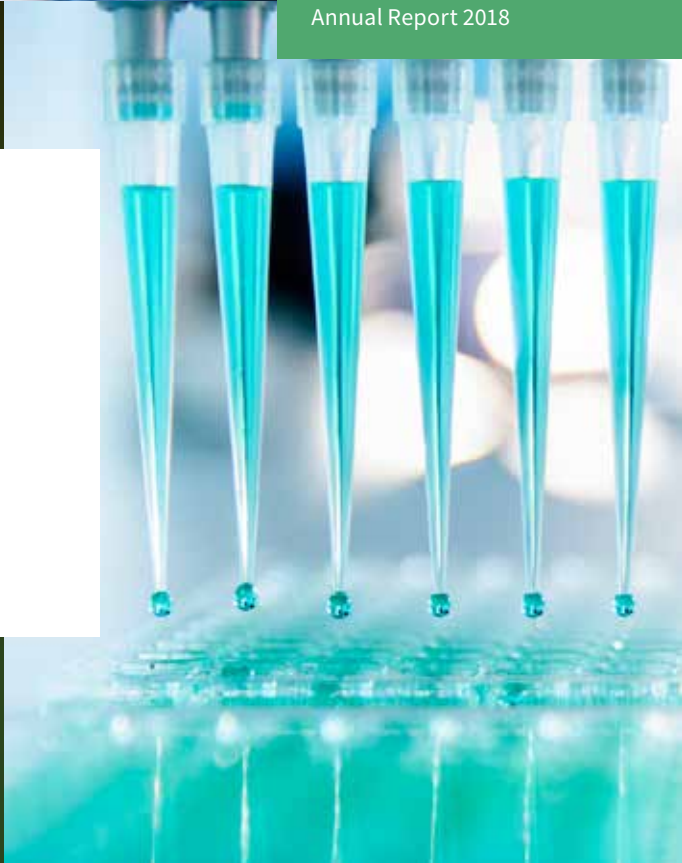




Annual Report 2018

A year
of growth



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

01-23 Strategic Report

- 01 2018 Highlights
- 02 At a Glance
- 06 Chairman's Statement
- 08 Market Overview
- 10 Investment
Manager's Report
- 15 Portfolio Information
- 16 Second Half of 2018
- 18 Strategic Overview

24-43 Governance

- 26 Board of Directors
- 28 Directors' Report
- 31 Corporate Governance Statement
- 35 Audit and Risk Committee Report
- 37 Remuneration Report
- 39 Remuneration Policy
- 40 Statement of Directors' Responsibilities
- 41 Independent Auditor's Report

44-67 Financial Statements

- 46 Statement of Comprehensive Income
- 47 Statement of Changes in Equity
- 48 Statement of Financial Position
- 49 Cash Flow Statement
- 50 Notes to the Financial Statements

68-69 Additional Information

- 68 Corporate Information
- 69 Shareholder Information



2018 Highlights

FINANCIAL

Ordinary Shares

as at 31 December 2018

Share price

\$1.0650

(31 December 2017: \$1.0470)

NAV per Share

\$1.0044

(31 December 2017: \$1.0091)

Premium to NAV per Share

6.0%

(31 December 2017: 3.8%)

Shares in issue

1,373.9m

(31 December 2017: 914.3m)

Assets

as at 31 December 2018

Net assets

\$1,380.0m

(31 December 2017: \$922.6m)

Leverage

0%

(31 December 2017: 0%)

Target dividend

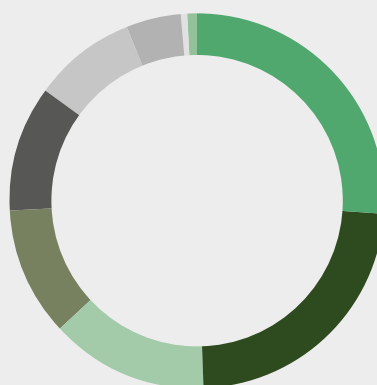
7cents per annum

INVESTMENT

Portfolio composition

Key statistics (\$ in millions)	As at 31 December 2018	As at 31 December 2017	% Change
Cash and cash equivalents	363.6	350.8	3.6%
Limited partnership interest in BioPharma III	7.6	123.5	-93.8%
RPS Note	-	99.7	N/A
Tesaro senior secured loan	322.0	222.0	45.0%
Lexicon senior secured loan	124.5	124.5	-
Novocure senior secured loan	150.0	-	N/A
Sebela senior secured loan	188.7	-	N/A
BMS purchased payments	64.4	-	N/A
Amicus senior secured loan	150.0	-	N/A
Other net assets	9.2	2.1	338.1%
Total net assets	1,380.0	922.6	49.6%

Portfolio diversification as at 31 December 2018



Type	Percentage
Cash and cash equivalents	26.3%
Tesaro senior secured loan	23.3%
Sebela senior secured loan	13.7%
Novocure senior secured loan	10.9%
Amicus senior secured loan	10.9%
Lexicon senior secured loan	9.0%
BMS purchased payments	4.7%
Limited partnership interest in BioPharma III	0.5%
Other net assets	0.7%



MOST RECENT INVESTMENT IN 2018

Senior secured corporate
loan to Amicus Therapeutics

\$150m

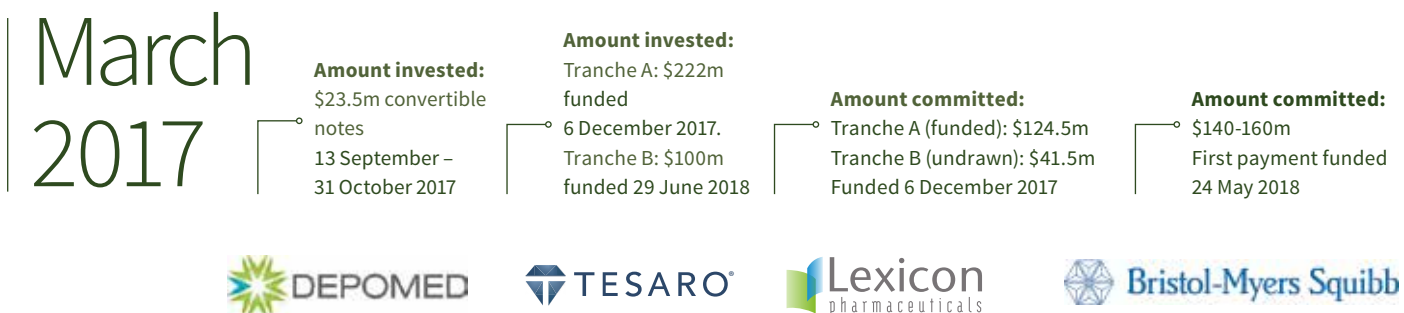
Read more on page 12



At a Glance

Our primary objective is to generate predictable income for Shareholders over the long term

WE WILL SEEK TO ACHIEVE THIS BY CONTINUING TO BUILD A HIGH QUALITY PORTFOLIO



We target high quality 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

2018



...and have clear investment opportunities.

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

01

Life sciences debt is a large & attractive market

Annual global life sciences product sales of publicly traded companies were \$1.27 trillion in 2017 and growing

Large capital needs, private sector spent \$195 billion in R&D during 2017

No large dedicated lender or specialised debt market

02

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

03

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

Read more on pages 8 and 9



06 Chairman's Statement
08 Market Overview
10 Investment Manager's Report
15 Portfolio Information
16 Second Half of 2018
18 Strategic Overview

Chairman's Statement

Increasing the diversification and scale of our portfolio



Additional equity
raised in 2018

\$469.4m

2018 was the Company's first full year of operations and was marked by a number of significant achievements both in terms of new investments and capital raising.

Over the course of the year, we announced three new investments totaling \$494 million which, when combined with funding existing commitments of \$164 million, led to total new investments of \$659 million. This investment activity was funded in part by the scheduled repayments of \$216 million of original seed assets.

This level of new investment activity, together with the development of a pipeline of additional opportunities, led the Board to seek additional support from the equity markets through two new issues. On 13 April 2018, the Company announced the completion of the Placing and Offer for Subscription of 164 million C Shares at \$1.00 each, which were converted into 162 million Ordinary Shares on 29 October 2018. Subsequently, on 1 November 2018, the Company announced the successful placing of 298 million new Ordinary Shares at a price of \$1.025 each, raising gross proceeds of \$305 million.

Shareholder Returns and Investment Performance

On 31 December 2018, the Company's Shares closed at \$1.0650 and its NAV at \$1.0044, compared with a closing price of \$1.0470 and NAV of \$1.0091 on 31 December 2017. Over the twelve-month period, the Company made five dividend payments totaling 7.94 cents per Ordinary Share in respect of the five quarters ending 30 September 2018 including a special dividend of \$0.011 related to the period ended 31 December 2017. For each of the last two quarters, ending on 30 June 2018 and 30 September 2018, the Company has declared a dividend of 1.75 cents per Share, in line with the expectation set out in the IPO prospectus of paying a dividend yield of 7% on the IPO price, once the Company's assets were substantially invested.

On 21 February 2019, the Company announced a dividend in respect of the quarter ended 31 December 2018 of \$0.01927441 per ordinary share, comprising an ordinary dividend of \$0.0175 and a special dividend of \$0.00177441.

The Board

On behalf of the Board, I am delighted to welcome Stephanie Léouzon who was appointed as a non-executive Director of the Company on 5 December 2018. Stephanie has a wealth of experience working on strategic and financing transactions within the biopharmaceutical industry and we look forward to working with her.

Outlook

As at 31 December 2018, the Company had total assets of \$1.39 billion, represented by \$1 billion of investments, \$364 million in cash and \$22 million in other assets. On 22 January 2019, GlaxoSmithKline completed its acquisition of TESARO Inc ("Tesaro"), triggering the prepayment of Tesaro's \$500 million senior secured loan. As a result, the Company was repaid its \$322 million participation together with make-whole and prepayment fees, generating an attractive return on its investment. As a consequence, the Company's cash position has been substantially enhanced.

Pharmakon Advisors, the Company's Investment Manager, is in ongoing discussions with a number of potential borrowers and, notwithstanding the cash position following the repayment of the TESARO loan, they consider the existing pipeline of opportunities is likely to be sufficient for these resources to be deployed in the course of 2019.

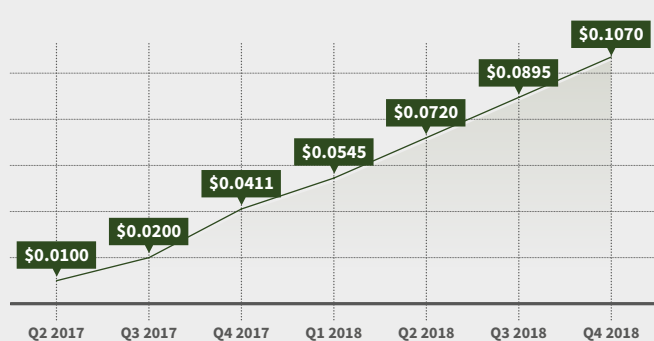
In 2019, we expect there to be four quarterly dividends payable in March, June, September and December.

On behalf of the Board, I should like to express my thanks to Pharmakon for their achievements on behalf of the Company in this important year and to our Shareholders for their support, whether at the IPO or at a subsequent Share offering.

Jeremy Sillem

Chairman
4 March 2019

Cumulative dividend



Market Overview

Life sciences is a large, vital industry with a track record of strong, consistent growth

MARKET DRIVERS

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

01

Growing population

1960: 3bn
2000: 6bn
2050: 9bn

02

Ageing population

03

Emerging markets

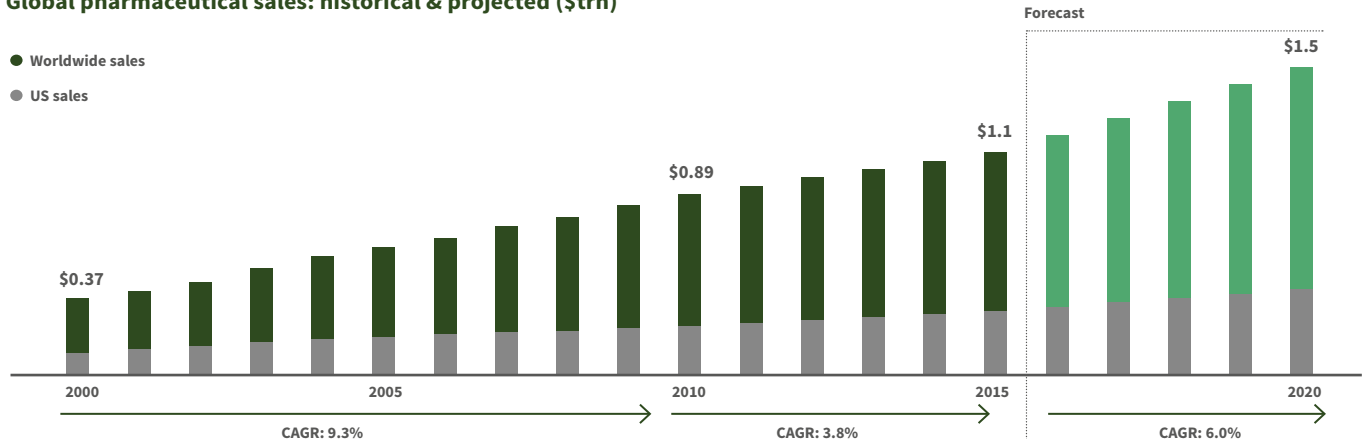
Central & South America
Africa | Middle East
Asia Continent

04

Innovation

30k
Known diseases
6k
Existing treatments (approx. 20%)

Global pharmaceutical sales: historical & projected (\$trn)



Source: Pharmakon Advisors

Expected pharmaceutical sales

\$1.5trn

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 a track record of strong, consistent growth. Worldwide industry revenues in 2015 were 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 ageing 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 U.S. Food and Drug Administration ("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 create 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 expiry 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 are increasingly relying on in-licensing and corporate acquisitions for new products.

