

N4 Pharma Plc

(“N4 Pharma” or the “Company”)

Annual Report and Financial Statements

Year Ended 31 December 2017

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Directors, Company Secretary and Advisors

Company Number 01435584 (England and Wales)

Directors:

Gavin John Burnell (Chief Executive Officer - resigned 3 May 2017)
Prof. Humayun Akhter Mughal (Non-Executive Director - resigned 3 May 2017)
Nigel Theobald (Chief Executive Officer - appointed 3 May 2017)
Paul Titley (Executive Director - appointed 3 May 2017)
Dr David Templeton (Non-Executive Chairman - appointed 3 May 2017)
Luke Cairns (Non-Executive Director)

Registered Office of the Company

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Administrator and Company Secretary

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Nominated Adviser and Broker

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Chief Executive Officer's and Strategic Report

N4 Pharma Plc (the "Company"), formerly known as Onzima Ventures Plc, is the holding company of N4 Pharma UK Limited ("N4 UK") and with N4 UK form the group (the "Group"). N4 UK is a specialist pharmaceutical company which reformulates existing drugs and vaccines to improve their performance.

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 ("RTO").

This is the first set of annual results produced by the Company following the reverse takeover of N4 UK to form the Group with effect from 3 May 2017.

Highlights:

- Successfully completed the reverse takeover of N4 Pharma Limited ("RTO")
- Successful placing to raise £1.5m (the "Placing") and re-admission to AIM
- Change of name to N4 Pharma Plc (formerly known as Onzima Ventures Plc)
- Divestment of investment portfolio to focus solely on reformulation of generic drugs and vaccines
- Filing of sildenafil PCT patent application
- Filing of additional generic product patent opportunities
- Appointment of BDD to undertake initial human pilot clinical trial for sildenafil reformulation
- Commencement of research program for Nuvec®, its vaccine delivery system
- Cash balance at period end of approximately £1.3 million
- Total of £1,230,832 was raised in aggregate via warrant exercises since RTO and period end 24 April 2018.

Review of operations for the financial year ended 31 December 2017

During the year to 31 December 2017, as anticipated, no revenue was generated by the Group. Other operating income included £109,913 of government grants.

The operating loss for the year of £897,825 (9 months to 31 December 2016: £185,083 loss) was impacted by the costs associated with the RTO and are in line with management's expectations at the time of the transaction.

Key Events and Opportunities

The new Board completed its planned reorganisation of the Group to focus on its research and development programme for both its generic and vaccine divisions.

The net proceeds of the Placing and subsequent warrant exercises ensure that the Group will be funded throughout 2018 and well into 2019. The funds raised will continue to enable us to produce initial human clinical data to establish the pharmacokinetic profile of our sildenafil reformulation and help us to determine how we will position the Nuvec® vaccine delivery system for the best approach to allow commercial engagement with potential third party licensees.

Subsequent to the year end, the Group announced a grant collaboration with MedImmune UK to evaluate its Nuvec® technology which, if successful, would give MedImmune an option to license Nuvec® for a defined area. This is the first of many such collaborations the Group is looking to undertake as it extends its research on Nuvec®

Generic Division

The main focus for the Group's generic division is the reformulation of sildenafil (commonly known as Viagra™), where we are seeking to improve the speed in which the drug takes effect whilst also extending the duration of the action. We completed our initial "in vitro" reformulation work on the drug and appointed Bio-Images Drug Delivery Limited ("BDD") to conduct a small scale human pilot clinical trial (the "Trial") which started as announced on 18th April 2018.

The Trial will be conducted in twelve healthy male volunteers to give us human pharmacokinetic data, which will determine the amount of drug our reformulation will deliver, and which can then be compared against existing sildenafil products. The Trial is expected to take 8-10 weeks with top line results data available in July 2018 with the final clinical study report expected at the end of August 2018.

The data gathered from the Trial will enable the Company to establish whether its reformulation has been sufficiently successful to allow N4 Pharma to prepare for a pre-IND meeting with the FDA towards the end of this year along with a proposed approach to conducting a pivotal clinical study which will be required for marketing authorisation or whether further amendments to the reformulation may be required to optimise efficacy.

Assuming success it would then be our intention then either to partner with a large pharmaceutical company to complete the pivotal trial (thereby earning a licence fee and generating milestone payments for the Company) or to explore the possibility of conducting the pivotal trial ourselves and, in doing so, assess the balance of increased capital risk versus the rewards relative to a company of our size.

In addition to licensing the patents for sildenafil from Opal IP Limited ("Opal IP") and Nuvec® from the University of Queensland, we have licensed four further patents from Opal IP for reformulations, namely valsartan, aprepitant, duloxetine and paroxetine. Subsequently, we have decided to abandon our paroxetine patent application. The Board believes that the drugs, such as paroxetine, that do not make strong commercial sense will most likely not make it through to the next stage development. Our initial approach for these products is to file the relevant data needed for a Patent Co-operation Treaty ("PCT") patent application and to evaluate the clinical and market potential before embarking on detailed formulation development for a product to take into clinic. In our opinion, this gives the Group the optimal chance to secure patent protected reformulations for these products as well as sildenafil.

Whilst we continue to commit resources to the reformulation of sildenafil ahead of bringing it to market, we are also undertaking all the necessary preparatory work on the other three drugs referred to above to allow us to take them forward in the future.

