reference to the period ended 31 December 2017: $0.011 per ordinary share	10,136	–	10,136
	26,851	**47**	**26,898**

Set out below are the interim dividends paid or proposed on ordinary shares in respect of the financial period, which is the basis on which the requirements of Section 1159 of the Corporation Tax Act 2010 are considered.

	Revenue $000	Capital $000	Total $000
First interim dividend for the period ended 31 December 2017 in reference to the period ended 31 December 2017: $0.01 per ordinary share	2,995	4,624	7,619
Second interim dividend for the period ended 31 December 2017 in reference to the period ended 31 December 2017: $0.01 per ordinary share*	7,572	47	7,619
Third interim dividend for the period ended 31 December 2017: $0.01 per ordinary share	9,143	–	9,143
Special dividend for the period ended 31 December 2017: $0.011 per ordinary share	10,136	–	10,136
	29,846	**4,671**	**34,517**

* This dividend is not included in the financial statements and was paid on 31 January 2018.

7. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Period ended 31 December 2017 $000
Investment portfolio summary	
Unlisted investments at fair value through profit and loss	123,479
Unlisted fixed interest investment at fair value through profit and loss	224,151
Unlisted floating interest investments at fair value through profit and loss	222,000
Closing fair value at the end of the period	**569,630**

	Period ended 31 December 2017				
	Unlisted investments $000	Unlisted fixed interest investments $000	Unlisted floating interest investments $000	Listed fixed interest investments $000	Total $000
Investment portfolio summary					
Opening cost at beginning of period	–	–	–	–	–
Opening unrealised appreciation/(depreciation) at beginning of period	–	–	–	–	–
Opening fair value at beginning of period	–	–	–	–	–
Movements in the period:					
Purchases at cost	153,482	309,630	222,000	17,112	702,224
Redemption proceeds	(29,995)	(85,479)	–	–	(115,474)
Sales – proceeds	–	–	–	(19,385)	(19,385)
– realised gains on sales	–	–	–	2,273	2,273
Unrealised appreciation/(depreciation)	(8)	–	–	–	(8)
Closing fair value at the end of the period	**123,479**	**224,151**	**222,000**	**–**	**569,630**
Closing cost at end of period	123,487	224,151	222,000	–	569,638
Closing unrealised appreciation/(depreciation) at end of period	(8)	–	–	–	(8)
Closing fair value at the end of the period	**123,479**	**224,151**	**222,000**	**–**	**569,630**

Analysis of investment gains/(losses)

	Period ended 31 December 2017 $000
Realised gains on sale of investments	2,273
Unrealised movement in appreciation/(depreciation)	(8)
	2,265

Transaction costs, (incurred at the point of the transaction) incidental to the acquisition of investments totalled $303,000 and the disposals of investments totalled $Nil for the period. In addition, legal fees incidental to the acquisition of investments totalled $471,000 as disclosed in Note 4, have been taken to the capital column in the Statement of Comprehensive Income since they are capital in nature.

The Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following three levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level of the fair value hierarchy, within which the fair value measurement is categorised, is determined on the basis of the lowest level input that is significant to the fair value of the investment.

The following table analyses the Company's investments and liquidity/money market funds at 31 December 2017:

	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
Investment portfolio summary				
Unlisted investments at fair value through profit and loss	123,479	–	–	123,479
Unlisted fixed interest at fair value through profit and loss	224,151	–	99,651	124,500
Unlisted floating interest investments at fair value through profit and loss	222,000	–	–	222,000
	569,630	–	99,651	469,979
Liquidity/money market funds	346,767	346,767	–	–
Total	**916,397**	**346,767**	**99,651**	**469,979**

A reconciliation of fair value measurements in Level 3 is set out below.

