RNS Number : 9680D
N4 Pharma PLC
25 February 2020

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N4 Pharma plc
("**N4 Pharma**", the "**Company**" or the "**Group**")

Final Results

N4 Pharma Plc (AIM: N4P), the specialist pharmaceutical company developing Nuvec®, a novel delivery system for cancer treatments and vaccines, is pleased to announce its audited results for the year ended 31 December 2019.

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

"The Directors believe we have made considerable progress in understanding how Nuvec® works in the last 12 months which will put us in a stronger position for potential collaboration discussions as we continue to present our data to potential licensing partners. Having demonstrated that Nuvec® can load and transfect a range of DNA and mRNA antigens in vitro and also produce an in vivo antibody response with a good safety profile, we have recently worked on improving the dispersion of Nuvec® with a view to addressing some of the inconsistencies seen in previous in vivo work.

"Our next focus is to assess the improved dispersion with further in vitro and in vivo testing of Nuvec® using OVA plasmid DNA whilst, in parallel, working with Nanomerics on producing stable Nuvec® formulations.

"We believe the work we have done in the last 12 months, together with our ongoing studies, puts our Nuvec® delivery system in a stronger position than it was when we first announced our positive in vivo antibody results and we remain excited about the potential for Nuvec® to become a credible delivery system in the field of cancer therapeutics and vaccines."

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About N4 Pharma

N4 Pharma is a specialist pharmaceutical company developing a novel delivery system for cancer and vaccine treatments using its unique silica nanoparticle delivery system called Nuvec®.

N4 Pharma's business model is to partner with companies developing novel antigens for cancer and vaccine treatments to use Nuvec® as the delivery vehicle to get their antigen into cells to express the protein needed for the required immunity. As these products progress through pre clinical and clinical programs, N4 Pharma will seek to receive up front payments, milestone payments and ultimately royalty payments once products reach the market.

N4 Pharma plc

Chairman's Report

N4 Pharma Plc (the "Company"), is the holding company of N4 Pharma UK Limited ("N4 UK") and N4 Biotech Limited ("N4 Biotech") which together at the date of these accounts form the group (the "Group"). N4 Biotech was dissolved on 14 January 2020. N4 UK is a specialist pharmaceutical company engaged in the development of a mesoporous silica nanoparticle delivery system ("Nuvec®") to improve the cellular delivery and potency of cancer treatments and vaccines.

Review of operations for the financial year ended 31 December 2019

During the year to 31 December 2019, as anticipated, no revenue was generated by the Group.

The operating loss for the year was £947,340 (31 December 2018: £1,417,089 loss).

In the year, £1,050,000 of new funds were raised through the placing of 10,500,000 new ordinary shares (the "Placing").

Cash at the year-end stood at £965,752 (31 December 2018: £793,141).

Board Changes

During the period the Company appointed John Chiplin as non-executive Chairman and Chris Britten as a non-executive Director. Paul Titley stood down as a director and employee of the Company. David Templeton became an executive director, taking responsibility for the technical aspects of Nuvec®'s development. These changes bring considerable experience and expertise to the Board in order to take the Group forward.

Key Operational Events and Opportunities

The Group continues to confirm and extend the Nuvec® dataset to enable it to undertake discussions with large pharmaceutical and Biotech companies to license Nuvec® for their own pre-clinical and clinical programs using nucleic acids. We now have a significant amount of positive

data giving a clear understanding that:

- a range of DNA and mRNA antigens can be loaded onto the Nuvec® particles and successfully transfect cells *in vitro*;
- Nuvec®'s mechanism of action to transfect cells is via endocytosis into the cell and the release of payload into the cytoplasm;
- Nuvec® has a good safety profile: it degrades naturally in the body and does not track to the liver;
- importantly, Nuvec® works for pDNA and mRNA having shown an *in vivo* antibody response for both; and
- Nuvec® currently delivers a good response from two or three injections but has shown inconsistent or negative responses when just one injection is used.