Over the last 30 to 40 years, the landscape of the pharmaceutical 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 pharmaceutical companies, 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.

Investment Manager's Report

An attractive investment environment to build on past performance

INTRODUCTION TO THE INVESTMENT MANAGER

Pharmakon Advisors, the Company's Investment Manager, was founded in 2009 and has invested \$3.0 billion in 32 transactions on behalf of its clients.



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 manages 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).

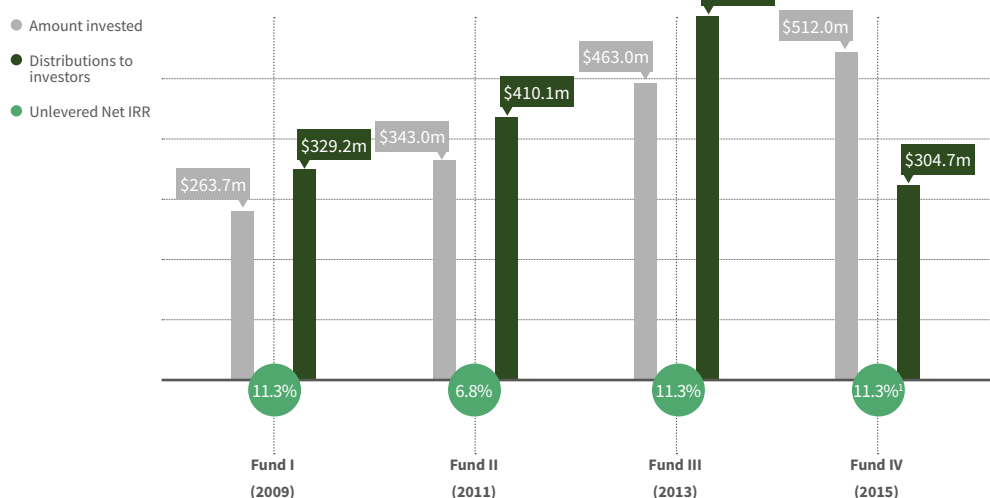


Martin Friedman
Investment Manager
Principal

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.

Historical performance of Pharmakon-managed funds



Reflects historical performance to 31 December 2018 and estimated returns thereafter.

Pharmakon 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.

As at 31 December 2018, Pharmakon clients included four previous BioPharma Funds (I, II, III and IV) and seven 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 11% with zero defaults.

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.

1. Estimated IRR

KEY HIGHLIGHTS

- 10% unlevered weighted average net returns on four private funds after all fees and expenses
- Pharmakon structured nine transactions worth approximately \$1.5 billion over the past 15 months

Investment Manager's Report continued

INVESTMENT UPDATE

Pharmakon is pleased to present an update on the Company's portfolio and investment outlook. We are delighted with the results over the past year and look forward to a productive 2019, a year that will mark Pharmakon's 10-year anniversary as the leading investor in life sciences debt. The Company's existing portfolio investments continued to perform well and in line with expectations. Pharmakon's continued engagement with multiple potential counterparties resulted in the execution of three new transactions during the year, investing \$494.2 million.

In addition, BioPharma Credit disbursed an additional \$164.4 million during the year in relation to prior funding commitments, bringing the total amount invested during the year to \$658.6 million. The Company also raised a total of \$469.4 million, consisting of 164.4 million Ordinary Shares converted from the C Shares and 297.6 million new Ordinary Shares at a price of \$1.025 each.



Amicus has commercial operations in the United States, Europe, Japan and several other geographies in which it currently markets Galafold® (migalastat HCl) for Fabry disease with sales of \$91 million during 2018. As at 28 February 2019 Amicus had a market capitalisation of \$2,707 million.

On 20 September 2018, the Company entered into a definitive senior secured loan agreement for \$150 million with Amicus Therapeutics, Inc (NASDAQ: FOLD) ("Amicus"), a commercial stage, rare metabolic disease-focused biopharmaceutical company. The \$150 million loan has a five-year maturity and will be interest only for the first four years. The loan bears interest at 3-month Libor plus 7.5 per cent. (subject to certain caps) and includes 2 per cent. additional consideration. Amicus can prepay the loan at any time subject to a two year make-whole premium and prepayment fees.

Investment type	Date
Secured loan	September 2018

Loan amount

\$150m

Company investment

\$150m

Maturity

28 September 2023



Sebela is a private specialty pharmaceutical company focused on gastro-intestinal medicines, dermatology, and women's health with pro-forma sales of approximately \$250 million for the year ended 31 December 2018. As at 31 December 2018, the principal amount outstanding of the Company's investment was \$188.7 million.

On 1 May 2018, the Company was lead arranger of a \$316 million senior secured term loan for Sebela BT Holdings Inc. ("Sebela"), a subsidiary of Sebela Pharmaceuticals. The Company committed to a \$194 million investment, with the remaining \$122 million balance coming from co-investors. The five-year senior secured loan began amortising in the third quarter of 2018 and fully matures in December 2022. The loan bears interest at 3-month Libor (uncapped) plus a single-digit spread and includes additional consideration.

Investment type	Date
Secured loan	April 2018

Loan amount

\$316m

Company investment

\$194m

Maturity

1 May 2023



Investment type
Secured loan

Date
February 2018

Loan amount
\$150m

Company investment
\$150m

Maturity
7 February 2023

Novocure manufactures and sells the Optune system, a cancer treatment centred on a proprietary therapy called TTFields, which involves the use of electric fields tuned to specific frequencies to disrupt solid tumor cancer cell division. Optune is currently approved for the treatment of adults with Glioblastoma (“GBM”). On 7 January 2019, Novocure reported unaudited revenues of \$248.0 million for the year ended 31 December 2018 a 40 per cent. increase over 2017. Novocure invests meaningfully in R&D and has late stage trials (Phase III pivotal studies) underway for TTFields in brain metastases, non-small cell lung cancer and pancreatic cancer. Novocure is a commercial stage oncology company with a current market capitalisation of approximately \$5,102 million as at 28 February 2019.

On 7 February 2018, the Company entered into a senior secured loan agreement for \$150 million with Novocure Limited (NASDAQ: NVCR) (“Novocure”).

The \$150 million loan will mature in February 2023 and bears interest at 9.0 per cent. per annum. Novocure used \$100 million of the net proceeds to entirely prepay the \$100 million, 10.0 per cent. coupon loan made by BioPharma III Holdings, LP (“BioPharma III”) in 2015 that was scheduled to mature in 2020. BioPharma Credit is a limited partner in BioPharma III and therefore received a distribution of approximately \$46 million from BioPharma III as a result of the prepayment from Novocure.



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 current market capitalisation of approximately \$564 million as at 28 February 2019. The Company funded \$124.5 million of the \$150 million first tranche and Lexicon will not draw the \$50 million second tranche. Lexicon markets Xermelo® (teloristat ethyl) for the treatment of carcinoid syndrome diarrhoea in the United States and has licensed Xermelo® to Ipsen Pharma SA for commercialisation in territories outside of the United States and Japan. Lexicon is also developing sotagliflozin for the treatment of type 1 and type 2 diabetes in partnership with Sanofi. 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.

On 1 November 2018, Lexicon reported sales of Xermelo of \$6.3 million for the quarter ended 30 September 2018. In May 2018, the FDA accepted Lexicon collaborator Sanofi’s New Drug Application (“NDA”) for sotagliflozin for use in combination with insulin therapy to improve glycemic control in adults with type 1 diabetes mellitus with a PDUFA date of 22 March 2019. On 17 January 2019, the Endocrinologic and Metabolic Drugs Advisory Committee of the FDA voted eight to eight on the question of whether the overall benefits of sotagliflozin outweighed the risks to support approval. While the FDA is not required to follow the committee’s vote, the agency considers the committee’s recommendations when making its decision, which is anticipated by 22 March 2019. In addition, Lexicon and Sanofi should be receiving feedback on sotagliflozin’s potential approval from the European regulatory authorities during the first quarter of 2019.



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 are each 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 million 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. As at 31 December 2018, the Company had funded three of the Purchased Payments based on sales from 1 January 2018 to 30 September 2018 for a total of \$64.4 million out of the originally expected range.

Investment Manager's Report continued



On 21 November 2017, the Company and BioPharma Credit Investments IV, S.à.r.L. ("BioPharma IV") entered into a definitive loan agreement for up to \$500 million with Tesaro, Inc. (NASDAQ: TSRO) ("Tesaro"). The Company funded \$222 million of the \$300 million first tranche on 6 December 2017 and \$100 million of the \$200 million second tranche on 29 June 2018 for a total investment of \$322 million.

The Tesaro loan had a term of seven years and is secured by Tesaro's US rights to ZEJULA®. The first \$300 million tranche bore interest at Libor plus 8 per cent. and the second tranche bore interest at Libor plus 7.5 per cent. The Libor rate was subject to a floor of 1 per cent. and certain caps. Each tranche of the loan was interest only for the first two years, amortises over the remaining term.

Following its acquisition by GlaxoSmithKline, Tesaro repaid the \$500 million loan on 23 January 2019. The Company received a payment of \$370.0 million on its \$322.0 million share of the loan, including the make-whole and prepayment premium totaling \$45.8 million, or 14.2 per cent. of the \$322.0 million investment, which is the equivalent of what the Company would have received had the loan remained outstanding for another fifteen months, approximately. The Company earned a 22.5 per cent. annualised rate of return on its Tesaro investment.

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. On 15 October 2018, the Company received its final payment on the RPS Note of \$20.2 million, realising a 12.9 per cent. IRR. On 29 January 2019, the Company received \$7.6 million as its final payment from BioPharma III, realising a 13.6 per cent. IRR.

Investment outlook

The life sciences industry is expected to continue to have substantial capital needs during the coming years as the number of products undergoing clinical trials continues to grow. All else being equal, companies seeking to raise capital are generally more receptive to straight debt financing alternatives at times when equity markets are soft, increasing the number and size of fixed-income investment opportunities for the Company, and will be more inclined to issue equity or convertible bonds at times when equity markets are strong. A good indicator of the life sciences equity market is the New York Stock Exchange Biotechnology Index ("BTK Index"). While 2017 was a very strong year with the BTK Index rising by 37 per cent., 2018 proved to be much more volatile. Having increased 28 per cent. through September 2018, the BTK Index saw most of those gains disappear during the last quarter, ending 2018 essentially at the same levels as it started the year.

Global equity issuance by life sciences companies during 2018 was \$54.9 billion, a 0.5 per cent. increase from the \$54.6 billion issued during 2017. US issuance of life sciences convertible bonds increased 52.1 per cent. from \$5.5 billion during 2017 to \$8.3 billion in 2018. The BTK index has recovered some gains during the first few weeks of 2019 but is still well below its September 2018 highs. Given this volatility in the equity markets, we anticipate an increased appetite for fixed income as a source of capital in 2019. As a result of the downside protection embedded in the debt nature of the Company's investments, the volatility in equity prices does not affect the value or quality of the assets in the portfolio.

Acquisition financing is a very important driver of capital needs in the life sciences industry in general and a key source of investment opportunities. An active M&A market helps drive opportunities for investors such as the Company, as acquiring companies need capital to fund acquisitions. In fact, two of the Company's investments during 2018, Amicus and Sebel, were driven by the need to fund acquisitions. Global life sciences M&A volume during 2018 was \$270.2 billion, 41.5 per cent. more than the \$190.9 billion witnessed during 2017, driven by an increase in biotech consolidation. Life sciences M&A was robust compared to the broader market, which saw a 13.0 per cent. decline. It is widely believed that this increase in M&A activity was caused by the uncertainty surrounding US tax reform, which was resolved in December 2017. We benefited from this increase in M&A and 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 coming year.

