

Port Erin Biopharma Investments Raises \$5 Million in AIM IPO Investing Company's Focus is the U.S. West Coast

Overview

Port Erin Biopharma Investments, an Investing Company incorporated in the Isle of Man, which will be focused on making investments in U.S. West Coast biotechnology and biopharmaceutical companies, raised \$5 million in its recent IPO on the London Stock Exchange's Alternative Investment Market (AIM).

The Company's Chairman is a renowned global investor, entrepreneur and author with an estimated net worth of \$800 million. The Company intends to co-invest, wherever possible, alongside its Chairman in investments he identifies. The Chairman has spent the last three years researching the sector, has acquired a portfolio of investments and is now partly based in San Francisco. He is becoming well-known in the U.S. biotech/biopharma industry and is approached frequently about potential opportunities.

The Company chose AIM for its IPO for many of the typical reasons; AIM's public profile, its broad investor base, liquidity and access to institutional and other investors. While the Company's Chairman is obviously wealthy, as is often the case, the accumulation of great wealth is the result of intelligence, hard work and the use of other people's money, therefore, it is access to the world's deepest pool of internationally-focused investors in London that will be most important over the medium-to-long-term.

Before summarizing the details of Port Erin Biopharma's IPO, it is important to understand that AIM-listed investing companies are subject to some additional specific rules and regulations. These are outlined in the section below at a high level, with further details appearing on pages 5 - 7.

London Stock Exchange's AIM Rules for an Investing Company

In accordance with the London Stock Exchange's (LSE's) AIM Rule 8, an investing company must:

- raise a minimum of £3 million (\$5 million) in cash via an equity fundraising;
- state and follow an investing policy;
- seek the prior consent of its shareholders for a material change in its investing policy; and
- if it has not substantially implemented its investment policy within 18 months, seek the consent of its shareholders for its investing policy at its next annual general meeting, and on an annual basis thereafter, until such time that its investing policy has been substantially implemented.

An investing company is defined as having as its primary business or objective, the investing of its funds in securities, businesses or assets of any description.

An investing policy is defined as the policy the investing company will follow in relation to asset allocation and risk diversification. The policy must be sufficiently precise and detailed to allow the assessment of it, and, if applicable, the significance of any proposed changes to the policy. It must contain as a minimum:

- assets or companies in which it can invest;
- the means or strategy by which the investing policy will be achieved;
- whether such investments will be active or passive;
- how widely it will spread its investments and its maximum exposure limits, if applicable;
- its policy in relation to gearing (i.e. leverage) and cross-holdings, if applicable;
- details of investing restrictions; if applicable; and
- the nature of returns it will seek to deliver to shareholders and, if applicable, how long it can exist before making an investment and/or before having to return funds to shareholders.

Investing Policy

Port Erin Biopharma intends to establish a portfolio of 20 - 25 investments in biotech/biopharma companies. The majority of these companies are likely to be based in the U.S. The Company will invest in public companies, which offer the benefit of liquidity, and private companies, which offer the attraction of additional capital gains upon completion of a successful IPO. The Company will be a passive investor.

Because of the high risk nature of investment in companies engaged in drug discovery and development, the Company will restrict the amount invested in any one company to an amount not exceeding 10% of the net asset value of the Company at the time of investment. In order to ensure that it has some liquidity for new and/or follow-on investments, the Company will invest a maximum of 40% of its net asset value in private companies at the time of making its final private company investment.

The Company intends to deliver capital growth by realizing capital gains when it considers that the valuation of individual investments looks to be excessive or, as is often the case in this sector, as a result of investees being acquired. While there is no formal limit on the Company's borrowing powers, the Board does not intend to use borrowings to fund investments.

Identification of Potential Investments

The Company's Chairman has spent the last three years researching the sector and is now partly based in San Francisco. He has acquired a personal portfolio of relevant investments, is becoming well-known in the U.S. biotech/biopharma industry and is approached frequently about potential investments.

The Chairman evaluates potential investments in terms of the size of the potential market for a product or drug and the stage of clinical trials passed; arriving at a risk-weighted assessment of future income streams. When reaching his personal investment decision, the Chairman occasionally seeks industry assistance in verifying the prospects for individual products or drugs. Where possible, and only to the extent he deems necessary, he conducts his own due diligence on potential investments. As part of his due diligence, he will generally, but not always, meet the prospective investee company's management.

