

## SalvaRx Group plc

("SalvaRx", or the "Company")

Half Yearly Report to 30 June 2017

SalvaRx Group plc (AIM: SALV), the drug development company focused on immunotherapy for cancer, is pleased to announce its interim results for the six months ended 30 June 2017.

### Highlights

- Collaborated with Nekonal S.A.R.L to form Nekonal Oncology Ltd. and invested to acquire 33% of the joint venture company
- Acquired 31% of the equity in RIFT Biotherapeutics Inc., a company focused on the development of antibodies for use in oncology
- Advanced Intensity Therapeutics' first product into the clinic
- Streamlined business so that all investments will be held by SalvaRx Limited, the Group's BVI subsidiary
- SalvaRx Limited constituted a loan note instrument of up to US\$5 million – approximately US\$3m in debt issued to date to finance new transactions
- Post period end announced the formation of Saugatuck Therapeutics in conjunction with Immunova LLC to focus on the use of nanolipogel technology in the delivery of DNA aptamers and certain aptamer-based combination products

### Chief Executive Officer's Statement

In the first half of 2017, we have continued to execute our strategy to build a pipeline of novel cancer immunotherapies. I am pleased that we have added two antibody companies to the SalvaRx group. Each has developed, what we believe are multiple first in class/best in class antibodies against unique targets in the tumor microenvironment. Both RIFT and Nekonal Oncology have begun to test their products and to advance them towards the clinic. RIFT has a small lab in San Diego which can be leveraged for other programs and provides the group with added capabilities in research and development.

Our first set of products from iOx Therapeutics Ltd ("iOx") have been advancing through development. During this period, we have been working with our contract manufacturing partners to scale up the production to enable large scale runs. Our plan is to initiate multiple human clinical studies next year.

By mid-year, the group has interest in eight products in development, including our first to enter into human testing being Intensity Therapeutics' ("Intensity") lead product. We see this as a major milestone and value driver for our business.

In order to streamline the group, in March 2017 we announced that we had placed all our assets into our BVI subsidiary SalvaRx Limited. We have also issued debt with warrants amounting to nearly US\$3m to finance the company formations and initial work on our new technologies. The Company continues to pursue strategic deals and will raise the necessary funding to implement these in order to create value for shareholders

SalvaRx's goal is to develop products and take them through to human proof of concept, focusing on safety and efficacy in humans with some scientific evidence of activity against the target. Intensity's lead product, which the SalvaRx management team has helped develop, is being tested in two countries on patients with advanced malignancies. This milestone demonstrates our ability to advance products through early testing and to prepare and defend applications to health authorities in multiple countries. Intensity anticipates having preliminary data from this trial next year.

We are focused on preparing more products for human testing in 2018. Cancer immunotherapy remains a very exciting investment area, and many advances have come to fruition to help patients. I remain optimistic about the positive contribution SalvaRx can make towards advancing treatment for cancer patients. In the US, a new cancer immunotherapy (Kymriah) was approved for paediatric leukaemia. This approval was based on a small study of 63 patients who achieved an overall remission rate within three months of treatment of 83%. Never before in refractory cancer treatment have we seen such extraordinary outcomes. Our understanding of the science coupled with rapid and bold drug development have given these children and their families hope for returning to a normal life.

## **Outlook**

I am very pleased with the progress in the period and what we have achieved in the last three months to advance our products. We continue to get referred many new exciting opportunities in this space and several of these are under review. We have built an expanded team with additional capabilities, and I look forward to sharing more updates soon.