In conclusion, there continues to be a robust pipeline of investment opportunities, but as usual, the timing of their execution is not completely within our control. 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
4 March 2019

Portfolio Information

Asset	Counterparty / borrower	Underlying product(s)	Fair value (\$m)	Expected maturity	% of net assets
Limited partnership interest in BioPharma III					
Senior secured loan	Valneva	Ixiaro	6.6	2018	0
Other net assets			1.0		0
Limited partnership interest in BioPharma III			7.6		0
Tesaro senior secured loan	Tesaro	ZEJULA® and VARUBI®	322.0	2024	23
Lexicon senior secured loan	Lexicon	XERMELO® and sotagliflozin	124.5	2022	9
Novocure senior secured loan	Novocure	Optune	150.0	2023	11
Sebela senior secured loan	Sebela	SUPREP	188.7	2022	14
BMS purchased payments	Bristol-Myers	Onglyza and Farxiga	64.4	2026	5
Amicus senior secured loan	Amicus	Galafold®	150.0	2023	11
Total investments			1,007.2		73
Cash and cash equivalents			363.6		26
Other net assets			9.2		1
Gross assets			1,380.0		100

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

- 1) Lexicon sales covenants necessary to drawdown the Tranche B commitment of \$41.5 million have not been met. As at 31 December 2018, no outstanding commitment to Lexicon exists.
- 2) Bristol-Myers Squibb priority royalty tranche: \$76 to \$96 million.

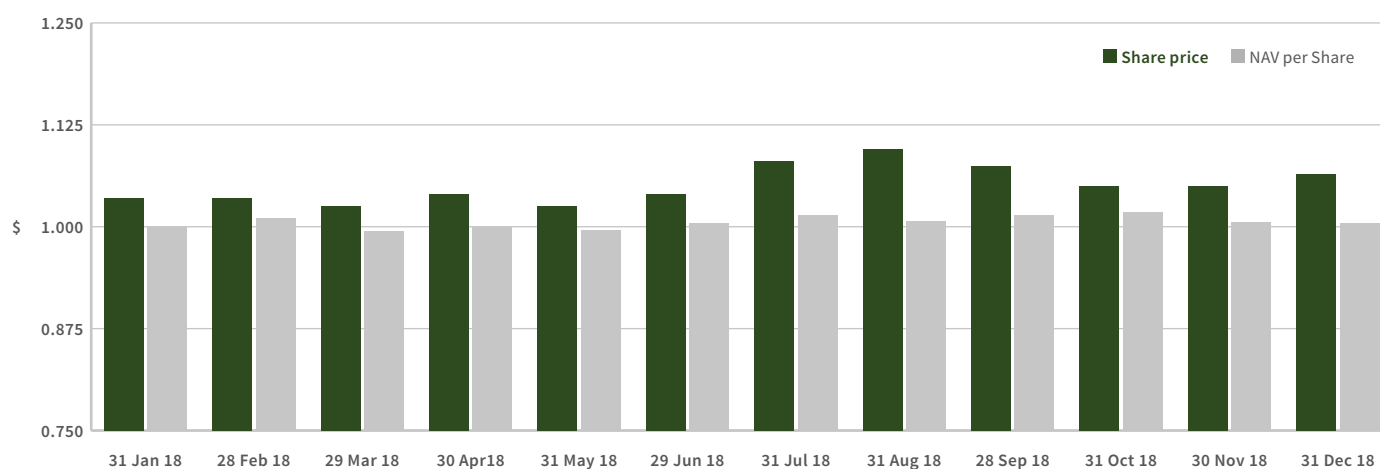
See Investment Manager's Report on pages 13 and 14 for additional information on Tesaro and Lexicon senior security notes.

Performance

Cumulative Performance (%)	Since launch	1 month period to 31 December 2018	3 month period to 31 December 2018	6 month period to 31 December 2018
Share price	6.50%	1.43%	-0.93%	2.40%
NAV per Share ¹	2.49%	-0.10%	-0.96%	-0.03%

1 As set out in the IPO Prospectus the opening NAV per Share was 98 cents on the date of IPO.

Share Performance



Second Half of 2018

Treating Fabry disease with Amicus Therapeutics

Fabry disease results from abnormal deposits of a particular fatty substance (called globotriaosylcera-mide) in blood vessel walls throughout the body. The primary defect which allows this to occur is the inherited deficiency of the enzyme, alpha galactosidase A, which is normally responsible for the breakdown of globotriaosylceramide.

Metabolic Defect

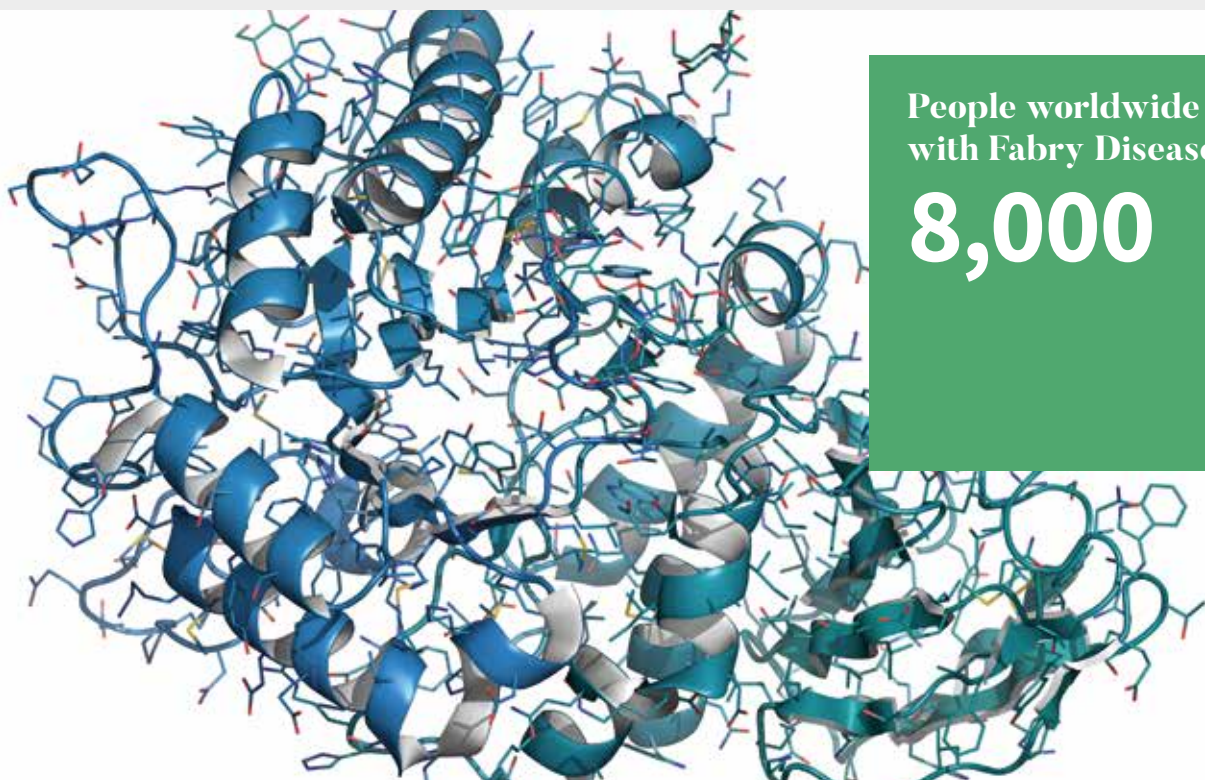
The body continuously performs metabolic processes which produce, recycle and remove vital compounds. In patients with Fabry disease one such common compound formed of three sugars and a fatty substance (globotriaosylceramide) does not get broken down due to the missing or non-functioning enzyme alpha galactosidase A. Since this fatty compound (lipid) is not being broken down and removed, it begins to accumulate. Thus, Fabry disease is often referred to as a “storage disorder” due to this abnormal accumulation. In patients with Fabry disease, this accumulation occurs primarily

in the blood and in the walls of blood vessels. As the abnormal storage of this fatty compound increases with time, the channels of these vessels become narrowed, leading to decreased blood flow and decreased nourishment of the tissues normally supplied by these vessels. This abnormal process occurs in blood vessels throughout the body, particularly affecting vessels in the skin, kidneys, heart, brain and nervous system.

Disease Inheritance

Fabry disease is an inherited disorder. The defective gene is on the X-chromosome, which is one of the two chromosomes that determine an individual’s sex.

Females have two X chromosomes, one inherited from each of their parents. Males have one X chromosome inherited from their mother and one Y chromosome inherited from their father. A female with Fabry receive one X chromosome with a defective gene and one X chromosome with the normal gene, and thus often has some protection from the major manifestations of the disease. This is not always the case though as there is a high degree of variability in females. Males with Fabry disease receive only one abnormal X chromosome that contains the abnormal gene and thus express the disease. All male and female children of an affected female have a 50% chance of inheriting the defective gene from their mother. If the father is the one carrying the Fabry gene all female children will inherit the defective gene and all male children will not. The inheritance pattern of Fabry disease is called X-linked inheritance. Fabry disease occurs in all ethnic groups. It is estimated that one person in 40,000 has Fabry disease.



People worldwide
with Fabry Disease

8,000

Clinical Symptoms

Males

Typically, the disease begins in childhood with episodes of pain and burning sensations in the hands and feet. In addition, young patients often develop a spotted, dark red skin rash (angiokeratomas) seen most densely from the umbilicus to the knees, a decreased ability to perspire, and a characteristic change on the cornea of the eye which does not affect vision. The painful episodes may be brought on by exercise, fever, fatigue, stress, or change in weather conditions.

The disease is slowly progressive and symptoms of kidney, heart and/or neurologic involvement usually occur between the ages of 30 to 45. Many patients are first diagnosed when the accumulated storage material begins to affect kidney or heart function. Therefore, it is important to annually monitor kidney function by blood and urine tests because kidney disease is a major complication that can occur in affected males. A common heart symptom in Fabry patients is mitral valve prolapse, which is a benign condition that is present in approximately 10% of the normal population. More serious, but rarer, complications of Fabry disease include heart disease and strokes.

Other symptoms may include varying degrees of abdominal discomfort, frequent bowel movements shortly after eating, joint pain, back pain primarily in the kidney region or ringing of the ears (tinnitus).

Females

Females may show a wide range of clinical manifestations. Some individuals remain completely asymptomatic and have normal levels of a gal a while some are as severely affected as hemizygous males. This variability is most likely to be caused by random inactivation of one copy of the X-chromosome in each cell. The most common symptom of Fabry disease seen in heterozygous females is corneal dystrophy, which occurs in around 70% of females. Other symptoms that have been reported in females with Fabry disease include: angiokeratomas, acroparesthesias, anhidrosis, gastrointestinal disturbances, vascular lesions in the conjunctiva and retina, kidney disease, autonomic and other neurological complications such as tinnitus and vertigo, cardiovascular abnormalities, cerebrovascular abnormalities, fatigue. Women may often be misdiagnosed as having lupus or other conditions.

Children

Although the signs and symptoms of Fabry disease generally appear during childhood, the diagnosis may often be missed. The earliest symptoms of Fabry disease in children are usually pain and angiokeratomas. The pain may, however, be dismissed as 'growing pains', while angiokeratomas may be overlooked during a routine clinical examination, particularly if they are confined to locations such as the backs of the ears. Cardiac and renal involvement can also begin in childhood, thus early diagnosis and careful monitoring are necessary. Other symptoms include Hypohidrosis (inability to sweat), GI symptoms that mimic chronic inflammatory bowel disease, recurrent nausea and vomiting, vertigo, tinnitus, headaches, fevers.



Amicus Therapeutics (Nasdaq:FOLD) is a global, patient-dedicated biotechnology company focused on discovering, developing and delivering high-quality medicines for people living with rare metabolic diseases.

With one rare disease medicine globally commercialised for Fabry disease, an investigational enzyme replacement therapy (AT-GAA) in late stage development for the treatment of Pompe disease, and a robust gene therapy pipeline and growth platform for lysosomal storage disorders, Amicus Therapeutics is committed to changing the lives of people with these life-threatening conditions.

Investment

\$150m

funded in one tranche

Strategic Overview

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;
- 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 at the time of each proposed 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 year ended 31 December 2018 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 15 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 2018 was \$1.0044 per Share, compared to \$1.0091 per Share at 31 December 2017.

A full description of the Company's performance for the year ended 31 December 2018 is included in the Investment Manager's Report on pages 12 to 14.

Share price return

The Company's Share price at 31 December 2018 was \$1.0650, giving a return since 31 December 2017 of 1.7 per cent.

Share price premium to NAV per Share

The Company's Share price was at a premium to the NAV per Share consistently throughout the year, ending the period at a premium of 6.0 per cent. The daily closing price of the Company's Shares ranged from \$1.01 – \$1.12 throughout the year.

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 as the Share price discount to NAV per Share moves below 1 per cent.

Dividend yield

The Company declared and paid dividends during the year in line with the expected 7 per cent. annual yield as disclosed in its IPO Prospectus dated 1 March 2017.

Ongoing charges

The Company's ongoing charges ratio is shown in the table below.

	Year ended 31 December 2018 %	Period ended 31 December 2017 %
Ongoing charges excluding performance fee*	1.2	1.2
Performance fee	0.8	N/A
Ongoing charges including performance fee	2.0	N/A

* Ongoing charges are the Company's expenses (excluding performance fees) expressed as a percentage of its average monthly net assets and follow the AIC recommended methodology.

Dividends

Dividends totaling 7.94 cents per Ordinary Share, including a special dividend of 1 cent, have been paid during the year ended 31 December 2018.