Level 3 financial assets at fair value through profit or loss

31 December 2017	Unlisted investments $000	Unlisted fixed interest investments $000	Unlisted floating interest investments $000	Total $000
Opening balance	–	–	–	–
Purchases	153,482	124,500	222,000	499,982
Redemptions*	(29,995)	–	–	(29,995)
Change in unrealised appreciation/(depreciation)	(8)	–	–	(8)
Closing balance at 31 December 2017	**123,479**	**124,500**	**222,000**	**469,979**

* Redemptions are the proceeds received from the repayment of investments.

There were no transfers between levels during the period.

Valuation techniques

Unrealised gains and losses recorded on Level 2 and 3 financial instruments are reported in unrealised gain/(loss) on investments on the Statement of Comprehensive Income. At the time the investments are made, the Investment Manager calculates an expected rate of return based on the purchase price and the cash flows as projected at that time. The projected cash flows are calculated at the time of the investment by estimating future product sales and applying the corresponding royalty rate for capped royalty investments. Estimates of future product sales are generated through models driven by several factors that include the potential size of the market (disease incidence and prevalence), the product's market share over time and the price of the product.

During the periods following the initial investment of assets classified as Level 3 investments, the Investment Manager reviews and, if appropriate, revises the assumptions in the sales models and calculates the net present value of the remaining cash flows using the expected rate of return. Inputs reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date. Consideration is given to the risk inherent in the valuation techniques and the risk inherent in the inputs of the model. All investments are valued at fair value using a discounted cash flow methodology.
For capped royalty investments, discount rates are applied to the consensus forecasts for sales of the underlying products to determine fair value.

The RPS Note, which is a Level 2 investment, is valued using the stated 12 per cent interest rate and Wall Street analyst consensus forecasts for products underlying the Note.

The Company's unlisted investments, with the exception of the RPS Note, are all classified as Level 3 investments. The fair values of the unlisted investments have been determined principally by reference to discounted cash flows. The significant unobservable input used is detailed below:

Assets	Fair value at level 3 financial assets at fair value through profit or loss $000	Valuation technique	Unobservable input	Range	Fair value sensitivity to a 100bps increase in the discount rate $000	Fair value sensitivity to a 100bps decrease in the discount rate $000
Limited partnership interest in BioPharma III	123,479	Discounted cash flow	Discount rate	9.3% – 12.1%	653	(3,126)
Lexicon Pharmaceuticals, Inc.	124,500	Discounted cash flow	Discount rate	10.0%	4,500	(4,500)
Tesaro, Inc.	222,000	Discounted cash flow	Discount rate	10.4%	7,000	(8,000)

8. TRADE AND OTHER RECEIVABLES

	31 December 2017 $000
Unlisted fixed interest income receivable	2,863
Unlisted floating interest income receivable	1,468
Interest accrued on liquidity/money market funds	390
Other debtors	317
	5,038

9. CASH AND CASH EQUIVALENTS

	31 December 2017 $000
Cash at bank	4,055
Liquidity/money market funds	346,767
	350,822

10. TRADE AND OTHER PAYABLES

	31 December 2017 $000
Management fees accrual	2,004
Share issue costs	326
Accruals	586
	2,916

11. RETURN PER ORDINARY SHARE

Revenue return per ordinary share is based on the net revenue after taxation of $29,846,000 and 766,976,882 ordinary shares, being the weighted average number of ordinary shares for the period.

Capital return per ordinary share is based on net capital gains for the period of $1,845,000 and on 766,976,882 ordinary shares, being the weighted average number of ordinary shares for the period.

Basic and diluted return per share are the same as there are no arrangements in place which could have a dilutive effect on the Company's ordinary shares.

The Company's weighted average number of ordinary shares for the period has been calculated from 27 March 2017, being the date the initial shares were listed for trading.

12. NET ASSET VALUE PER ORDINARY SHARE

The basic total net assets per ordinary share is based on the net assets attributable to equity shareholders at 31 December 2017 of $922,574,000 and ordinary shares of 914,252,831, being the number of ordinary shares in issue at 31 December 2017.