Vaccine Division

The focus for the Group's vaccine division continues to be on generating data for our Nuvec® delivery system which will enable us to engage commercially with pharmaceutical and biotech companies which are looking to utilise delivery systems to deliver vaccines and therapeutics they are developing. We intend to engage with commercial partners to exploit the potential clinical utility of Nuvec®. Our intention is not to develop vaccines ourselves. The business model is similar to that in our generics division in that we aim to secure licence payments for the use of our delivery system and ultimately royalties on any products sold using Nuvec®.

Initially, we are targeting collaborations and evaluation agreements with biotech and pharmaceutical companies to evaluate Nuvec® alongside their existing delivery system. We have already announced our first collaboration with MedImmune and are working on securing further collaborations. A successful collaboration would then mean we could license the use of Nuvec® for a particular therapeutic indication. We will therefore have numerous licensing opportunities for our platform technology.

Chief Executive Officer's and Strategic Report (Cont'd)

Vaccine Division (Cont'd)

During the year, the Group announced the results of a study it conducted for its Nuvec® silica nanoparticles (“SiNPs”) delivery system. As well as investigating tolerability, the objective of the study (funded via a biomedical Catalyst Grant) was to determine the in-vivo capacity for the Company's SiNPs to deliver DNA to generate local expression of a protein. This is a key indicator as to whether a vaccine delivery system is likely to successfully generate an immune response. Results from the study gave us the evidence that our SiNPs have many desirable features for use in either a vaccine approach or to deliver therapeutic proteins to tissues and are uncovering key commercial advantages compared to lipid nanoparticles. This increases the scope of Nuvec's® application which, in turn enhances the potential value of the technology to potential commercial partners. The Board continues to explore further research options and regular updates will be provided when appropriate.

The Board is pleased to have welcomed Dr Andrew Leishman as Head of Nuvec® Development. Andrew joined the Company in March 2018 and has quickly become a valued member of the team.

Currently, we are focusing our efforts on Nuvec® development to help secure collaborations and have therefore placed on hold additional research on a potential hepatitis B vaccine.

Future prospects

The Board remains optimistic about the future of the Group and its prospects. We have reached a key milestone with the commencement of the pilot human trial for our reformulation which, if the results are positive, will greatly advance the value of the data we have obtained and furthermore provide a clearer path towards commercialisation for our sildenafil reformulation. We have already announced one collaboration for Nuvec® and are looking to enter into further agreements with other companies in 2018.

Whilst we are excited about the Group's potential pipeline of products we are establishing, our immediate focus is on those products with the opportunity for near term commercialisation, namely sildenafil and Nuvec®. In parallel, we hope shortly to have a plan and budget in place for our pipeline of other generic products which also seek to address potential multi-billion dollar markets whilst, as detailed above, setting out a programme for our vaccine work.

On behalf of the Board, I would like to thank all of our shareholders for their continued support and welcome all new shareholders to the Company for what we believe will be another exciting year in the development of our business.

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 11.

By order of the Board
Nigel Theobald
Chief Executive Officer
N4 Pharma Plc

Board of Directors

Nigel Theobald (Chief Executive Officer - appointed 3 May 2017)

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 5 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 - appointed 3 May 2017)

Paul has over 40 years' experience in the pharmaceutical industry. 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 4 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 (Non-Executive Chairman - appointed 3 May 2017)

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 in 2010 setting up his own consulting business offering discovery and early development advice to several pharmaceutical companies.

Luke Cairns (Non-Executive Director)

Luke has spent over 16 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.

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 £1,836,984 during the year ended 31 December 2017. This is the first set of annual results produced by the Company following the reverse takeover of N4 Pharma Limited (“N4 UK”) to form the Group with effect from 3 May 2017.

Background and principal activities

N4 UK is a specialist pharmaceutical company which improves the delivery of existing drugs and novel vaccines and 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 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

Between 1 January 2018 and 24 April 2018, a total of 9,228,280 warrants were exercised at a price of 8.5p per warrant. This resulted in the issue of 9,228,280 ordinary shares of 0.4p each subsequent to the year end. The warrants were issued on 3 May 2017 as part of the Placing.

As a result of these warrant exercises, the Company has received £784,404 in additional funding.

On 5 February 2018, 4,951,400 ordinary shares were issued to Nigel Theobald (the “Deferred Consideration Shares”) in accordance with the terms of the share purchase agreement entered into between the Company and Nigel Theobald dated 13 April 2017.

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. Trading on AIM in Alecto’s shares was cancelled with effect from 11 July 2017 due to the delay in publishing an admission document for a proposed reverse takeover.

The Board took the view that, in light of the circumstances referred to above, it is reasonable to assume that the Alecto shares no longer hold any value and, as such, took the decision to impair the value of the shares to nil at 31 December 2017.

Subsequent to the year end, Alecto’s shares were re-admitted into trading on AIM under the new name ‘Cradle Arc’. As a result, the Group sold its shares and received £27,262.

Dividends

The Board has not declared a dividend for the year ended 31 December 2017 (2016: nil).