Strategic Overview continued

RISK MANAGEMENT AND THE INTERNAL CONTROL ENVIRONMENT

Board	<p>Responsibilities</p> <p>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.</p>
Audit and Risk Committee	<p>The Board undertakes a formal risk review with the assistance of the Audit and Risk Committee at least twice a year in order to robustly assess the effectiveness of the Company's risk management and internal control systems. During the course of its review in respect of the year ended 31 December 2018, 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 on the following pages.</p>

Principal risks & 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 principal risks and the Company's policies for managing these risks are set out below and the policy and practice with regard to financial instruments are summarised in Note 17 to the financial statements.

Risk	Description and mitigation
Failure to achieve target returns	<p>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.</p> <p>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.</p> <p>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.</p>
The success of the Company depends on the ability and expertise of the Investment Manager	<p>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.</p> <p>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.</p>

Risk	Description and mitigation
	<p>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.</p> <p>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 7 per cent. of the Company as at 31 December 2018, creating a strong alignment of interests between the Investment Manager and its affiliates and Shareholders of the Company.</p>
<p>The Company may from time to time commit to make future investments that exceed its current liquidity</p>	<p>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.</p> <p>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 in 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.</p>
<p>The Investment Manager's ability to source and advise appropriately on investments</p>	<p>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.</p> <p>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.</p>
<p>There can be no assurance that the Board will be able to find a replacement investment manager if the Investment Manager resigns</p>	<p>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.</p> <p>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 7 per cent. of the Company as at 31 December 2018. This affiliate ownership level, coupled with the fact that the Investment Manager is fairly compensated, provide further incentive for them to remain as Investment Manager to the Company.</p>

Strategic Overview continued

Risk	Description and mitigation
Concentration in the Company's portfolio may affect the Company's ability to achieve its investment objective	<p>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.</p> <p>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.</p>
Life sciences products are subject to intense competition and various other risks	<p>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.</p> <p>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.</p> <p>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.</p>
Investments in debt obligations are subject to credit and interest rate risks	<p>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.</p> <p>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.</p>
Counterparty risk	<p>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.</p> <p>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.</p>

Risk	Description and mitigation
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	<p>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.</p> <p>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.</p> <p>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.</p>
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, US 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 has been granted approval from HMRC as an investment trust 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.

There are five Directors, four male and one female. Further information on the composition and operation of the Board is detailed on pages 31 and 32.

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

Jeremy Sillem

Chairman
4 March 2019



26	Board of Directors
28	Directors' Report
31	Corporate Governance Statement
35	Audit and Risk Committee Report
37	Remuneration Report
39	Remuneration Policy
40	Statement of Directors' Responsibilities
41	Independent Auditor's Report

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 Spencer House Partners 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. Mr Sillem is a non-executive director of RIT Capital Partners plc and an advisory director of Partners Capital LLC. He is the former chairman of The World Trust Fund, and a former board member of CDC Group, Martin Currie, RHJ International, Kleinwort Benson Group, Harbourmaster Holdings and WP Stewart. 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. He is a non-executive director of Siegfried AG. 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 MDAX. Prior to that, he held CFO positions at several companies including Ecolab and Novartis. During his early career, he worked as a pharmacist, auditor, and management consultant for Procter & Gamble, Arthur Andersen, and PricewaterhouseCoopers, 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. 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 company. He is also the non-executive chairman of Hertsford 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.



STEPHANIE LÉOUZON

Director

Stephanie Léouzon is a partner and head of Torreyea Europe. She has worked on over 100 strategic and financing transactions in the biopharmaceutical industry, with an aggregate value of over \$75 billion. Mrs Léouzon joined Torreyea in 2011. Previously, she was a managing director and senior advisor at Credit Suisse in London. She has also worked at Salomon Brothers, as a director of healthcare investment banking, and as a vice president in the investment banking divisions of JP Morgan and Lehman Brothers in New York. She was previously a non-executive director of Endotis Pharma SA and Immunovaccine Inc.

Mrs Léouzon was appointed as a Director of the Company on 5 December 2018.

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 year ended 31 December 2018.

Directors

The Directors in office at the date of this report are shown on pages 26 and 27.

Stephanie Léouzon was appointed as a Director of the Company on 5 December 2018.

Share capital

At the general meeting held on 28 February 2017, the Company was granted authority to allot ordinary Shares or C Shares up to an aggregate nominal amount of \$20 million on a non pre-emptive basis for a period of 5 years from the date of the resolution.

At the annual general meeting held on 29 June 2018, the Company was granted authority to purchase up to 14.99% of the Company's Ordinary Share capital in issue at that date, amounting to 137,046,499 Ordinary Shares. No Ordinary Shares have been bought back under this authority. This authority will expire at the conclusion of, and renewal will be sought at, the annual general meeting to be held on 19 June 2019.

On 14 March 2018, the Company published a prospectus in relation to an Initial Placing and Offer for Subscription of up to 500 million C Shares and a Placing Programme and Offer for Subscription of up to 2,000 million new ordinary Shares and / or C Shares.

On 13 April 2018, the Company issued 163,782,307 C Shares (with a nominal value of \$1,637,823.07) at an issue price of \$1.00 each, raising gross proceeds of approximately \$164 million. The C Shares were issued to institutional investors and professionally advised private investors and were admitted to trading on the SFS of the LSE and to listing and trading on the Official List of The International Stock Exchange ("TISE") on 16 April 2018. The Company announced on 19 October 2018 that its C Shares would be converted into Ordinary Shares at a rate of 0.98984 Ordinary Shares for every C Share, resulting in 162,118,260 new Ordinary Shares. Any fractional entitlements were cancelled by the Company on the same date and accordingly, 162,118,260 new Ordinary Shares were admitted to trading on the SFS of the LSE and to listing and trading on the Official List of the TISE on 29 October 2018.

On 1 November 2018, the Company issued 297,560,976 Ordinary Shares (with a nominal value of \$2,975,609.76) at a price of \$1.025 each, raising gross proceeds of approximately \$305 million. These Shares were issued pursuant to the prospectus published on 14 March 2018. The Shares were issued to institutional investors and professionally advised private investors and admitted to trading on the SFS of the LSE and to listing and trading on the Official List of the TISE on 5 November 2018.

As at the date of this report, the Company may allot further Ordinary Shares or C Shares up to an aggregate nominal amount of \$6,244,038.87 under its existing authority.

At 31 December 2018, and as at the date of this report, there are 1,373,932,067 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 2018 were 1,373,932,067.

BioPharma Credit PLC • Annual Report 2018

Substantial Shareholdings

The Directors have been informed of the following notifiable interests in the Company's voting rights as at 31 December 2018:

	Number of Ordinary Shares	% of voting rights
Invesco Limited	222,087,969	16.16
Prudential plc	144,087,532	10.49
Newton Investment Management Limited	111,307,405	8.10
Adage Capital Partners GP LLC	99,113,687	7.21
Quilter PLC	88,000,000	6.40
Pablo Legorreta	76,742,548	5.59
Interseguro Compañía de Seguros S.A.	72,791,326	5.30
Inteligo Bank Limited	66,593,210	4.85

The Company has not been informed of any other changes to the notifiable interests between 31 December 2018 and the date of this report.

Information about securities carrying voting rights

The following information is disclosed in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and DTR 7.2.6 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules:

- the Company's capital structure and voting rights and details of the substantial Shareholders in the Company are set in note 14 to the financial statements and above;
- an amendment to the Company's articles of association and the giving of powers to issue or buy back the Company's Shares requires an appropriate resolution to be passed by Shareholders; and
- there are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a takeover bid.

Dividends

Dividends paid in respect of the year ended 31 December 2018 are set out on in Note 6 to the financial statements.

Dividend policy

The Company pays dividends in US dollars or GBP Sterling, if requested by a specific Shareholder, 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 targets 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 risks and the Company's policies for managing these risks are set out in the Strategic Overview on pages 20 to 23 and Note 17 to the financial statements.

Corporate governance

The Corporate Governance Statement on pages 31 to 34 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 existing investments. 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 20 to 23.

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 information required under Listing Rule 9.8.4(7) in relation to allotments of shares is set out on page 28. The Directors confirm that no additional disclosures are 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, USA 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, as amended on 14 March 2018, 24 May 2018 and 19 September 2018, 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, 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.

Details about 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 10. 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.

Directors' Report continued

Continuing appointment of the Investment Manager

The Board keeps the ongoing performance of the Investment Manager under continual review and conducts 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 2019 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 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 Directors' Report 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/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

PricewaterhouseCoopers LLP has expressed its willingness to continue in office as Auditor of the Company and resolutions for its re-appointment and to authorise the Directors to determine its remuneration will be proposed at the forthcoming annual general meeting.

AGM

The AGM of the Company will be held at 12.00 noon on 19 June 2019 at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose St, London EC2A 2EG.

By order of the Board

Link Company Matters Limited

Company Secretary
4 March 2019

Corporate Governance Statement

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

Introduction from the Chairman

I am pleased to introduce this year'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 has 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 UK Listing Authority. 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 that 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 five 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 as set out in his biography on page 26.

As detailed in the Chairman's Statement on page 7, the Board appointed Stephanie Léouzon as a Director of the Company with effect from 5 December 2018. The Company engaged Nurole, an external search consultancy independent of the Company and the Directors, to assist it with this appointment.

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 in his biography on page 26.

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;
- approval of dividends;
- 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.

Corporate Governance Statement continued

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 34.

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 is chaired by Mr Bond. It has two scheduled meetings a year, with additional meetings arranged as necessary. 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 35 and 36. 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 35 and 36.

Meeting attendance

The number of scheduled Board and Audit and Risk Committee meetings held during the year ended 31 December 2018 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	4	4	2	2
Colin Bond	4	4	2	2
Duncan Budge	4	4	2	2
Harry Hyman	4	4	2	2
Stephanie Léouzon ¹	1	1	–	–

1. Appointed as a Director of the Company on 5 December 2018.

A number of additional Board and Audit and Risk Committee meetings were held by the Company during the year ended 31 December 2018. These meetings were held in respect of Share issuances, new investments, the amendment to the Investment Management Agreement and for planning the year end audit and obtaining updates on the interim review.

Performance evaluation of the Board

The Directors are aware that they need continually to monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness. The Directors have therefore opted to undertake an internal performance evaluation by way of questionnaires specifically designed to assess the strengths and independence of the Board and the Chairman, individual Directors and the performance of the Audit and Risk Committee. The evaluation of the Chairman is carried out by the other Directors of the Company, led by the Senior Independent Director. The questionnaires are also intended to analyse the focus of Board meetings and assess whether they are appropriate, or if any additional information may be required to facilitate Board discussions. The results of the Board evaluation process are reviewed and discussed by the Board as a whole. This evaluation process is carried out annually.

Following the evaluation process conducted during the year under review, the Board considers that all the current Directors contribute effectively and have the skills and experience relevant to the leadership and direction of the Company. The Board has satisfied itself that the Directors have enough time to devote to the Company's affairs.

Independence of Directors

The independence of the Directors is reviewed as part of the annual evaluation process. 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, relevant persons at the Investment Manager and the Secretary. During the year under review, this induction process was undertaken following the appointment of Mrs Léouzon as a Director of the Company.

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 AGM after their appointment. Thereafter, at each AGM any Director who has not stood for re-election at either of the two preceding AGMs shall retire. In addition, one-third of the Directors eligible to retire by rotation shall retire from office at each AGM. 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, following her appointment as a Director during the year, Mrs Léouzon will be standing for election at the forthcoming AGM. All other Directors will be seeking re-election.

Following formal performance evaluation as detailed above, the Board strongly recommends the election/re-election of each of the Directors on the basis of their experience and expertise in investment matters, their independence and continuing effectiveness and commitment to the Company.

Diversity policy

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. 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. Further to the Directors' statement in last year's annual report, and taking into consideration the above policy, Mrs Léouzon was appointed as a Director during the year.

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/she 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 both the IPO and the Placing Programme. 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. This indemnity was in force during the year and remains in force as at the date of this report. 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.

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 principal 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.

Corporate Governance Statement continued

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 year 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:

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 20 to 23.

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 year ended 31 December 2018.

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 year, 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 2018 and the statutory audit of the Annual Report for the year ended 31 December 2018, 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 year-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.

Meetings

The Audit and Risk Committee (the "Committee") met three times during the year under review and twice following the year end.

Details of the composition of the Committee are set out in the Corporate Governance Statement on page 32.

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 20 to 23.

Valuation of unlisted investments

During the year 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 year 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 year, 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.

Change to Investment Management Agreement

The Committee considered the financial and reporting impacts of the change to the performance fee provisions within the Investment Management Agreement and received updates from the Auditor in respect of the various workstreams related to this. Further details regarding this change are set out in Note 4 to the financial statements.

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 year ended 31 December 2018, 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 29.

Audit and Risk Committee Report continued

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 fees for the year payable to the Auditor amounted to \$748,000. This figure includes non-audit fees of \$39,000 in respect of the interim review of the Half-Yearly Report and financial statements for the period ended 30 June 2018 and \$352,000 in respect of services performed in connection with the C Share issue and conversion and the additional Ordinary Share issue which took place during the year under review. In accordance with the Company's policy on the provision of non-audit services, all non-audit services provided by the Auditor during the year were approved in advance by the Directors. Further information on the fees paid to the Auditor is set out in Note 4 to the financial statements.

