Interim Results

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N4 Pharma PLC
20 September 2018

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N4 Pharma Plc

("N4 Pharma" or the "Company")

N4 Pharma Plc (AIM: N4P), announces its unaudited interim results for the six months ended 30 June 2018.

Highlights:

- Announced collaboration with MedImmune UK to test Nuvec® delivery system
- Appointed Dr Andrew Leishman as Head of Nuvec® Development
- Initiated further Nuvec® non-clinical development work to identify level of immune response and cellular behaviour to aid commercial discussions
- Cash balance at period end of approximately £1.6 million, following exercising of warrants

Post period end:

- Strategic review of the business to focus on the Nuvec® opportunity
- Appointment of Dr Allan Hey as Head of CMC Development
- As announced earlier today, Closure of generics division

Nigel Theobald, Chief Executive Officer of N4 Pharma Plc, commented:

"The Board remains very optimistic about the future of the Company and its prospects. Whilst it is very disappointing that we have had to make the decision as announced earlier today to close our generics division, we are excited about the opportunities and the potential for Nuvec®. We believe that we have made the correct decision for the Company as well as our valued shareholders. By making the decision to close the generics division, the Company maintains sufficient funds to continue to invest in undertaking additional research on Nuvec® well into 2019 and, as we now focus our efforts on Nuvec®, we will be providing further updates on this both in terms of its potential applications as well as findings from research that we undertake.

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

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Chief Executive's Statement

Half year results

During the half year to 30 June 2018, the Company realised a gain of £27,693 on the sale of its investment in Cradle Arc. Other operating income included £49,308 of government grants.

The operating loss for the period was £553,379 (2017: £390,377).

Cash balance at 30th June 2018 was £1,586,474.

Key Events

The net proceeds of the placing at the time of the Company's admission to trading on AIM, and subsequent warrant exercises ensures that the Company remains well funded throughout 2018 and well into 2019. During the period under review, the funds raised enabled N4 Pharma to undertake initial human clinical trials to establish the pharmacokinetic profile ("PK") of our sildenafil reformulation, further details of which are set out below. Currently, the funds raised are helping us to determine how we will position the Nuvec® delivery system for the best approach to engage with pharmaceutical and Biotech companies.

The Board has recently received the full data report of the clinical trial for the sildenafil reformulation and has identified that the risk reward profile to reformulate sildenafil to meet the required drug release profile, exemplified in the patent, initially sought would be too great. This result also has similar implications for other patents within the Company's generics portfolio, namely aprepitant and duloxetine. The Board, therefore, took the decision that it is in the best interest of the Company as well as its shareholders to focus the Company's ongoing efforts on Nuvec®.

Nuvec® is developing into a truly significant opportunity for the Company. Research with Nuvec® continues to impress and has already enabled an early collaboration with MedImmune UK, a key player in the market, and the Company is continuing to expand this impressive dataset with the aim to enable further commercial collaborations.

Vaccine Division

In March 2018 the Board appointed Dr Andrew Leishman as Head of Nuvec® Development and in September 2018 the Board also appointed Dr Allan Hey as Head of CMC Development. These two appointments will be critical in refocussing the Company's efforts on Nuvec®.

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

We have already demonstrated the high loading capacity of our Nuvec® system, its lack of toxicity and its ability to transfect a range of cells at different doses using pDNA. We are now looking to broaden the results to include both pDNA and mRNA and demonstrate the immune response using Nuvec.

N4 Pharma is already working with experienced contract research organisations in this field. As we enhance our data we intend to further engage with commercial partners to license Nuvec® to help them develop their own vaccines and therapeutics. Major pharmaceutical companies are committing significant spend developing their own novel compounds in this space, particularly mRNA compounds, yet many still face significant challenges in delivering these to the right cells at the right dose. Our early data suggests Nuvec® could have a key role to play as a delivery system in this area. Our intention is not to develop our own pDNA or mRNA based products but focus our work on compound delivery and provide licences to companies which will enable them to use our delivery system for their own products.