Directors' Report (Cont'd)

Directors' remuneration and interests

2017 Director	Remuneration			Interests	
	Cash-based payments	Share-based payments	Totals	Shares	Options
	£	£	£	No.	No.
Nigel Theobald (Chief Executive Officer)	61,786	299,045	360,831	12,255,233	-
Paul Tittley	34,366	-	34,366	142,857	1,434,286
David Templeton	16,000	-	16,000	-	717,143
Luke Cairns	21,000	-	21,000	142,857	1,392,455
Gavin Burnell (resigned)	30,000	-	30,000	1,107,143	2,701,210
Prof. Humayun Akhter Mughal* (resigned)	4,000	-	4,000	1,835,400	-
	<u>167,152</u>	<u>299,045</u>	<u>466,197</u>	<u>15,483,490</u>	<u>6,245,094</u>

**Professor Mughal's interest in the Company includes those shares held directly by him, his indirect holdings via companies of which he is a director and the holdings of close members of his family*

2,868,572 options were issued during the year ended 31 December 2017. These are detailed in note 8.

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

Statement of Directors' responsibilities

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

Company law and AIM Rules require the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 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 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 financial statements; and
- prepare the 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 transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and the AIM Rules. They are also responsible for safeguarding the assets of the Group 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 financial statements may differ from legislation in other jurisdictions.

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

Directors' Report (Cont'd)

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 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 financial statements. For this reason, they continue to adopt the going concern basis in preparing the 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 2017 of £950,800 (9 months to 31 December 2016: £144,485 outflow). At 31 December 2017, the Group had cash balances of £1,326,272 (2016: £19,751) and a surplus in net working capital (current assets, including cash, less current liabilities) of £1,279,754 (2016: £79,742 deficit).

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 financial statements.

Further exercises of warrants have taken place in January and February 2018 resulting in further generation of new funds.

Corporate governance statement

The Company, being quoted on AIM, is not required to comply with the UK Corporate Governance Code (the "Code"). However, the Company has given consideration to the main principles of the Code and the Directors support the objectives of the Code and intend to comply with those aspects that they consider relevant to the Group's size and circumstances. Details of these are set out below.

Board and board committees

Board members are listed below. The non-executive director is considered to be independent. Board members attended the following meetings:

Director	Board Meetings attended
Gavin John Burnell (resigned)	3
Prof. Humayun Akhter Mughal (resigned)	3
Nigel Theobald	8
Paul Titley	8
Dr. David Templeton	8
Luke Cairns	11

The Board determines the overall strategic direction of the Group, oversees the development and control of the Group and reviews financial and operational performance. The Board approves acquisitions and disposals, annual budgets and monthly forecasts and reviews monthly management accounts. Day-to-day and business management control is delegated to the executive directors who are responsible for performance and the implementation of Group policy.

Directors' Report (Cont'd)

Audit committee

Luke Cairns, non-executive director, chairs the committee. The auditors and the executive director also attend the meetings at the invitation of the chairman of the committee. The audit committee reviews and approves the annual report and interim statement. It also reviews the Group's scope of the audit and the independence and objectivity of the auditors. The auditors have direct access to the chairman of the committee, if required. The audit committee is responsible for recommending the appointment, re-appointment or removal of auditors. The committee is also responsible for monitoring the level of non-audit services provided by the auditors to ensure that objectivity and independence is maintained.

Internal control

The Board has overall responsibility for internal control systems and the executive directors are charged with implementing and maintaining them.

At present the directors do not consider there is a justifiable need for a dedicated internal audit function given the size of the Group.

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.

The Group's internal control systems are designed to provide 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.

Relationship with shareholders

It is a high priority for the Board to establish relationships with shareholders. The Board welcomes the opportunity to meet institutional and individual shareholders at the company's annual general meeting.

The Company continues to assess its Board and management requirements to determine the appropriate committee and governance structures.

On behalf of the Board

Nigel Theobald
Director

24 April 2018

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 2017 set out on pages 23 to 42. 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 2017 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
<p>Going concern</p> <p>The going concern assumption is a fundamental principle in the preparation of financial statements.</p> <p>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 Generic and Vaccine Divisions. The going concern assumption has been recognised as a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • 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. <p>Based on our procedures we have considered that disclosures relating to going concern have been made appropriately.</p>
<p>Reverse acquisition accounting</p> <p>The transaction between N4 Pharma Plc (formerly Onzima Plc) and N4 Pharma UK Limited has been concluded to be a reverse acquisition.</p> <p>There is a risk that the disclosure around the reverse acquisition is disclosed incorrectly as the transaction is complex and unusual.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We have reviewed the substance of the acquisition to ensure the correct entries are captured in the financial statements • We have completed a review of the reverse acquisition disclosure requirements, to ensure all relevant information is included in the financial statements • The reverse acquisition accounting has been subject to additional technical review <p>Based on our procedures performed we have considered that the disclosure relating to the reverse acquisition to have been made appropriately.</p>
<p>Capitalisation of research and development expenditure</p> <p>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.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • 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 • We have considered the claim for R&D tax credits <p>Based on our procedures performed we have considered that the expenditure on R&D has been appropriately accounted for.</p>

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 3.5% of gross assets for the year ended 31 December 2017.

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

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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.

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

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.