The non-audit services provided by the Auditor during the year under review were assurance related, and the Committee firmly believes that PwC have been best placed to provide them on a timely and cost-effective basis to the benefit of shareholders. It is not expected that the high quantum of non-audit fees payable to the Auditor will recur going forward.

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 year ended 31 December 2018, 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 confirmation from the Auditor that its independence is not compromised by the provision of such non-audit services. Jessica Miller has been the Audit Partner allocated to the Company since the appointment of PricewaterhouseCoopers LLP at IPO. The audit of the financial statements for the year ended 31 December 2018 is therefore her second as Audit Partner. 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. PricewaterhouseCoopers LLP was appointed as Auditor to the Company in 2017. The Committee reviews the continuing appointment of the Auditor on an annual basis and gives regular consideration to the Auditor's fees and independence, along with matters raised during each audit.

Re-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 re-appointment of PricewaterhouseCoopers LLP as Auditor to the Company.

Colin Bond

Audit and Risk Committee Chairman
4 March 2019

Remuneration Report

Statement from the Chairman

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018.

As set out in the corporate governance statement on page 31, Directors' remuneration is determined by the Board as a whole. The Board reviews Directors' fees on an annual basis. During the year ended 31 December 2018, 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 ending 31 December 2019.

The Directors' remuneration policy was last approved by Shareholders in 2018. There will be no change in the way the current approved remuneration policy will be implemented during the course of the next financial year.

An ordinary resolution will be put to Shareholders at the forthcoming AGM to be held on 19 June 2019 to receive and approve the Directors' Remuneration Report.

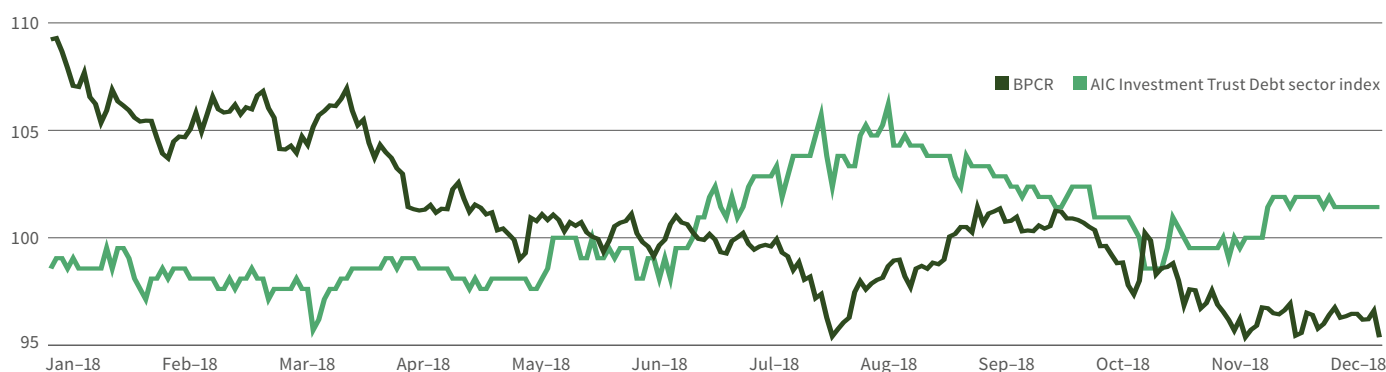
Voting at AGM

The Directors' remuneration report for the period ended 31 December 2017 and the Directors' remuneration policy were approved by Shareholders at the AGM held on 29 June 2018. The votes cast by proxy were as follows:

	Directors' remuneration report		Directors' remuneration policy	
	Number of votes	% of votes cast	Number of votes	% of votes cast
For	736,752,867	98.46	736,752,867	98.46
Against	-	-	-	-
At Chairman's discretion	11,540,322	1.54	11,540,322	1.54
Total votes cast	748,293,189	100.00	748,293,189	100.00
Number of votes withheld	-	-	-	-

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 year ended 31 December 2018 (audited)

The remuneration paid to the Directors during the year ended 31 December 2018 is set out in the table below:

	Fees		Additional fees		Expenses		Total	
	Year ended 31 December 2018	Period ended 27 March 2017 to 31 December 2017 (pro rated)	Year ended 31 December 2018	Period ended 31 December 2017 ²	Year ended 31 December 2018	Period ended 31 December 2017	Year ended 31 December 2018	Period ended 31 December 2017
	\$	\$	\$	\$	\$	\$	\$	\$
Jeremy Sillem	100,000	76,923	-	50,000	313	-	100,313	126,923
Colin Bond	85,000	65,385	-	42,500	7,043	2,102	92,043	109,987
Duncan Budge	70,000	53,846	-	35,000	10,354	-	80,354	88,846
Harry Hyman	70,000	53,846	-	35,000	-	-	70,000	88,846
Stephanie Léouzon ¹	5,115	-	-	-	-	-	5,115	-
	330,115	250,000	-	162,500	17,710	2,102	347,825	414,602

1. Appointed as a Director of the Company on 5 December 2018

2. In consideration for the work undertaken by the Directors in respect of the Company's IPO in 2017, following completion of the IPO, each Director in office at that time 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.

Remuneration Report continued

Relative importance of spend on pay

The table below sets out, in respect of the year ended 31 December 2018:

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

	Year ended 31 December 2018 \$	Period ended 31 December 2017 \$	Change %
Directors' remuneration	330,115	412,500 ¹	(19.97)
Dividends paid to Shareholders	66,421,000	15,238,000	335.89

1. This figure comprises total annual remuneration of \$250,000 and additional fees of \$162,500 in consideration for the work undertaken by the Directors in respect of the Company's IPO in 2017. Following completion of the IPO, each Director in office at that time 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.

Directors' interests (audited)

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

As at 31 December 2018, the interests of the Directors and any connected persons in the Ordinary Shares of the Company are set out below:

	Year ended 31 December 2018 Number of Shares	Period ended 31 December 2017 Number of Shares
Jeremy Sillem	300,000	300,000
Colin Bond	100,000	100,000
Duncan Budge ²	100,000	100,000
Harry Hyman	102,100 ³	102,000 ⁴
Stephanie Léouzon ⁵	-	n/a

2. The legal and beneficial interest in 50% of Mr Budge's shares is held by Mrs Budge.

3. 2,100 of these shares are held by Anita Hyman, a connected person of Mr Hyman.

4. 2,000 of these shares are held by Anita Hyman, a connected person of Mr Hyman.

5. Appointed as a Director of the Company on 5 December 2018.

On 15 January 2019, the Company was notified that Anita Hyman, a connected person of Mr Hyman, acquired a further 34 Shares as part of a dividend reinvestment plan.

There have been no other changes to any of the above holdings between 31 December 2018 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 year.

Approval

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

Jeremy Sillem

Chairman

4 March 2019

Remuneration Policy

Introduction

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. The Company's remuneration policy, as approved by Shareholders on 29 June 2018, is set out below. As there will be no change in the way in which the policy will be implemented during the course of the next financial year, there is no requirement for it to be put to Shareholders at this year's AGM.

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 2019	Annual fees for the year ended 31 December 2018
Chairman	\$100,000	\$100,000
Chairman of the Audit and Risk Committee	\$85,000	\$85,000
Director	\$70,000	\$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 year. 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 IFRS 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 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 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 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.

Directors' confirmations

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 position and performance, business model and strategy. Each of the Directors, whose names and functions are listed on pages 26 and 27 confirm that, to the best of their knowledge:

- the 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 Strategic 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

4 March 2019

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 2018 and of its return and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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 2018, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

We remained independent of the 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 1 January 2018 to 31 December 2018.

Our audit approach

Context

The context for our audit is set by this being BioPharma Credit PLC's second year of operations, focusing on major activities carried out by the Company in the previous 12 months, following incorporation in October 2016 and 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 continuing focus in 2018 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.

In 2018, the Company entered into a number of significant investments and funded these through a C Share issuance in April 2018 (and subsequent conversion into Ordinary Shares in October 2018) and an Ordinary Share issuance in November 2018.

Overview

Materiality	<ul style="list-style-type: none"> • Overall materiality: \$13.8 million (2017: \$9.2 million), based on 1% of net assets.
Audit scope	<ul style="list-style-type: none"> • The Company is a standalone Investment Trust Company and engages Pharmakon Advisors L.P. (the "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 Manager has, with the consent of 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 Manager and the Administrator, and adopted a fully substantive testing approach using reports obtained from the Administrator.
Key Audit Matters	<ul style="list-style-type: none"> • Valuation and existence of unlisted investments. • Accuracy, occurrence and completeness of performance fees.

Independent Auditor's Report continued

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of section 1158 of the Corporation Tax Act 2010, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the UK Corporate Governance Code, the Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue through capital gains to increase net asset value, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, and the Company's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls and procedures performed by the Board that designed to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of their unlisted investments (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries posted with duplicate journals or journals posted on unusual days.
- Designing audit procedures to incorporate unpredictability within our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Valuation and existence of unlisted investments</p> <p>Refer to page 15 (Portfolio Information) and pages 57-59 (Note 7 - Investments at fair value through profit and loss). The investment portfolio at the year end comprised of level three unlisted investments valued at \$1,007 million (100 per cent) as disclosed on the Statement of Financial Position in the financial statements.</p> <p>We focused on the existence of 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 unlisted investments.</p> <p>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.</p>	<p>Our audit procedures over these unlisted investments were as follows:</p> <p>Management have calculated the fair value of the unlisted investments through discounted cash flow methodology. We have challenged their valuation methodology by testing the inputs and assumptions used within the model, as well as performing sensitivity analysis over these key assumptions. No issues were noted in our testing.</p> <p>Management have provided us with financial information and analyst reports to support the future performance of the investee companies. We have independently obtained analyst reports for each of the investee companies to corroborate that the expected future performance of the companies is sufficient for the expected cash flows to be repaid. We have performed backtesting on management's cash flow projections against actuals to determine the accuracy of their projections. No issues were identified in our testing.</p> <p>We tested the existence of the investment portfolio by circulating investment confirmations to all investee companies. No differences were identified from the testing performed.</p> <p>We have agreed all additions and disposals in the year to bank statements and where relevant investment amortisation schedules to validate the book cost of these investments, and the existence of unrealised gains/losses.</p> <p>Based on the procedures detailed above, no material misstatements were identified.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Accuracy, occurrence and completeness of performance fees</p> <p>Refer to pages 54 and 55 of (Note 4 - Fees and Expenses). The performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Investment Manager. Based on the calculation performed by the Investment Manager, no performance fee is payable for the year. The fee has however been recognised as a deferred liability for the Company based on the annual calculation performed.</p>	<p>We tested the calculation of the performance fee to check that it complied with the methodology as set out in the third amended Investment Management Agreement, and agreed the inputs to the calculation, including the net asset value and benchmark data, to independent third party sources, where applicable. We performed sensitivity analysis to assess the proximity of the Company to meeting the hurdle rates for recognition of the performance fee.</p> <p>We have considered the accounting recognition for this performance fee, agreeing that the recognition of a deferred liability is the most appropriate accounting treatment.</p> <p>Based on our testing performed, we agree that no performance fee is currently payable, and that management's accounting treatment of the performance fee as a deferred liability is appropriate.</p>

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.

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	\$13.8 million (2017: \$9.2 million).
How we determined it	1% 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 Committee that we would report to them misstatements identified during our audit above \$0.69 million (2017: \$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
<p>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.</p>	<p>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. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the fund's business and the wider economy.</p>
<p>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.</p>	<p>We have nothing to report further to the above.</p>

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.

Independent Auditor's Report continued

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 year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the 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 28 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 29 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 40, 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 35 and 36 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Directors' Remuneration

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, 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 committee, we were appointed by the directors on 2 November 2016 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the period ended 31 December 2017 to the year ended 31 December 2018.