Dr Ian Walters

Chief Executive Officer

## **Enquiries**

SalvaRx Group plc

Ian Walters (Chief Executive)

Tel: +1 203 441 5451

Northland Capital Partners Limited

Tel: +44 (0)20 3861 6625

Nominated Adviser and Broker

Matthew Johnson / Edward Hutton (Corporate Finance)

John Howes / (Corporate Broking)

Peterhouse Corporate Finance Limited (Joint Broker)

Tel: +44 (0)20 7469 0932

Lucy Williams / Duncan Vasey

SalvaRx Group plc  
Consolidated income statement  
For the six months ended 30 June 2017

		Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Research and development		(570)	(240)	(693)
Exceptional item (non-cash charge arising on reverse takeover transaction)		-	(563)	(871)
Share of losses in associates	2	(96)	-	-
Other operating costs		(665)	(575)	(913)
<b>Operating loss</b>		<b>(1,331)</b>	(1,378)	(2,477)
Finance cost	5	(72)	(25)	1
<b>Loss before tax</b>		<b>(1,403)</b>	(1,403)	(2,476)
Tax		15	15	31
<b>Net loss and comprehensive loss for the period</b>		<b>(1,388)</b>	(1,388)	(2,445)
<b>Net loss and comprehensive loss attributable to</b>				
Owners of the company		(1,091)	(1,273)	(2,038)
Non-controlling interest		(297)	(115)	(407)
		<b>(1,388)</b>	(1,388)	(2,445)
<b>Loss per ordinary shares</b>				
Basic and diluted	6	(0.03p)	(0.05p)	(0.06p)

**SalvaRx Group plc**  
**Consolidated statement of financial position**  
**As at 30 June 2017**

	Note	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	31 December 2016 £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Investments	2	1,804	1,375	1,431
Investment in associates	2	1,046	-	-
Intangible assets	3	1,093	1,210	1,184
		<b>3,943</b>	<b>2,585</b>	<b>1,210</b>
<b>Current assets</b>				
Trade and other receivables		139	71	34
Cash and cash equivalents		909	1,876	967
		<b>1,048</b>	<b>1,947</b>	<b>1,001</b>
<b>Total assets</b>		<b>4,991</b>	<b>4,532</b>	<b>3,616</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Convertible loan notes	5	-	399	616
Unsecured loan notes	4	2,034	-	-
Equity option on convertible loan	5	-	386	78
Warrant liabilities	4	276	-	-
Deferred tax liabilities		186	-	201
		<b>2,496</b>	<b>785</b>	<b>895</b>
<b>Current liabilities</b>				
Trade and other payables		529	512	295
		<b>529</b>	<b>512</b>	<b>244</b>
<b>Total liabilities</b>		<b>3,025</b>	<b>1,297</b>	<b>1,190</b>
<b>Net assets</b>		<b>1,966</b>	<b>3,235</b>	<b>2,426</b>
<b>Equity</b>				
Share capital	7	911	911	911
Share premium account		-	62,353	-
Other reserves		3,065	(59,288)	3,065
Equity, purchase of own shares		(215)	(215)	(215)
Share-based payment reserves		500	134	382
Accumulated deficit		(3,455)	(1,599)	(2,364)
Equity attributable to equity holders of the parent		<b>806</b>	<b>2,296</b>	<b>1,779</b>
Non-controlling interest		<b>1,160</b>	<b>939</b>	<b>647</b>
<b>Total equity</b>		<b>1,966</b>	<b>3,235</b>	<b>2,426</b>