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

Chartered Accountants
Statutory Auditors

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PE1 1NG

24 April 2018

N4 Pharma Plc
Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £	Proforma 9 month period to 31 December 2016 £
Government grant income		109,913	-
Gross Profit		109,913	-
Research and development costs		(409,808)	-
General and administration costs		(316,632)	(185,083)
Reorganisation costs		(281,298)	-
Operating loss for the period		(897,825)	(185,083)
Deemed cost of acquisition		(1,023,734)	-
Finance income/ (expenditure)		(5,299)	(5,857)
Loss for the period before tax	4	(1,926,858)	(190,940)
Taxation	5	89,874	14,362
Loss for the period after tax		(1,836,984)	(176,578)
Other comprehensive income net of tax		-	-
Total comprehensive loss for the period attributable to equity owners of N4 Pharma Plc		(1,836,984)	(176,578)

Loss per share attributable to owners of the parent

Weighted average number of shares:

Basic	64,783,082	8,844,706
Diluted	27,852,274	8,844,706
Basic loss per share	(1.26p)	(2.00p)
Diluted loss per share	(1.24p)	(2.00p)

All activities derive from continuing operations.

The notes on pages 23 to 41 are an integral part of the consolidated financial statements

N4 Pharma Plc
Consolidated Statement of Financial Position as at 31 December 2017

	Notes	31 December 2017 £	Proforma 31 December 2016 £
Assets			
Non-current assets			
Investments	6	-	-
Current assets			
Trade and other receivables		132,700	23,187
Cash and cash equivalents		1,326,272	19,751
		1,458,972	42,938
Total Assets		1,458,972	42,938
Liabilities			
Current liabilities			
Trade and other payables		(143,788)	(102,046)
Accruals and deferred income		(35,430)	(20,634)
		(179,218)	(122,680)
Total assets less current liabilities		1,279,754	(79,742)
Non-current liabilities			
Amounts falling due after more than one year		-	(204,922)
Net Assets/ (Liabilities)		1,279,754	(284,664)
Equity			
Share capital	9	8,579,396	100
Share premium	9	8,513,670	-
Share option reserve	9	147,635	-
Reverse acquisition reserve		(14,138,244)	-
Merger reserve		299,045	-
Retained earnings		(2,121,748)	(284,764)
Total Equity / (Deficit)		1,279,754	(284,664)

The notes on pages 23 to 41 are an integral part of the consolidated financial statements.

The financial statements were approved by the board of directors on 24 April 2018 and signed on its behalf:

Nigel Theobald

N4 Pharma Plc
Company Statement of Financial Position as at 31 December 2017

	Notes	31 December 2017 £	31 December 2016 £
Assets			
Non-current assets			
Investments	6	1,094,747	302,705
Intercompany loan receivable		809,000	214,949
		1,903,747	517,654
Current assets			
Inventory of securities	6	-	231,591
Trade and other receivables		51,030	197,027
Cash and cash equivalents		1,266,921	172,430
		1,317,951	601,048
Total Assets		3,221,698	1,118,702
Liabilities			
Current liabilities			
Trade and other payables		(4,125)	-
Accruals and deferred income		(16,400)	(77,263)
		(20,525)	(77,263)
Total assets less current liabilities		3,201,173	1,041,439
Net Assets		3,201,173	1,041,439
Equity			
Share capital	9	8,579,396	8,452,782
Share premium	9	8,513,670	6,880,766
Share option reserve	9	147,635	30,812
Merger reserve		299,045	-
Retained earnings		(14,338,573)	(14,322,921)
Total Equity		3,201,173	1,041,439

The Company recorded a pre-tax loss of £15,652 for the year (31 December 2016: £22,000 loss).

The notes on pages 23 to 41 are an integral part of the consolidated financial statements.

The financial statements were approved by the board of directors on 24 April 2018 and signed on its behalf:

Nigel Theobald

N4 Pharma Plc
Consolidated Statement of Changes in Equity for the year ended 31 December 2017

(i) Year ended 31 December 2017	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Reserve	Retained Earnings	Proforma 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
<hr/>							
(ii) Nine months ended 31 December 2016	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Reserve	Retained Earnings	Proforma Total Equity
	£	£	£	£	£	£	£
Balance at 1 April 2016	100	-	-	-	-	(108,186)	(108,086)
Total comprehensive loss for the period	-	-	-	-	-	(176,578)	(176,578)
At 31 December 2016	100	-	-	-	-	(284,764)	(284,664)

The notes on pages 23 to 41 are an integral part of the consolidated financial statements.

N4 Pharma Plc
Company Statement of Changes in Equity for the year ended 31 December 2017

(i) 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
<hr/>						
(ii) Year ended 31 December 2016	Share Capital	Share Premium	Share Option Reserve	Merger Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£
Balance at 1 January 2016	8,409,457	6,503,000	30,812	-	(14,300,921)	642,348
Share issue	43,325	377,766	-	-	-	421,091
Total comprehensive loss for the period	-	-	-	-	(22,000)	(22,000)
At 31 December 2016	8,452,782	6,880,766	30,812	-	(14,322,921)	1,041,439

The notes on pages 23 to 41 are an integral part of the consolidated financial statements.