There is no dilution effect and therefore there is no difference between the diluted total net assets per ordinary share and the basic total net assets per ordinary share.

The NAV per share differs from the NAV prepared under AIC guidelines by $0.0076. This is due to the second interim dividend of $0.01, payable on 761,877,360 shares, which went ex-dividend on 14 December 2017, being included in the NAV prepared in accordance with AIC guidelines but excluded from the financial statements until paid, in accordance with the Companies Act 2006.

13. SHARE CAPITAL

	Period ended 31 December 2017	
	Number of shares	$000
Issued and fully paid:		
Ordinary shares of $0.01:		
Balance at beginning of the period	1	–
Initial share issue	526,747,199	5,268
Subsequent share issue	235,130,160	2,351
Further share issue	152,375,471	1,524
Balance at end of the period	**914,252,831**	**9,143**

Total voting rights at 31 December 2017 was 914,252,831.

The Company was incorporated with 1 ordinary share issued at $0.01 and 5,000,000 redeemable preference shares issued at £0.01.

The initial placing of 526,747,199 ordinary shares took place on 27 March 2017, with a subsequent issue of 235,130,160 ordinary shares on 30 March 2017, raising gross proceeds of $761,877,000. The Company commenced business on 27 March 2017 when the ordinary shares in issue were admitted to the Official List of TISE and to trading on the Specialist Fund Segment of the LSE.

A further issue of 152,375,471 ordinary shares made on a non pre-emptive basis, took place on 18 December 2017, raising gross proceeds of $154,113,000.

Following approval of the Court on 29 June 2017 and the filing of the court order with the Registrar of Companies on 30 June 2017, the share premium account cancellation was effective. The share premium account of $739,021,000 at 29 June 2017 was transferred to a special distributable reserve. The issue costs of $15,237,000 relating to the initial and subsequent listings were offset against the share premium account. At 31 December 2017, the special distributable reserve was $734,356,000 after costs of $41,000 relating to the cancellation and a $4,624,000 dividend paid to shareholders.

Following approval of the Court on 29 June 2017 and the filing of the court order with the Registrar of Companies on 30 June 2017, 5,000,000 redeemable preference shares with an aggregate nominal value of £50,000 were cancelled. At 31 December 2017, the Company held no redeemable preference shares.

14. SUBSIDIARY

The Company formed a wholly-owned subsidiary, BPCR Ongdapa Limited ("BPCR Ongdapa"), incorporated in Ireland on 5 October 2017 for the purpose of entering into a purchase, sale and assignment agreement with a wholly-owned subsidiary of Royalty Pharma for the purchase of a 50 per cent interest in a stream of payments acquired by Royalty Pharma from Bristol-Myers Squibb. BPCR Ongdapa has had no activity since inception other than entering into the above referenced agreement. In accordance with IFRS 10, the Company is exempted from consolidating a controlled investee as it is an investment trust. Therefore, the Company's investment in BPCR Ongdapa, when funded, will be recognised at fair value through profit and loss.

15. RECONCILIATION OF TOTAL RETURN FOR THE PERIOD BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	Period ended 31 December 2017 Revenue $000
Total return for the period before taxation	31,691
Capital gains	(2,316)
Increase in trade receivables	(5,038)
Increase in trade payables*	2,590
Effective yield adjustment	(14)
Cash generated from operations	**26,913**

* The increase differs from trade and other payables due to $326,000 of share issue costs forming part of financing activities.

Analysis of net cash and net debt

Net cash	At 24 October 2016 $000	Cash flow $000	Exchange movement $000	At 31 December 2017 $000
Cash and cash equivalents	–	350,771	51	**350,822**

16. FINANCIAL INSTRUMENTS

The Company's financial instruments include its investment portfolio, cash balances, trade receivables and trade payables that arise directly from its operations. Adherence to the Company's investment policy is key in managing risk. Refer to the Strategic Overview on page 20 for a full description of the Company's investment objective and policy.