**SalvaRx Group**  
**Consolidated statement of cash flows**  
**For the six months ended 30 June 2017**

	Note	Unaudited six months ended 30 June 2017	Unaudited six months ended 30 June 2016	Year ended 31 December 2016
		£'000	£'000	£'000
Loss for the period		(1,388)	(1,388)	(2,445)
<b>Adjustments for:</b>				
Deferred taxation		(15)	(15)	(31)
Amortisation		91	91	182
Share of losses in associates		96	-	-
Share-based payments		118	108	357
Finance cost		29	25	(1)
Non-cash exceptional item		-	563	563
<b>Operating cash flows before movements in working capital</b>		<b>(1,069)</b>	<b>(616)</b>	<b>(1,375)</b>
<b>(Increase)/decrease in receivable</b>		<b>(105)</b>	<b>165</b>	<b>202</b>
<b>(Decrease)/increase in payables</b>		<b>234</b>	<b>(189)</b>	<b>(332)</b>
<b>Cash used in operations</b>		<b>(940)</b>	<b>(640)</b>	<b>(1,505)</b>
<b>Taxation paid</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Net cash outflow from operating activities</b>		<b>(940)</b>	<b>(640)</b>	<b>(1,505)</b>
<b>Investing activities</b>				
Cash acquired through reverse acquisition		-	2,564	2,564
Purchase of investments		(1,419)	(1,375)	(1,431)
<b>Net cash used in investing activities</b>		<b>(1,419)</b>	<b>1,189</b>	<b>1,133</b>
<b>Financing activities</b>				
Proceeds from the issue of unsecured loan notes		2,295	-	-
Proceeds on issue of convertible loan notes		-	760	760
<b>Net cash from financing activities</b>		<b>2,295</b>	<b>760</b>	<b>760</b>
<b>Net increase in cash and cash equivalents</b>		<b>(64)</b>	<b>1,309</b>	<b>388</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>967</b>	<b>567</b>	<b>567</b>
Effect of exchange rate on cashflow		6	-	12
<b>Cash and cash equivalents at end of period</b>		<b>909</b>	<b>1,876</b>	<b>967</b>

SalvaRx Group plc  
Consolidated statement of changes in equity  
As at 30 June 2017

	Attributable to the owners of the company						Equity attributable to owners	Non-controlling interest	Total equity
	Share Capital	Share premium	Other reserves	Purchase of own shares	Share-based payments reserves	Accumulated deficit			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2015	155	52,533	(51,748)	-	25	(326)	639	1,054	1,693
Issue of equity shares by parent	756	9,820	(7,540)	(215)	-	-	2,821	-	2,821
Share based payments	-	-	-	-	109	-	109	-	109
Net loss for the period	-	-	-	-	-	(1,273)	(1,273)	(115)	(1,388)
<b>At 30 June 2016</b>	<b>911</b>	<b>62,353</b>	<b>(59,288)</b>	<b>(215)</b>	<b>134</b>	<b>(1,599)</b>	<b>2,296</b>	<b>939</b>	<b>3,235</b>
Cancellation of share premium account	-	(62,353)	62,353	-	-	-	-	-	-
Share based payments	-	-	-	-	248	-	248	-	248
Net loss for the period	-	-	-	-	-	(765)	(765)	(292)	(1,057)
<b>At 31 December 2016</b>	<b>911</b>	<b>-</b>	<b>3,065</b>	<b>(215)</b>	<b>382</b>	<b>(2,364)</b>	<b>1,779</b>	<b>647</b>	<b>2,426</b>
Share based payments	-	-	-	-	118	-	118	-	118
Shares issued at subsidiary	-	-	-	-	-	-	-	810	810
Net loss for the period	-	-	-	-	-	(1,091)	(1,091)	(297)	(1,388)
<b>At 30 June 2017</b>	<b>911</b>	<b>-</b>	<b>3,065</b>	<b>(215)</b>	<b>500</b>	<b>(3,455)</b>	<b>806</b>	<b>1,160</b>	<b>1,966</b>

## SalvaRx Group plc

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

#### 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 2016.

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 was a fully-owned subsidiary of the Company until 2 March 2017. Effective 2 March 2017, the Company's equity in SalvaRx decreased to 94.15% due to an issue of shares by SalvaRx.
- 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 acquired 60.49% equity in IOX on 1 July, 2015.

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 review 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".

The Company is in the pre-clinical stage, and as such no revenue has been generated from its operations. The Company has accumulated losses of approximately £3.6m and has negative cash flows from operating activities of approximately £1m during the six months ended 30 June 2017.

