

Company Registration No. 01435584 (England and Wales)

N4 Pharma Plc

("N4 Pharma" or the "Company")

Annual Report and Consolidated Financial Statements

Year Ended 31 December 2018



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N4 Pharma plc

Directors, Company Secretary and Advisors

Company Number 01435584 (England and Wales)

Directors:

Nigel Theobald (Chief Executive Officer)
Paul Titley (Executive Director)
Dr David Templeton (Non-Executive Chairman)
Luke Cairns (Non-Executive Director)

Registered Office of the Company

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60 Gracechurch Street
London
EC3V 0HR
United Kingdom

Company Secretary

SGH Company Secretaries Limited
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London
EC3V 0HR
United Kingdom

Nominated Adviser and Broker

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London
EC3A 6AB
United Kingdom

Auditor

Saffery Champness LLP
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Peterborough
PE1 1NG

Financial/Public Relations

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Company's website www.n4pharma.com

Registrars

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Accountants

Offshore Accounting Limited
Offshore View
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GY2 4BH
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N4 Pharma plc

Chairman's Report

N4 Pharma Plc (the "Company"), is the holding company of N4 Pharma UK Limited ("N4 UK") and N4 Biotech Limited ("N4 Biotech") which form the group (the "Group"). N4 UK is a specialist pharmaceutical company engaged in the development of mesoparticulate silica delivery systems to improve the cellular delivery and potency of vaccines. N4 Biotech was originally formed as a potential vehicle to split the groups' activities between the Company's Nuvec® delivery system and its previous generics products but now remains dormant.

Review of operations for the financial year ended 31 December 2018

During the year to 31 December 2018, as anticipated, no revenue was generated by the Group. Other operating income included £72,832 of government grants.

The operating loss for the year was £1,417,089 (31 December 2017: £897,825 loss).

Throughout the year, £784,404 of new funds were raised through the exercise of warrants and a further £1.05m was raised post year end through the placing of 10,500,000 new ordinary shares (the "Placing"). In addition to the £793,141 of cash at the year end, the recent Placing sees the Company in a robust financial position in respect of its current work streams.

Key Operational Events and Opportunities

During the year, the Company completed a pilot human clinical trial to establish the pharmacokinetic profile ("PK") of its sildenafil reformulation, which unfortunately did not meet any of the PK endpoints for the target product profile. The results of this trial indicated that additional formulation development followed by further clinical testing was required.

The Board, having reviewed the full data report and considered the costs and time required to perform additional reformulation, determined that the risk reward profile to reformulate sildenafil to meet the required drug release profile, exemplified in the patent, would be too great. This result with sildenafil also had similar implications for other patents within the Company's generics portfolio, namely aprepitant and duloxetine. The Board, therefore, took the decision that it was in the best interest of the Company as well as its shareholders to focus the Company's ongoing efforts on Nuvec®, a novel drug delivery system licenced from the University of Queensland. The Company subsequently stopped working on generating the required data needed to maintain the sildenafil and associated patents and handed back the licence to these patents to OPAL IP.

The decision to close the Generics division was made in the knowledge that Nuvec® had demonstrated promising results in relevant *in vivo* and *in vitro* models and had the potential to develop into a significant opportunity for the Company. The decision was therefore taken to focus available resources on this opportunity. Consequently, research with Nuvec® as a delivery system for DNA and mRNA based vaccines is continuing. A significant property of Nuvec® which is worth noting is that it acts as a natural adjuvant system, thereby removing the need to add additional adjuvants in the vaccine formulation process.

N4 Biotech was formed as a potential vehicle to split the groups' activities between its Nuvec® delivery system and its previous generics products. Since the closure of the generics division, this split is unnecessary so N4 Biotech will remain as dormant and will not be used.

The Company is continuing to confirm and extend the Nuvec® dataset and the post year end raise of additional funds will allow it to undertake further research on the efficacy of Nuvec® in both a virology and oncology setting with the aim of using this data to enable it to seek commercial pre-clinical collaborations with owners of DNA and mRNA sequences developing vaccines and cancer treatments.

In September 2018, the Board appointed Dr Allan Hey as Head of CMC Development and in November 2018 appointed Dr Melody Janssen as a Consultant to oversee the biological aspects of the Nuvec® research program.

N4 Pharma plc

Chairman's Report (Cont'd)

The focus for the Company's Nuvec® delivery system continues to be on generating data which will enable the Company to engage commercially with pharmaceutical and biotech companies who are looking to utilise novel delivery systems, such as Nuvec®, to improve the efficacy of their own DNA and mRNA vaccines that they have in development.

In order to build a strong case with which to engage with potential partners, the Board has regularly reviewed the data obtained in experimental studies conducted by both collaborators and contract research organisations ("CROs") engaged by the Company. As part of that review, it has become clear that not only were there a number of variables between the studies (as determined by the collaborator or CRO) such as dosage, injection volume and source of antigen, but also the handling and preparation of Nuvec® may have differed materially from the original protocols used by the University of Queensland ("UQ") and then subsequently developed by N4 Pharma.

Consequently, the Directors have decided that, in order to maximise the chances of success for future or repeat studies, the methodology used in the original UQ's studies needs to be more extensively documented. This methodology will form the basis of the technical transfer to other collaborators and will ensure collaborators and CROs use a standard methodology with their subsequent work.

To that end, the Company has commissioned UQ to repeat its original studies to demonstrate repeated strong antibody response with the standard test antigen Ovalbumin ("OVA") and, in doing so, document extensively the preparation steps for Nuvec® prior to injection. This study at UQ will provide a validated testbed against which future enhancements can be benchmarked.

Subject to this work achieving the targeted *in vivo* efficacy, the program to add further efficacy data to our data package will recommence. As outlined above, the Directors believe that by reverting to the original source of Nuvec® and more completely defining UQ's preparation of Nuvec®, it will greatly enhance the potential for success and understanding of comparable studies moving forward as well as assisting with potential collaboration opportunities in this significant market.

Despite the current setback with regard to the *in vivo* reproducibility of results, the *in vitro* results continue to show excellent results with DNA and mRNA antigens and fully support the potential of Nuvec® as a novel delivery system. The business model and potential for Nuvec® remains the same in that we aim to efficiently spend sufficient funds to develop our platform to the point where we can secure licence payments for the use of our delivery system and ultimately achieve royalties on any products developed using Nuvec®.

Future Prospects

In the short to medium term, we will continue to focus our efforts on building a robust data set for Nuvec® which demonstrates its efficacy in a number of key non-clinical models. In addition, the safety profile of Nuvec® will be evaluated in appropriate non-clinical tests to confirm the known safe profile of mesoparticulate silica. Funds will also be utilised to move towards a good manufacturing practise ("GMP") ready manufacture ahead of clinical trials with partners, as and when needed.

In pharmaceutical Research & Development there is no quick fix or alternative to doing things in a methodical way and to the required standards to advance the product through key milestones towards a point of commercialisation or a deal with a partner. The Company is prioritising the key pieces of research it feels are required to advance its data and to enable it to seek such collaborations and will provide updates as each element completes.

In addition to completing the studies at UQ to confirm the original *in vivo* results and then extending the Nuvec® dataset, the board of directors will actively look to add or acquire additional assets to the Company's portfolio. These would ideally but not exclusively be in the same broad therapeutic area, with a view to developing a portfolio of options for development. The Board believes maintaining a portfolio of options will increase the Company's ability to maximise shareholder value.