The Investment Manager monitors the financial risks affecting the Company on an ongoing basis and the Directors regularly receive financial information, which is used to identify and monitor risk. All risks are actively reviewed and monitored by the Board. Details of the Company's principal risks can be found in the Strategic Report on pages 21 to 25.

The main risks arising from the Company's financial instruments are:

i) market risk, including market price risk, currency risk and interest rate risk;

ii) liquidity risk; and

iii) credit risk.

(i) Market risk

Market risk is the risk of loss arising from movements in observable market variables. The fair value of future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. The Investment Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Investment Manager on a regular basis and the Board at quarterly meetings with the Investment Manager.

Market price risk

The Company is exposed to price risk arising from its investments whose future prices are uncertain. The Company's exposure to market price risk comprises movements in the value of the Company's investments. See Note 7 above for investments that fall into Level 3 of the fair value hierarchy and refer to the description of valuation policies in Note 2(d). The nature of the Company's investments, with a high proportion of the portfolio invested in unlisted debt instruments, means that the investments are valued by the Company after consideration of the most recent available information from the underlying investments. The Company's portfolio is diversified among counterparties and by the sectors in which the underlying companies operate, minimising the impact of any negative industry-specific trends.

A 10 per cent increase in the market value of the limited partnership interest in BioPharma III would have increased net assets by $12.3 million. A 10 per cent increase in the market value of the RPS Note would have increased net assets by $10.0 million. A 10 per cent increase in the market value of the Lexicon Note would have increased net assets by $12.5 million. A 10 per cent increase in the market value of the Tesaro Note would have increased net assets by $22.2 million. An equal change in the opposite direction would have decreased the net assets by an equal and opposite amount. The analysis is based on closing balances only and is not representative of the period as a whole.

The Board manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the Investment Manager. Investment performance and exposure are reviewed at each Board meeting.

Currency risk

Currency risk is the risk that fair values of future cash flows of a financial instrument fluctuate because of changes in foreign exchange rates.

At 31 December 2017, the Company held cash balances in GBP Sterling of £276,000 ($374,000).

The currency exposures (including non-financial assets) of the Company as at 31 December 2017 are set out below:

	Cash $000	Investments $000	Other net assets/ (liabilities) $000	Total $000
Sterling	374	–	(823)	(449)
US dollar	350,448	569,630	2,945	923,023
	350,822	**569,630**	**2,122**	**922,574**

A 10 per cent increase in the Sterling exchange rate would have increased net assets by $45,000. A 10 per cent decrease would have decreased net assets by the same amount.

Interest rate risk

Interest rate risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate movements may potentially affect future cash flows from:

- investments in fixed interest rate securities and unquoted loans; and
- the level of income receivable on cash deposits and liquidity funds.

The RPS Note and the Lexicon Loan have a fixed interest rate and therefore are not subject to interest rate risk. At 31 December 2017, the RPS Note and the Lexicon Loan represented 10.80 per cent and 13.49 per cent of the Company's net assets, respectively.

The Tranche A loan of Tesaro and cash and cash equivalents, including investments in liquidity funds, have a floating rate of interest. At 31 December 2017, these represented 24.06 per cent and 38.03 per cent of the Company's net assets, respectively.

A 100 basis point increase or decrease in interest rates associated with the limited partnership interest in BioPharma III would not have materially impacted net income for the period ended 31 December 2017.

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.
At 31 December 2017, the Company had cash and cash equivalents, including investments in liquidity/money market funds with balances of $350,822,000 and maximum unfunded commitments of $329,500,000–$349,500,000.

The Company maintains sufficient liquid investments through its cash and cash equivalents to pay accounts payable, accrued expenses and ongoing expenses of the Company. Liquidity risk is manageable through a number of options, including the Company's ability to issue debt and/or equity and by selling all or a portion of an investment in the secondary market.