N4 Pharma Plc
Consolidated Statement of Cash Flow for the year ended 31 December 2017

	Year ended 31 December 2017 £	Proforma 9 months to 31 December 2016 £
Operating activities		
Loss before tax	(1,926,858)	(190,940)
Interest	5,299	5,857
Deemed cost of acquisition	1,023,734	-
Operating loss before changes in working capital	(897,825)	(185,083)
Movements in working capital:		
(Increase)/ decrease in trade and other receivables	(109,513)	3,844
Increase in trade, other payables and accruals	56,538	36,754
Cash used in operations	(950,800)	(144,485)
Net cash flows used in operating activities	(950,800)	(144,485)
Investing activities		
Cash acquired on reverse acquisition	402,990	-
Net cash flows from investing activities	402,990	-
Financing activities		
Interest paid	(5,299)	(5,857)
Proceeds from loan advanced	-	129,922
Loan repayments	-	(10,000)
Net proceeds of ordinary share issue	1,988,970	-
Cost of share issue	(129,340)	-
Net cash flows from financing activities	1,854,331	114,065
Net increase/ (decrease) in cash and cash equivalents	1,306,521	(30,420)
Cash and cash equivalents at beginning of the year/ period	19,751	50,171
Cash and cash equivalents at 31 December	1,326,272	19,751

The notes on pages 23 to 41 are an integral part of the consolidated financial statements

N4 Pharma Plc
Company Statement of Cash Flow for the year ended 31 December 2017

	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Operating activities		
Loss before tax	(15,652)	(22,000)
Interest	(21,261)	(5,979)
Unrealised gain on investments	(669)	-
Operating loss before changes in working capital	(37,582)	(27,979)
Movements in working capital:		
Decrease/ (Increase) in inventories	231,591	(231,591)
Decrease/ (Increase) in trade and other receivables	145,998	(176,000)
(Decrease)/ Increase in trade and other payables	(56,738)	60,000
Cash generated/ (used) in operations	283,269	(375,570)
Net cash flows generated/ (used) in operating activities	283,269	(375,570)
Investing activities		
Proceeds from sale of investments	-	(9,000)
Investment costs capitalised	(71,013)	-
Acquisition of investment	(404,605)	-
Loan receivable advancements	(594,051)	(209,000)
Net cash flows used investing activities	(1,069,669)	(218,000)
Financing activities		
Interest received	21,261	-
Net proceeds of ordinary share issue	1,988,970	179,000
Cost of share issue	(129,340)	-
Net cash flows from financing activities	1,880,891	179,000
Net increase/ (decrease) in cash and cash equivalents	1,094,491	(414,570)
Cash and cash equivalents at beginning of the year	172,430	587,000
Cash and cash equivalents at 31 December	1,266,921	172,430

The notes on pages 23 to 41 are an integral part of the consolidated financial statements

1. Accounting policies

1.1 Reporting entity

N4 Pharma Plc (the “Company”), (formerly known as Onzima Ventures Plc) is the holding company for N4 Pharma UK Limited (“N4 UK”), (formerly known as N4 Pharma Limited) and together form the group (the “Group”). N4 UK is a specialist pharmaceutical company which reformulates existing drugs and vaccines to improve their performance. 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 terms of the share purchase are set out in the share purchase agreement dated 13 April 2017. 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 Group 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 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 Group consolidated financial statements.

1.2 Measurement convention

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

- Share-based payments are measured at fair value shown in the Merger Reserve.
- Share Warrants and Options are measured at fair value using the Black Scholes model (see note 8).
- Equity investments are measured at fair value.

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

1.3 Going concern

These 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 financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Group currently has no source of operating cash inflows, other than government grant income, and has incurred net operating cash outflows for the year ended 31 December 2017 of £950,800 (9 months to 31 December 2016: £144,485). At 31 December 2017, the Group had cash balances and term deposits of £1,326,272 (2016: £19,751) and a surplus in net working capital (current assets, including cash, less current liabilities) of £1,279,754 (2016: £79,742 deficit).

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 financial statements. Close monitoring of current and forecast expenditure is undertaken by the board and key executive decisions discussed at monthly board meetings.

As per the subsequent events note, further funds have been received after 31 December 2017 as a result of warrants exercised and the sale of the remaining investment in Alecto Minerals.

1. Accounting policies (Cont'd)

1.3 Going concern (continued)

The Group have also been awarded a feasibility grant from Innovate UK (“Innovate”), the UK’s innovation agency, to co-fund a collaborative project with MedImmune UK, a leading global biologics R&D company, to explore the manufacture of a prototype using the Group’s Nuvec® system. The grant funding for this project is expected to last for approximately nine months from 1 February 2018.

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 present the substance of the transaction in accordance with IFRS2. The comparative results to 31 December 2016 represent the position of N4 UK prior to the reverse takeover.

The consolidated financial statements of the Company are presented as a continuation of N4 UK’s financial statements, reflecting the commercial substance of the transaction. However, the equity structure presented in the consolidated financial statements reflects the equity structure of the Company, including the new shares issued as part of the transaction. Where information relates or includes the results of N4 UK prior to the reverse takeover, it has been labelled ‘pro forma’.

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 yet completed the reformation of its generic drugs and as such reports no revenue.

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.

1. Accounting policies (Cont'd)**1.7 Expenses (continued)**

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Research and development

Research costs are charged against the income statement 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 in other comprehensive income or 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 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.

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 reformulation using advanced pharmaceutical technologies to add value to generic and soon to be generic drugs. 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 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.