Other voluntary reporting

Going concern

The directors have requested that we review the statement on page 29 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' statements on page 34 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

4 March 2019



46	Statement of Comprehensive Income
47	Statement of Changes in Equity
48	Statement of Financial Position
49	Cash Flow Statement
50	Notes to the Financial Statements

Statement of Comprehensive Income

For the year ended 31 December 2018
(In \$000s except per Share amounts)

	Note	Year ended 31 December 2018			Period from 24 October 2016 (date of incorporation) to 31 December 2017		
		Revenue	Capital	Total	Revenue	Capital	Total
Income							
Investment income	3	92,091	-	92,091	33,218	-	33,218
Other income	3	4,582	-	4,582	3,774	-	3,774
Net gains on investments at fair value	7	-	648	648	-	2,265	2,265
Currency exchange (losses)/gains		-	(38)	(38)	-	51	51
Total income		96,673	610	97,283	36,992	2,316	39,308
Expenses							
Management fee	4	(10,765)	-	(10,765)	(5,830)	-	(5,830)
Performance fee	4	(7,794)	-	(7,794)	-	-	-
Directors' fees	4	(330)	-	(330)	(250)	-	(250)
Other expenses	4	(4,158)	(192)	(4,350)	(1,062)	(471)	(1,533)
Total expenses	4	(23,047)	(192)	(23,239)	(7,142)	(471)	(7,613)
Return on ordinary activities before finance costs and taxation							
		73,626	418	74,044	29,850	1,845	31,695
Finance costs – general	4	(3)	-	(3)	(4)	-	(4)
Finance costs – C Share amortisation	13	(3,677)	(218)	(3,895)	-	-	-
Return on ordinary activities after finance costs and before taxation							
		69,946	200	70,146	29,846	1,845	31,691
Taxation on ordinary activities	5	-	-	-	-	-	-
Return on ordinary activities after finance costs and taxation							
		69,946	200	70,146	29,846	1,845	31,691
Net revenue and capital return per Ordinary Share (basic and diluted)							
	11	\$0.0707	\$0.0002	\$0.0709	\$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 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 50 to 67 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2018

(In \$000s)

For the year ended 31 December 2018	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 1 January 2018		9,143	150,379	734,356	1,845	26,851	922,574
Gross proceeds of Ordinary Share issue		2,975	302,025	-	-	-	305,000
Proceeds following C Share conversion to Ordinary Shares		1,621	162,781	-	-	-	164,402
Ordinary Share issue costs		-	(8,005)	-	-	-	(8,005)
C Share conversion costs		-	(55)	-	-	-	(55)
Return on ordinary activities after finance costs and taxation		-	-	-	200	69,946	70,146
Dividends paid to Ordinary Shareholders	6	-	-	(47)	-	(73,993)	(74,040)
Net assets attributable to Shareholders at 31 December 2018		13,739	607,125	734,309	2,045	22,804	1,380,022

For the period from 24 October 2016 (Date of Incorporation) to 31 December 2017	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 Ordinary Share issues		9,143	906,847	-	-	-	915,990
Ordinary Share issue costs		-	(17,447)	-	-	-	(17,447)
Transfer to special distributable reserve	14	-	(739,021)	739,021	-	-	-
Share premium cancellation costs	14	-	-	(41)	-	-	(41)
Return on ordinary activities after finance costs and taxation		-	-	-	1,845	29,846	31,691
Dividends paid to Ordinary Shareholders	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 a dividend.

The notes on pages 50 to 67 form part of these financial statements.

Statement of Financial Position

As at 31 December 2018

(In \$000s except per Share amounts)

	Note	31 December 2018	31 December 2017
Non-current assets			
Investments at fair value through profit or loss	7	1,007,265	569,630
Unlisted floating interest income receivable	8	988	–
		1,008,253	569,630
Current assets			
Trade and other receivables	8	21,448	5,038
Cash and cash equivalents	9	363,572	350,822
		385,020	355,860
Total assets		1,393,273	925,490
Current liabilities			
Trade and other payables	10	5,457	2,916
Total current liabilities		5,457	2,916
Total assets less current liabilities		1,387,816	922,574
Non-current liabilities			
Deferred performance fee	10	7,794	–
		7,794	–
Net assets		1,380,022	922,574
Represented by:			
Share capital	14	13,739	9,143
Share premium account	14	607,125	150,379
Special distributable reserve	14	734,309	734,356
Capital reserve		2,045	1,845
Revenue reserve		22,804	26,851
Total equity attributable to Shareholders of the Company		1,380,022	922,574
Net asset value per Ordinary Share (basic and diluted)	12	\$1.0044	\$1.0091

The financial statements of BioPharma Credit PLC registered number 10443190 were approved and authorised for issue by the Board of Directors on 4 March 2019 and signed on its behalf by:

Jeremy Sillem

Chairman

The notes on pages 50 to 67 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2018
(In \$000s)

	Note	Year ended 31 December 2018	Period from 24 October 2016 (date of incorporation) to 31 December 2017
Cash flows from operating activities			
Investment income received		75,491	28,872
Other income received		4,279	3,384
Investment management fee paid		(9,575)	(3,826)
Finance costs paid		(5)	(2)
Other expenses paid		(3,052)	(1,515)
Cash generated from operations	16	67,138	26,913
Taxation paid		-	-
Net cash flow generated from operating activities		67,138	26,913
Cash flow from investing activities			
Purchase of investments		(658,788)	(548,728)
Redemptions of investments		221,801	115,474
Sales of investments		-	19,385
Net cash flow used in investing activities		(436,987)	(413,869)
Cash flow from financing activities			
Gross proceeds of Ordinary Share issue	14	305,000	762,508
Ordinary Share issue costs		(8,797)	(17,121)
Dividends paid to Ordinary Shareholders	6	(74,040)	(7,619)
Gross proceeds of C Share issue	13	163,782	-
C Share issue costs	13	(3,275)	-
C Share conversion costs		(33)	-
Share premium cancellation costs		-	(41)
Net cash flow generated from financing activities		382,637	737,727
Increase in cash and cash equivalents for the year/period		12,788	350,771
Cash and cash equivalents at start of period		350,822	-
Revaluation of foreign currency balances		(38)	51
Cash and cash equivalents at end of year/period	9	363,572	350,822

The notes on pages 50 to 67 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

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.

The Company carries on the 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 cover the year from 1 January 2018 to 31 December 2018 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 and February 2018 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.

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 measured 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 equivalent to 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, 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) C Share financial liability

Any C Share issue that meets the definition of a financial liability under IAS 32 'Financial Instruments: Presentation', rather than an equity instrument, will be recognised on issue at fair value less directly attributable issuance costs.

f) 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.

g) 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 income, which is earned and paid on execution of the transaction. Income from additional consideration is recognised up front and is allocated to revenue within the Statement of Comprehensive Income

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

h) Dividends paid to Shareholders

Dividends to Shareholders are recognised as a liability in the year which they are paid or approved by the Board and are reflected in 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.

Notes to the Financial Statements continued

For the year ended 31 December 2018

2. ACCOUNTING POLICIES continued

i) 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.

The performance fee is considered to be an annual fee and is only recognised at the end of each performance period. It is calculated in accordance with the details in note 4(b) on page 55, any performance fee triggered whether payable or deferred is recognised in the Statement of Comprehensive Income. Where a performance fee is payable it is treated as a current liability in the Statement of Financial Position. Where a performance fee is deferred, it is treated as a non-current liability in the Statement of Financial Position, it becomes payable to the Investment Manager at the end of the first performance period in respect to which the compounding condition is satisfied.

j) Trade and other receivables

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

k) 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.

l) Trade and other payables

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

m) Taxation

Tax on the profit or loss for the year 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 year, 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 year.

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 year when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

n) Share capital and reserves

The Share capital represents the nominal value of the Company's Ordinary Shares (equity Shares).

The Share premium account represents the excess over nominal value of the fair value of consideration received for the Company's Ordinary Shares (equity Shares), net of expenses of the Share issue.

The special distributable reserve was created on 29 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.

o) Critical accounting estimates and judgements

The preparation of these financial statements in conformity with IFRS requires the Directors to make accounting estimates which will not always equal the actual results. The Directors also need to exercise judgement in applying the Company's accounting policies.

This note provide an overview of the areas that involve a higher degree of judgement or complexity and of items which are more likely to be materially adjusted due to estimates and judgements included in other notes, together with information about the basis of calculation for each line in the financial statements.

In particular, judgements and estimates are made in the determining the fair valuation of unquoted investments for which there is no observable market and may cause material adjustments to the carrying value of those investments. These are valued in accordance with note 2(d) above and using the valuation techniques described in note 7 on page 59.

Also, judgements are made when determining any deferred performance fee, this may be affected by future changes in the Company's portfolio and other assets and liabilities. Any deferred performance fee is calculated in accordance with note 4(b) on page 55 and is recognised in accordance with note 2(i) above.

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

p) New accounting standards effective since 1 January 2018

IFRS 9 'Financial Instruments'

The Directors have considered the implications of IFRS 9 which has replaced IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 changes the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets. The adoption of IFRS 9 did not result in any change to the classification or measurement of the Company's Investments in either the current or comparative financial statements, as the investments remain classified at fair value.

IFRS 15 'Revenue from Contracts with Customers'

The Directors have considered the implications of IFRS 15 and are of the opinion this does not apply to financial instruments, which comprise the business of the Company as an investment trust. Therefore, there has been no impact on the current or comparative financial statements for this accounting period.

q) Accounting standards not yet effective

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued and endorsed the following standards and interpretations, applicable to the Company, which are not yet effective for the year ended 31 December 2018 and have therefore not been applied in preparing these financial statements.

Amendment to IFRS 9 'Financial Instruments' – relates to prepayment features with negative compensation and modifications of financial liabilities, and is effective for reporting periods on or after 1 January 2019.

The Directors do not expect that the adoption of the standards and interpretations will have a material impact on the financial statements.

Other future development includes 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

	Year ended 31 December 2018 \$000	Period ended 31 December 2017 \$000
Income from investments		
US unfranked investment income from BioPharma III	9,045	11,758
US fixed interest investment income	29,421	12,439
US floating interest investment income	44,724	1,468
US floating interest investment income from subsidiary	988	–
Additional consideration received*	7,913	7,553
	92,091	33,218
Other income		
Interest from liquidity/money market funds	4,198	3,600
Fixed term deposit interest	357	172
Other interest	27	2
	4,582	3,774
Total income	96,673	36,992

* The Company's senior secured loan to Sebela, the second tranche of its senior secured loan to Tesaro and its senior secured loan to Amicus included additional consideration in the form of structuring income of \$2,913,000, \$2,000,000 and \$3,000,000, respectively, which were paid upon the completion of the transaction or funding of each tranche, and are recognised as income in the period. Refer to Note 2(g). In 2017, the first tranches of the Company's senior secured loans to Tesaro and Lexion included additional consideration of \$4,440,000 and \$3,112,500, respectively.

Notes to the Financial Statements continued

For the year ended 31 December 2018

4. FEES AND EXPENSES

Expenses

	Year ended 31 December 2018			Period ended 31 December 2017		
	Revenue \$000	Capital \$000	Total \$000	Revenue \$000	Capital \$000	Total \$000
Management fee (note 4a)	10,765	–	10,765	5,830	–	5,830
Performance fee (note 4b)	7,794	–	7,794	–	–	–
Directors' fees (note 4c)	330	–	330	250	–	250
Other expenses						
Company Secretarial fee	85	–	85	59	–	59
Administration fee	121	–	121	66	–	66
Legal & professional fees	2,825	192	3,017	12	471	483
Public relations fees	245	–	245	255	–	255
Auditor's remuneration – Statutory audit	357	–	357	256	–	256
Auditor's remuneration – Other audit related services – Half year review	39	–	39	122	–	122
Auditor's remuneration – Other audit related services – Initial accounts	–	–	–	28	–	28
Other expenses	486	–	486	264	–	264
	4,158	192	4,350	1,062	471	1,533
Total expenses	23,047	192	23,239	7,142	471	7,613

For the year ended 31 December 2018, the Auditor was also paid \$352,000 for services performed in connection with the C Share issue and conversion and additional Share issue. This total is not included within the Auditor's remuneration figure above.

For the period ended 31 December 2017, 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.

All of these amounts were recognised as part of Share issue costs in the Statement of Changes in Equity on page 47.

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

Period from IPO in March 2017 to 19 September 2018

Subject to: (i) the NAV attributable to the Ordinary Shares as at the end of a performance period representing a minimum of 6 per cent. annualised rate of return annualised on the Company's IPO gross proceeds (adjusted for dividends, Share issues and buybacks as appropriate), (ii) the total return on the NAV attributable to the Ordinary Shares (adjusted for dividends, Share issues and buybacks as appropriate) exceeding 6 per cent. over such performance period, and (iii) a high watermark, the Investment Manager will be entitled to receive a performance fee equal to the lesser of: (a) 50 per cent. of the total return above 6 per cent; and (b) 10 per cent. of the total return over such performance period 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, condition (iii) above remains satisfied.

Where the Investment Manager is not entitled to a performance fee solely because condition (i) has not been satisfied, such fee will be deferred and paid in a subsequent performance period in which such condition is satisfied. Where condition (i) is satisfied in a performance period but the payment of a performance fee (or any deferred performance fee from previous performance periods) in full would result in that condition failing, the Investment Manager shall be entitled to such a portion of such fee that does not result in the failure of the condition (i) above and the balance would be deferred to a future performance period.

Any performance fee (whether deferred or otherwise) shall be paid as soon as practicable after the end of the relevant performance period and, in any event, within 15 Business Days of the publication of the Company's audited annual financial statements relating to such period.

Effective from 19 September 2018

The Board of Directors approved an amendment, effective 19 September 2018, to the performance fee provisions. The amendment was to provide that where the payment of performance fee (or any deferred performance fee from previous performance periods) in full would result in the failure of condition (i) above, the Investment Manager shall only be entitled to 50 per cent. of such fee that does not result in the failure of condition (i) with the balance being deferred to a future 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 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 was entitled to an additional \$35,000 other than:

- the Chairman, who received an additional \$50,000 for this period; and
- the chairman of the Audit Committee, who received an additional \$42,500 for this period,

Fees were paid to each Director in equal quarterly instalments for 2017 and in 2018.