The business model remains the same in that we aim to efficiently spend sufficient funds to develop our platform to the point where we can secure licence payments for the use of our delivery system and ultimately royalties on any products sold using Nuvec®.

In the short term, we will focus our efforts on building the data for Nuvec® efficacy, safety and scaling up GMP manufacture for Nuvec® to a point where it can be ready to go into clinical trials with partners, as and when needed.

Generic Division

The main focus for the Company's generic division has been the reformulation of sildenafil (more commonly known as Viagra), where the Company sought to improve the speed at which the drug takes effect whilst also extending the duration of the action. Having completed our initial in vitro reformulation work on the drug we undertook a small-scale human pilot clinical trial to provide us with human PK data, to determine the amount of drug our reformulation will deliver and over what time course.

All of our pre-clinical in-vitro work suggested that we would achieve the dissolution of the tablet in the mouth required to pass through the sublingual membrane however the performance of the formulation in healthy subjects showed the dissolution achieved was insufficient and the subsequent review of the data showed that a minor change would not be the solution and a total reformulation would be needed. It was also identified that even if a good level of dissolution in the sublingual element of our formulation could be achieved, the time period required to hold the product in the sublingual environment would be too long for an attractive consumer product. There is also an additional need to develop a novel in-vitro predictive model for any sublingual element of the formulation to help define the future clinical trial and that the costs of any future exploratory trials would be much higher. All these elements significantly increase both the cost and risk for this product.

The Board considers these findings would similarly affect the planned approach for aprepitant and duloxetine as these formulations and target product profiles are similar to that of sildenafil so the risk benefit ratio for these is now also deemed considerably higher. This therefore leaves the generic division with valsartan as the only opportunity with the required risk reward ratio initially sought by the Company. Keeping this opportunity active due to patent obligations would still involve significant investment and therefore the Board has taken the difficult decision to close the generics division and focus management's time and Company funds on the Nuvec® opportunity.

Outlook

The Board remains very optimistic about the future of the Company and its prospects. Whilst it is very disappointing that we have had to make the decision to close our generics division, we are excited about the opportunities and the potential for Nuvec®. We believe that we have made the correct decision for the Company as well as our valued shareholders. By making the decision to close the generics division, the Company maintains sufficient funds to continue to invest in undertaking additional critical research on Nuvec® well into 2019 and as we now refocus our efforts on Nuvec® we will be providing further updates on this both in terms of its potential applications as well as findings from research that we undertake.

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

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

N4 Pharma Plc and its controlled entities
Condensed consolidated Statement of Comprehensive Income (unaudited) for the six months ended 30 June 2018

	Notes	Six months to 30 June 2018 (Unaudited)	Six months to 30 June 2017 (Unaudited)	Twelve months to 31 December 2017 (Audited)
		£	£	£
Government grant income		49,308	22,910	109,913
Gross Profit		**49,308**	**22,910**	**109,913**
Research and development costs		(287,160)	(137,449)	(409,808)
General and administration costs		(315,527)	(148,759)	(316,632)
Reorganisation costs		-	(127,079)	(281,298)
Operating loss for the period		(553,379)	(390,377)	(897,825)
Deemed cost of acquisition	4	-	(1,023,734)	(1,023,734)
Finance income		(535)	(5,126)	(5,299)
Gain on sale of investment	3	27,693	-	-
Loss for the period before tax		(526,221)	(1,419,237)	(1,926,858)
Taxation		(16,134)	-	89,874
Loss for the period after tax		(542,355)	(1,419,237)	(1,836,984)
Other comprehensive income net of tax		-	-	-
Total comprehensive loss for the period attributable to equity owners of N4 Pharma Plc		**(542,355)**	**(1,419,237)**	**(1,836,984)**
Loss per share attributable to owners of the parent				
Weighted average number of shares:				
Basic		87,892,979	54,521,134	64,783,082
Diluted		92,128,151	55,549,561	65,811,509
Basic loss per share		**(0.62p)**	**(0.73p)**	**(1.26p)**
Diluted loss per share		**(0.59p)**	**(0.71p)**	**(1.24p)**

All activities derive from continuing operations.