The group has prepared a cash flow forecast which indicates that the group does not have sufficient cash to meet its minimum expenditure commitments and support its current level of corporate overheads for the next twelve months and therefore needs to raise additional funds to continue as a going concern.

To address the future additional funding requirements of the group, since 30 June 2017, the Directors have undertaken the following initiatives:

- entered discussions to secure additional debt funding from current or new investors
- received pledges of support of up to US\$1m from the existing shareholders
- undertaken a programme to continue to monitor the group's ongoing working capital requirements and minimum expenditure commitments; and
- continued their focus on maintaining an appropriate level of corporate overheads in line with the available cash resources.

The Directors are confident that they will be able to secure further funding that will provide the group with sufficient funding to meet its minimum expenditure commitments and support its planned level of expenditures, and therefore that it is appropriate to prepare the financial statements on the going concern basis.

However, in the event that the group is not able to successfully complete the fundraising referred to above, significant uncertainty would exist as to whether the Company and the group will continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Company and the group not continue as going concerns.

## 2. Investments

		Unaudited 30 June 2017	Unaudited 30 June 2016	31 December 2016
		£'000	£'000	£'000
<b>Available-for-sale investments</b>				
Investment in Intensity	i	1,540	1,375	1,395
<b>Loan receivable at amortised cost</b>				
RIFT	iv.	-	-	36
Nekonal S.A.R.L.	ii	264	-	-
		<b>1,804</b>	<b>1,375</b>	<b>1,431</b>
<b>Investment in Associates</b>				
Nekonal Oncology Ltd	iii	276	-	-
RIFT	iv	770	-	-
		<b>1,046</b>	<b>-</b>	<b>-</b>

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 together with related convertible loan notes of US\$1m to SalvaRx. The Company's holdings represent less than 10% of the equity of Intensity.

ii. On 1 March 2017, SalvaRx invested €0.3m (£0.3m as at 30 June 2017) in cash in Nekonal S.A.R.L. by way of a convertible loan to participate in the funding of their auto-immune programs. SalvaRx also committed to invest additional €0.3m subject to achievement of certain milestones. The loan carries no interest.

iii. On 1 March 2017, SalvaRx made an equity investment of €0.3 (£0.3m as at 30 June 2017) in cash in Nekonal Oncology Ltd., ("Nekonal") incorporated on 17 February 2017 in British Virgin Islands. SalvaRx holds 35,000 common shares representing approximately 33% equity in Nekonal and the Company's director, Dr. Ian Walters is a director and CEO of Nekonal. SalvaRx thus has significant



influence over Nekonal and therefore the investment in Nekonal has been accounted for on an equity basis.

iv. On 17 March 2017, SalvaRx invested \$1m in RIFT Biotherapeutics Inc. ("RIFT"), a Delaware private corporation. The amount invested together with \$90,000 already loaned to date along with accumulated interest on loan and cost sharing payment of \$15,000 receivable, were converted into 811,853 series A preferred stock convertible into equal number of common shares in RIFT. SalvaRx holds approximately 31% equity in RIFT, its CEO, Dr. Ian Walters is a director in RIFT and SalvaRx provides scientific assistance to RIFT under a consulting agreement. SalvaRx thus has significant influence over RIFT and therefore the investment in RIFT has been accounted for on an equity basis.

SalvaRx also agreed to invest further \$1m in achievement of certain milestones by RIFT and an optional additional \$0.5m to increase its equity to approximately 96%.

The effect of equity accounting on the investment was as follows:

	<b>Nekonal</b>	<b>Rift</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Original investment in cash and services	290	782	1,072
Conversion of loans and related interest share of losses from the date of acquisition to 30 June 2017	(14)	(82)	(96)
<b>Balance as at 30 June 2017</b>	<b>276</b>	<b>770</b>	<b>1,046</b>

As at 30 June 2017, the Company has determined that there was no evidence of any impairment in the value of the investments and as a result no adjustment was considered necessary in their carrying value.

