

SalvaRx Group plc

(“SalvaRx”, or the “Company”)

Half Yearly Report to 30 June 2018

SalvaRx Group plc (AIM: SALV), the drug development company focused on immunotherapy for cancer, announces its interim results for the six months ended 30 June 2018.

Chief Executive Officer's Statement

We continue to make progress on advancing our products.

iOx Therapeutics Limited (56.95% subsidiary undertaking)

iOx Therapeutics Ltd (“iOx”) has been advancing its first set of products through development. During this period, the company was granted additional patents covering liposomal formulation of its iNKT agonist. We also worked with our contract manufacturing partners to scale up the production to enable large scale runs. In July 2018, however, we announced a delay to the manufacturing process of our lead candidate IMM60; we now plan to initiate multiple human clinical studies next year. iOx also made progress with its second therapy, IMM65, to enable the determination of the final formulation. To fund its ongoing research and development activities, in March 2018 the company announced an issue of US\$1 million of unsecured convertible loan notes.

Intensity Therapeutics Inc. (8.5% equity investment)

Intensity Therapeutics reported positive safety data of their lead product INT230-6 in advanced cancer patients. The clinical trial continues to accrue patients at multiple sites in the United States and Canada. The findings have been accepted for presentation at several upcoming international meetings later this year.

Our remaining portfolio companies - Nekonal Oncology and Saugatuck Therapeutics - continue to characterize, manufacture and test their products to enable decision making on further development.

During the six-month period to 30 June 2018 the Company incurred an operating loss of £1.985 million, of which £815,000 related to an impairment of the Company’s interest in RIFT Biotherapeutics Inc. where activities are on hold while that company seeks further investment.

Funding

In order to finance the Company's various drug development programmes and its working capital requirements, in June 2018 SalvaRx Group plc raised US\$1 million through two unsecured loan notes of US\$500,000 issued to James Mellon and Gregory Bailey, both directors and substantial shareholders in the Company.

Proposed disposal of interest in SalvaRx Limited

All the Company’s investments and business interests are held by SalvaRx Limited, its 94.2 per cent. owned subsidiary, following a group restructuring conducted in March 2017.

Subsequent to the period end, on 14 August 2018, the Company announced the proposed disposal of its interest in SalvaRx Limited to Portage Biotech Inc (“Portage”), for a consideration of US\$67.5 million, to be satisfied by the issue of new Portage shares (“Disposal”).

Concurrent with the Disposal, the Company announced that Shareholders would receive 18 Demerger Shares (i.e. Portage consideration shares) for every share in SalvaRx Group plc held on the Demerger Record Date, such date to be notified in due course (the “Demerger”). This mechanism allows qualifying Shareholders to retain an interest in the investments and business interests held by SalvaRx Limited (through their resultant interest in Portage following completion of the Demerger).

Portage, a company listed on the Canadian Securities Exchange, has existing interests in four promising biotech companies and, as at 24 September 2018, cash resources of approximately US\$7.1 million which will be used to fund the ongoing development of the portfolio of oncology assets owned by SalvaRx Limited.

Given the relatively disappointing performance of the Company's share price on AIM, the Board determined that the Disposal and the Demerger are the best way to unlock and maximise value for Shareholders without causing dilution through raising additional funds at a price which we believe does not reflect the value of the Company's underlying assets.

The Disposal and the Demerger are still pending approval from the shareholders of both companies and from various regulatory bodies.

It is our hope that the Disposal will further facilitate our efforts to reach proof of concept and advance our products into clinical testing. Portage has a history of creating value for its shareholders - one of its portfolio companies, Biohaven Pharmaceutical Holding Company Ltd ("Biohaven") (NYSE:BHVN), was the second largest biotech IPO on NASDAQ in 2017. Portage subsequently announced a distribution in specie of its stock in Biohaven to its shareholders. Their initial US\$7 million investment was worth in excess of US\$100 million at the time of the IPO in 2017, and has almost doubled since then. Biohaven is now worth approximately US\$1.3 billion. Portage has provided seed capital to four other biotech companies and will seek to evaluate new opportunities. I am excited at the potential of working with the Portage team to progress our combined portfolio.

Outlook

Cancer remains a hot area of investment with record amounts of capital flowing into early stage companies, and being realized through public offerings. In addition, pharma companies are paying record amounts for new products. We hope that our exciting pipeline can offer cancer patients new options for the treatment of their disease. Thank you for your support as we continue to seek out creative ways to advance and grow the portfolio and capabilities of our team.