The notes below form an integral part of these financial statements.

N4 Pharma Plc and its controlled entities
Condensed consolidated Statement of Financial Position (unaudited) for the six months ended 30 June 2018

	Notes	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)	31 December 2017 (Audited)

		£	£	£
Assets				
Non-current assets				
Investments	3	-	-	-
		-	-	-
Current assets				
Trade and other receivables		128,275	152,239	132,700
Cash and cash equivalents		1,586,474	1,507,936	1,326,272
		1,714,749	1,660,175	1,458,972
Total Assets		1,714,749	1,660,175	1,458,972
Liabilities				
Current liabilities				
Trade and other payables		(174,897)	(169,102)	(143,788)
Accruals and deferred income		(18,049)	-	(35,430)
Total assets less current liabilities		1,521,803	1,491,073	1,279,754
Net Assets		**1,521,803**	**1,491,073**	**1,279,754**
Equity				
Share capital	5	8,634,675	8,569,682	8,579,396
Share premium	6	9,307,849	8,286,313	8,513,670
Share option reserve	7	102,279	178,278	147,635
Reverse acquisition reserve	6	(14,138,244)	(14,138,244)	(14,138,244)
Merger relief reserve	6	279,347	299,045	299,045
Retained earnings		(2,664,103)	(1,704,001)	(2,121,748)
Total Equity		**1,521,803**	**1,491,073**	**1,279,754**

N4 Pharma Plc and its controlled entities

Condensed consolidated Statement of Changes in Equity (unaudited) for the six months ended 30 June 2018

(i) Six months ended 30 June 2018 - Unaudited

	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Relief Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£	£
Balance at 1 January 2018	**8,579,396**	**8,513,670**	**147,635**	**(14,138,244)**	**299,045**	**(2,121,748)**	**1,279,754**
Total comprehensive loss for the period	-	-	-	-	-	(542,355)	**(542,355)**
Share issue	55,279	794,179	-	-	(19,698)	-	**829,760**
Share option reserve	-	-	(45,356)	-	-	-	**(45,356)**
At 30 June 2018	**8,634,675**	**9,307,849**	**102,279**	**(14,138,244)**	**279,347**	**(2,664,103)**	**1,521,803**

(ii) Six months ended 30 June 2017 - Unaudited

	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Relief Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£	£
Balance at 1 January 2017	**100**	-	-	-	-	**(284,764)**	**(284,664)**
Total comprehensive loss for the period	-	-	-	-	-	(1,419,237)	**(1,419,237)**

Share issue	8,551,539	8,415,653	-	-	-	-	**16,967,192**
Cost of share issue	-	(129,340)	-	-	-	-	**(129,340)**
Share option reserve	-	-	178,278	-	-	-	**178,278**
Group reconstruction	18,043	-	-	(14,138,244)	299,045	-	**(13,821,156)**
At 30 June 2017	**8,569,682**	**8,286,313**	**178,278**	**(14,138,244)**	**299,045**	**(1,704,001)**	**1,491,073**

N4 Pharma Plc and its controlled entities
Condensed consolidated Statement of Changes in Equity (unaudited) for the six months ended 30 June 2018 (Continued)

(iii) Twelve months ended 31 December 2017 - Audited

	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Relief Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£	£
Balance at 1 January 2017	**100**	**-**	**-**	**-**	**-**	**(284,764)**	**(284,664)**
Total comprehensive loss for the year	-	-	-	-	-	(1,836,984)	**(1,836,984)**
Share issue	8,561,253	8,643,010	-	-	-	-	**17,204,263**
Cost of share issue	-	(129,340)	-	-	-	-	**(129,340)**
Share option reserve	-	-	147,635	-	-	-	**147,635**
Group Reconstruction	18,043	-	-	(14,138,244)	299,045	-	**(13,821,156)**
At 31 December 2017	**8,579,396**	**8,513,670**	**147,635**	**(14,138,244)**	**299,045**	**(2,121,748)**	**1,279,754**

The notes below form an integral part of these financial statements.

