realm THERAPEUTICS plc

2018 ANNUAL REPORT

Contents

❁Strategic Report

Strategy

Realm Therapeutics plc and its subsidiaries including Realm Therapeutics Inc. (the "Group", "Realm" or the "Company") had been focused on the development of novel, prescription treatments for immune mediated diseases in adults and children. In 2018, the Group completed two Phase 2 clinical studies. In March 2018, the Group reported that its Phase 2 study of PR013, a topical ophthalmic solution for the treatment of Allergic Conjunctivitis, did not demonstrate efficacy. As a result, Realm discontinued further development of that program. In September 2018, the Group announced top-line results of its Phase 2 trial of PR022 in Atopic Dermatitis which did not meet the Group's threshold for continued investment and, as such, Realm decided to discontinue all drug development programs based on its proprietary technology. Also in September 2018, the Group announced the hiring of MTS Health Partners, L.P., to act as an advisor in relation to a strategic review that was initiated by the Board to explore options which include the potential sale of the Group as a possible outcome.

Following shareholders' approval, in March 2019, the Group adopted an Investing Policy pursuant to which the Group will continue to seek to invest in, partner with, acquire and/or be acquired by companies with meaningful development potential in the life sciences sector or with good overall business prospects; or, if a suitable transaction is not identified, the Group will consider winding down and distributing the remaining assets to shareholders, following satisfaction of applicable obligations.

2018 Business and Financial Review

The primary focus of the business in 2018 was on completing the two Phase 2 clinical studies and, following the announced results of the second study, to initiate an advance a strategic review. In addition, in July 2018, the Securities and Exchange Commission declared effective the Group's registration statement with respect to American Depositary Shares (ADSs) representing the Group's ordinary shares, and Nasdaq approved the ADSs for listing and the ADSs were listed for trading thereon. The registration statement was filed to facilitate the creation of a trading market in the United States for ADSs and in satisfaction of Realm's obligations under a registration rights agreement entered into with investors who participated in the Group's October 2017 private placement. The Group did not register any new issuance of securities in connection with the listing of the ADSs on Nasdaq.

Royalty Revenues and Cash Receipts

Realm adopted IFRS 15, *Revenue from Contracts with Customers*, effective 1 January 2018. The adoption of the new standard arose from the fixed guaranteed future minimum royalty payments from the out-licensing of the Group's Wound Care business. Under the new standard, future minimum payments were recognized at the time of adoption, rather than over future periods. The impact was a decrease of $2.5 million in accumulated deficit as at 1 January 2018 and a corresponding increase in royalty receivable. Royalty revenues are recognized to the extent that the exceed guaranteed contract minimums in the relevant contract year.

Royalty revenue of $0.3 million was recognized during the year ended 31 December 2018, representing the royalties earned in excess of the minimum guarantee (2017: $1.1m under the previous revenue recognition standards). During 2018, cash payments of $1.2 million were received in relation to royalties earned (2017: $0.9m).

Operating Expenses

Operating expenses increased to $14.3 million (2017: $11.8m) reflecting advancement of the Group's clinical development plans, costs associated with the listing of ADSs on Nasdaq and restructuring costs associated with Realm's strategic review. Investment in R&D increased to $8.6 million (2017: $8.2m) primarily due to clinical development cost and regulatory support for two Phase 2 clinical trials. G&A spending increased to $4.9 million (2017: $3.6m) due to a decrease in overhead costs of $0.2 million, offset by $1.5 million of costs associated with 2018 listing of ADSs on Nasdaq. Additionally, in 2018 restructuring expenses of $0.8 million (2017: nil) was incurred related to the strategic review including professional fees and employee severance costs associated with a reduction in the workforce.

Loss from Continuing Operations

Loss from continuing operations was $13.6 million (2017: $10.5m), primarily due to the increase in Operating Expenses, as described above, and the reduction in recognition of royalty income revenue in 2018 due to the adoption of IFRS 15, as described above.