(iii) Credit risk

This is the risk the Company's trade and other receivables will not meet their obligations to the Company. While the Company will often seek to be a secured lender for each debt asset, there is no guarantee that the relevant borrower will repay the loan or that the collateral will be sufficient to satisfy the amount owed. All of the Company's investments are senior secured investments as detailed in the Portfolio Information on page 15.

When the Investment Manager makes an investment, the creditworthiness of the counterparty is taken into account so as to minimise the risk to the Company of default. Creditworthiness is assessed on an ongoing basis and changes to a counterparty's risk profile are monitored by the Investment Manager on a regular basis, and discussed with the Board at quarterly meetings.

The Company's maximum exposure to credit risk at any given time is the fair value of its investment portfolio. At 31 December 2017, the Company's maximum exposure to credit risk was $569,630,000. The Company's concentration of credit risk by counterparty can be found in the Portfolio Information contained on page 15.

Capital management

The Company's primary objectives in relation to the management of capital are:

- to ensure its ability to continue as a going concern;
- to ensure that the Company conducts its affairs to enable it to continue to meet the criteria to qualify as an investment trust; and
- to maximise the long-term shareholder returns in the form of sustainable income distributions through an appropriate balance of equity capital and debt.

The Company is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000.

The Company has complied with all the above requirements during this financial period.

17. RELATED PARTY TRANSACTIONS

The amounts incurred in respect of management fees during the period to 31 December 2017 was $5,830,000, of which $2,004,000 was outstanding at 31 December 2017. The amount due to the Investment Manager for performance fees at 31 December 2017 was $Nil.

The amount incurred in respect of Directors' fees during the period to 31 December 2017 was $413,000 ($163,000 of this figure has been included within share issue costs) of which $Nil was outstanding at 31 December 2017.

The Shared Services Agreement was entered into by and between Royalty Pharma, an affiliate of Pharmakon Advisors, L.P., and the Investment Manager on 30 November 2016 and deemed effective as of 1 January 2016. Under the terms of the Shared Services Agreement, the Investment Manager will have access to the expertise of certain Royalty Pharma employees, including its research, legal and compliance, and finance teams.

On 8 December 2017, the Company's wholly-owned subsidiary entered into a purchase, sale and assignment agreement with RPI Acquisitions (Ireland) ("RPI Acquisitions"), an affiliate of Royalty Pharma, for the purchase of a 50 per cent interest in a stream of payments acquired by RPI Acquisitions from Bristol-Myers Squibb through a purchase agreement dated 14 November 2017. The Purchased Payments are linked to tiered worldwide sales of Onglyza and Farxiga, diabetes agents marketed by AstraZeneca, and related products. The Company is expected to fund $140,000,000 to $160,000,000 during 2018 and 2020, determined by product sales and will receive payments from 2020 through 2025. Based on current sell-side analyst estimates for the products, the Investment Manager estimates that the rate of return on the transaction will be in the high single-digits per annum. The first advance to RPI Acquisitions is expected to be made in May 2018.

On 4 December 2017, the Company and BioPharma Credit Investments IV, S.àr.L. ("BioPharma IV"), a fund managed by the Investment Manager, entered into a definitive term loan agreement for up to $200,000,000 with Lexicon Pharmaceuticals, Inc. (NASDAQ: LXRX), a fully integrated biopharmaceutical company ("Lexicon"). The loan is secured by substantially all of Lexicon's assets, including its rights to XERMELO and Sotagliflozin. The $200,000,000 loan will be available in two tranches, each maturing in December 2022 and bearing interest at 9.0 per cent per annum. The first $150,000,000 is available immediately and an additional tranche of $50,000,000 is available for draw by March 2019 at Lexicon's option if net XERMELO sales are greater than $25,000,000 in the preceding quarter. Under the terms of the transaction, the Company will invest up to $166,000,000 ($124,500,000 in the first tranche and up to an additional $41,500,000 by 30 March 2019) and BioPharma IV will invest up to $34,000,000 in parallel with the Company acting as collateral agent. The Company funded the first tranche on 18 December 2017 and recorded accrued interest of $405,000 for the period ended 31 December 2017. The outstanding balance as at 31 December 2017 was $124,500,000.