N4 Pharma Plc and its controlled entities
Condensed consolidated Statement of Cash Flows (unaudited) for the six months ended 30 June 2018

	Six months to 30 June 2018 (Unaudited) £	Six months to 30 June 2017 (Unaudited) £	Twelve months to 31 December 2017 (Audited) £
Operating activities			
Loss before tax	(526,221)	(1,419,237)	(1,926,858)
Interest	535	5,126	5,299
Deemed cost of acquisition	-	1,023,734	1,023,734
Gain on sale of investment	(27,693)	-	-
Taxation	(16,134)	-	-
Operating loss before changes in working capital	**(569,513)**	**(390,377)**	**(897,825)**
Movements in working capital:			
Decrease/(Increase) in trade and other receivables	4,425	(129,052)	(109,513)
Increase in trade and other payables	13,728	52,602	56,538
(Decrease) in trade and other payables	-	(204,922)	-
Cash used in operations	(551,360)	(671,749)	(950,800)
Net cash flows used in operating activities	**(551,360)**	**(671,749)**	**(950,800)**
Investing activities			

Cash acquired on reverse acquisition	-	402,654	402,990
Proceeds from sale of investment	27,693	-	-
Net cash flows from investing activities	**27,693**	**402,654**	**402,990**
Financing activities			
Interest paid	(535)	-	(5,299)
Proceeds from loan advanced	-	104,078	-
Net proceeds of ordinary share issue	784,404	1,782,542	1,988,970
Cost of share issue	-	(129,340)	(129,340)
Net cash flows from in financing activities	**783,869**	**1,757,280**	**1,854,331**
Net increase in cash and cash equivalents	**260,202**	**1,488,185**	**1,306,521**
Cash and cash equivalents at beginning of the period	1,326,272	19,751	19,751
Cash and cash equivalents at 30 June / 31 December	**1,586,474**	**1,507,936**	**1,326,272**

The notes below form an integral part of these financial statements.

N4 Pharma Plc and its controlled entities
Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2018

1. Corporate information

N4 Pharma Plc (the "Company"), is the holding company for N4 Pharma UK Limited ("N4 UK") and N4 Biotech Limited ("Biotech"), and together form the group (the "Group"). N4 UK is a specialist pharmaceutical company which reformulates existing drugs and vaccines to improve their performance. Biotech was incorporated on 18 April 2018, is a wholly owned subsidiary of the Company and is currently dormant. N4 UK proposes to transfer certain Intellectual Property relating to vaccines to Biotech. The nature of the business is not deemed to be impacted by seasonal fluctuations and as such performance is expected to be consistent.

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

2. Accounting policies

Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective in the six months to 30 June 2018 which have had a material effect on this interim consolidated financial information. This includes the adoption of IFRS15 - 'Revenue from contracts with customers' which became mandatory for accounting periods commencing on or after 1 January 2018. The following relevant new standards, amendments to new standards and interpretations have been issued, but are not yet effective, and have not been early adopted:

Title	As issued by the IASB, mandatory for accounting periods starting
IFRS 16 Leases	Accounting periods beginning on or after 1 January 2019
Annual improvements 2015-2017 cycle	Accounting periods beginning on or after 1 January 2019
IFRIC 23- Uncertainty over Income Tax Treatments	Accounting periods beginning on or after 1 January 2019
Amendments to IFRS 9 -Prepayments Features with Negative Compensation	Accounting periods beginning on or after 1 January 2019
Amendments to IAS 28-Long-term Interests in Associates and Joint Ventures	Accounting periods beginning on or after 1 January 2019
Amendments to IAS19-Plan amendment, Curtailment and Settlement	Accounting periods beginning on or after 1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	Accounting periods beginning on or after 1 January 2020

Basis of Preparation:

The Group's condensed consolidated interim financial statements, which are unaudited, have been prepared in accordance with International

Accounting Standard ("IAS") 34, "Interim Financial Reporting".