A breakdown of Directors' fees is provided in the Directors' Remuneration Report on page 37.

d) Finance costs

	Year ended 31 December 2018 \$000	Period ended 31 December 2017 \$000
Interest paid	3	4
	3	4

Following the conversion of the C Shares, the amortisation of the C Share liability as at the conversion date, 30 September 2018, is shown as finance costs within the Statement of Comprehensive Income, the total of this amount is shown in Note 13 on page 61.

Notes to the Financial Statements continued

For the year ended 31 December 2018

5. TAXATION ON ORDINARY ACTIVITIES

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.

	Year ended 31 December 2018			Period ended 31 December 2017		
	Revenue \$000	Capital \$000	Total \$000	Revenue \$000	Capital \$000	Total \$000
Total return on ordinary activities before taxation	69,946	200	70,146	29,846	1,845	31,691
Theoretical tax at UK Corporation tax rate of 19.00% (2017: 19.36%*)	13,290	38	13,328	5,778	357	6,135
Effects of:						
Capital items that are not taxable	-	(38)	(38)	-	(357)	(357)
Disallowed expenses	699	-	699	-	-	-
Tax deductible interest distributions	(13,989)	-	(13,989)	(5,778)	-	(5,778)
Actual tax charge	-	-	-	-	-	-

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

At 31 December 2018, 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

Dividends paid during the year under review:

	Year ended 31 December 2018			Period ended 31 December 2017		
	Revenue \$000	Capital \$000	Total \$000	Revenue \$000	Capital \$000	Total \$000
In respect of the current year:						
First interim dividend of \$0.0134 (2017: \$0.01) per Ordinary Share	12,306	-	12,306	2,995	4,624	7,619
Second interim dividend of \$0.0175 per Ordinary Share	15,999	-	15,999	-	-	-
Third interim dividend of \$0.0175 per Ordinary Share	18,837	-	18,837	-	-	-
In respect of the previous period:						
Second interim dividend of \$0.01 per Ordinary Share	7,572	47	7,619	-	-	-
Third interim dividend of \$0.01 per Ordinary Share	9,143	-	9,143	-	-	-
Special dividend of \$0.011 per Ordinary Share	10,136	-	10,136	-	-	-
	73,993	47	74,040	2,995	4,624	7,619

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

	Year ended 31 December 2018			Period ended 31 December 2017		
	Revenue \$000	Capital \$000	Total \$000	Revenue \$000	Capital \$000	Total \$000
First interim dividend of \$0.134 (2017: \$0.01) per Ordinary Share	12,306	-	12,306	2,995	4,624	7,619
Second interim dividend of \$0.0175 (2017: \$0.01) per Ordinary Share	15,999	-	15,999	7,572	47	7,619
Third interim dividend of \$0.0175 (2017: \$0.01) per Ordinary Share	18,837	-	18,837	9,143	-	9,143
Fourth interim dividend of \$0.0175 (2017: n/a) per Ordinary Share	22,804	1,240	24,044	-	-	-
Special dividend of \$0.00177441 (2017:\$0.011) per Ordinary Share	-	2,438	2,438	10,136	-	10,136
	69,946	3,678	73,624	29,846	4,671	34,517

On 21 February 2019, the Board approved a fourth interim dividend, for the year ended 31 December 2018, of \$0.0175 per Ordinary Share and a special dividend of \$0.00177441 per Ordinary Share, both payable on 29 March 2019. In accordance with IFRS, these dividends have not been included as a liability in these financial statements.

7. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	As at 31 December 2018 \$000	As at 31 December 2017 \$000
Investment portfolio summary		
Unlisted investments at fair value through profit and loss	7,645	123,479
Unlisted fixed interest investment at fair value through profit and loss	274,500	224,151
Unlisted floating interest investments at fair value through profit and loss	725,120	222,000
Closing fair value at the end of the year	1,007,265	569,630

	Year ended 31 December 2018				
	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 year	123,487	224,151	222,000	-	569,638
Opening unrealised depreciation at beginning of year	(8)	-	-	-	(8)
Opening fair value at beginning of year	123,479	224,151	222,000	-	569,630
Movements in the year:					
Purchases at cost	-	150,000	508,788	-	658,788
Redemption proceeds	(116,682)	(99,651)	(5,468)	-	(221,801)
Movement in unrealised appreciation/(depreciation)	848	-	(200)	-	648
Closing fair value at the end of the year	7,645	274,500	725,120	-	1,007,265
Closing cost at end of year	6,805	274,500	725,320	-	1,006,625
Closing unrealised appreciation/(depreciation) at end of year	840	-	(200)	-	640
Closing fair value at the end of the year	7,645	274,500	725,120	-	1,007,265

	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 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
Movement in unrealised 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 depreciation at end of period	(8)	-	-	-	(8)
Closing fair value at the end of the period	123,479	224,151	222,000	-	569,630

Notes to the Financial Statements continued

For the year ended 31 December 2018

7. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS continued

Analysis of investment gains/(losses)

	Year ended 31 December 2018 \$000	Period ended 31 December 2017 \$000
Realised gains on sale of investments	-	2,273
Unrealised movement in appreciation/ (depreciation)	648	(8)
	648	2,265

Transaction costs, (incurred at the point of the transaction) incidental to the acquisition of investments totalled \$Nil (2017:\$303,000) and to the disposals of investments totalled \$Nil (2017:\$Nil) for the year. In addition, legal fees incidental to the acquisition of investments totalled \$193,000 (2017: \$471,000) as disclosed in Note 4, have been reflected in 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.

	As at 31 December 2018			
	Total \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
Investment portfolio summary				
Unlisted investments at fair value through profit and loss	7,645	-	-	7,645
Unlisted fixed interest investment at fair value through profit and loss	274,500	-	-	274,500
Unlisted floating interest investments at fair value through profit and loss	725,120	-	-	725,120
	1,007,265	-	-	1,007,265
Liquidity/ money market funds	359,808	359,808	-	-
Total	1,367,073	359,808	-	1,007,265

	As 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 investment 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

As at 31 December 2018	Unlisted investments \$000	Unlisted fixed interest investments \$000	Unlisted floating interest investments \$000	Total \$000
Opening balance	123,479	124,500	222,000	469,979
Purchases	–	150,000	508,788	658,788
Redemptions*	(116,682)	–	(5,468)	(122,150)
Change in unrealised appreciation/(depreciation)	848	–	(200)	648
Closing balance at 31 December 2018	7,645	274,500	725,120	1,007,265

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

There were no transfers between levels during the year.

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 for the product.

During the periods following the initial investment valued at level 3, 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 the 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 was a level 2 fair value measurement, was 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	As at 31 December 2018					As at 31 December 2017			
	Fair value at Level 3 financial assets at fair value through profit or loss \$000	Valuation technique	Unobservable input	Discount rate	Fair value sensitivity to a 100bps increase in the discount rate \$000	Valuation technique	Unobservable input	Discount rate	
Limited partnership interest in BioPharma III	7,645	n/a	n/a	n/a	n/a	Discounted cash flow	Discount rate		9.3%-12.1%
Lexicon Pharmaceuticals, Inc	124,500	Discounted cash flow	Discount rate	10.1%	120,826	Discounted cash flow	Discount rate		10.0%
Tesaro, Inc	322,000	Discounted cash flow	Discount rate	11.4%	312,943	Discounted cash flow	Discount rate		10.4%
Novocure	150,000	Discounted cash flow	Discount rate	10.6%	145,811	–	–		–
Sebela	188,711	Discounted cash flow	Discount rate	11.7%	185,622	–	–		–
Amicus	150,000	Discounted cash flow	Discount rate	11.1%	145,337	–	–		–
BMS	64,409	Discounted cash flow	Discount rate	8.1%	59,606	–	–		–

* The BioPharma III fair value balance as at 31 December 2018 represents a receivable. BioPharma III made a distribution for \$7,645,000 on 31 January 2019. For this reason, no valuation technique is applicable.

Notes to the Financial Statements continued

For the year ended 31 December 2018

8. TRADE AND OTHER RECEIVABLES

	As at 31 December 2018 \$000	As at 31 December 2017 \$000
Unlisted fixed interest income receivable	2,864	2,863
Unlisted floating interest income receivable	17,079	1,468
Interest accrued on liquidity/money market funds	694	390
Share issue cost receivable	466	–
Other debtors	345	317
	21,448	5,038
Non-current assets		
Unlisted floating interest income receivable from subsidiary	988	–
Total	22,436	5,038

9. CASH AND CASH EQUIVALENTS

	As at 31 December 2018 \$000	As at 31 December 2017 \$000
Cash at bank	3,764	4,055
Liquidity/money market funds	359,808	346,767
Total	363,572	350,822

10. TRADE AND OTHER PAYABLES

	As at 31 December 2018 \$000	As at 31 December 2017 \$000
Current liabilities		
Management fees accrual	3,194	2,004
Share issue costs	1	326
C Share conversion costs	22	–
Accruals	2,240	586
	5,457	2,916
Non-current liabilities		
Deferred performance fee	7,794	–
Total	13,251	2,916

11. RETURN PER ORDINARY SHARE

Revenue return per Ordinary Share is based on the net revenue after taxation of \$69,947,000 (2017: \$29,846,000) and 989,147,473 (2017: 766,976,882) Ordinary Shares, being the weighted average number of Ordinary Shares for the year.

Capital return per Ordinary Share is based on net capital gains for the year of \$199,000 (2017: \$1,845,000) and on 989,147,473 (2017: 766,976,882) Ordinary Shares, being the weighted average number of Ordinary Shares for the year.

Basic and diluted return per Ordinary Share are the same as there are no arrangements which could have a dilutive effect on the Company's Ordinary Shares.

12. NET ASSET VALUE PER ORDINARY SHARE

The basic total NAV per Ordinary Share of \$1.0044 is based on the net assets attributable to equity Shareholders at 31 December 2018 of \$1,380,027,000 (2017: \$922,574,000) and Ordinary Shares of 1,373,932,067 (2017: 914,252,831), being the number of Ordinary Shares in issue at 31 December 2018.

There is no dilution effect and therefore no difference between the diluted total net assets per Ordinary Share and the basic total net assets per Ordinary Share.

As at 31 December 2017, the NAV per Ordinary 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 Ordinary 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. C SHARES

	Year ended 31 December 2018 \$000
Balance at beginning of the year	-
Gross proceeds of C Share issue	163,782
C Share issue costs	(3,275)
Amortisation of C Share liability*	3,895
Balance of C Share liability converted to Ordinary Shares	(164,402)
Balance at end of the year	-

* The amortisation of C Share liability represents the net return from the C Share, per the Statement of Comprehensive Income.

On 16 April 2018, the Company issued 163,782,307 C Shares raising gross proceeds of \$163,782,000. These C Shares were admitted to the Official List of TISE and to trading on the Specialist Fund Segment of the LSE on 16 April 2018.

For Shareholder resolutions in respect of amendments to the Articles or in respect of a winding up of the Company, each class of Shares will vote as a separate class. For all other resolutions, the holders of Ordinary Shares and each class of C Shares shall vote as one class.

Under IAS 32 'Financial Instruments: Presentation', these C Shares met the definition of a financial liability rather than equity instrument and were presented in the financial statements as a liability of the Company carried at amortised cost.

On 29 October 2018 the C Shares were converted to Ordinary Shares on the basis of a conversion ratio of 0.98984 Ordinary Shares for every C Share which gave a conversion rate of 989 Ordinary Shares for every 1,000 C Shares held.

The table below gives a summary of the movements in net assets of the C Share pool up to the date of conversion:

	Period ended 30 September 2018 C Share pool \$000
Balance at beginning of the year	-
Gross proceeds of C Shares issue	163,782
C Share issue costs	(3,275)
Net income	4,669
Expenses	(995)
Net gains on investments at fair value	196
Currency exchange gains	25
Value of C Shares on conversion date	164,402

Represented by:

	As at 30 September 2018 C Share pool \$000
Investment at fair value through profit or loss	148,315
Trade and other receivables	1,103
Cash and cash equivalents	15,621
Trade and other payables	(637)
Value of C Shares on conversion date	164,402

Notes to the Financial Statements continued

For the year ended 31 December 2018

14. SHARE CAPITAL

	Year ended 31 December 2018		Period ended 31 December 2017	
	Number of Shares	\$000	Number of Shares	\$000
Issued and fully paid:				
Ordinary Shares of \$0.01:				
Balance at beginning of the year	914,252,831	9,143	1	-
Ordinary Shares issued on conversion of C Shares – 29 October 2018	162,118,260	1,621	-	-
Ordinary Share issue – 5 November 2018	297,560,976	2,975	-	-
Initial Ordinary Share issue – 27 March 2017	-	-	526,747,199	5,268
Subsequent Ordinary Share issue – 30 March 2017	-	-	235,130,160	2,351
Further Ordinary Share issue – 18 December 2017	-	-	152,375,471	1,524
Balance at end of the year/period	1,373,932,067	13,739	914,252,831	9,143

Total voting rights at 31 December 2018 was 1,373,932,067 (2017: 914,252,831).