On 21 November 2017, the Company and BioPharma IV entered into a definitive loan agreement for up to $500,000,000 with Tesaro, Inc. (NASDAQ: TSRO), an oncology focused biopharmaceutical company ("Tesaro"). Under the terms of the transaction, the Company will invest up to $370,000,000 ($222,000,000 in the first tranche and up to an additional $148,000,000 by 20 December 2018) and BioPharma IV will invest up to $130,000,000 in parallel with the Company acting as collateral agent. The loan has a term of seven periods and is secured by Tesaro's US rights to ZEJULA and VARUBI. The first $300,000,000 tranche bears interest at LIBOR plus 8 per cent, with the second optional tranche bearing interest at LIBOR plus 7.5 per cent. The LIBOR rate is subject to a floor of 1 per cent and certain caps. Each tranche of the loan is interest-only for the first two periods, amortises over the remaining term, and can be prepaid at Tesaro's discretion, at any time, subject to prepayment fees. The Company funded the first tranche on 6 December 2017 and the Company recorded accrued interest of $1,468,000 for the period ended 31 December 2017. The outstanding balance as at 31 December 2017 was $222,000,000.

During the period, the Company entered into the RPS Note with RPS BioPharma Investments, L.P. on 30 March 2017 for $185,130,000. The Note bears a fixed interest rate of 12 per cent, matures on 30 June 2026 and is secured by rights to royalty payments from 21 pharmaceutical products. In the period, the Company recorded $11,758,000 of interest and amortisation payments of $85,479,000. The outstanding balance as at 31 December 2017 was $99,651,000.

On 27 March 2017, the Company acquired a limited partnership interest in BioPharma Secured Investments III Holdings Cayman L.P. ("BioPharma III") for $153,482,000. During the period, the Company recorded $11,758,000 of investment income and repayments of $29,995,000. The Company also recorded net loss on investments at fair value of $(8,000). The outstanding balance as at 31 December 2017 was $123,479,000.

BioPharma III, BioPharma IV, RPS BioPharma Investments, L.P., and RPI Acquisitions are related entities of the Company due to a principal of the Investment Manager having significant influence over each of these entities.

18. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 31 December 2017, there were outstanding commitments of $329.5 million–$349.5 million in respect of investments (see Note 17 for further details).

19. SUBSEQUENT EVENTS

On 8 February 2018, the Company entered into a definitive term senior secured loan agreement for $150 million with NovoCure Limited (NASDAQ: NVCR), a commercial stage oncology company with a current market capitalisation of approximately $1.9 billion ("Novocure"). The $150 million loan will mature in February 2023 and bears interest at 9.0 per cent per annum. Novocure will use $100 million of the net proceeds to entirely prepay the $100 million 10.0 per cent coupon loan made by BioPharma III in 2015 that was scheduled to mature in 2020. As a limited partner in BioPharma III, the Company will receive a distribution of approximately $46 million from BioPharma III as a result of the prepayment from Novocure.

— Corporate Information —

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— Shareholder Information —

Key dates

February/ March	Annual results announced
March	Payment of fourth interim dividend
June	Annual General Meeting
	Company's half-year end
	Payment of first interim dividend
September	Half-yearly results announced
	Payment of second interim dividend
December	Company's year end
	Payment of third interim dividend

Frequency of NAV publication

The Company's NAV is released to the LSE and TISE on a monthly basis and is published on the Company's website.

Company website

Copies of the Company's Annual and Half-yearly Reports, stock exchange announcements and further information on the Company can be obtained from the Company's website www.bpcruk.com.

Identification codes

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ISIN:	GB00BDGKMY29
TICKER:	BPCR
LEI:	213800AV55PYXAS7SY24

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