The annual financial statements for the year ended 31 December 2017 were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The interim consolidated financial information for the six months ended 30 June 2018 are unaudited. In the opinion of the Directors, the interim consolidated financial information presents fairly the financial position, and results from operations and cash flows for the period.

The financial statements are presented in sterling, which is the Group's functional currency as the UK is the primary environment in which it operates.

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. Therefore the consolidated financial statements present the substance of the transaction in accordance with IFRS 2 and have been prepared in accordance with this standard for both the comparative six month period ended 30 June 2017 and the current period ended 30 June 2018.

Significant Accounting Policies:

The condensed, consolidated interim financial statements have been prepared under the historical cost convention, with the exception of investments, in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

While the financial information has been prepared in accordance with IFRS, as adopted by the European Union, the interim condensed, consolidated financial statements do not contain sufficient information to comply with IFRSs.

Financial assets at fair value through profit or loss:

Financial assets designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Group's documented investment strategy.

The Group's policy requires the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information.

Segmental reporting:

At 30 June 2018, 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.

Cash and cash equivalents:

The Directors consider any cash on short term deposit and other short term investments to be cash equivalents.

Government grant income

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

Government grants are recognised in the income statement on a systematic basis over the periods in which the Company 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 Company with no future related costs are recognised in the income statement in the period in which they become receivable.

Tax

The Group has accumulated losses available to carry forward against future trading profits. No deferred tax asset has been recognised in respect of tax losses since it is uncertain at the balance sheet date as to whether future profits will be available against which the unused tax losses can be utilised.

Share-based payment arrangements

Equity-settled share-based payments are measured at fair value at the date of grant 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 behavioural considerations.

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

3. Critical accounting judgements and estimates

The preparation of the interim condensed consolidated financial statements in conformity with IFRS requires management to make certain estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting period.

In the process of applying the Group's accounting policies, management has decided the following estimate and assumption is significant to causing potentially material adjustments to the carrying amounts of assets and liabilities recognised in the condensed consolidated financial statements.

Sale of listed investment

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 30 June 2017 formed part of the Group's assets. Trading on AIM in Alecto's shares had been cancelled with effect from 11 July 2017 due to the delay in publishing an admission document for the proposed RTO.

Management had taken the view 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 for the financial statements for the period ended 30 June 2017 and the year ended 31 December 2017.

Subsequent to the 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 £27,263 from the sale.

4. Reverse takeover

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 deemed cost of the acquisition was recognised in the Statement of Comprehensive Income of the preceding period (30 June 2017 and 31 December 2017).

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.

5. Share Capital

Allotted, called up and fully paid	**30 June 2018 (Unaudited)**	**30 June 2017 (Unaudited)**	**31 Dec 2017 (Audited)**
90,962,537 Ordinary Shares of 0.4p each (30 June 2017: 74,714,285 Ordinary shares of 0.4p each, 31 December 2017: 77,142,857 Ordinary shares of 0.4p each)	363,850	298,857	308,571
137,674,431 Deferred Shares of 4p each (30 June 2017: 137,674,431 Deferred shares of 4p each, 31 December 2017 137,674,431 Deferred shares of 4p each)	5,506,977	5,506,977	5,506,977
279,176,540 Deferred Shares of 0.099p each	2,763,848	2,763,848	2,763,848
	8,634,675	**8,569,682**	**8,579,396**

The transactions that took place during the period were as follows:

- 4,591,400 new ordinary shares of 0.4p each (the deferred consideration shares) were issued.
- Warrants exercised resulted in the issue of 9,228,280 new ordinary shares

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 of 4p, 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.

6. Reserves

The share premium account represents the amount received on the issue of ordinary shares by the Company in excess of their nominal value and is non-distributable.