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 profit or loss 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 profit or loss.

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 2017 that are applicable to the Group have been applied in preparing these financial statements.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. Given that the Group does not generate any revenue, IFRS 15 is not expected to have a significant impact on the Group at this stage.

Standard	Impact on initial application	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	1 January 2019
	Measurement Clarification & Long Term Interests	
IFRS 3 (Amendments)	Remeasurement of previously held interest for Business Combinations	1 January 2019
IFRS 9	Financial Instruments	1 January 2019
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
Annual Improvements	Annual Improvements to IFRS Standards 2014-2016 cycle	1 January 2018
IFRIC 22	IFRIC Interpretation 22 Foreign Currency transactions and advanced consideration	1 January 2018
IAS 40 (Amendments)	Transfer of investment property	1 January 2018

The Directors are assessing the potential impact that the adoption of the standards listed above will have on the financial statements in future periods.

1.17 Use of estimates and judgements

The preparation of 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 condensed 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 Statement of Comprehensive Income. The recognition criteria includes 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 this criteria is met and it is probable that future economic benefit attributable to the product will flow to the Group, then the expenditure will be capitalised.

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. 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 with reformulates existing drugs and vaccines to improve their performance. 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.

2. Risk management (Cont'd)

Operational risk (Cont'd)

The Group has a limited operation 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 patent applications for reformulations of existing drugs. 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 5 (2016: 2). 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.

4. Loss before tax

	Year to 31 December 2017	Proforma 9 months to 31 December 2016
	£	£
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	18,000	12,500
Other fees payable to auditors:		
- Corporate finance services	42,000	-
- Other assurance services	3,350	-
- Tax advisory services	7,875	-

5. Taxation

	2017 £	Proforma 2016 £
Current tax		
Research and development tax credit receivable for the current period	(89,874)	(14,362)
Deferred tax		
Origination and reversal of temporary differences	-	-
Tax in income statement	(89,874)	(14,362)

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

	2017 £	Proforma 2016 £
Loss before taxation	(1,926,858)	(190,940)
Tax at the UK corporation tax rate of 19% (2016: 20%)	(366,103)	(38,188)
Expenses not deductible	101,411	11,195
Deemed cost of acquisition	194,509	-
Research and development tax credits	(89,874)	(14,362)
Changes in unrecognized deferred tax	67,904	26,993
Effect of change in corporation tax rate	2,279	-
Tax charge for the year	(89,874)	(14,362)

At the year end the Group had trading losses carried forward of £585,624 (2016: £227,872) for use against future profits.

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 forms 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.

Trading on AIM in Alecto's shares was cancelled with effect from 11 July 2017 due to the delay in publishing an admission document for the proposed reverse takeover.

Management took the view at 31 December 2017 that, in light of the circumstances referred to above, it was reasonable to assume that the Alecto shares no longer held any value and, as such, took the decision to impair the value of the shares to nil.

All other securities held in the portfolio were sold in the year and a gain on the same of these securities was £177,222.

N4 Pharma Plc

Notes to the consolidated financial statements for the year ended 31 December 2017

6. Investments (Cont'd)

Investment in subsidiary

Company

Cost	£
Balance at 1 January 2016 & 31 December 2016	302,705
Additions (see note 7)	<u>792,042</u>
Balance at 31 December 2017	<u><u>1,094,747</u></u>

Details of the Company's subsidiary at 31 December 2017 are as follows:

	Place of incorporation and operation	Principal activity	Proportion of ownership and voting rights held
N4 Pharma UK Limited	England and Wales	Reformulation of generic drugs	100%

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

7. Business combinations

On 3 May 2017, Onzima Ventures Plc (now N4 Pharma Plc) became the legal parent of N4 Pharma UK Limited by way of a reverse acquisition. The cost of the acquisition is deemed to have been incurred by N4 Pharma UK Limited, the legal subsidiary, in the form of equity instruments issued to the owners of the legal parent. The deemed cost of listing arising on the reverse acquisition was £1,023,734 which was expensed in the Consolidated Statement of Comprehensive Income.

The Company previously held 49 per cent. of the issued share capital in N4 UK at 2 May 2017.

On 13 April 2017, the Company published an admission document regarding the proposed acquisition of the remaining 51 per cent. of N4 UK that it did not already own and to raise capital by way of a reverse takeover.

Consideration for the acquisition was satisfied by the issue of 4,510,800 new ordinary shares in the Company to the existing shareholder of N4 UK and 4,591,400 deferred consideration shares. This constitutes the "post-Share Re-Organisation". The post-Share Re-Organisation is discussed in more detail in the share capital note 9 below. The deemed cost of the acquisition is recognised in the Consolidated Statement of Comprehensive Income.

The Company also conditionally raised £1,500,000 (gross) by way of a placing of 21,428,571 new ordinary shares at 7p per share (the "Placing") to fund the development of additional patent applications for reformulations of a wide range of generic drugs, to undertake clinical trials for N4 UK's reformulation of sildenafil and for working capital purposes.