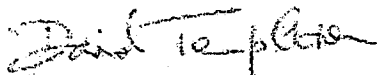
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Chairman's Report (Cont'd)

The recent fundraising leaves the Company with a strong cash position to continue to develop the Nuvec® dataset and chemistry, manufacturing and controls ("CMC") scale up work, whilst looking for other opportunities to add to its portfolio.

On behalf of the Board, I would like to thank all of our shareholders for their continued patient support and look forward to providing further updates on our progress.

By order of the Board



David Templeton
Chairman

13 May 2019

N4 Pharma plc

Board of Directors

Nigel Theobald (Chief Executive Officer)

Nigel has over 25 years' experience in healthcare and in building businesses, strategy development and its implementation and a strong network covering all aspects of pharmaceutical product development and commercialisation. He was the head of healthcare brands at Boots Group Plc in 2002 before leaving to set up a series of successful businesses, including Oxford Pharmascience Group Plc, which he grew over five years into an AIM quoted company with a market capitalisation of £40 million upon departure. Nigel formed N4 Pharma UK Limited in 2014.

Paul Titley (Executive Director)

Paul has over 40 years' experience in the pharmaceutical industry. He led the pharmaceutical development of major tablet products and new manufacturing and formulation technologies at Wellcome (including Zovirax), set up and audited pharmaceutical plants around the world as well as conducting acquisition due diligence. He has also advised over 900 pharmaceutical/biotech companies on how to develop products to meet their clinical and commercial goals. On the commercial and business development front, as Chief Executive, built R5 Pharmaceuticals Limited into a profitable business, leading to its acquisition by Aesica Pharmaceuticals Limited after four years of trading. Subsequently, Paul introduced Aesica to Consort Medical Plc which resulted in Aesica's acquisition by Consort Medical for £230 million in 2014.

Dr David Templeton (Independent Non-Executive Chairman)

An experienced R&D manager having worked in major pharmaceutical, biotech and in the generic industry with specific expertise in early clinical development and translational biology, toxicology and safety pharmacology, lead selection, candidate characterisation, PK/PD analysis and bioanalysis. David has worked in various pharmacology and pre-clinical drug discovery roles for Pfizer, Xenova, Smithkline Beecham and GSK and was the head of non-clinical development at Celltech Limited from 2003 to 2004 before moving to Merck Generics UK as head of biometrics. He was appointed as director of clinical pharmacology of Eisai Limited in 2007 until 2010 when he set up his own consulting business offering discovery and early development advice to several pharmaceutical companies.

Luke Cairns (Independent Non-Executive Director)

Luke has spent over 19 years working in corporate finance and is a former head of corporate finance and managing director at Northland Capital Partners, an FCA regulated stockbroking firm. Having left Northland in 2014, Luke founded LSC Advisory Limited to provide advisory and consultancy services to growth companies. He has worked with many growth companies across a number of sectors and regions on a wide range of transactions, including IPOs, secondary fundraisings, corporate restructurings and takeovers. He is an Associate of the Chartered Institute of Secretaries.

N4 Pharma plc

Directors' Report

The Directors present their report together with the consolidated financial statements of the Group.

Performance review

The Group made a total comprehensive loss of £1,184,843 during the year ended 31 December 2018 (2017: £1,836,984).

Background and principal activities

N4 UK is a specialist pharmaceutical company which improves the delivery of novel vaccines and cancer therapeutics. The nature of the business is not deemed to be impacted by seasonal fluctuations and as such performance is expected to be consistent.

The Company acquired the remaining 51 per cent. of the share capital of N4 UK on 3 May 2017 by way of a reverse takeover. The Company is domiciled in England and Wales and was incorporated and registered in England and Wales on 6 July 1979 as a public limited company and its shares are admitted to trading on AIM (LSE: N4P). The Company's registered office is located at 6th Floor, 60 Gracechurch Street, London EC3V 0HR.

Subsequent events

A total of 10,500,000 Placing Shares at a price of 10p per Ordinary Share were admitted to the London Stock Exchange on 14 February 2019. On admission of the Placing Shares, the Group's issued ordinary share capital consisted of 101,462,537 ordinary shares of 0.4p each with one vote per Ordinary Share. The placing of Shares raised £1.05 million before expenses.

Dividends

The Board has not declared a dividend for the year ended 31 December 2018 (2017: nil).

Directors' remuneration and interests

2018 Director	Remuneration			Interests	
	Cash-based payments	Share-based payments	Totals	Shares	Options
	£	£	£	No.	No.
Nigel Theobald	70,000	-	70,000	16,846,633	-
Paul Titley	40,000	-	40,000	142,857	1,434,286
David Templeton	24,000	-	24,000	-	717,143
Luke Cairns	24,000	-	24,000	142,857	1,392,445
	158,000	-	158,000	17,132,347	3,543,874

1,004,000 options over Ordinary Shares were issued during the year ended 31 December 2018. These are detailed in note 9.

The above remuneration relates to N4 Pharma Plc (and N4 Pharma UK Limited) directors. There is no other Key Management Personnel remuneration.

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Directors' Report (Cont'd)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law and AIM Rules require the directors to prepare consolidated financial statements for each financial year. Under that law, they have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law. Under company law, the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the loss of the Group for that period. In preparing these consolidated financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and the AIM Rules. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions.

The Company is compliant with AIM Rule 26 regarding the Company's website.

Directors' confirmation

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. The Directors consider that the Group will have access to adequate resources, as set out below, to meet both operational requirements for at least 12 months from the date of approval of these consolidated financial statements. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements.

The Group currently has no source of operating cash inflows, other than interest and grant income, and has incurred net operating cash outflows for the year ended 31 December 2018 of £1,344,247 (2017: £950,800 outflow). At 31 December 2018, the Group had cash balances of £793,141 (2017: £1,326,272) and a surplus in net working capital (current assets, including cash, less current liabilities) of £879,944 (2017: £1,279,754).

On 14 February 2019 the Group and Company raised £1,050,000 before expenses, from a share placing.

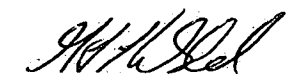
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Directors' Report (Cont'd)

Going concern (cont'd)

The Group continues to take steps to manage operational expenditure effectively and to manage the cash required for budgeted activities and working capital for at least 12 months from the date of approval of the consolidated financial statements. Close monitoring of current and forecast expenditure is undertaken by the board and key executive decisions discussed at monthly board meetings.

On behalf of the Board



Nigel Theobald
Director

13 May 2019

N4 Pharma plc

Corporate Governance Statement

The Company's ordinary shares are admitted to trading on AIM of the London Stock Exchange and the Company is subject to the continuing requirements of the AIM Rules. The UK Corporate Governance Code sets out the principles of good practice in relation to corporate governance which should be followed by companies with a full listing on the London Stock Exchange. Although the Company is not required to comply with the UK Corporate Governance Code by virtue of being an AIM-quoted company, during the period under review the Board sought to apply the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies ("QCA Guidelines") to the extent appropriate and practical for a company of its nature and size. With effect from September 2018, the Company adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"). This section provides general information on the Group's adoption of the QCA Guidelines and the QCA Code. In addition, further detail about how the Company complies with the ten principles of the QCA Code can be found on the Company's website.

The Board

The Board consists of four Directors, two of whom are Non-Executive and are considered to be independent in character and judgement, and there are no relationships or circumstances which could materially affect or interfere with the exercise of their judgement save only in respect of their holding of ordinary shares and options in the Company as set out on page 8. The names of the Directors, together with their biographical details, are set out on page 7.