If the Chairman decides to invest personally in any given company, he will, at his discretion, and if the company in which he is investing permits, inform the Company of the general details of his investment.

Investment Process

The Directors intend that the Company will, if and when afforded the option to do so, seek to invest in the same companies that its Chairman invests in and, where possible, on similar terms. The amount of each individual investment will be determined by the Company's Chief Investment Officer (CIO), who is responsible for implementing the Company's investing policy. When the Chairman provides his rationale for a proposed investment, the CIO will conduct a 'desktop-based verification' of such rationale.

The Company will appoint an advisory panel with industry experience in the biotech/biopharma sector; however, at the time of its IPO, the Company had not appointed an advisory panel or an investment manager. As deemed appropriate, the CIO will consult with the advisory panel. If the CIO is satisfied that the proposed investment is suitable for the Company, he will provide his endorsement and release funds.

If the Chairman has liquidated an investment where the Company has also invested, he will, when able to do so, inform the CIO who will decide whether to also liquidate the Company's investment. The execution of all investment is the CIO's responsibility and will be overseen by the Board.

Track Record

While the Company's Chairman has invested widely in the biotech/biopharma sector, this has been in a personal capacity and not via a fund or investment company. The track record of the Company's CIO is in the public domain as a manager of regulated Unit Trusts, where he is ranked 2nd and 4th in the U.K. Alpha Fund Manager Performance Table over one and three years, respectively, however, he has not invested in the biotech/biopharma sector. As such, the Directors cannot provide a meaningful record of historic investment success via a listed vehicle or Unit Trust operating in the biotech/biopharma sector.

Valuation and Reporting

The Company will publish a quarterly statement of net asset value per share. Private company investments will be valued at cost or with reference to the most recent funding round. Public company investments will be valued at their mid-market share price immediately prior to the publication of the quarterly statement.

Key Listing Metrics

- \$4.8m gross was raised in the AIM IPO, \$4.4m net of offering costs
- Offering price of £0.10 (\$0.16) included one common share and one warrant
 - Shares admitted to trading on AIM but warrants not admitted to AIM and not transferrable
 - Warrants exercisable at £0.125 (\$0.20)
 - Holder may exercise within two years of the IPO
 - Company may compel exercise if shares close above £0.20 (\$0.32) for five days
- Offering costs amounted to 8.8% of the gross capital raised
 - Undertaken on a 'best efforts' basis, as opposed to being underwritten
 - Broking commission of 5.0%
 - Corporate finance fee of £50k (\$80k)
- Dilution to founding shareholders of 90.9%
- Opening market capitalization of \$5.3m
- Free float of 66.3%

Shareholder Base

The pre-IPO shareholders consisted of entities owned or effectively controlled by the Company's Chairman and/or CIO. The IPO fundraising attracted a wide range of U.K.-based Investment Managers, Private Client Brokers and High-Net-Worth Individuals.

In accordance with AIM Rule 7, since the Company had not been in existence for at least two years, all related parties (i.e. the Directors, 10%+ shareholders, etc.) are subject to a 12-month lock-in. In addition, these related parties agreed to orderly market provision for a further 12 months.

Board of Directors and Corporate Governance

The Board consists of one Executive Director, the CIO, and two Non-Executive Directors; one of whom is Independent and the other is the Chairman. The Company established an Audit Committee, which is chaired by the Independent Non-Executive Director and the CIO is the other member. The Company did not establish a Remuneration Committee since the CIO's compensation is share-based and strictly performance-linked. In fact, both the CIO and Chairman are to be compensated via the issuance of

shares equivalent to 7.5% of any increase in the net asset value of the Company over each quarterly period. The Independent Non-Executive Director is paid a quarterly in cash. The Board intends to meet four times per year and whenever deemed necessary.

Companies listed on AIM are not required to comply with the U.K. Corporate Governance Code, which is mandatory for companies listed on the Main Market; however, the Company intends to apply its principals as far as practicable and appropriate for a company of its nature and size. The Company intends to comply with the Corporate Governance Guidelines for Smaller Quoted Companies published by the Quoted Companies Alliance; however, the Directors are determined to keep administrative fees to a minimum in order to ensure that the highest percentage of funds raised is used for investment purposes.