### 3. Intangible assets

	<b>In process research</b>		
	<b>Unaudited 30 June</b>	<b>Unaudited 30 June</b>	<b>31 December</b>
	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
Beginning of period	1,457	-	-
Additions		1,301	1,457
end of period	1,457	1,301	1,457
<b>Amortisation</b>			
Beginning of period	(273)	-	(91)
Charge for the period	(91)	(91)	(182)
end of period	(364)	(91)	(273)
<b>Balance at end of period</b>	<b>1,093</b>	<b>1,210</b>	<b>1,184</b>

The intangible asset arising from the acquisition of 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 6 years. Given that the progress of iOx is satisfactory, there is no indication of impairment.

### 4. Unsecured Loan Notes

On March 2, 2017, the Company approved a private placement of unsecured notes in the aggregate principal amount of US\$5m by SalvaRx. The notes bear interest at a rate of 7% per annum, payable annually on each anniversary date. The notes were not redeemable by the Company prior to maturity. The notes holders were granted a warrant to subscribe for \$7,500 new ordinary shares for every \$10,000 of note held, provided that certain qualifying event occurs within the four anniversary years of issuance. The exercise price of the warrant will be based on the price of equity shares determined by the qualifying event and the year in which it takes place. Given that there was an obligation to issue a variable number of shares, the warrant was classified as a financial liability.

Up to 30 June 2017, approximately US\$2.9m was raised through issuance of these notes. Approximately \$2.6m (£2m) of the face value was ascribed to the note payable component and \$0.3(£0.3) fair value was ascribed to the warrant. The value of note payable component was further increased by \$20,501 as at 30 June 2017 representing the difference between the notional interest at 11% and actual interest at 7% being charged to interest expense.

Fair value was determined by reference to market transactions and similar debt instruments without warrants. The Company did not incur financing costs in connection with this placement of notes.

## 5. Convertible Loan Notes

On 21 April 2016, the Company issued US\$1 million of zero coupon convertible unsecured loan notes ("Loan Notes") to Jim Mellon, the Non-Executive Chairman and Greg Bailey, a Non-Executive Director ("the Noteholders"), who are both substantial shareholders in the Company. Mr Mellon and Dr Bailey subscribed for US\$0.5 million of Loan Notes each.

On 2 March 2017, the notes were transferred to SalvaRx and the note holders agreed to convert their loan into 4,000 shares in SalvaRx at US\$250 per share, giving them 5.85% equity in SalvaRx. As a result, liabilities relating to loan note and related equity option value were reversed and the difference between the transfer value and the carrying value expensed.

## 6. 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 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
<b>Loss</b>			
Loss for the purposes of basic loss per share from continuing operations being net loss attributable to equity holders of the parent	(1,091)	(1,273)	(2,038)
<b>Number of shares</b>			
Weighted average number of Ordinary Shares for the purposes of basic profit/(loss) per share	36,466,619	26,372,722	34,561,950
<b>Loss per Ordinary Share</b>	£	£	£
<b>From continuing operations</b>			
Basic and diluted	(0.03p)	(0.05p)	(0.06p)

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*.

## 7. Share capital

	Unaudited 30 June 2017		Unaudited 30 June 2016		31 December 2016	
	Number in 000	£'000	Number in 000	£'000	Number in 000	£'000
<b>Authorised</b>						
Ordinary Shares of 2.5p each	<b>80,000</b>	<b>2,000</b>	80,000	2,000	80,000	2,000
<b>Issued and fully paid</b>						
Ordinary Shares of 2.5p each	<b>36,467</b>	<b>911</b>	36,467	911	36,467	911

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

The Company has 3,225,941 options issued and outstanding as at 30 June 2017 of which 1,672,518 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 1,324 options issued and outstanding as at 30 June 2017 of which 311 options have not yet vested. These options expire between 2020 and 2021 and are convertible into equal number of Common shares of iOx at an exercise price of £120 per share.