Dr Ian Walters

Chief Executive Officer

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) 596/2014.

Enquiries

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SalvaRx Group plc
Consolidated income statement
For the six months ended 30 June 2018

	Note	Unaudited Six months ended 30 June 2018 £'000	Unaudited Six months ended 30 June 2017 £'000	Year ended 31 December 2017 £'000
Research and development		(557)	(570)	(1,185)
Exceptional item (Impairment of investment in associate)	2	(815)	-	-
Share of losses in associates	2	(16)	(96)	(309)
Other operating costs		<u>(597)</u>	<u>(665)</u>	<u>(1,422)</u>
Operating loss		(1,985)	(1,331)	(2,916)
Net finance (loss)/income		<u>(160)</u>	<u>(72)</u>	<u>109</u>
Loss before tax		(2,145)	(1,403)	(2,807)
Tax		<u>149</u>	<u>15</u>	<u>573</u>
Net loss and comprehensive loss for the period		<u>(1,996)</u>	<u>(1,388)</u>	<u>(2,234)</u>
Net loss and comprehensive loss attributable to				
Owners of the company		(1,894)	(1,091)	(1,744)
Non-controlling interest		(102)	(297)	(490)
		<u>(1,996)</u>	<u>(1,388)</u>	<u>(2,234)</u>
Other comprehensive income				
Exchange differences on translating foreign operations		<u>(49)</u>	<u>0</u>	<u>(47)</u>
Total comprehensive loss for the period		<u>(2,045)</u>	<u>(1,388)</u>	<u>(2,281)</u>
Loss per ordinary shares				
Basic and diluted	7	<u>(0.05p)</u>	<u>(0.03p)</u>	<u>(0.05p)</u>

SalvaRx Group plc
Consolidated statement of financial position
As at 30 June 2018

	Note	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	31 December 2017 £'000
Assets				
Non-current assets				
Investments	2	1,453	1,804	1,480
Investment in associates	2	464	1,046	1,297
Intangible assets	3	911	1,093	1,002
Prepayment		259	-	259
		3,087	3,943	4,038
Current assets				
Trade and other receivables		604	139	598
Cash and cash equivalents		1,078	909	570
		1,682	1,048	1,168
Total assets		4,768	4,991	5,206
Liabilities				
Non-current liabilities				
Convertible loan notes	5	757	-	-
Unsecured loan notes	4	2,718	2,034	2,603
Other loans	6	758	-	-
Equity derivatives	4	329	276	361
Deferred tax liabilities		154	186	170
		4,716	2,496	3,134
Current liabilities				
Trade and other payables		1,040	529	1,106
		1,040	529	1,106
Total liabilities		2,756	3,025	4,240
Net (liabilities)/assets		(988)	1,966	966
Equity				
Share capital	8	911	911	911
Other reserves		3,065	3,065	3,056
Equity, purchase of own shares		(215)	(215)	(215)
Share-based payment reserves		666	500	573
Accumulated deficit		(5,695)	(3,455)	(3,752)
Equity attributable to equity holders of the parent		(1,268)	806	582
Non-controlling interest		280	1,160	384
Total equity		(988)	1,966	966

SalvaRx Group
Consolidated statement of cash flows
For the six months ended 30 June 2018

	Note	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017	Year ended 31 December 2017
		£'000	£'000	£'000
Loss for the period		(1,996)	(1,388)	(2,281)
Adjustments for:				
Deferred taxation		(149)	(15)	(573)
Impairment of investment in associate		815	-	-
Amortisation		91	91	182
Share of losses in associates		16	96	309
Share-based payments		93	118	191
Finance cost		160	29	118
Foreign exchange		(212)	-	(249)
Operating cash flows before movements in working capital		(1,182)	(1,069)	(2,303)
(Increase)/decrease in receivables		4	(105)	(76)
(Decrease)/increase in payables		(66)	234	434
Cash used in operations		(1,244)	(940)	(1,945)
Taxation received		188	-	54
Net cash outflow from operating activities		(1,056)	(940)	(1,891)
Investing activities				
Investment in associates		-	-	(1,413)
Purchase of investments		-	(1,419)	-
Prepaid equity option		-	-	(259)
Net cash used in investing activities		-	(1,419)	(1,672)
Financing activities				
Proceeds from the issue of other short term loans		758	-	-
Proceeds from the issue of unsecured loan notes		-	2,295	-
Proceeds from the issue of convertible loan notes		757	-	3,119
Net cash from financing activities		1,515	2,295	3,119
Net increase in cash and cash equivalents		459	(64)	(444)
Cash and cash equivalents at beginning of period		570	967	967
Effect of exchange rate on cashflow		49	6	47
Cash and cash equivalents at end of period		1,078	909	570