The data we have generated so far is encouraging and shows that Nuvec® has the potential to be an effective delivery system for nucleic acids.

Due to inconsistencies identified in third party pre-clinical studies, the Company decided to undertake a repeat of its pre-clinical study with the University of Queensland, using OVA pDNA. The repeat study added an additional arm to investigate responses from one injection as well as three injections. The repeat study confirmed a good response using Nuvec® at higher doses using three injections but no response with just one injection. This was a significant finding, as the previous studies showing inconsistencies had all used just one injection, indicating that the inconsistencies shown in the previous studies may have been as a result of the dosing.

This work also showed that once the Nuvec® particles were loaded with OVA pDNA, the formulation was not ideally dispersed. This lack of dispersion is not an issue for *in vitro* work as the particles are well dispersed in the experiment but due to the concentrations used for *in* vivo experiments, is the dispersion is likely to be a further explanation for the inconsistency seen when using Nuvec® *in vivo*.

On 20 August 2019, the Company announced that it would undertake a program of work to investigate how to improve the dispersity of Nuvec® formulations once loaded with DNA and RNA. By improving dispersity, the Company believes it will be able to demonstrate a stronger more consistent *in vivo* response which will make it much more attractive to third-parties for licensing opportunities.

The focus of this work is not to alter the basic silica nanoparticle, but rather to look at the processes of how we load a linker to the silica particle to enable DNA or RNA to be loaded to the particle and also how the DNA or RNA itself is then loaded onto the Nuvec® particle. The objective of the work is to improve these processes so that a more even dispersion of DNA loaded Nuvec® is achieved.

As announced in January 2020, we have now successfully completed the first two phases of this work, with alterations to the manufacturing process, demonstrating improved dispersion of Nuvec® and how best to measure this dispersion. We have now begun the phase to investigate how to add the DNA and maintain this improved dispersion with the ongoing work programme, the expected timings of which are as follows:

- Q1 2020 - Nuvec® improved DNA loading process
- Q2 2020 - *in vitro* testing of improvements
- Q2-Q3 2020 - *in vivo* testing of improved transfection and immune response
- Q3-Q4 2020 - conduct *in vivo* cancer model

Assuming a successful conclusion to this program of work, the Directors believe the subsequent data pack and improved consistency will put the Group in a much stronger position to embark on licensing discussions with prospective partners.

At the end of 2018, the Company announced the Nuvec® delivery system was accepted for characterisation by the European Nanomedicine Characterisation Library ("EUNCL"). Due to delays at EUNCL's end, the actual work did not start until the end of Q3 2019 and initially focused on endotoxin assessments and dispersion. The endotoxin assay used by EUNCL was discovered not to be suitable for Nuvec® so no results were possible. The Company has separately undertaken its own endotoxin tests on Nuvec® and found no endotoxins present so this is not considered by the Directors to be an issue. EUNCL's dispersion tests confirmed what the Company had already discovered, namely that there appears to be agglomeration of the Nuvec® particle.

Unfortunately, funding for the EUNCL programme has not been continued beyond 2019 so we will not undertake any further work with EUNCL. The Group is yet to receive a final report from EUNCL, however it is not expected to contain any further significant information above what has already been shared with us around endotoxin analysis and dispersion. In light of the work we are now doing, which addresses a lot of the EUNCL findings, the Directors do not believe that the closure of the program will negatively impact the Group, Nuvec® work or its prospects.

Following the successful completion of the first phase of the CMC program showing the ability to improve Nuvec® dispersion, in January 2020 the Company entered into a research collaboration agreement with Nanomerics Ltd, who have considerable expertise in the field of nanoparticle formulation and development. This provides the Group with access to the laboratories at the London School of Pharmacy, part of the University College of London (UCL), where we can undertake more accelerated work on the development of Nuvec® and perform our planned *in vivo* efficacy studies.