Legal Considerations

Since the Company is incorporated in, and its 'place of central management and control' is, the Isle of Man, a U.K. Crown Dependency, one of the three most important elements of English corporate law, relating to share ownership disclosure, does not automatically apply. As is customary, the Company amended its constitutional documents to incorporate the notifiable interest requirements. The three main differences between U.K. and U.S. corporate law are:

1. Pre-emption rights (i.e. anti-dilution) – Shareholders must be offered the opportunity to participate in the issuance of shares for cash.¹
2. Notifiable Interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.
3. Takeovers (i.e. mandatory offer) – If any party, or parties acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

Since the Company is incorporated in the Isle of Man and the IPO was not subject to Regulation S of the U.S. Securities Act of 1933, the shares are eligible for dematerialization and trading within CREST, the most common electronic system for the holding and transfer of shares in the U.K. As such, it was not necessary to appoint a Depository and create Depository Interests, as would be the case for a company incorporated outside the U.K., Channel Islands or Isle of Man.

Accounting Considerations

Since the Company is incorporated in the Isle of Man, it is required to report using IFRS. The Isle of Man Member Firm of an international accountancy network acted as Reporting Accountant and audited the financials from inception, which only reflected the seed capital provided by the pre-IPO shareholders and some minor administrative expenses. The Company has chosen to use British pounds Sterling as its reporting currency.

An unaudited pro forma statement of net assets is never required in connection with an AIM IPO and was not provided in this instance given the simplicity of the Company and its IPO.

¹ It is customary for AIM-listed companies to have a standing authorization from their shareholders for the issuance of shares for cash of up to 10% of the then outstanding shares over a 12-month period. This flexibility increases the certainty and speed of small capital raises and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.

AIM Rule 8 Guidance Notes

The AIM Rules include some guidance notes with respect to investing companies. As is common throughout the AIM Rules, the ambiguity of some of the language below is intentional so that judgment may be employed by the company's Nominated Adviser (Nomad) and the LSE.

The investing policy must be sufficiently precise and detailed so that it is clear, specific and definitive. The investing policy must be prominently stated in the Admission Document (i.e. the U.S. equivalent of a Prospectus or S-1) and any subsequent circular (i.e. shareholder document) relating to the investing policy. The investing policy should be regularly notified (i.e. delivered to a Regulatory Information Service for distribution to the public) and, at a minimum, should be stated in the investing company's annual accounts (i.e. financial statements).

Any circular convening a meeting of shareholders for the purposes of obtaining consent for a change in investing policy should contain adequate information about the current and proposed investing policy and the reasons for, and expected consequences of, any proposed change. It should also contain the additional investment company disclosures that were required in the Admission Document.

In making the assessment of what constitutes a material change to the published investing policy, consideration must be given to the cumulative effect of all the changes made since shareholder approval was last obtained for the investing policy or, if no such approval has been given, since the date of admission to AIM. Any material change to the specific points set out in the definition of the investing policy is likely to constitute a material change requiring shareholder approval.

In making the assessment of whether or not an investing company has substantially implemented its investing policy, the LSE would consider this to mean that the investing company has invested a substantial portion (usually at least in excess of 50%) of all funds available to it, including funds available through agreed debt facilities, in accordance with its investing policy.

In relation to any requirement to obtain shareholder approval of the investing policy, such as where the investment policy has not been substantially implemented within 18 months, if such shareholder approval is not obtained, the company would usually be expected to propose amendments to its investing policy and seek shareholder approval for those amendments, as soon as possible. A resolving action, such as the return of funds to shareholders, should be considered if consent is again not obtained. The company's Nomad must keep the LSE informed if such a situation occurs. For the avoidance of doubt, if shareholder approval for the change to investing policy is not obtained, the company's existing investing policy will continue to be effective.