SalvaRx Group plc
Consolidated statement of changes in equity
As at 30 June 2018

	Attributable to the owners of the company							Total equity
	Share Capital	Other reserves	Purchase of own shares	Share-based payments reserves	Accumulated deficit	Equity attributable to owners	Non-controlling interest	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2016	911	3,065	(215)	382	(2,364)	1,779	647	2,426
Shares issued by subsidiary	-	-	-	-	-	-	810	810
Share based payments	-	-	-	118	-	118	-	118
Net loss for the period	-	-	-	-	(1,091)	(1,091)	(297)	(1,388)
At 30 June 2017	911	3,065	(215)	500	(3,455)	806	1,160	1,966
Conversion of 2016 loan notes	-	-	-	-	482	482	(662)	(180)
Equity contribution to non-controlling shareholders	-	-	-	-	(79)	(79)	79	-
Foreign exchange gain on retranslation of foreign subsidiaries	-	-	-	-	(47)	(47)	-	(47)
Share based payments	-	-	-	73	-	73	-	73
Net loss for the period	-	-	-	-	(653)	(653)	(193)	(846)
At 31 December 2017	911	3,065	(215)	573	(3,752)	582	384	966
Share based payments	-	-	-	93	-	93	-	93
Foreign exchange gain on retranslation of foreign subsidiaries	-	-	-	-	(49)	(49)	(2)	(51)
Net loss for the period	-	-	-	-	(1,894)	(1,894)	(102)	(1,996)
At 30 June 2018	911	3,065	(215)	666	(5,695)	(1,268)	280	(988)

SalvaRx Group plc
Notes to the interim financial statements for the six months ended 30 June 2018

1 General information

SalvaRx Group plc (the 'Company' and, together with its subsidiaries, the 'Group') is incorporated in the Isle of Man, British Isles under the Isle of Man Companies Act 2006. The address of the registered office is Commerce House, 1 Bowring Road, Ramsey, Isle of Man, British Isles, IM8 2LQ.

The principal activity of the Group is drug development, pre-clinical development with particular focus on developing series of compounds for cancer immunotherapy.

Basis of preparation

The consolidated interim financial information has been prepared using policies based on International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board (the 'IASB') and as adopted by the European Union (the 'EU'). These policies and practices are consistent with those adopted in the Group's financial statements for the year ended 31 December 2017.

The consolidated interim financial statements have not been audited, and have not been prepared in compliance with International Accounting Standard ('IAS') 34, '*Interim Financial Reporting*'. In the opinion of the Directors, the consolidated interim financial information for the period represents fairly the financial position, results from operation and cash flows for the period in conformity with generally accepted accounting principles consistently applied.

These consolidated interim financial statements include the accounts of the Company and:

- i) SalvaRx Limited, ("SalvaRx") incorporated on 6 May 2015 in the British Virgin Islands. SalvaRx Group plc owns 94.15% of the company.
- ii) IOX Therapeutics Limited ("iOx") incorporated in the U.K. as a private company (Company Number 9430782) under the Companies Act 2006 on 10 February 2015. SalvaRx Group plc holds 56.95% equity in iOx.
- iii) Saugatuck Therapeutics Limited incorporated in the British Virgin Islands. SalvaRx Limited holds 70% equity in the company.

The Group's interim financial statements are presented in pounds sterling, which is the Group's functional and presentational currency, and all values are rounded to the nearest thousands (£000) except loss per ordinary share and figures and numbers in the Notes.

Going concern

As part of their going concern assessment, the Directors have followed the guidelines published by the Financial Reporting Council entitled "Guidance on Risk Management and Internal Control and Related Financial and Business Reporting".

At 30 June 2018, the Group had cash and cash equivalent of approximately £1.1 million. On 8 March 2018, iOx Therapeutics raised \$1m through the issue of a convertible loan and on 26 June 2018 a \$1m loan was secured by the Company.

1 General information (continued)**Going concern (continued)**

The Board has prepared cash flow forecasts for the period through to June 2019. The forecasts indicate that further funding may not be required over and above existing resources and this includes repayment of the \$1m loan issued on 26 June 2018 which is repayable within one year. As explained in Note 9, a major post balance sheet event which involves disposal of all the Company's operating assets and liabilities for shares of Portage will significantly reduce cash flow requirements of the Company post this transaction and will also make more cash resources available through sale of the Portage shares received in consideration of the proposed disposal.