The roles of Chairman and Chief Executive Officer are held by separate directors and there is clear division of responsibilities between them. The Chairman is responsible for the leadership of the board and is pivotal in fostering a culture that adopts good corporate governance. The Chairman together with the rest of the board sets direction for the Company through a formal schedule of matters reserved for its decision. The two executive directors have particular roles and areas of responsibility and continually engage with the Company's shareholders and stakeholders. The board has a schedule of matters reserved for its review and approval, such items include strategy, approval of major capital expenditure projects, approval of the annual and interim results, annual budgets, dividend policy and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure. The Board delegates day-to-day responsibility for managing the business to the Executive Directors and the senior management team.

In 2018, the Board met formally seven times and each Director attended each board meeting. In addition, the Board has ad hoc meetings as required and regular management meetings. Each of the Directors is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. Any Directors appointed by the Board are subject to election by shareholders at the first Annual General Meeting ("AGM") after their appointment.

Non-Executive directors are expected to devote such time as is necessary for the proper performance of their duties. This includes attendance at Board meetings, the AGM, meetings with the directors, meetings with shareholders, and committee meetings.

Paul Titley is a part time executive director working two days per week.

The Board composition is reviewed from time to time as appropriate. The Board considers that, collectively the Directors have the necessary mix of experience, skills, personal qualities and capabilities, with the appropriate balance of Executives and Non-Executives, to deliver the strategy of the Company for the benefit of its Shareholders over the medium term. As work continues on Nuvec® it is the Directors' intention to add to broaden the Board's skill set particularly in the areas of oncology and virology delivery systems. The non-executive directors use the board meetings to review and assess the performance of the executive Directors.

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Corporate Governance Statement (Cont'd)

Risk Management and Internal Control

The Directors are aware of their responsibility for establishing and communicating a system to manage risk and implement internal controls.

Operational risks are identified and assessed by management and any significant risks are reported to the Board. Financial and commercial risks are reviewed by the Board on a regular basis.

The Company's internal control systems are designed to provide the directors with reasonable assurance that any problems are identified on a timely basis and dealt with appropriately. The Board considers the internal controls to be effective, but no system of internal control can provide absolute assurance against material misstatement or loss.

The key risks facing the Company together with any mitigation taken are considered further on pages 41 to 43 of this document.

Committees

The Audit Committee consists of non-executive Directors, David Templeton and Luke Cairns, and is chaired by Luke Cairns. The Audit Committee, *inter alia*, determines and examines matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the annual audit. It receives and reviews reports from management and the Company's auditors relating to the half yearly and annual accounts and the accounting and internal control systems in use throughout the Group. It also monitors and is responsible for ongoing compliance by the Company with the AIM Rules for Companies.

The Remuneration Committee consists of non-executive Directors, David Templeton and Luke Cairns, and is chaired by David Templeton. The Remuneration Committee *inter alia*, reviews and makes recommendations in respect of the Directors' remuneration and benefits packages, including share option and the terms of their appointment.

Given the Company's current size, the Board has not considered it necessary to constitute a nomination committee and the Board, as a whole, will consider the appointment of directors and other senior employees of the Company as and when required.

In light of the size and stage of the Company does not consider it appropriate to publish an audit committee or remuneration committee report in this annual report and accounts but will consider the matter annually as the Company grows.

Communication with shareholders and stakeholders

Details of the Company's current strategy and business model can be found in pages 4 to 6 of this document and is reflective of where the Company sits in the research and development cycle with Nuvec®.

As an AIM quoted company, the Company seeks to update investors on material matters through announcements via RNS supplemented by presentations and the engagement of a PR firm. Historical company documents can be found on the Company's website.

In addition, all shareholders can attend the Company's Annual General Meeting, where there is an opportunity to question the Directors as part of the agenda, or more informally after the meeting. Communication with shareholders is seen as an important part of the Board's responsibilities, and care is taken to ensure all price-sensitive information is made available to all shareholders at the same time, in accordance with the AIM Rules, which, by definition, means the Board may not always be able to answer questions as directly or immediately as shareholders may like.

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Corporate Governance Statement (Cont'd)

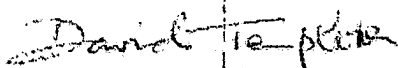
Principal risks and uncertainties

The Group is exposed to a variety of financial risks including market risk, liquidity risk, tax risk and credit risk. These risks are discussed in detail in Note 2.

Financial Instruments and associated risks:

The Board of Directors is committed to effective risk management and is responsible for ensuring that the Group has an appropriate framework in place to identify and effectively manage business risks and to monitor business performance and the Group's financial position. The Board is also responsible for overseeing compliance with regulatory, prudential, legal and ethical standards. These risks are discussed in detail in Note 12.

By order of the Board



David Templeton
Chairman

N4 Pharma plc

Independent auditor's report to the members

Opinion

We have audited the financial statements of N4 Pharma plc (the 'parent company') and its subsidiary (the 'group') for the year ended 31 December 2018 set out on pages 19 to 44. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2018 and its loss for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) we identified, 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 were addressed in the context of our audit of the financial statement 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.

Independent auditor's report to the members (Cont'd)

Key Audit Matter	How our audit addressed the key audit matter
Nuvec® delivery system With the closure of the generics division, the company and group are focused on one business segment. The success of this delivery system is therefore of critical importance to the group.	Our audit procedures included the following: • We discussed progress management have made with case studies; • We reviewed board minutes for all references to Nuvec®; and • We considered information in the public domain. We concurred with Management that the project remains viable at the date of signing the financial statements and the continued investment by the company in Nuvec®.
Going concern The going concern assumption is a fundamental principle in the preparation of financial statements. The group is loss making and yet to generate revenue, other than grant income and research and development (R&D) tax credits. There is the risk that the group could run out of cash whilst investing and developing its Nuvec® delivery system. The going concern assumption has been recognised as a key audit matter.	Our audit procedures included the following: • We have obtained and critically appraised the Directors' going concern assessment and management's strategic plans to generate revenue and profitability; • We have reviewed projected cash flows and other available evidence to assess the ability of the group and the parent company to continue in operation for the 12 months after the date of signing; • We have discussed post balance sheet events with the Directors to assess their impact on the going concern assumption; and • We have performed a sensitivity analysis on the key assumptions underlying management's going concern assessment. Based on our procedures we consider that the disclosures relating to going concern have been made appropriately.
Capitalisation of research and development expenditure The group is incurring significant expenditure in respect of R&D. There is a risk that the treatment applied in the financial statements is incorrect.	Our audit procedures included the following: • We have discussed the treatment of R&D expenditure and future probable income streams with the Directors; • We have tested a sample of R&D expenses and corroborated the accounting treatment; and • We have considered the claim for R&D tax credits. Based on our procedures performed we consider that the expenditure on R&D has been appropriately treated.

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Independent auditor's report to the members (Cont'd)

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. Our overall objective as auditor is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We consider a misstatement to be material where it could reasonably be expected to influence the economic decisions of the users of the financial statements.

We have determined a materiality of £50,000. This is based on 5% of gross assets for the year ended 31 December 2018.