Cash Flow

Cash, cash equivalents and short-term investments at 31 December 2018 were $18.9 million (31 December 2017: $33.9m). Net cash used in operating activities was $15.0 million (2017: $9.5m) primarily attributable to the loss from continuing operations and changes in working capital, including receipt of the royalties and a significant paydown of liabilities during the year.

Key Performance Indicators (KPIs)

The Group established 2018 KPIs (Development milestones and Cash flow) as noted below. For 2019, the Group is focused on executing on the strategic review process and has therefore not established operational KPIs.

Development milestones – used to monitor the performance of the Group's drug candidates through planned clinical development.

In 2018, development milestones and results were as follows:

- Complete PR013 Phase 2b clinical trial – *completed*
- Complete PR022 Phase 2a clinical trial – *completed*
- Submit RLM023 (Acne Vulgaris) IND application – *abandoned upon the discontinuance of the Group's clinical development programs.*

Cash flow – used to monitor the Group's cash burn rate and the timing and requirements for future funding:

It was expected that an increase in operating cash flow would occur in 2018 reflecting the advancement of clinical development and general Research and Development activities. As planned, the Group's cash resources were sufficient to conduct the initial Phase 2 clinical studies. Following the announcement in September 2018 that the Group was undertaking a strategic review, the Group implemented cost cutting measures, including a significant reduction in headcount, in order to preserve cash. The Group remains in discussions regarding the formal sale process which may result in an acquisition by the Group or in the Group being acquired, in each case to allow the counterparty to gain access to the Group's cash resources. If a suitable strategic transaction is not identified, a potential winding down of the Group and distribution to shareholders of the Group's remaining assets (primarily cash) following satisfaction of all applicable liabilities and obligations would be considered.

Post-period Events

On 15 February 2019, the Group announced that it had agreed to sell certain assets, which comprise its Vashe® wound care royalty stream, hypochlorous acid ("HOCl") related equipment, intellectual property (including know-how, patents and copyrights), program records, and certain assigned contracts and intellectual property licenses to Urgo North America for gross proceeds of $10 million. The Group further announced its intention to delist its ordinary shares from admission to trading on AIM and adopt an Investing Policy.

The disposal, AIM delisting and Investing Policy adoption were approved by shareholders at a general meeting held on 15 March 2019. The AIM delisting was effective on 27 March 2019 and the asset disposal completed on 28 March 2019. The Investing Policy requires the Directors to examine potential strategic opportunities. The Investing Policy, which remains the strategic focus of the Directors, requires the Group to seek to invest in, partner with, acquire and/or be acquired by companies with meaningful development potential in the life sciences sector or with good overall business prospects; or, if a suitable transaction is not identified, the Group will consider winding down and distributing the remaining assets to shareholders, following satisfaction of applicable obligations.

On 5 April 2019, the Company announced that it had received written notice from the Listing Qualifications Staff of Nasdaq indicating that, due to the fact that it sold substantially all of the Group's non-cash assets, the Staff believes the Company is a "shell company" and, as such, the continued listing of the Company's ADS on Nasdaq is no longer warranted. The Company has requested a hearing before the Nasdaq Hearings Panel (the Panel), which request will stay any suspension or delisting action by Nasdaq pending the outcome of the hearing. At the hearing, the Company will have the ability to present its plan to evidence compliance with all applicable requirements for listing on Nasdaq, and to request an extension within which to do so. Although the Company is taking steps to satisfy the applicable listing criteria, there can be no assurance that the Panel will grant the Company's request for continued listing or that the Company will be able to evidence compliance with the applicable listing rules within any extension period that may be granted by the Panel.

❁Risks and Uncertainties

The Group is in the midst of a strategic review process. While the Group is focused on identifying potential strategic transactions or alternatively winding down and returning the Group's available resources to shareholders, after satisfaction of all obligations, the timing and outcome of such a process is inherently uncertain and dependent upon many factors, including many outside the Group's control. There is no assurance that the exploration of strategic alternatives will result in a transaction or, if it does, the nature or the terms of any such transaction.