The agreement with Nanomerics will allow the Group to build on the previously announced work and undertake full formulation assessment, including freeze drying, reconstitution and stability of the formulation. Achieving a stable formulation capable of being re-constituted for injection is an important aspect of making Nuvec® easier to use and will allow the Group to broaden how it can interact with potential partners as the access to UCL labs will allow us to do the formulation and testing work ourselves rather than relying on partners, thereby giving greater control over the early phases of collaborative research agreements.

Future Prospects

The Company is restructuring its chemistry, manufacturing and controls ("CMC") operations and Dr Allan Hey will be stepping down as Head of CMC Development at the end of February 2020. Allan will be replaced by Rob Harris, a CMC Consultant with considerable experience of working with nanoparticles. Rob will advise the Company on all the strategic aspects of the Nuvec® CMC program.

The Group has already demonstrated that Nuvec® is capable of loading and transfecting both DNA and mRNA and producing antibodies. The next phase of work is focused on making Nuvec® more consistent, easier to handle and therefore more efficacious.

The use of DNA and RNA in the life science sector is a major growth area and a consistent theme in all discussions about the potential for DNA and RNA is the need for a safe and effective delivery system. The Board remains very optimistic about the future of the Group and its prospects and believes the successful conclusion of its CMC and *in vivo* efficacy studies will make it an attractive alternative to current delivery systems being used in this area.

In addition to our primary focus of optimizing Nuvec®, the Board has considered a number of investment and acquisition opportunities to widen our asset base. Whilst discussions have not resulted in the conclusion of any transaction, we remain open to diversifying our portfolio if an attractive proposition presents itself on favourable terms.

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

By order of the Board

John Chiplin
Chairman

N4 Pharma Plc
Consolidated Statement of Comprehensive Income for the year ended 31 December 2019

	Notes	2019	2018
		£	£
Government grant income		-	72,832
Gross profit		**-**	**72,832**
Research and development costs		(216,948)	(846,176)
General and administration costs		(730,392)	(643,745)
Operating loss for the year		(947,340)	(1,417,089)
Finance expenditure		(1,385)	(981)
Gain on sale of investment		-	27,693
Loss for the year before tax	4	(948,725)	(1,390,377)
Taxation	5	72,352	205,534
Loss for the year after tax		(876,373)	(1,184,843)
Other comprehensive income net of tax		-	-
Total comprehensive loss for the year attributable to equity owners of N4 Pharma Plc		**(876,373)**	**(1,184,843)**

Loss per share attributable to owners of the parent		
Weighted average number of shares:		
Basic	100,168,016	89,440,373
Diluted	100,168,016	91,305,287
Basic loss per share	**(0.87p)**	**(1.32p)**
Diluted loss per share	**(0.87p)**	**(1.30p)**

All activities derive from continuing operations.

N4 Pharma Plc
Consolidated Statement of Financial Position as at 31 December 2019

	Notes	2019	2018
		£	£
Assets			
Non-current assets			
Investments	6	-	-
			-
Current assets			
Trade and other receivables	7	99,269	276,926
Cash and cash equivalents		965,752	793,141
		1,065,021	1,070,067
Total Assets		1,065,021	1,070,067
Liabilities			
Current liabilities			
Trade and other payables	8	(51,547)	(159,666)
Accruals and deferred income		(26,136)	(30,457)
		(77,683)	(190,123)
Total assets less current liabilities		987,338	879,944
Net Assets		**987,338**	**879,944**
Equity			
Share capital	10	8,676,675	8,634,675
Share premium	10	10,327,258	9,328,848
Share option reserve	10	25,266	81,909
Reverse acquisition reserve		(14,138,244)	(14,138,244)
Merger reserve		279,347	279,347
Retained earnings		(4,182,964)	(3,306,591)
Total Equity		**987,338**	**879,944**

N4 Pharma Plc
Consolidated Statement of Changes in Equity for the year ended 31 December 2019