An overview of the scope of our audit

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 Group and the parent company, the accounting processes and controls, and the industry in which they operate.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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Independent auditor's report to the members (Cont'd)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

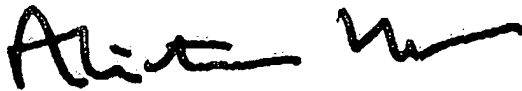
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

N4 Pharma plc

Independent auditor's report to the members (Cont'd)

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



.....
Alistair Hunt (Senior Statutory Auditor)
for and on behalf of Saffery Champness LLP

Chartered Accountants
Statutory Auditors

Unex House
Burgess Boulevard
Peterborough
PE1 1NG

13 May 2019

N4 Pharma Plc
Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Government grant income		72,832	109,913
Gross Profit		72,832	109,913
Research and development costs		(846,176)	(409,808)
General and administration costs		(643,745)	(316,632)
Reorganisation costs		-	(281,298)
Operating loss for the year		(1,417,089)	(897,825)
Deemed cost of acquisition		-	(1,023,734)
Finance expenditure		(981)	(5,299)
Gain on sale of investment	6	27,693	-
Loss for the year before tax	4	(1,390,377)	(1,926,858)
Taxation	5	205,534	89,874
Loss for the year after tax		(1,184,843)	(1,836,984)
Other comprehensive income net of tax		-	-
Total comprehensive loss for the year attributable to equity owners of N4 Pharma Plc		(1,184,843)	(1,836,984)
Loss per share attributable to owners of the parent			
Weighted average number of shares:			
Basic		89,440,373	64,783,082
Diluted		91,305,287	65,811,509
Basic loss per share		(1.32p)	(1.26p)
Diluted loss per share		(1.30p)	(1.24p)

All activities derive from continuing operations.

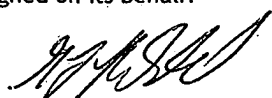
The notes on pages 26 to 44 are an integral part of the consolidated financial statements

N4 Pharma Plc
Consolidated Statement of Financial Position as at 31 December 2018

	Notes	31 December 2018 £	31 December 2017 £
Assets			
Non-current assets			
Investments	6	-	-
Current assets			
Trade and other receivables	7	276,926	132,700
Cash and cash equivalents		793,141	1,326,272
		1,070,067	1,458,972
Total Assets		1,070,067	1,458,972
Liabilities			
Current liabilities			
Trade and other payables	8	(159,666)	(143,788)
Accruals and deferred income		(30,457)	(35,430)
		(190,123)	(179,218)
Total assets less current liabilities		879,944	1,279,754
Non-current liabilities			
Amounts falling due after more than one year		-	-
Net Assets		879,944	1,279,754
Equity			
Share capital	10	8,634,675	8,579,396
Share premium	10	9,328,848	8,513,670
Share option reserve	10	81,909	147,635
Reverse acquisition reserve		(14,138,244)	(14,138,244)
Merger reserve		279,347	299,045
Retained earnings		(3,306,591)	(2,121,748)
Total Equity		879,944	1,279,754

The notes on pages 26 to 44 are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the board of directors on 13 May 2019 and signed on its behalf:



Nigel Theobald

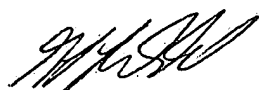
N4 Pharma Plc
Company Statement of Financial Position as at 31 December 2018

	Notes	31 December 2018 £	31 December 2017 £
Assets			
Non-current assets			
Investments	6	1,094,847	1,094,747
Intercompany loan receivable	13	2,009,000	809,000
		3,103,847	1,903,747
Current assets			
Trade and other receivables	7	122,896	51,030
Cash and cash equivalents		646,398	1,266,921
		769,294	1,317,951
Total Assets		3,873,141	3,221,698
Liabilities			
Current liabilities			
Trade and other payables	8	(5,244)	(4,125)
Accruals and deferred income		(18,907)	(16,400)
		(24,151)	(20,525)
Total assets less current liabilities		3,848,990	3,201,173
Net Assets		3,848,990	3,201,173
Equity			
Share capital	10	8,634,675	8,579,396
Share premium	10	9,328,848	8,513,670
Share option reserve	10	81,909	147,635
Merger reserve		279,347	299,045
Retained earnings		(14,475,789)	(14,338,573)
Total Equity		3,848,990	3,201,173

The Company recorded a pre-tax loss of £137,216 for the year (31 December 2017: £15,652 loss).

The notes on pages 26 to 44 are an integral part of the consolidated financial statements.

The financial statements were approved by the board of directors on 13 May 2019 and signed on its behalf:



Nigel Theobald

N4 Pharma Plc
Consolidated Statement of Changes in Equity for the year ended 31 December 2018

(i) Year ended 31 December 2018	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£	£
Balance at 1 January 2018	8,579,396	8,513,670	147,635	(14,138,244)	299,045	(2,121,748)	1,279,754
Total comprehensive loss for the year	-	-	-	-	-	(1,184,843)	(1,184,843)
Share issue	55,279	815,178	-	-	(19,698)	-	850,759
Share option reserve	-	-	(65,726)	-	-	-	(65,726)
At 31 December 2018	8,634,675	9,328,848	81,909	(14,138,244)	279,347	(3,306,591)	879,944
(ii) Year ended 31 December 2017	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£	£
Balance at 1 January 2017	100	-	-	-	-	(284,764)	(284,664)
Total comprehensive loss for the year	-	-	-	-	-	(1,836,984)	(1,836,984)
Share issue	8,561,253	8,643,010	-	-	-	-	17,204,263
Cost of share issue	-	(129,340)	-	-	-	-	(129,340)
Share option reserve	-	-	147,635	-	-	-	147,635
Group Reconstruction	18,043	-	-	(14,138,244)	299,045	-	(13,821,156)
At 31 December 2017	8,579,396	8,513,670	147,635	(14,138,244)	299,045	(2,121,748)	1,279,754

The notes on pages 26 to 44 are an integral part of the consolidated financial statements.

N4 Pharma Plc
Company Statement of Changes in Equity for the year ended 31 December 2018

(i) Year ended 31 December 2018	Share Capital	Share Premium	Share Option Reserve	Merger Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£
Balance at 1 January 2018	8,579,396	8,513,670	147,635	299,045	(14,338,573)	3,201,173
Total comprehensive loss for the year	-	-	-	-	(137,216)	(137,216)
Share issue	55,279	815,178	-	(19,698)	-	850,759
Share option reserve	-	-	(65,726)	-	-	(65,726)
At 31 December 2018	8,634,675	9,328,848	81,909	279,347	(14,475,789)	3,848,990

(ii) Year ended 31 December 2017	Share Capital	Share Premium	Share Option Reserve	Merger Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£
Balance at 1 January 2017	8,452,782	6,880,766	30,812	-	(14,322,921)	1,041,439
Total comprehensive loss for the year	-	-	-	-	(15,652)	(15,652)
Share issue	108,571	1,762,244	-	-	-	1,870,815
Cost of share issue	-	(129,340)	-	-	-	(129,340)
Share option reserve	-	-	116,823	-	-	116,823
Group Reconstruction	18,043	-	-	299,045	-	317,088
At 31 December 2017	8,579,396	8,513,670	147,635	299,045	(14,338,573)	3,201,173

The notes on pages 26 to 44 are an integral part of the consolidated financial statements.