Shareholders' approval of the proposals was obtained at the Company's general meeting held on 2 May 2017 (the "General Meeting"). The Placing and reverse takeover was completed on 3 May 2017. The consolidated financial statements of the Group are presented as a continuation of N4 UK's financial statements, reflecting the commercial substance of the transaction. However, the equity structure presented in the consolidated financial statements as discussed above and in note 8 and 9 below reflects the equity structure of the Company, including the equity instruments issued as part of the transaction.

7. Business combinations (Cont'd)

Group	£
Consideration for initial 49% of equity	303,373
Notional consideration for remaining 51% of equity	315,756
Net liabilities acquired	404,604
	<hr/>
Deemed cost of acquisition	1,023,734
	<hr/> <hr/>

Company	£
Consideration for initial 49% of equity	303,373
Notional consideration for remaining 51% of equity	315,756
Net liabilities acquired	404,604
Acquisition related costs capitalised	71,013
	<hr/>
Investment in subsidiary (note 6)	1,094,747
	<hr/> <hr/>

8. 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 expensed on a straight line basis over the vesting period based on the Group's estimate of the number of shares that will vest. 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:

Share price	6.375p
Exercise price	7p
Expected volatility	27.2%
Expected option life	3 years
Risk-free rate	4.75%

As at 31 December 2017, there were 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
		<hr/>		
		6,245,084		
		<hr/> <hr/>		

8. Share-based payments (Cont'd)

a) Options (Cont'd)

On 14 October 2015, 10,804,840 share options were granted to Gavin Burnell, the Company's former chief executive. Following the post-Share Re-Organisation, including the consolidation of shares and subsequent sub-division, these options now equate to a quarter of the original options issued. The 2,701,210 options held by Gavin Burnell, issued on 14 October 2015 are exercisable at a price of 2.8p at any time before 14 October 2025.

On 14 October 2015, Luke Cairns, a non-executive director of the Company, was granted 2,701,210 share options. Following the post-Share Re-Organisation, including the consolidation of shares and subsequent sub-division, these options now equate to a quarter of the original options issued. The 675,302 options held by Luke Cairns, issued on 14 October 2015 are exercisable at a price of 2.8p at any time before 14 October 2025.

The aggregate fair value of the share options issued on 14 October 2015 as at 31 December 2017 is £23,636.

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.

Following the RTO and subsequent re-admission to AIM on 3 May 2017 ("Admission"), options over new ordinary shares were granted under the Company's share option scheme to Luke Cairns, David Templeton and Paul Titley and are exercisable at a price of 7p per share.

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 £23,962. The total fair value of share options in issue and not yet exercised as at 31 December 2017 is £47,950.

b) Warrants

A previous placing by the Company when trading as Onzima Ventures Plc resulted in the issue of 15,000,000 investor warrants issued at an exercise price of 2p per warrant. These warrants expired on 7 June 2017.

Of these investor warrants, 12,000,000 were exercised before the expiry date resulting in the balance of 3,000,000 warrants expiring. Details of the warrants exercised are set out below. Due to the post-Share Re-Organisation and the 4:1 consolidation of shares, the warrants exercised resulted in the issue of 1 share for every 4 warrants.

Warrants issued on 7 June 2016 as at 31 December 2017:

Date of Grant	Warrants issued	Expiry Date	Exercise Price £	Exercised Warrants	Number of Shares issued (1:4)	Warrants Expired
07.06.2016	15,000,000	07.06.2017	0.02	12,000,000	3,000,000	3,000,000

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.

Notes to the consolidated financial statements for the year ended 31 December 2017

8. Share-based payments (Cont'd)

b) Warrants

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

On 18 December 2017, 2,071,210 of the warrants issued on 3 May 2017 were exercised and a further 357,143 were exercised on 29 December 2017.

During the period, an amount of £424,714, representing the exercised warrants, has been recognised against share premium and £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 2017 was £99,685.

c) Share based payments

On his appointment to the board, Nigel Theobald was issued with 4,510,800 new ordinary shares and 4,591,400 deferred consideration shares. The issue of these shares occurred as consideration to Mr Theobald as the remaining shareholder of N4 UK for the remaining 51% of the share capital. This transaction constitutes the post-Share Re-Organisation. The deemed cost of the acquisition is recognised in the Consolidated Statement of Comprehensive Income.

9. Capital and reserves

	2017 £	2016 £
77,142,857 Ordinary Shares of 0.4p each (2016: 100 ordinary shares of £1 each)	308,571	100
137,674,431 Deferred Shares of 4p each	5,506,977	-
279,176,540 Deferred Shares of 0.099p each	2,763,848	-
	8,579,396	100

A resolution was passed at the General Meeting for the issue of 21,428,571 new ordinary shares (the "Placing Shares") at a price of 7p per share (the "Placing Price") on 2 May 2017. On 3 May 2017, the Placing raised £1,500,000 before fees and expenses.

As part of the Placing, a post-Share Re-Organisation took place, for which a number of actions occurred. On 2 May 2017, prior to the RTO being completed, the following transactions took place:

- 242 shares were allotted before the share capital re-organisation resulting in a share capital of 181,956,800 ordinary shares of £0.001 each;
- The total ordinary shares were then consolidated into 227,446 ordinary shares of £0.08 each; and
- The 227,446 ordinary shares of £0.08 each were then sub-divided into 45,489,200 ordinary shares of £0.004 each.