(i) Year ended 31 December 2019	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£	£
Balance at 1 January 2019	**8,634,675**	**9,328,848**	**81,909**	**(14,138,244)**	**279,347**	**(3,306,591)**	**879,944**
Total comprehensive loss for the year	-	-	-	-	-	(876,373)	(876,373)
Share issue	42,000	998,410	-	-	-	-	1,040,410
Share option reserve	-	-	(56,643)	-	-	-	(56,643)
At 31 December 2019	**8,676,675**	**10,327,258**	**25,266**	**(14,138,244)**	**279,347**	**(4,182,964)**	**987,338**

(ii) Year ended 31 December 2018	Share Capital	Share Premium	Share Option Reserve	Reverse Acquisition Reserve	Merger Reserve	Retained Earnings	Total Equity
	£	£	£	£	£	£	£
Balance at 1 January 2018	**8,579,396**	**8,513,670**	**147,635**	**(14,138,244)**	**299,045**	**(2,121,748)**	**1,279,754**
Total comprehensive loss for the year	-	-	-	-	-	(1,184,843)	(1,184,843)
Share issue	55,279	815,178	-	-	(19,698)	-	850,759
Share option reserve	-	-	(65,726)	-	-	-	(65,726)
At 31 December 2018	**8,634,675**	**9,328,848**	**81,909**	**(14,138,244)**	**279,347**	**(3,306,591)**	**879,944**

N4 Pharma Plc
Consolidated Statement of Cash Flow for the year ended 31 December 2019

	2019	2018
	£	£
Operating activities		
Loss before tax	(948,725)	(1,390,377)
Finance expenditure	1,385	981
Share based payments to employees	3,767	629
Gain on sale of investments	-	(27,693)
Operating loss before changes in working capital	**(943,573)**	**(1,416,460)**
Movements in working capital:		
Decrease/(increase) in trade and other receivables	29,441	(9,266)
(Decrease)/increase in trade, other payables and accruals	(112,440)	10,905
Taxation	220,568	70,574
Cash used in operations	(806,004)	(1,344,247)

Net cash flows used in operating activities	**(806,004)**	**(1,344,247)**
Investing activities		
Sale of investments	-	27,693
Net cash flows from investing activities	**-**	**27,693**
Financing activities		
Finance expenditure	(1,385)	(981)
Net proceeds of ordinary share issue	980,000	784,404
Net cash flows from financing activities	**978,615**	**783,423**
Net increase/(decrease) in cash and cash equivalents	**172,611**	**(533,131)**
Cash and cash equivalents at beginning of the year	793,141	1,326,272
Cash and cash equivalents at 31 December	**965,752**	**793,141**

Notes to the consolidated financial statements for the year ended 31 December 2019

1. Accounting policies

1.1 Reporting entity

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

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

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

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

1.2 Measurement convention

The consolidated financial statements are prepared on the historical cost basis, except for the following items:

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

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

1.3 Going concern

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

The Group prepares regular business forecasts and monitors its projected cash flows, which are reviewed by the Board. Forecasts are adjusted for reasonable sensitivities that address the principal risks and uncertainties to which the Group is exposed, thus creating a number of different scenarios for the Board to challenge. In those cases, where scenarios deplete the Group's cash resources too rapidly, consideration is given to the potential actions available to management to mitigate the impact of one or more of these sensitivities, in particular the discretionary nature of costs incurred by the Group, in order to ensure the continued availability of funds.

As the Group did not have access to bank debt and future funding is reliant on issues of shares in the parent Company, the Board has derived a mitigation plan for the scenarios modelled as part of the going concern review.

On the basis of this analysis, the Board has concluded that there is a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future being a period of at least twelve months from the balance sheet date.

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 2019 of £806,004 (2018: £1,344,247 outflow). At 31 December 2019, the Group had cash balances of £965,752 (2018: £793,141) and a surplus in net working capital (current assets, including cash, less current liabilities) of £987,338 (2018: £879,944).