The risks included here are not exhaustive. Additionally, new risks emerge periodically, and it is not possible to predict all such risk factors for the Group's business or the extent to which any factor or combination of factors might cause actual strategic, transactional, financial, or operational results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place any undue reliance on forward-looking statements as a prediction of actual results or actions.

RISKS RELATING TO THE GROUP'S STRATEGIC REVIEW

The Group may not be able to identify a suitable target under the Investing Policy.

The Group adopted an investing policy (the Investing Policy) following shareholder approval on 15 March 2019 which provides direction as to the strategic review process and the identification of potential strategic transactions. The Group will be dependent upon the ability of the board of directors of Realm (the Board) to identify suitable acquisition or acquiring targets. As at the date hereof, the Board is still evaluating a number of investment opportunities. There is no guarantee that the Group will be able to acquire or be acquired pursuant to an identified opportunity at an appropriate transaction value, or at all, as a consequence of which resources might have been expended fruitlessly on investigative work and due diligence.

The remaining assets to support the Investing Policy may not be sufficient to achieve a strategic transaction.

The Group is required to seek to invest in, partner with, acquire and/or be acquired by a company with meaningful development potential in the life sciences sector or with good overall business prospects. The only sources of financing currently available to the Group to utilise in advancing this Investing Policy are the existing cash reserves and the net proceeds of the sale of substantially all of our non-cash assets, including a royalty stream, HOCI related Intellectual Property and HOCI equipment, among other assets, (the Assets Disposal) to Urgo US Inc. (Urgo), which may not be sufficient to attract a suitable acquirer or achieve an attractive acquisition. Additionally, even if a transaction is consummated, the combined cash resources of the companies may not be sufficient to achieve meaningful or attractive business milestones to drive value creation.

Significant shareholder dilution may occur as a result of a potential strategic transaction.

The Board broadly intends to use the Group's existing cash resources to consummate an acquisition or to be acquired, if a suitable transaction can be identified. If the structure of any potential transaction takes the form of a reverse merger, the Board will be required to issue new equity subject to additional shareholder approval. The dilutive effect of any such issuance of new ordinary shares (including in the form of American Depositary Shares (ADSs)) could be significant on the Group's existing shareholders and could have a detrimental impact on the price of its securities.

The success of future investments pursuant to a strategic transaction is uncertain.

Seeking an acquisition target or acquirer for Realm involves certain risks including, amongst others, that the target or acquirer has unidentified or unexpected past or future liabilities relating to the operations or assets, and the inability to receive accurate and timely information about the its operations or assets in order to make informed investment decisions. As with any investment, those investments may fall in value and it is possible that the total loss in value of such investments (being the value of the initial investments and, where relevant, any gains and/or subsequent additional investments) may be significant. Underperformance or failure of one or more of the investments may have an adverse effect on the value of the Group. There is no guarantee that the investment objectives of the Group will be met and the Group's ability to achieve its investment objectives may be adversely affected in the event of any significant or sustained changes in market returns or volatility.

Companies in the Life Sciences sector, which is the focus of the Group's Investing Policy, involve greater inherent risks than those in many other business sectors.

As per the Investment Policy, the Group is seeking to make an investment in or be acquired by a life sciences company (or a company with good overall business prospects). Life sciences companies, focused on clinical development, with which the Group might consider a strategic transaction generally have higher risks as such companies tend to be early stage (no products yet commercialized or products early in commercialization) and are subject to the general uncertainty and risks (including regulatory) associated with developing drugs. In clinical development and commercialization, the risk of failure of product candidates and marketed products is high. It is impossible to predict when or if any such product candidates will prove effective or safe in humans or will receive the necessary regulatory approval of if, once approved, they can obtain commercial success.