N4 Pharma Plc
Consolidated Statement of Cash Flow for the year ended 31 December 2018

	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Operating activities		
Loss before tax	(1,390,377)	(1,926,858)
Interest	981	5,299
Deemed cost of acquisition	-	1,023,734
Share based payments to employees	629	-
Gain on sale of investments	(27,693)	-
Operating loss before changes in working capital	(1,416,460)	(897,825)
Movements in working capital:		
Increase in trade and other receivables	(9,266)	(109,513)
Increase in trade, other payables and accruals	10,905	56,538
Taxation	70,574	-
Cash used in operations	(1,344,247)	(950,800)
Net cash flows used in operating activities	(1,344,247)	(950,800)
Investing activities		
Cash acquired on reverse acquisition	-	402,990
Sale of investments	6 27,693	-
Net cash flows from investing activities	27,693	402,990
Financing activities		
Interest paid	(981)	(5,299)
Net proceeds of ordinary share issue	784,404	1,988,970
Cost of share issue	-	(129,340)
Net cash flows from financing activities	783,423	1,854,331
Net (decrease)/ increase in cash and cash equivalents	(533,131)	1,306,521
Cash and cash equivalents at beginning of the year	1,326,272	19,751
Cash and cash equivalents at 31 December	793,141	1,326,272

The notes on pages 26 to 44 are an integral part of the consolidated financial statements

N4 Pharma Plc
Company Statement of Cash Flow for the year ended 31 December 2018

	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Operating activities		
Loss before tax	(137,216)	(15,652)
Interest	(70,784)	(21,261)
Unrealised gain on investments	-	(669)
Realised gain on sale of investment	(27,693)	-
Share based payments to employees	629	-
Operating loss before changes in working capital	(235,064)	(37,582)
Movements in working capital:		
Decrease in inventories	-	231,591
(Increase)/decrease in trade and other receivables	(71,867)	145,998
Increase/(decrease) in trade and other payables	3,627	(56,738)
Cash (used)/generated in operations	(303,304)	283,269
Net cash flows (used)/generated in operating activities	(303,304)	283,269
Investing activities		
Proceeds from sale of investments	27,693	-
Investment costs capitalised	-	(71,013)
Acquisition of investment	(100)	(404,605)
Loan receivable advancements	(1,200,000)	(594,051)
Net cash flows used investing activities	(1,172,407)	(1,069,669)
Financing activities		
Interest received	70,784	21,261
Net proceeds of ordinary share issue	784,404	1,988,970
Cost of share issue	-	(129,340)
Net cash flows from financing activities	855,188	1,880,891
Net (decrease)/increase in cash and cash equivalents	(620,523)	1,094,491
Cash and cash equivalents at beginning of the year	1,266,921	172,430
Cash and cash equivalents at 31 December	646,398	1,266,921

The notes on pages 26 to 44 are an integral part of the consolidated financial statements

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

1. Accounting policies

1.1 Reporting entity

N4 Pharma Plc (the “Company”), is the holding company for N4 Pharma UK Limited (“N4 UK”), and N4 Biotech Limited (“N4 Biotech”), and together form the group (the “Group”). N4 UK is a specialist pharmaceutical company engaged in the development of mesoparticulate silica delivery systems to improve the cellular delivery and potency of vaccines. The nature of the business is not deemed to be impacted by seasonal fluctuations and as such performance is expected to be consistent.

The Company is domiciled in England and Wales and was incorporated and registered in England and Wales on 6 July 1979 as a public limited company and its shares are admitted to trading on AIM (LSE: N4P). The Company’s registered office is located at 6th Floor, 60 Gracechurch Street, London, EC3V 0HR.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The consolidated financial statements comply with the Companies Act 2006 and give a true and fair view of the state of affairs of the Group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

1.2 Measurement convention

The consolidated financial statements are prepared on the historical cost basis, except for the following item in the consolidated statement of financial position and consolidated statement of comprehensive income:

- Share-based payments related to investment acquisition are measured at fair value shown in the Merger Reserve.
- Share-based payments related to employee costs are measured at fair value shown in the Statement of Comprehensive Income.
- Share Warrants and Options are measured at fair value using the Black Scholes model (see note 9).
- Equity investments are measured at fair value.

The consolidated financial statements are presented in Great British Pounds (“GBP” or “£”).

1.3 Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. The Directors consider that the Group will have access to adequate resources, as set out below, to meet both operational requirements for at least 12 months from the date of approval of these consolidated financial statements. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements.

The Group currently has no source of operating cash inflows, other than interest and grant income, and has incurred net operating cash outflows for the year ended 31 December 2018 of £1,344,247 (2017: £950,800 outflow). At 31 December 2018, the Group had cash balances of £793,141 (2017: £1,326,272) and a surplus in net working capital (current assets, including cash, less current liabilities) of £879,944 (2017: £1,279,754).

On 14 February 2019 the group raised £1,050,000 from a share placing before expenses.

The Group continues to take steps to manage operational expenditure effectively and to manage the cash required for budgeted activities and working capital for at least 12 months from the date of approval of the consolidated financial statements. Close monitoring of current and forecast expenditure is undertaken by the board and key executive decisions discussed at monthly board meetings.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

1. Accounting policies (Cont'd)

1.4 Basis of consolidation

On 3 May 2017, the Company became the legal parent of N4 UK through a reverse takeover transaction ("RTO" or "reverse takeover"). The Company was not a business as defined by IFRS 3 prior to the transaction and as such was outside of the scope of IFRS 3, Business Combinations. The consolidated financial statements comparatives present the substance of the transaction in accordance with IFRS2.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

1.5 Revenue

Revenue is recognised to the extent this it is probable that economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the lower of value of the consideration received or receivable for the sale of goods or services, excluding discounts, rebates, VAT and other sales taxes and duties.

The Group has not recognised any revenue to date.

1.6 Government grant income

Government grants are recognised only when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the consolidated statement of comprehensive income on a systematic basis over the periods in which the Group recognises and expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the income statement in the period in which they become receivable.

1.7 Expenses

Financing income and expenses

Financing expenses comprise interest payable and finance charges and net foreign exchange losses that are recognised in the consolidated statement of comprehensive income (see foreign currency accounting policy note 1.13). Financing income comprises interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in the consolidated statement of comprehensive income as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

1. Accounting policies (Cont'd)

1.7 Expenses (continued)

Research and development

Research costs are charged against the consolidated statement of comprehensive income as they are incurred. Certain development costs will be capitalised as intangible assets when it is probable that the future economic benefits will flow to the Group. Such intangible assets will be amortised on a straight-line basis from the point at which the assets are ready for use, over the period of the expected benefit, and are reviewed for impairment at each year end date. Other development costs are charged against income as incurred since the criteria for their recognition as an asset is not met.

The criteria for recognising expenditure as an asset are:

- It is technically feasible to complete the product;
- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources are available to complete the development, use and sale of the product; and
- Expenditure attributable to the product can be reliably measured.

The costs on an internally generated intangible asset comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on technical development, testing and certification, materials consumed and any relevant third-party cost. The costs of internally generating developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only.

1.8 Taxation

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the consolidated statement of financial position date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in consolidated financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

1. Accounting policies (Cont'd)

1.9 Earnings per share

The Group presents basic and diluted earnings or loss per share data for its ordinary shares. Basic earnings/loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings/loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options and warrants granted.

1.10 Operating segments

Segment results that are reported to the Chief Executive Officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire plant and equipment, and intangible assets other than goodwill.

The Group operated in one business segment, that of the development and commercialisation of medicines via its delivery system called Nuvec®. No revenue has yet been generated by any of the work undertaken by the Group.

The Directors consider that there are no identifiable business segments that are subject to risks and returns different to the core business. The information reported to the Directors, for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Group.

1.11 Classification of financial instruments issued by the Group

In accordance with IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these consolidated financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

1. Accounting policies (Cont'd)

1.12 Non-derivative financial instruments

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents and trade and other payables.