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

1.4 Basis of consolidation

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

1.5 Revenue

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

The Group has not recognised any revenue to date.

1.6 Government grant income

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

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

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

1.7 Expenses

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

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

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

The criteria for recognising expenditure as an asset are:

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

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

1.8 Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

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

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

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

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

1.9 Earnings per share

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

1.10 Operating segments

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

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

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

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

1.11 Classification of financial instruments issued by the Group

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

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

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").

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generated units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (Group of units) on a pro rata basis.Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.15 Share based payment arrangements

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

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

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

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

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

1.16 Adoption of new and revised International Financial Reporting Standards

The following IFRS standards, amendments or interpretations became effective during the year ended 31 December 2019 but have not had a material effect on this consolidated financial information:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
IFRS 9	Prepayments Features with Negative Compensation
IAS 28	Long-term Interests in Associates and Joint Ventures
IAS19	Plan amendment, Curtailment and Settlement

All new standards and amendments to standards and interpretations effective for annual periods beginning on or after 1 January 2019 that are applicable to the Group have been applied in preparing these consolidated financial statements.

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

Standard	Effective date
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 Business Combinations	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Interest Rate Benchmark Reform: amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

The Directors are continuing to assess the potential impact that the adoption of the standards listed above will have on the consolidated financial statements for the year ended 31 December 2019.

1.17 Use of estimates and judgements

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

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

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

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

Impairment of investments and intercompany debtors
The subsidiary has sustained losses and the balance sheet is in deficit. This is a potential indicator of impairment. The recoverability of intercompany debtor and the cost of investment is dependent on the future profitability of the entity. No provision for impairment has been made in these accounts and this is a significant judgement.

2. Risk management

Overview
The Group has exposure to the following risks:

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

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

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

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

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

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

Tax risk

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

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

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

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

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

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

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

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

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

3. Employees and directors

The average monthly number of employees during the year was 5(2018: 4). The directors of the Group are employed by N4 Pharma UK Limited UK and as such are included in the employee figure. Total directors remuneration is detailed in note 13 of these consolidated financial statements.

	2019 £	2018 £
Wages and Salaries	270,472	233,282
Social security costs	34,956	22,556
Pension costs	1,209	807
	306,637	256,645

4. Loss before tax

	2019 £	2018 £
Loss before taxation is arrived after charging:		
Fees payable to the Group's auditors for the audit of the Group's financial statements	21,200	20,600
Other fees payable to auditors:		
- Other assurance services	700	1,000
- Tax advisory services	-	3,550

5. Taxation

	2019	2018

	£	£
Current tax		
Research and development tax credit receivable for the current period	(72,352)	(222,066)
Adjustments in respect of prior periods	-	16,532
	(72,352)	(205,534)
Deferred tax		
Origination and reversal of temporary differences	-	-
Tax in income statement	(72,352)	(205,534)

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

	2019 £	2018 £
Loss before taxation	(948,725)	(1,390,377)
Tax at the UK corporation tax rate of 19% (2018: 19%)	(180,258)	(264,171)
Expenses not deductible	-	(5,320)
Net Research and development tax credits	(72,352)	(96,406)
Changes in unrecognized deferred tax	180,258	143,831
Prior year adjustment	-	16,532
Tax charge for the year	(72,352)	(205,534)

At the year end the Group had trading losses carried forward of £1,706,986 (2018: £1,257,239) for use against future profits.

6. Investments

Inventory of securities

The Company held 1,388,889 Ferring warrants and 542,233 Valirx warrants both of which had no value as at the year-end 31 December 2018. These were legacy holdings from Onzima Plc prior to the RTO. These warrants expired during the financial year ended 31 December 2019.