Separate Note Published by the London Stock Exchange for Investing Companies

From time-to-time, the LSE publishes separate notes, which form part of the AIM Rules. Only two such notes have ever been published; one for investing companies and the other for mining and oil and gas companies. The investing company note sets out specific requirements, rule interpretations and guidance relating to prospective issuers and existing investing companies. If a Nomad believes that provisions set out in a note are not applicable or appropriate to a particular AIM-listed company, they should contact the LSE's AIM Regulation Team.

Definition of an Investing Company

If there is any doubt concerning whether or not a prospective issuer or an existing AIM-listed company should be treated as an investing company, the LSE should be consulted. The definition of investing company does not include an AIM-listed company which is a holding company for a trading (i.e. operating) business but it does include entities such as cash shells, blank check companies and special purpose acquisition companies.

Appropriateness for AIM

The investing company should usually be a closed-ended entity of a similar structure to a U.K. plc, not requiring a restricted investor base. It should be straightforward and not complex in terms of its structure, securities and investing policy and should issue primarily common shares.

Where an investing company takes a controlling stake in an investment, there should be sufficient separation between the company and the investment to ensure that the investing company does not become a trading company. There should also be sufficient separation between the investment and any other investments the investment company has made; cross-financing or sharing of operations, for example, should be limited.

If an investing company is intending to undertake an acquisition that might result in it becoming a trading company, the reverse takeover rules should be considered.

An investing company's exposure to risk through any cross-holdings should be considered.

If the investing company principally invests its funds in another company or fund that itself invest in a portfolio of investments, the impact of this on the company's investing policy should be considered. This should include an assessment as to whether the investing company's investing policy should mirror that of the master fund.

A Nomad must satisfy itself that the Board and any investment manager are appropriate and have sufficient experience for the investing company and the investing policy. There should be appropriate agreements in place between an investing company and investment manager. Where there is an investment manager, an investing company should have in place sufficient safeguards and procedures to ensure that its Board retains sufficient control over its business.

The LSE would usually expect the Board of the investing company, as a whole, and its Nomad, to be independent from any investment manager. Whether or not this is the case should be disclosed in the Admission Document, with any subsequent changes notified. The LSE would also usually expect the Board and Nomad to be independent of any substantial shareholders or investments comprising over 20% of the gross assets of the company.

Admission Document Requirements

In addition to the standard disclosures required under the AIM Rules in an Admission Document, investing companies should also disclose the following:

- the expertise its Board has with respect to the investing policy;
- where there is an investment manager:
 - the name of the investment manager;
 - the experience of the investment manager and its expertise with respect to the investing policy;
 - a description of the investment manager's regulatory status, including the name of the regulatory authority by which it is regulated, if applicable;
 - a summary of the key term(s) with the investment manager, including fees, length of agreement and termination provisions; and
- its policy in relation to regular updates, if applicable
- its taxation status and any policy or strategy in relation to taxation, if applicable

Interpretation of the AIM Rules in the Context of Investment Companies

The AIM Rules apply to an investment manager, and any of its key employees that are responsible for making investment decisions in relation to the investment company, in the same manner as they apply to the Board with respect to lock-ins, related party transactions and restrictions on deals (i.e. close or blackout periods in the trading of shares).

The LSE would usually expect that the minimum of £3 million raised as a condition of admission to AIM be accomplished via an independent fundraising and not raised from related parties.

The Nomad should consider, with the investing company, whether periodic disclosures, such as a net asset value statement or details of main investments, should be notified in order to update market participants, with reference to market practice and the activities of the investing company. The approach to making updates should be included in the Admission Document or a relevant circular and any changes to this should be notified. Any periodic disclosures would be in addition to the general requirement to disclose price sensitive information.

The appointment, dismissal or resignation of any investment manager, or any key personnel within the investing company, or investment manager, which might impact the achievement or progression of the investing policy, would generally be considered price sensitive information, requiring notification without delay. Any such notification should include information on the consequences of the appointment, dismissal or resignation.

When making an assessment of whether notification of an investment or disposal of an investment is required, the cumulative impact of a series of investments or disposals should be considered.

The company's Nomad should assess, with the investing company, whether any change to the information disclosed in the Admission Document should be notified.

If an investing company disposes of all, or substantially all, of its assets, it will have 12 months to implement its current investing policy. If this is not fulfilled, the investing company's shares will be suspended from trading on AIM.