Investments

Investments are equity investments recognised initially at cost and subsequently revalued to their fair value. Fair value is determined by reference to published price quotations in the AIM market. Gains and losses arising from changes in the fair value are recognised in profit or loss within other income or other expenses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents are basic financial assets and comprise cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Any overdrafts are shown within borrowings in current liabilities.

1.13 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group's entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.14 Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Groups of assets (the "cash-generating unit").

1. Accounting policies (Cont'd)

1.14 Impairment (Cont'd)

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generated units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (Group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.15 Share based payment arrangements

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

Share-based transactions, other than those with employees, are measured at the value of goods or services received where this can be reliably measured. Where the services received are not identifiable, their fair value is determined by reference to the grant date fair value of the equity instruments provided. Should it not be possible to measure reliably the fair value of identifiable goods and services received, their fair value shall be determined by reference to the fair value of the equity instruments provided measured over the period of time that the goods and services are received.

The expense is recognised in the consolidated statement of comprehensive income or capitalised as part of an asset when the goods are received or as services are provided, with a corresponding increase in equity.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no "true-up" for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to recipients is recognised as an expense, with a corresponding increase in liabilities, over the period in which the recipients become unconditionally entitled to payment. The liability is re-measured at each consolidated statement of financial position date and at settlement date. Any changes in the fair value of the liability are recognised in the consolidated statement of comprehensive income.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

1. Accounting policies (Cont'd)

1.16 Adopted IFRS not yet applied

All new standards and amendments to standards and interpretations effective for annual periods beginning on or after 1 January 2018 that are applicable to the Group have been applied in preparing these consolidated financial statements.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Standard		Effective date
IAS 12 (Amendments)	Income Tax Consequences of Dividends	1 January 2019
IAS 23	Borrowing Costs Eligible for Capitalisation	1 January 2019
IAS 28	Investment in Associates and Joint Ventures - Fair Value Measurement Clarification & Long Term Interests	1 January 2019
IFRS 3 (Amendments)	Remeasurement of previously held interest for Business Combinations	1 January 2019
IFRS 9 (Amendments)	Financial Instruments-Prepayment Features and Negative Compensation	1 January 2019
IFRS 16	Leases	1 January 2019
IAS 19 (Amendments)	Plan amendment, Curtailment and Settlement	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
N/A	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020

The Directors are continuing to assess the potential impact that the adoption of the standards listed above will have on the consolidated financial statements for the year ended 31 December 2019. It is not anticipated that amendments to IFRS 16, Leases, will have an impact on the financial statements given there are currently no lease agreements. Should any lease agreements arise the impact on the financial statements will be assessed.

1.17 Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make certain judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the period. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Group's accounting policies, management has decided the following estimates and assumptions are material to the carrying amounts of assets and liabilities recognised in the consolidated financial statements.

The key estimates and judgements surrounding the capitalisation of Research & Development expenditure is such that this expenditure will only be capitalised when the recognition criteria is met and is otherwise written off to the consolidated statement of comprehensive income. The recognition criteria include the identification of a clearly defined project with separately identifiable expenditure where the outcome of the project, in terms of its technical feasibility and commercial viability, can be measured or assessed with reasonable certainty and that sufficient resources exist to complete a profitable project. In the event that these criteria are met, and it is probable that future economic benefit attributable to the product will flow to the Group, then the expenditure will be capitalised.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

2. Risk management

Overview

The Group has exposure to the following risks:

- Credit risk;
- Liquidity risk;
- Tax risk;
- Market risk; and
- Operational risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and developing and monitoring the Group's risk management policies. Key risk areas have been identified and the Group's risk management policies and systems will be reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's bank deposits and receivables. See note 12 for further detail. The risk of non-collection is considered to be low. This risk is deemed low at present due to the Group not yet trading and generating revenue but is a consideration for future risks.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Tax risk

Any change in the Group's tax status or in taxation legislation or its interpretations could affect the value of the investments held by the Group or the Group's ability to provide returns to shareholders or alter post-tax returns to shareholders.

Market risk and competition

The Group operates as a specialist pharmaceutical company engaged in the development of mesoparticulate silica delivery systems to improve the cellular delivery and potency of vaccines. The Group is entering into a market with existing competitors and the prospect of new entrants entering the current market. There is no guarantee that current competitors or new entrants to the market will not appeal to a wider portion of the Group's target market or command broader brand awareness.

In addition, the Group's future potential revenues from product sales will be affected by changes in the market price of pharmaceutical drugs and could also be subject to regulatory controls or similar restrictions.

Operational risk

The Group is at an early stage of development and is subject to several operational risks. The commencement of the Group's material revenues is difficult to predict and there is no guarantee the Group will generate material revenues in the future.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

2. Risk management (Cont'd)

Operational risk (Cont'd)

The Group has a limited operational history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing companies. The risks include the uncertainty as to which areas of pharmaceuticals to target for growth.

Regulatory and legislative risk

The operations of the Group are such that it is exposed to the risk of litigation from its suppliers, employees and regulatory authorities. Exposure to litigation or fines imposed by regulatory authorities may affect the Group's reputation even though monetary consequences may not be significant.

Changes to legislation, regulations, rules and practices may change and is often the case in the pharmaceutical industry which is highly regulated and susceptible to regular change. Any changes may have an adverse effect on the Group's operations.

Protection of intellectual property

The Group's ability to compete significantly relies upon the successful protection of its intellectual property, in particular its licenced and owned patent applications for Nuvec®. The Group seeks to protect its intellectual property through the filing of worldwide patent applications, as well as robust confidentiality obligations on its employees. However, this does not provide assurance that a third party will not infringe on the Group's intellectual property, release confidential information about the intellectual property or claim technology which is registered to the Group.

Capital management

The Group has no loans or borrowings and has sufficient resources, in the view of the Directors, to meet its working capital requirements for the next 12 months.

The Group manages its capital through the preparation of detailed forecasts, and tracks actual receipts and outlays against the forecasts on a regular basis, to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the Group consists of cash and cash equivalents and equity comprising, capital, reserves and accumulated losses.

3. Employees and directors

The average monthly number of employees during the year was 4 (2017: 5). The directors of the Group are employed by N4 UK and as such are included in the employee figure. Total directors remuneration is detailed in note 13 of these consolidated financial statements.

	Year to 31 December 2018 £	Year to 31 December 2017 £
Wages and Salaries	233,282	148,048
Social security costs	22,556	16,505
Pension costs	807	-
	256,645	164,553

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

4. Loss before tax

	Year to 31 December 2018	Year to 31 December 2017
	£	£
Loss before taxation is arrived after charging:		
Deemed cost of listing	-	1,023,734
Fees payable to the Group's auditors for the audit of the Group's financial statements	20,600	18,000
Other fees payable to auditors:		
- Corporate finance services	-	42,000
- Other assurance services	1,000	3,350
- Tax advisory services	3,550	7,875

5. Taxation

	2018 £	2017 £
Current tax		
Research and development tax credit receivable for the current period	(222,066)	(85,608)
Adjustments in respect of prior periods	16,532	(4,266)
	<u>(205,534)</u>	<u>(89,874)</u>
Deferred tax		
Origination and reversal of temporary differences	-	-
Tax in income statement	<u>(205,534)</u>	<u>(89,874)</u>

The tax charge for the year can be reconciled to the loss in the Consolidated Statement of Comprehensive Income as follows:

	2018 £	2017 £
Loss before taxation	<u>(1,390,377)</u>	<u>(1,926,858)</u>
Tax at the UK corporation tax rate of 19% (2017: 19%)	(264,171)	(366,103)
Expenses not deductible	(5,320)	101,411
Deemed cost of acquisition	-	194,509
Net Research and development tax credits	(96,406)	(89,874)
Changes in unrecognized deferred tax	143,831	67,904
Prior year adjustment	16,532	-
Effect of change in corporation tax rate	-	2,279
Tax charge for the year	<u>(205,534)</u>	<u>(89,874)</u>

At the year end the Group had trading losses carried forward of £1,257,239 (2017: £585,624) for use against future profits.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

6. Investments

Inventory of securities

The RTO brought into the Group an investment in Alecto Minerals Plc ("Alecto") at a cost of £59,186 which could not be sold prior to completion of the RTO and as at 31 December 2017 formed part of the Group's assets. On 21 December 2016, trading in Alecto's shares on AIM was suspended due to a proposed reverse takeover.