7. Trade and other receivables

	2019 £	2018 £
Prepayments	11,758	11,861
VAT receivable	13,660	42,998
Corporation tax debtor	72,352	220,568
R&D expenditure credit	1,499	1,499
Loan interest receivable	-	-
Other debtors	-	-
	99,269	276,926

8. Trade and other payables

	2019 £	2018 £
Trade creditors	27,157	113,093
Employee creditors	8,152	9,107
Loan due to directors	16,000	36,000
Other creditors	238	1,466
	51,547	159,666

9. Share-based payments

a) Options

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

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

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

	2017 Options	**2018 Options**	**2019 Options**
Share price	6.375p	6.6p	3.55p
Exercise price	7p	6.6p	3.55p
Expected volatility	27.2%	45.2%	37.4%
Expected option life	3 years	6.5 years	6.5 years
Risk free rate	4.75%	5.00%	5.00%

As at 31 December 2019, there were 7,679,370 (2018: 7,249,084) options in existence over ordinary shares of the Company allocated as follows:

Name	**Date of Grant**	**Ordinary shares under option**	**Expiry Date**	**Exercise Price £**
2015 Options				
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
2017 Options				
Luke Cairns	03.05.17	717,143	14.10.25	0.070
David Templeton	03.05.17	717,143	14.10.25	0.070
Paul Titley	03.05.17	717,143	14.10.25	0.070
2018 Options				
Alan Hey	26.09.18	717,143	26.09.28	0.066
2019 Options				
John Chiplin	21.05.19	717,143	21.05.29	0.0355
Christopher Britten	21.05.19	717,143	21.05.29	0.0355
Total options		7,679,370		

The aggregate fair value of the share options issued is as follows:

	2019	**2018**
	£	**£**
2015 Options	17,831	20,910
2017 Options	3,037	6,040
2018 Options	2,999	630
2019 Options	1,399	- -
	25,266	27,580

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.

In the case of the 2017 share options granted to Paul Titley, a total of 1,434,286 were granted, the exercise of options over 717,143 ordinary shares were subject to certain performance conditions. These options were exercisable at a price of 7 pence per share (post-Share Re-Organisation) at any time before 14 October 2025. However, these share options lapsed prior to the final reporting date of 31 December 2019 due to his departure from the Company and those targets not being met. This leaves Paul Titley with 717,143 options which are exercisable on the 3rd anniversary of Admission, being 3 May 2020.

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

The share options granted to Andrew Leishman lapsed on 1 January 2019 due to his departure from the Company.

The share options granted to Alan Hey lapsed subsequent to year end 31 December 2019 due to his departure from the Company.

On 21 May 2019 717,143 options over ordinary shares were granted to both John Chiplin and Christopher Britten under the Company's share option scheme and are exercisable at a price of 3.55p per share.

a) Warrants

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

The warrants entitled 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 was 3 May 2019.

2019

Date of Grant	Warrant balance at 1 January 2019	Expiry Date	Exercise Price £	Exercised Warrants	Number of Shares issued (1:1)	Remaining Warrants at 31 December 2019
03.05.2017	11,054,071	03.05.2019	0.085	-	-	-

2018

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

During the year ended 31 December 2019 none of the warrants issued on 3 May 2017 were exercised (2018: 9,228,280). The remaining balance of the warrants totaling 11,054,071 expired on 3 May 2019.

During the year, an amount of £54,329 (2018: £792,846), representing the expired warrants (2018: exercised warrants), has been recognised against share premium and £nil (2018: £36,913) 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 2019 is £nil (2018: £54,329).

10. Capital and reserves

	2019 £	2018 £
101,462,537 Ordinary Shares of 0.4p each *(2018: 90,962,537 Ordinary Shares of 0.4p each)*	405,850	363,850
137,674,431 Deferred Shares of 0.4p each *(2018: 137,674,431 Deferred Shares of 0.4p each)*	5,506,977	5,506,977
279,176,540 Deferred Shares of 0.099p each *(2018: 279,176,540 Deferred Shares of 0.099p each)*	2,763,848	2,763,848
	8,676,675	8,634,675

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.