The Directors have prepared this interim statement on the basis that the proposed disposal will complete given that shareholders holding over 70% of the equity have already indicated their approval and that it will therefore provide financial support necessary for the group to meet its liabilities as they fall due.

The Group continues to incur losses and transition to profitability is dependent upon achieving a level of revenues adequate to support the Group's cost structure and, until doing so, intends to fund future operations through additional debt or equity offerings. Should the Group be unable to obtain further finance such that the going concern basis of preparation were no longer appropriate, adjustments would be required including to reduce balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify non-current assets as current assets.

2. Investments

		Unaudited 30 June 2018	Unaudited 30 June 2017	31 December 2017
		£'000	£'001	£'002
Available-for-sale investments				
Investment in Intensity	i	1,453	1,540	1,480
Loan receivable at amortised cost				
Nekonal S.A.R.L.		-	264	-
		1,453	1,804	1,480
Investment in Associates				
Nekonal Oncology Ltd	iii	464	276	482
RIFT Biotherapeutics	ii	-	770	815
		464	1,046	1,297

i. On 22 April, 2016, the Company acquired 1m Series A preferred stock in Intensity Therapeutics Inc., a Delaware corporation ("Intensity") for US\$2m (£1.5m as at 30 June 2017) in cash. All Series A Preferred stock is convertible into equal number of common shares in Intensity. On 2 March 2017, the Company transferred this investment at cost to SalvaRx Limited. The Company's investment represents less than 10% of the equity of Intensity.

SalvaRx Group plc

Notes to the interim financial statements for the six months ended 30 June 2017

2 Investments (*continued*)

ii. The total investment by SalvaRx Limited of US\$1,090,000 in RIFT Biotherapeutics ("RIFT") was converted into a 33% equity holding. On 6 December 2017, SalvaRx Limited acquired a further 251,798 of Series A preferred stock for a total consideration of US\$349,999. This increased the Group's interest to 34.99%.

Subject to RIFT achieving certain development milestones, SalvaRx Limited has an obligation to acquire a further 467,626 of Series A preferred stock for a total consideration of US\$650,000.

In addition, SalvaRx Limited also has the option to invest up to an additional US\$500,000 at the same value of its original investment. SalvaRx Limited also hold an option to acquire all outstanding shares of RIFT in exchange for new shares in SalvaRx Limited on the same basis within 90 days of the milestone investment referred to above being achieved.

In the six months period to 30 June 2018 RIFT has not achieved any of the development milestones and so no further investment has been made. The entity has run out of funding and is currently seeking additional funding from its other shareholders and investors to enable it to resume its development activities. Meanwhile, however, the Directors have taken the decision to impair the investment to nil resulting in a £815,000 exceptional write off in the period.

lii. SalvaRx Limited has made a nominal equity investment and a capital contribution of €300,000 in Nekonal Oncology. Nekonal Oncology has been treated as an associate company by the Group as the equity interest is 33%.

SalvaRx Limited has an obligation to make a further capital contribution of €300,000 once certain development milestones have been achieved. As the milestones were expected to be achieved when the investment was made, this obligation of £266,000 has been included in Trade and other payables.

SalvaRx Limited also has acquired an option from Nekonal SARL for a one-time fee of €300,000 that gives SalvaRx the right to acquire option shares in any qualifying subsidiary of Nekonal.

As at 30 June 2018, the Board has determined that there was no evidence of any impairment in the value of the equity investment in Nekonal and as a result no adjustment was considered necessary in their carrying value.

SalvaRx Group plc

Notes to the interim financial statements for the six months ended 30 June 2018

3. Intangible assets

	In process research		
	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	31 December 2017 £'000
Cost			
Beginning of period	1,457	1,457	1,457
Additions	-	-	-
end of period	1,457	1,457	1,457
Amortisation			
Beginning of period	(455)	(273)	(273)
Charge for the period	(91)	(91)	(182)
end of period	(546)	(364)	(455)
Balance at end of period	911	1,093	1,002

The intangible asset arising from the acquisition of the investment in iOx on 1 July 2015 is being amortised over 8 years, being the Directors assessment of the period over which the technologies are likely to be developed and at the end of which commercial products will hopefully be available for sale. The remaining life of the intangible asset is 5 years. In the Directors opinion, the progress of iOx is satisfactory and, there is no indication of impairment.