Management had taken the view at 31 December 2017 that the Alecto shares no longer held any value and impaired the value of the shares to nil for the consolidated financial statements for the year ended 31 December 2017.

Subsequent to the year end 31 December 2017, Alecto was re-admitted onto the AIM market under the new name 'Cradle Arc'. As a result of the re-admission to the market, the Group redeemed the shares held in this investment and received £27,693 from the sale.

As at 31 December 2018, the Company held 1,388,889 Ferring warrants (2017: 1,388,889 warrants) and 542,233 Valirx warrants (2017: 542,233 warrants) which have no value as at the year end. These are legacy holdings from Onzima Plc prior to the RTO.

Investment in subsidiary

Company

	2018	2017
Cost	£	£
Balance at 1 January	1,094,747	302,705
Additions	100	792,042
Balance at 31 December	1,094,847	1,094,747

Details of the Company's subsidiaries at 31 December 2018 are as follows:

	Place of incorporation and operation	Principal activity	Proportion of ownership and voting rights held
N4 Pharma UK Limited	England and Wales	delivery of vaccines and therapeutics	100%
N4 Biotech Limited	England and Wales	Wholesale of pharmaceutical goods (dormant)	100%

The accounting reference date of the subsidiaries are co-terminus with that of the Company. The registered office of the subsidiaries are The Mills, Canal Street, Derby, DE1 2RJ.

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Notes to the consolidated financial statements for the year ended 31 December 2018

7. Trade and other receivables

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Prepayments	11,861	13,361	10,534	12,890
VAT receivable	42,998	3,388	6,002	3,388
Corporation tax debtor	220,568	85,608	-	-
R&D expenditure credit	1,499	-	-	-
Loan interest receivable	-	-	103,960	32,352
Other debtors	-	30,343	2,400	2,400
	276,926	132,700	122,896	51,030

8. Trade and other payables

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Trade creditors	113,093	79,462	4,844	1,888
Employee creditors	9,107	6,187	400	2,237
Loan due to directors	36,000	56,000	-	-
Other creditors	1,466	2,139	-	-
	159,666	143,788	5,244	4,125

9. Share-based payments

a) Options

The Company has the ability to issue options to Directors to compensate them for services rendered and incentivise them to add value to the Group's longer-term share value. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined is unwound on a straight-line basis over the vesting period based on the Group's estimate of the number of shares that will vest and recognised as share premium. The value of the change is adjusted to reflect the expected and actual levels of vesting.

Cancellations of equity instruments are treated as an acceleration of the vesting period and any outstanding charge is recognised in full immediately.

Fair value is measured using a Black Scholes pricing model. The key assumptions used in the model have been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioral considerations. The inputs into model were as follows:

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

9. Share-based payments (Cont'd)

a) Options (Cont'd)

2017 Options		2018 Options	
Share price	6.375p	Share price	6.6p
Exercise price	7p	Exercise price	6.6p
Expected volatility	27.2%	Expected volatility	45.2%
Expected option life	3 years	Expected option life	6.5 years
Risk-free rate	4.75%	Risk-free rate	5.00%

As at 31 December 2018, there were 7,249,084 (2017: 6,245,084) options in existence over ordinary shares of the Company allocated as follows:

Name	Date of Grant	Ordinary Shares under option	Expiry Date	Exercise Price £
Gavin Burnell	14.10.15	2,701,210	14.10.25	0.028
Luke Cairns	14.10.15	675,302	14.10.25	0.028
Luke Cairns	03.05.17	717,143	03.05.20	0.07
David Templeton	03.05.17	717,143	03.05.20	0.07
Paul Titley	03.05.17	1,434,286	14.10.25	0.07
Andrew Leishman	26.09.18	286,857	26.09.28	0.066
Alan Hey	26.09.18	717,143	26.09.28	0.066
		<u>7,249,084</u>		

The aggregate fair value of the share options issued on 14 October 2015 as at 31 December 2018 is £20,910 (2017: £23,988).

Each option entitles the holder to subscribe for one ordinary share in N4 Pharma Plc. Options do not confer any voting rights on the holder.

The share options granted on 3 May 2017 are exercisable following the third anniversary of Admission, being 3 May 2020. In the case of Paul Titley, the exercise of options over 717,143 ordinary shares is subject to certain performance conditions. These options are exercisable at a price of 7 pence per share at any time before 14 October 2025.

The fair value of the share options issued on 3 May 2017 is £6,040 (2017: £23,962).

On 26 September 2018 a further 1,004,000 options over ordinary shares were granted under the Company's share option scheme to Andrew Leishman and Alan Hey, and are exercisable at a price of 6.60p per share.

The share options granted to Andrew Leishman lapsed subsequent to the year end 31 December 2018 due to his departure from the Company.

The total fair value of share options in issue and not yet exercised as at 31 December 2018 is £26,950 (2017: £47,950).

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

9. Share-based payments (Cont'd)

b) Warrants

As part of the Placing on 3 May 2017 which raised £1,500,000 before fees and expenses, the Company issued warrants on a 1 for 1 basis at an exercise price of 8.5p per warrant. This resulted in the issue of 21,428,571 warrants exercisable at 8.5p. The Company also issued warrants, exercisable at 8.5p, to the Company's brokers on the transaction lieu of fees (together, the "Placing Warrants"). This resulted in the total number of Placing Warrants in issue immediately following the Placing being 22,710,923.

The warrants entitle holders to subscribe for new ordinary shares at any time in the period of two years following the grant of the warrants. The expiry date of the placing warrants is 3 May 2019.

Date of Grant	Warrant balance at 1 January 2018	Expiry Date	Exercise Price £	Exercised Warrants	Number of Shares issued (1:1)	Remaining Warrants at 31 December 2018
03.05.2017	20,282,351	03.05.2019	0.085	9,228,280	9,228,280	11,054,071

Date of Grant	Warrants issued at 3 May 2017	Expiry Date	Exercise Price £	Exercised Warrants	Number of Shares issued (1:1)	Remaining Warrants at 31 December 2017
03.05.2017	22,710,923	03.05.2019	0.085	2,428,572	2,428,572	20,282,351

During the year ended 31 December 2018 a total of 9,228,280, (2017: 2,428,572) of the warrants issued on 3 May 2017 were exercised.

During the year, an amount of £792,846 (2017: £424,714), representing the exercised warrants, has been recognised against share premium and £36,913 (2017: £21,714) to share capital. The fair value of the warrants in issue and not yet exercised was determined using the Black Scholes model. The fair value of the warrants at 31 December 2018 is £54,329 (2017: £99,685).