9. Capital and reserves (Cont'd)

The transactions that took place on 3 May 2017 were as follows:

- 4,510,800 new ordinary shares were issued to the remaining shareholder of N4 UK in return for the remaining 51 per cent. of shares in N4 UK constituting the reverse takeover;
- 4,591,400 deferred consideration shares to be issued under certain conditions to the same recipient in return for the remaining 51 per cent. of shares constituting the reverse takeover;
- £1,500,000 was raised by the Placing of 21,428,571 new ordinary shares at 7 pence per share;
- Issue of placing warrants on a 1 for 1 basis at an exercise price of 8.5p per placing warrant;
- The Company settled a broker invoice via the issue of 285,714 ordinary shares at 7p each

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.

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.

A further 2,428,572 ordinary shares were issued during the year as a result of the exercise of 2,071,210 warrants on 18 December 2017 and a further 357,143 exercised on 29 December 2017.

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.

Notes to the consolidated financial statements for the year ended 31 December 2017

10. Earnings per share

The calculation of basic loss per share at 31 December 2017 was based on the loss of £1,836,984 (9 months to 31 December 2016: £176,578), and a weighted average number of ordinary shares outstanding of 64,783,082 (2016: 8,844,706), calculated as follows:

	2017	Proforma 2016
	£	£
Loss attributable to ordinary shareholders	1,835,984	176,578
Deemed cost of listing	(1,023,734)	-
Adjusted losses attributable to ordinary shareholders	813,250	176,578

Weighted average number of ordinary shares

Issued ordinary shares at 1 January	100	100
Effect of shares issued during the year	64,782,982	-
Weighted average number of shares at 31 December	64,783,082	100

	<i>2017 pence per share</i>	<i>Proforma 2016 pence per share</i>
Basic loss per share	(1.26)	(2.00)

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 2017 was based on the loss of £1,836,984 (9 months to 31 December 2016: £176,578), and a weighted average number of ordinary shares outstanding of 65,811,509 (2016: 8,844,706).

	<i>2017 pence per share</i>	<i>Proforma 2016 pence per share</i>
Diluted loss per share	(1.24)	(2.00)

11. 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.

11. Financial instruments (Cont'd)

(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 was £132,700 (2016: £23,187), 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.

Group:

Financial liabilities	Carrying amount £	Contractual cash flows £	6 months or less £	6-12 months £	1 -2 years £
31 December 2017					
Trade and other payables	143,788	143,788	143,788	-	-
Proforma					
31 December 2016					
Trade and other payables	102,046	102,046	102,046	-	-

(c) Liquidity risk (Cont'd)**Company:**

Financial liabilities	Carrying amount £	Contractual cash flows £	6 months or less £	6-12 months £	1 -2 years £
31 December 2017					
Trade and other payables	4,125	4,125	4,125	-	-
Proforma					
31 December 2016					
Trade and other payables	-	-	-	-	-

(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.

11. Financial instruments (Cont'd)

(e) Interest rate risk

Profile

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

Group:	Carrying amount	
	2017	Proforma 2016
	£	£
Variable rate instruments		
Cash and cash equivalents	1,326,272	19,751

Company:	Carrying amount	
	2017	2016
	£	£
Variable rate instruments		
Cash and cash equivalents	1,266,921	172,430

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 2016.

Group:	2017		2016	
	Profit or loss		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	13,263	(13,263)	198	(198)

Company:	2017		2016	
	Profit or loss		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	12,669	(12,669)	1,724	(1,724)

12. 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

2017 Director	Remuneration			Interests	
	Cash-based payments	Share-based payments	Totals	Shares	Options
	£	£	£	No.	No.
Nigel Theobald (Chief Executive Officer)	61,786	299,045	360,831	12,255,233	-
Paul Titley	34,366	-	34,366	142,857	1,434,286
David Templeton	16,000	-	16,000	-	717,143
Luke Cairns	21,000	-	21,000	142,857	1,392,455
Gavin Burnell (resigned)	30,000	-	30,000	1,107,143	2,701,210
Prof. Humayun Akhter Mughal* (resigned)	4,000	-	4,000	1,835,400	-
	167,152	299,045	466,197	15,483,490	6,245,094

An amount of £56,000 (2016: £81,000) is payable to Nigel Theobald by N4 UK Limited. This forms part of the Trade and Other payables.

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

There are no further related parties identified.

13. Subsequent events

Between 1 January 2018 and 24 April 2018, a total of 9,228,280 warrants were exercised at a price of 8.5p per warrant. This resulted in the issue of 9,228,280 ordinary shares of 0.4p each subsequent to the year end. The warrants were issued on 3 May 2017 as part of Placing.

As a result of these warrant exercises, the Company has received £784,404 in additional funding.

On 5 February 2018, 4,951,400 ordinary shares were issued to Nigel Theobald (the "Deferred Consideration Shares") in accordance with the terms of the share purchase agreement entered into between the Company and Nigel Theobald dated 13 April 2017.

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. Trading on AIM in Alecto's shares has been cancelled with effect from 11 July 2017 due to the delay in publishing an admission document for the proposed reverse takeover.

Management took the view that, in light of the circumstances referred to above, it is reasonable to assume that the Alecto shares no longer hold any value and, as such, took the decision to impair the value of the shares to nil at 31 December 2017.

Subsequent to year end, 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 £27,262 from the sale.