4. Unsecured Loan Notes

On 2 March 2017, the liability on the 2016 convertible loan notes was transferred to SalvaRx Limited and the note holders immediately converted their loan notes into shares in SalvaRx Limited at a price of US \$250 per share. This gave rise to a 5.85% equity non-controlling interest in SalvaRx Limited and a credit of £630,000 has been recorded in equity.

On 2 March 2017, the Company announced an offering by its subsidiary SalvaRx Limited of unsecured loan notes of up to US \$5 million, carrying a coupon of 7% and repayable in four years. The loan notes were subscribed in tranches during the year. The holders of the loan notes were issued US \$7,500 of warrant in respect of each US \$10,000 loan note. The warrants vest in the event of a qualifying transaction and are exercisable at a price of the higher of US \$250 per share and a price reflecting discount to the implied valuation of SalvaRx Limited. SalvaRx Limited raised US \$3,960,000 in unsecured loan notes from the offering reflecting a sterling value of £3,136,000 on issue.

The coupon interest of 7% arising on the 2017 loan notes is included within accruals as it is payable within one year.

5. Convertible Loan Notes

On 8 March 2018 iOx Therapeutics Limited issued US\$1m of unsecured convertible loan notes. The notes entitle the holder to interest of 7% per annum and are convertible into ordinary shares in iOx on the earlier of the first anniversary of the date of issue of the instrument or the date in which iOx conducts a sale or listing or it undertakes an eligible third-party fundraising of not less than \$2m.

SalvaRx Group plc

Notes to the interim financial statements for the six months ended 30 June 2018

6. Other loans

On 26 June 2018, J Mellon and G Bailey made additional loans to the company of US\$500,000 each. Interest is payable on the loans at 7% per annum and the loans are repayable on 20 June 2019.

7. Loss per Ordinary Share

Basic loss per Ordinary Share is calculated by dividing the net loss for the year attributable to Ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the period. The calculation of the basic and diluted loss per Ordinary Share is based on the following data:

The calculation of the basic and diluted loss per share is based on the following data:

	Unaudited six months ended 30 June 2018 £'000	Unaudited six months ended 30 June 2017 £'000	Audited Year ended 31 December 2017 £'000
Loss			
Loss for the purposes of basic loss per share from continuing operations being net loss attributable to equity holders of the parent	(1,894)	(1,091)	(1,744)
	=====	=====	=====
Number of shares			
Weighted average number of Ordinary Shares for the purposes of basic profit/(loss) per share	36,467,123	36,466,619	36,467,123
	=====	=====	=====
Loss per Ordinary Share	£	£	£
From continuing operations			
Basic and diluted	(0.05p)	(0.03p)	(0.05p)
	=====	=====	=====

The weighted average number of shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under IAS 33 *Earnings per Share*.

8. Share capital

	Unaudited 30 June 2018		Unaudited 30 June 2017		31 December 2017	
	Number in 000	£'000	Number in 000	£'000	Number in 000	£'000
Authorised						
Ordinary Shares of 2.5p each	80,000	2,000	80,000	2,000	80,000	2,000
Issued and fully paid						
Ordinary Shares of 2.5p each	36,467	911	36,467	911	36,467	911

The Company has one class of Ordinary Shares, which carry no right to fixed income.

SalvaRx Group plc

Notes to the interim financial statements for the six months ended 30 June 2018

8. Share capital (*continued*)

The Company has 3,182,828 options issued and outstanding as at 30 June 2018 of which 836,264 options have not yet vested. These options expire between February 2018 and March 2021 and are convertible into equal number of Ordinary shares of the Company at an exercise prices ranging from 23.2p to 71p per share.

iOx has 2,599 options issued and outstanding as at 30 June 2018 of which 1,035 options have not yet vested. These options expire between 2020 and 2022 and are convertible into equal number of Common shares of iOx at an exercise price of £120 per share.

9. Post balance sheet events

On 14 August 2018, the Company announced that it had entered into a conditional sale agreement for the disposal of its interest in Salvarx Limited to Portage Biotech Inc. for a consideration of US\$67.5 million to be satisfied by the issue of approximately 758 million shares in Portage.

Concurrent with the Disposal, it is proposed that not less than 656 million Portage shares will be transferred to the shareholders of the Company on a pro-rata basis.

The Company will be seeking shareholders' approval to undertake the Disposal and Demerger at the 2018 AGM.