10. Capital and reserves

	2018 £	2017 £
90,962,537 Ordinary Shares of 0.4p each (2017: 77,142,857 Ordinary Shares of 0.4p each)	363,850	308,571
137,674,431 Deferred Shares of 0.4p each (2017: 137,674,431 Deferred Shares of 0.4p each)	5,506,977	5,506,977
279,176,540 Deferred Shares of 0.099p each (2017: 279,176,540 Deferred Shares of 0.099p each)	2,763,848	2,763,848
	<u>8,634,675</u>	<u>8,579,396</u>

All ordinary shares rank equally in all respects, including for dividends, shareholder attendance and voting rights at meetings, on a return of capital and in a winding-up.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

10. Capital and reserves (Cont'd)

During the year a further 9,228,280 ordinary shares were issued as a result of the exercise of warrants and 4,591,400 ordinary shares were issued as deferred consideration.

On his appointment to the board, and as part of the RTO, Nigel Theobald was issued with 4,591,400 deferred consideration shares. This formed part of the consideration to Mr Theobald as the remaining shareholder of N4 UK for the remaining 51% share capital. These shares have been allotted in the year to 31 December 2018 and as such increased the ordinary share capital.

The 137,674,431 deferred shares acquired as part of the reverse takeover as noted above, have no right to dividends nor do the holders thereof have the right to receive notice of or to attend or vote at any general meeting of the Company. On a return of capital or on a winding up of the Company, the holders of the deferred shares shall only be entitled to receive the amount paid up on such shares after the holders of the ordinary shares have received the sum of £1,000,000 for each ordinary share held by them.

Reserves

Share premium reserve

The share premium reserve comprises the excess of consideration received over the par value of the shares issued, plus the nominal value of share capital at the date of redesignation at no par value.

Share option reserve

The share option reserve comprises the fair value of warrants and options granted, less the fair value of lapsed and expired warrants and options.

Reserves in the consolidated statement of financial position comprise the share option reserve, reverse acquisition reserve and the merger reserve.

11. Earnings per share

The calculation of basic loss per share at 31 December 2018 was based on the loss of £1,184,843 (2017: £1,836,984), and a weighted average number of ordinary shares outstanding of 89,440,373 (2017: 64,783,082), calculated as follows:

	2018	2017
	£	£
Loss attributable to ordinary shareholders	1,184,843	1,836,984
Deemed cost of listing	-	(1,023,734)
Adjusted losses attributable to ordinary shareholders	<u>1,184,843</u>	<u>813,250</u>

Weighted average number of ordinary shares

Issued ordinary shares at 1 January	64,783,082	100
Effect of shares issued during the year	<u>24,657,291</u>	<u>64,782,982</u>
Weighted average number of shares at 31 December	<u>89,440,373</u>	<u>64,783,082</u>

	2018 pence per share	2017 pence per share
Basic loss per share	<u>(1.32)</u>	<u>(1.26)</u>

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

11. Earnings per share (Cont'd)

Diluted loss per share

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potential dilutive shares, namely share options. The calculation of diluted loss per share at 31 December 2018 was based on the loss of £1,184,843 (31 December 2017: £1,836,984), and a weighted average number of ordinary shares outstanding of 91,305,287 (2017: 65,811,509).

	<i>2018 pence per share</i>	<i>2017 pence per share</i>
Diluted loss per share	(1.30)	(1.24)

12. Financial instruments

(a) Fair values of financial instruments

The fair values of all financial assets and financial liabilities are equal to their carrying amounts shown in the consolidated statement of financial position.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables and cash and cash equivalents. The carrying amount of cash, cash equivalents and term deposits represents the maximum credit exposure on those assets. The cash and cash equivalents are held with UK bank and financial institution counterparties which are rated at least A.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the reporting date of the Group was £276,926 (2017: £132,700), being the total of the carrying amount of financial assets, shown in the consolidated statement of financial position.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

12. Financial instruments (Cont'd)

(c) Liquidity risk

Group:

Financial liabilities	Carrying amount £	Contractual cash flows £	6 months or less £	6-12 months £	1 -2 years £
31 December 2018					
Trade and other payables	159,666	159,666	159,666	-	-
31 December 2017					
Trade and other payables	143,788	143,788	143,788	-	-

Company:

Financial liabilities	Carrying amount £	Contractual cash flows £	6 months or less £	6-12 months £	1 -2 years £
31 December 2018					
Trade and other payables	5,244	5,244	5,244	-	-
31 December 2017					
Trade and other payables	4,125	4,125	4,125	-	-

(d) Currency risk

The Group does not have significant exposure to foreign currency risk at present. The Group does not have any monetary financial instruments which are held in a currency that differs from that entity's functional currency.

(e) Interest rate risk

Profile

At the reporting date the interest rate profile of interest-bearing financial instruments was:

	Carrying amount	
Group:	2018 £	2017 £
Variable rate instruments		
Cash and cash equivalents	793,141	1,326,272
Company:		
Variable rate instruments		
Cash and cash equivalents	646,398	1,266,921

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

12. Financial instruments (Cont'd)

(e) Interest rate risk (Cont'd)

Cash flow sensitivity analysis for variable rate instruments

The Group's interest-bearing assets at the reporting date were invested with financial institutions in the United Kingdom with a S&P rating of A2 and comprised solely bank accounts.

A change in interest rates would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2017.

Group:	2018		2017	
	Profit or loss		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	7,931	(7,931)	13,263	(13,263)

Company:	2018		2017	
	Profit or loss		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	6,464	(6,464)	12,669	(12,669)

13. Related parties

Key management personnel

As at the year end, there are no key management personnel employed by the Group in addition to the Directors.

Directors' remuneration and interests

Director	2018			Interests	
	Cash-based payments	Remuneration Share-based payments	Totals	Shares	Options
	£	£	£	No.	No.
Nigel Theobald (Chief Executive Officer)	70,000	-	70,000	16,846,633	-
Paul Titley	40,000	-	40,000	142,857	1,434,286
David Templeton	24,000	-	24,000	-	717,143
Luke Cairns	24,000	-	24,000	142,857	1,392,445
	158,000	-	158,000	17,132,347	3,543,874

The above remuneration relates to N4 Pharma Plc (and N4 Pharma UK Limited) directors.

An amount of £36,000 (2017: £56,000) is payable to Nigel Theobald by N4 UK Limited. This forms part of the Trade and Other payables. Deferred consideration shares awarded to Nigel Theobald as part of the RTO were allotted during the year. This resulted in the issue of an additional 4,591,400 ordinary shares to Nigel Theobald.

No contributions are paid by the Group to a pension scheme on behalf of the Directors.

N4 Pharma PLC has a loan receivable from N4 Pharma UK Limited at 31 December 2018 of £2,009,000 (2017: £809,000). It is repayable in February 2020 and interest is receivable at 5%.

There are no further related parties identified.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2018

14. Subsequent events

A total of 10,500,000 Placing Shares at a price of 10p per Ordinary share were admitted to the London Stock Exchange on 14 February 2019. On admission, the Group's issued ordinary share capital consisted of 101,462,537 ordinary shares of 0.4p each with one vote per Ordinary Share. The placing of Shares raised £1.050 million before expenses.

Following the year ended 31 December 2018, Andrew Leishman ceased employment with N4 Pharma. As a result, the options issued to Mr Leishman in September 2018 as a result of his employment have now lapsed.