If the Group acquires any drug development company, the results of pre-clinical studies and early-stage clinical trials of our product candidates may not be predictive of the results of later-stage clinical trials. Any such product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through pre-clinical studies and initial clinical trials. A number of companies in the life sciences industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier trials. Any such future clinical trial results may not be successful.

Clinical testing is expensive, difficult to design and implement, can take many years to complete and is inherently uncertain as to outcome. A failure of one or more clinical trials can occur at any stage of testing. The outcome of pre-clinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. Moreover, pre-clinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in pre-clinical studies and clinical trials have nonetheless failed to obtain marketing approval of their products.

The costs associated with a potential strategic transaction may be significant.

The Group expects to incur significant third party costs associated with the identifying, evaluating, and negotiating a definitive agreement for a suitable acquisition or other strategic transaction. The Group can give no assurance as to the level of such costs, and given that there can be no guarantee that negotiations to acquire any given target business or be acquired by a target will be successful. The greater the number of deals that do not reach completion, the greater the likely impact of such costs on the Group's financial condition. Additionally, there are costs to satisfy remaining outstanding commitments and liabilities resulting from a strategic transaction.

Time and costs associated with winding down the Group and returning cash to shareholders, if such a decision is taken, may be significant.

If a suitable strategic transaction cannot be completed, the Group may liquidate and distribute remaining cash to shareholders, after satisfaction of any obligations. The Group would incur third party costs associated with any distribution which would further limit funds to shareholders. There would be significant costs associated with winding down such as separation of employees, and termination of contracts, which will further reduce the cash resources available. Additionally, it is possible that such a distribution would give rise to a tax liability for certain investors based upon their circumstances and basis in the shares.

We rely on a small team of key management to execute our business strategy.

We rely on a small executive team. In particular, we rely on the efforts of our Chief Executive Officer, Alex Martin and our Chief Financial Officer and Chief Operating Officer, Marella Thorell. While we have entered into employment agreements with these executive officers, either of them may currently terminate his or her employment with us at any time. The loss of key members of our executive team could result in a delay of our strategic plans or require us to incur additional costs to recruit replacements or hire consultants, either of which could have a material adverse effect on the achievement of our strategic objectives or the associated timeline thereof.

RISKS RELATING TO ASSET DISPOSALS AND PRIOR CLINICAL DEVELOPMENT

The Group may become subject to claims in connection with past asset dispositions.

The Group sold its Supermarket Retail business in October 2016 and its HOCl assets to Urgo in March 2019. In connection with this transaction, the Group provided customary representations, warranties and covenants and related indemnities to counterparties. Although the Group is not aware of any outstanding matters that would reasonably form a basis for a claim related to these transactions, circumstances may arise that could result in a claim against by counterparties pursuant to the indemnification obligations thereunder and the underlying representations, warranties and covenants. If we become subject to liability based upon such contractual obligations or otherwise and it is required to indemnify the counterparties, it could have a material adverse effect on the financial position.

Product liability or clinical study related lawsuits against the Group could cause it to incur substantial liabilities.

The Group faces an inherent risk of product liability exposure related to the testing of our former product candidates in human clinical trials. If we cannot successfully defend ourselves against claims that our product candidates or drugs caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in a distraction of management time and/or negatively impact the Group's ability to achieve a strategic transaction.

RISKS RELATING TO THE GROUP'S ORDINARY SHARES AND AMERICAN DEPOSITARY SHARES (ADSs)

The Group may be treated as a "public shell" company which could have negative consequences, including the potential Nasdaq delisting of the ADSs.