The Company was incorporated with 1 Ordinary Share issued at \$0.01 and 5,000,000 Redeemable Preference Shares issues at £0.01.

On 29 October 2018, 162,118,260 Ordinary Shares were issued following the conversion of the C Shares for a consideration of \$164,402,000 representing the value of the C Share asset pool, the balance of C Shares were redeemed.

On 5 November 2018, a further issue of 297,560,976 Ordinary Shares took place, raising gross proceeds of \$305,000,000.

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 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 Registrar of Company 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 2018, the special distributable reserve was \$734,309,000 (2017: \$734,356,000).

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, 5,000,000 Redeemable Preference Shares with an aggregate nominal value of £50,000 were cancelled. At 31 December 2018, the Company held no Redeemable Preference Shares (2017: none).

15. 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 (the “Purchased payments”) acquired by Royalty Pharma from Bristol-Myers Squibb (“BMS”). In accordance with IFRS 10, the Company is exempt from consolidating a controlled investee as an investment trust. The Company’s investment in BPCR Ongdapa is recognised at fair value through profit and loss.

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

	Year ended 31 December 2018 \$000	Period ended 31 December 2017 \$000
Total return for the year before taxation	70,146	31,691
Capital gains	(610)	(2,316)
Increase in trade receivables	(16,931)	(5,038)
Increase in trade payables*	10,638	2,590
Finance costs – C Share amortisation	3,895	–
Effective yield adjustment	–	(14)
Cash generated from operations	67,138	26,913

* For the year ended 31 December 2018, the increase differs from trade and other payables due to \$1,000 (2017: \$326,000) of Share issue costs forming part of financing activities. For the year ended 31 December 2017, the increase differs from trade and other receivables due to \$466,000 (2017: Nil) of Share issue costs forming part of financing activities.

ANALYSIS OF NET CASH AND NET DEBT

	At 1 January 2018 \$000	Cash flow \$000	Exchange movement \$000	At 31 December 2018 \$000
Net cash				
Cash and cash equivalents	350,822	12,788	(38)	363,572

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

Following the conversion of the C Shares, there is no debt within the Company, therefore no net debt table is shown.

17. 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 18 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 20 to 23.

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

- i) market risk, including 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.

Notes to the Financial Statements continued

For the year ended 31 December 2018

17. FINANCIAL INSTRUMENTS continued

Market price risk

The Company is exposed to price risk arising from its investments whose future prices are uncertain. The Company's exposure to 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.

The table below analyses the effect of a 10 per cent. change in the fair value of investments.

Asset	As at 31 December 2018		As at 31 December 2017	
	Fair Value \$000	10 per cent. increase/ decrease in market value	Fair Value \$000	10 per cent. increase/ decrease in market value
		\$000		\$000
Amicus Senior Secured Loan	150,000	15,000	-	-
BioPharma III	7,645	765	123,479	12,348
BMS Purchased Payments (BPCR Ongdapa)	64,409	6,441	-	-
Lexicon Senior Secured Loan	124,500	12,450	124,500	12,450
Novocure Senior Secured Loan	150,000	15,000	-	-
RPS Note	-	-	99,651	9,965
Sebela Senior Secured Loan	188,711	18,871	-	-
Tesaro Senior Secured Loan	322,000	32,200	222,000	22,200
Total	1,007,265	100,727	569,630	56,963

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 from a financial instrument fluctuate because of changes in foreign exchange rates.

At 31 December 2018, the Company held cash balances in GBP Sterling of £245,000 (\$312,000) (2017: £276,000) (\$374,000) and in Euro of €1,000 (\$2,000) (2017: €Nil (\$Nil)).

The currency exposures (including non-financial assets) of the Company as at 31 December 2018:

	Cash \$000	Investments \$000	Other net assets/ (liabilities)	Total \$000
			\$000	
Sterling	312	-	(52)	260
Euro	2	-	-	2
US Dollar	363,258	1,007,265	9,237	1,379,760
Total	363,572	1,007,265	9,185	1,380,022

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

	Cash \$000	Investments \$000	Other net assets/ (liabilities)	Total \$000
			\$000	
Sterling	374	-	(619)	(245)
US Dollar	350,448	569,630	2,741	922,819
Total	350,822	569,630	2,122	922,574

A 10 per cent. increase in the Sterling exchange rate would have increased net assets by \$10,000 (2017: \$45,000 decrease). A 10 per cent. decrease would have decrease net assets by the same amount (2017: increased by the same amount).

Interest rate risk

Interest rate risk is the risk that fair value of future 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 floating rate securities and unquoted loans; and
- the level of income receivable on cash deposits and liquidity funds.

The Lexicon and Novocure loans and the RPS Note, prior to repayment in full in 2018, have a fixed interest rate and therefore are not subject to interest rate risk. At 31 December 2018, Lexicon and the Novocure loans represented, 9.02 per cent. and 10.87 per cent. of the Company's net assets, respectively (2017: 13.49 per cent. and Nil per cent, RPS Note 10.80 per cent).

The Tesaro loan, Sebela loan, Amicus loan, BMS Purchased Payments and cash and cash equivalents, including investments in liquidity funds, have a floating rate of interest. At 31 December 2018, these represented 23.33 per cent, 13.67 per cent, 10.87 per cent, 4.67 per cent. and 26.35 per cent. of the Company's net assets, respectively. (2017: 24.06 per cent, Nil per cent, Nil per cent, Nil per cent, and 38.03 per cent).

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 year ended 31 December 2018 (2017: not material).

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At 31 December 2018, the Company had cash and cash equivalents, including investments in liquidity funds with balances of \$363,572,000 (2017: \$350,822,000) and maximum unfunded commitments of \$75,591,000, \$95,591,000 (2017: \$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 and the non-current accrued income from its subsidiary. At 31 December 2018, the Company's maximum exposure to credit risk was \$1,008,253,000 (2017: \$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 year.

Notes to the Financial Statements continued

For the year ended 31 December 2018

18. RELATED PARTY TRANSACTIONS

The amount incurred in respect of management fees during the year ended 31 December 2018 was \$10,765,000 (2017: \$5,830,000), of which \$3,194,000 was outstanding at 31 December 2018 (2017: \$2,004,000). The amount due to the Investment Manager for performance fees at 31 December 2018 was \$7,794,000 (2017: \$Nil), all of which was outstanding at 31 December 2018 (2017: \$Nil).

The amount incurred in respect of Director's fees during the year ended 31 December 2018 was \$330,000 (2017: \$413,000 (\$163,000 of this figure has been included within Share issue costs)) of which \$Nil was outstanding at 31 December 2018 (2017: \$Nil).

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 7 February 2018, the Company entered into senior secured term loan agreement for \$150,000,000 with Novocure Limited (NASDAQ: NVCR) ("Novocure"). The \$150,000,000 loan will mature in February 2023 and bears interest at 9.0 per cent. per annum. Novocure used \$100,000,000 of the net proceeds to entirely prepay the \$100,000,000, 10.0 per cent. coupon loan made by BioPharma III Holdings, LP ("BioPharma III") in 2015 that was scheduled to mature in 2020. The Company is a limited partner in BioPharma III and therefore received a distribution of approximately \$46,000,000 from BioPharma III as a result of the prepayment from Novocure. In 2018, the Company recorded interest of \$12,263,000 (2017: \$Nil). The outstanding balance as at 31 December 2018 was \$150,000,000 (2017: \$Nil).

On 8 December 2017, the Company's wholly-owned subsidiary BPCR Ongdapa entered into a purchase, sale and assignment agreement with RPI Acquisitions (Ireland) Limited ("RPI Acquisitions"), an affiliate of Royalty Pharma, for the purchase of a 50 per cent. interest in a stream of Purchased Payments acquired by RPI Acquisitions from Bristol-Myers Squibb through a purchase agreement dated 14 November 2017. As a result of the arrangements, RPI's subsidiary and the Company's subsidiary are each 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 \$140,000,000 to \$160,000,000 between 2018 and 2020, determined by product sales and will receive payments from 2020 through 2025 estimated to yield a return in the high single-digits per annum. The Company advanced \$64,409,000 to RPI Acquisitions in 2018 (2017: \$Nil) for the Purchased Payments. In 2018, the Company recorded interest of \$988,000 (2017: \$Nil).

On 4 December 2017, the Company and BioPharma Credit Investments IV, S.à.r.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: LXR), 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 was 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 \$124,500,000 of the first tranche on 18 December 2017 and Lexicon will not draw the second tranche. In 2018, the Company recorded interest of \$11,361,000 (2017: \$405,000). The outstanding balance as at 31 December 2018 was \$124,500,000 (2017: \$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 funded \$222,000,000 of the \$300,000,000 first tranche on 6 December 2017 and committed to invest up to \$148,000,000 of the \$200,000,000 second tranche by 20 December 2018 at Tesaro's option with BioPharma IV committing to invest up to \$130,000,000 in parallel with the Company acting as collateral agent. The Company funded \$100,000,000 of the second tranche on 29 June 2018 and assigned its remaining \$48,000,000 commitment to other investors. The loan has a term of seven periods and is secured by Tesaro's U.S. rights to ZEJULA® and VARUBI®. The first \$300,000,000 tranche bears interest at Libor plus 8 per cent. and the second tranche bears 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. In 2018, the Company recorded interest of \$28,001,000 (2017: \$1,468,000). The outstanding balance as at 31 December 2018 was \$322,000,000 (2017: \$222,000,000). Following its acquisition by GlaxoSmithKline, Tesaro repaid the \$500,000,000 loan on 23 January 2019. The Company received a payment of \$369,953,000 on its \$322,000,000 share of the loan, including the make-whole and prepayment premium totaling \$45,762,000.

During the period ended 31 December 2017, the Company entered into the RPS Note with RPS BioPharma Investments, LP on 30 March 2017 for \$185,130,000. The Note, which was repaid in full in October 2018, bore interest at a fixed interest rate of 12 per cent, was scheduled to mature on 30 June 2026 and was secured by rights to royalty payments from 21 pharmaceutical products. In the year end 31 December 2018, the Company recorded \$5,797,000 (2017: \$11,758,000) of interest and amortisation payments of \$99,651,000 (2017: \$85,479,000). The outstanding balance as at 31 December 2018 was \$Nil (2017: \$99,651,000).

On 27 March 2017, the Company acquired a limited partnership interest in BioPharma III for \$153,482,000. In 2018, the Company recorded \$9,045,000 (2017: \$11,758,000) of investment income and repayments of \$116,682,000 (2017: \$29,995,000). The Company also recorded net gain on investments at fair value of \$848,000 (2017: net loss of \$8,000). The outstanding balance as at 31 December 2018 was \$7,645,000 (2017: \$123,479,000).

BioPharma III, BioPharma IV, RPS BioPharma Investments, LP, 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.

19. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 31 December 2018, there were outstanding commitments of between \$75,591,000 – \$95,591,000 (2017: \$329,500,000-\$349,500,000) in respect of investments (see Note 18 for further details)

20. SUBSEQUENT EVENTS

Tesaro

Following its acquisition by GlaxoSmithKline, Tesaro repaid the \$500 million loan on 23 January 2019. The Company received a payment of \$370.0 million on its \$322.0 million share of the loan, including the make-whole and prepayment premium totaling \$45.8 million, or 14.2 per cent. of the \$322.0 million investment, which is the equivalent of what the Company would have received had the loan remained outstanding for another fifteen months, approximately. The Company earned a 22.5 per cent. annualised rate of return on its Tesaro investment.

BioPharma III

On 29 January 2019, the Company received \$7.6 million as its final payment from BioPharma III, realising a 13.6 per cent. IRR.

Corporate Information

Directors

Jeremy Sillem (Chairman)
Colin Bond
Duncan Budge
Harry Hyman
Stephanie Léouzon

Investment Manager and AIFM

Pharmakon Advisors L.P.
110 East 59th Street #3300
New York, NY 10022
USA

Administrator

Link Alternative Fund Administrators Limited
Beaufort House
51 New North Road
Exeter
EX4 4EP

Company Secretary and Registered Office

Link Company Matters Limited
Beaufort House
51 New North Road
Exeter
EX4 4EP
Tel: 01392 477500

Company website

www.bpcruk.com

Financial and Strategic Communications

Buchanan Communications Limited
107 Cheapside
London
EC2V 6DN

Independent Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Joint Brokers

J.P. Morgan Cazenove
25 Bank Street
London
E14 5JP

Goldman Sachs International
Peterborough Court
133 Fleet Street
London
EC4A 2BB

Legal Adviser

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London
EC2A 2EG

Registrar

Link Market Services Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

TISE Sponsor

Carey Commercial Limited
1st and 2nd Floors
Elizabeth House
Les Ruettes Brayes
St Peter Port
Guernsey
GY1 1EW

Shareholder Information

Key dates

March	Annual results announced 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.

Annual and Half-yearly Report

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

SEDOL: BDGKMY2

ISIN: GB00BDGKMY29

TICKER: BPCR

LEI: 213800AV55PYXAS7SY24

BIOPHARMA
— CREDIT PLC —

BioPharma Credit PLC
100 East 59th Street
#3300
New York, NY
10022