The merger relief reserve arose on the Company's acquisition of N4 UK and consists of both the consideration shares and deferred consideration amounting to £299,045. There is no legal share premium on the shares issued as consideration as section 612 of the Companies Act 2006, which deals with merger relief, applies in respect of the acquisition.

The deferred consideration was only to be payable if the mid-market price of the Company's ordinary shares exceeded 15p per share for at least ten consecutive dealing days in the period of two years following Admission. The deferred consideration had been valued using the Black Scholes model and was included in the merger relief reserve at a fair value of £1,332. On 8 February 2018 following a period of ten consecutive days where the Company's share price closed above 15p, 4,591,400 new ordinary shares (the 'Deferred Consideration Shares') were issued and the original fair value of £1,332 was included in share premium.

The reverse acquisition reserve arises due to the elimination of the Company's investment in N4 UK. Since the shareholder in N4 UK became a shareholder of the Company, the acquisition is accounted for as though the legal acquiree (N4 UK) is the accounting acquirer.

7. Share-based payments and Share Option Reserve

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.

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 behavioural considerations.

As at 30 June 2018, there were 6,245,084 (30 June 2017: 6,245,084, 31 December 2017: 6,245,084) options in existence over ordinary shares of the Company.

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 0.7p per share (pre-Share Re-Organisation) 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 675,302.50 options held by Luke Cairns, issued on 14 October 2015 are exercisable at a price of 0.7p per share (pre-Share Re-Organisation) at any time before 14 October 2025.

The aggregate fair value of the share options issued on 14 October 2015 as at 30 June 2018 is £23,636 (30 June 2017: £30,812, 31 December 2017: £23,636).

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

Luke Cairns	717,143 options
David Templeton	717,143 options
Paul Titley	1,434,286 options

The above share options 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 (post-Share Re-Organisation) at any time before 14 October 2025.

The fair value of the share options issued on 3 May 2017 is £23,954. The total fair value of share options in issue and not yet exercised as at 30 June 2018 is £47,950 (30 June 2017: £66,657, 31 December 2017: £47,950).

b) **Warrants**

As at 30 June 2018, the total number of warrants in issue was 11,054,071 (30 June 2017: 22,710,923, 31 December 2017: 20,282,351).

The warrants are exercisable at 8.5p and 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.

Details of the warrants exercised during the period are as follows:

Exercise details

During the period, an amount of £792,847 (30 June 2017: £228,000, 31 December 2017: £424,714), representing the exercised warrants, has been recognised against share premium and £36,913 (30 June 2017: £12,000, 31 December 2017: £21,714) to share capital. The fair value of the warrants in issue and not yet exercised was determined using the Black Scholes model. The fair value of the warrants at 30 June 2018 was £54,329 (30 June 2017: £111,621, 31 December 2017: £99,685).

8. Earnings per share

Basic earnings per share is calculated by dividing the loss after tax attributable (excluding the deemed cost of acquisition) to the equity holders of the Company by the weighted average number of shares in issue during the period.

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 and warrants.

The basic earnings per share for each comparative period before the acquisition date shall be calculated by dividing the profit of N4 UK in each of those periods by the historical weighted average number of Ordinary shares outstanding multiplied by the exchange ratio.

9. Related Party Transactions

During the period to 30 June 2018, the non-executive directors' fees amounted to £24,000 (6 months to 30 June 2017: £8,000, 12 months to 31 December 2017: £37,000).

During the period to 30 June 2018, the Company charged N4 UK £12,000 in respect of 50 per cent. of the post RTO fees paid to non-executive directors for the services rendered to N4 UK (6 months to 30 June 2017: £4,800, 12 months to 31 December 2017: £16,000)

10. Subsequent events

N4 Biotech Limited a wholly owned subsidiary of the Company was incorporated on 18 April 2018 (See Note 1 for further detail).

On 30 July 2018 N4 Pharma Plc appointed Allenby Capital Limited as the Company's nominated adviser and broker.

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