During the year 10,500,000 new ordinary shares of 0.4p each were issued.

The 137,674,431 deferred shares of 0.4p, 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.

The 279,176,540 deferred shares of 0.099p shall be entitled to receive a special dividend, which is payable upon the repayment to the Company of any amount owed under certain loan agreement, after which the Company shall, in priority to any distribution to any other class of share, pay to the holders of the Special Deferred Shares an aggregate amount equal to the amount repaid pro rata according to the number of such shares paid up as to their nominal value held by each shareholder. They shall be entitled to no other distribution save for a special dividend and shall not be entitled to receive notice of or attend or vote at a general meeting of the Company. On a return of capital on a winding up of the Company, shall only be entitled to receive the amount paid up on such shares up to a maximum of 0.9 pence per share after the holders of the Ordinary Shares and the Deferred Shares have received their return on capital.

Reserves

Share premium reserve

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

Share option reserve

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

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

11. Earnings per share

The calculation of basic loss per share at 31 December 2019 was based on the loss of £876,373 (2018: £1,184,843), and a weighted average number of ordinary shares outstanding of 100,168,016 (2018: 89,440,373), calculated as follows:

	2019	2018
	£	£
Losses attributable to ordinary shareholders	**876,373**	**1,184,843**
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	89,440,373	64,783,082
Effect of shares issued during the year	10,727,643	24,657,291
Weighted average number of shares at 31 December	100,168,016	89,440,373

	2019 pence per share	*2018 pence per share*
Basic loss per share	(0.87)	(1.32)

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. All of the options existing at 31 December 2019 have an exercise price that is greater than the market price of the shares and as a result are non dilutive and excluded from the diluted loss per share calculation.The calculation of diluted loss per share at 31 December 2019 was based on the loss of £876,373 (31 December 2018: £1,184,843), and a weighted average number of ordinary shares outstanding of 100,168,016 (2018: 91,305,287).

	2019 pence per share	*2018 pence per share*
Diluted loss per share	(0.87)	(1.30)

12. Financial instruments

(a) Fair values of financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

(b) Credit risk

Financial risk management

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the reporting date of the Group was £99,269 (2018: £276,926), 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**	**Contractual**	**6 months or**	**6-12**	**1 -2 years**

	amount	cash flows	less	months	
	£	£	£	£	£
31 December 2019					
Trade and other payables	51,547	51,547	51,547	-	-
31 December 2018					
Trade and other payables	159,666	159,666	159,666	-	-

(d) Currency risk

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

(e) Interest rate risk

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

	Carrying amount	
Group:	**2019**	**2018**
	£	**£**
Variable rate instruments		
Cash and cash equivalents	965,752	793,141

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 2018.

Group:	**2019**		**2018**	
	Profit or loss		**Profit or loss**	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	9,658	(9,658)	7,931	(7,931)

13. Related parties

Key management personnel

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

Directors' remuneration and interests

2019	**Remuneration**			**Interests**	
Director	**Cash-based payments**	**Share-based payments**	**Totals**	**Shares**	**Options**
	£	£	£	No.	No.
Nigel Theobald (Chief Executive Officer)	70,000	-	70,000	16,981,319	-
Paul Titley (resigned 20 May 2019)	15,282	-	15,282	142,857	717,143
David Templeton	38,310	-	38,310	-	717,143
Luke Cairns	24,000	-	24,000	142,857	1,392,445
Christopher Britten	14,923	-	14,923	-	717,143
John Chiplin	14,667	-	14,667	-	717,143
	177,182	-	177,182	17,267,033	4,261,017

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

An amount of £16,000 (2018: £36,000) is payable to Nigel Theobald by N4 Pharma 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.

14. Subsequent events

N4 Biotech Limited was dissolved on 14 January 2020.

The share options granted to Alan Hey totaling 717,143 options lapsed subsequent to year end 31 December 2019 due to his departure from the Company.

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