The Group does not intend to delist the ADSs representing its ordinary shares from Nasdaq. However, following the sale of the HOCl assets to Urgo, the Group may be treated as a "public shell" under the Nasdaq rules and the US Securities Act. Although Nasdaq evaluates whether a listed company is a public shell company based on a facts and circumstances determination, a Nasdaq-listed company with no or nominal operations and either no or nominal assets, assets consisting solely of cash and cash equivalents, or assets consisting of any amount of cash and cash equivalents and nominal other assets is generally considered to be a public shell. Listed companies determined to be public shells by Nasdaq may be subject to delisting proceedings or additional and more stringent listing criteria. On 5 April 2019, the Company announced that it had received written notice from the Listing Qualifications Staff of Nasdaq indicating that, due to the fact that it sold substantially all of the Group's non-cash assets, the Staff believes the Company is a "shell company" and, as such, the continued listing of the Company's ADS on Nasdaq is no longer warranted. The Company has requested a hearing before the Nasdaq Hearings Panel (the Panel), which request will stay any suspension or delisting action by Nasdaq pending the outcome of the hearing. At the hearing, the Company will have the ability to present its plan to evidence compliance with all applicable requirements for listing on Nasdaq, and to request an extension within which to do so. Although the Company is taking steps to satisfy the applicable listing criteria, there can be no assurance that the Panel will grant the Company's request for continued listing or that the Company will be able to evidence compliance with the applicable listing rules within any extension period that may be granted by the Panel. If our ADSs are delisted from Nasdaq, the Group would expect that such securities would qualify for trading over-the-counter (OTC) in the United States on a market colloquially referred to as the "Pink Sheets." Securities quoted OTC are generally subject to lesser requirements than securities listed for trading on a US national stock exchange, such as Nasdaq, including reduced corporate governance and public reporting standards.

If Nasdaq should delist the ADSs from trading, a reduction in some or all of the following may occur, each of which could have a material adverse effect on holders of ADSs: the liquidity of the ADSs; the market price of the ADSs; the number of institutional and general investors that will consider investing in the ADSs; the number of investors in general that will consider investing in the ADSs; the number of market makers in the ADSs; the availability of information concerning the trading prices and volume of the ADSs; and the number of broker-dealers willing to execute trades in the ADSs. In addition to the foregoing, there would be certain consequences under the US Securities Act if the Group becomes a public shell, including the unavailability of Rule 144 thereunder for the resale of restricted securities; the inability to utilize Form S-8 for the registration of employee benefit plan securities; and the inability to utilize Form F-3 under the "baby shelf" rules applicable to companies with a non-affiliate market capitalization of less than US$75 million. In addition, the prospective loss of our listing on Nasdaq could make us less attractive as a partner in any potential M&A transaction with a private company or a company that is only listed for trading in a foreign jurisdiction.

There may be significant price volatility associated with ADS representing the Group's ordinary shares or lower liquidity given the AIM Delisting.

Following the AIM Delisting, there is no trading market for the Group's ordinary shares. As of 1 April 2019, approximately 77% of the Group's ordinary shares have been converted into ADSs. Given that only those shares outstanding in the form of ADSs are tradeable on Nasdaq the trading volume of our ADSs is uncertain and may be volatile, which may impact price volatility.

Future sales, or the possibility of future sales, of a substantial number ADSs representing the Group's ordinary shares could adversely affect the price of such securities.

Future sales of a substantial number of ADSs representing our ordinary shares, or the perception that such sales will occur, could cause a decline in the market price of the Group's ADSs. There may be differing shareholders views as to whether to effect a strategic transaction or which strategic transaction would best suit the Group, so there may be significant trading in shares or disposition of investor positions if shareholders disagree with the Group's announced course of action. If holders sell substantial amounts of ADSs, or if the market perceives that such sales may occur, the market price of our ADSs could be adversely affected.

Capital appreciation, if any, or a liquidated distribution, if such a path is pursued by the Company, may be the sole source of returns on such ordinary shares which underlie our ADS, and you may never receive a return on your investment because we do not anticipate paying any cash dividends on our ADSs.

Under the laws of England and Wales, a company's accumulated realized profits must exceed its accumulated realized losses on a non-consolidated basis before dividends can be paid. Therefore, we must have distributable profits before issuing a dividend. We have not paid dividends in the past on our ordinary shares. We do not anticipate paying any cash dividends in the foreseeable future. As a result, capital appreciation, if any, on ADSs representing our ordinary shares or our ordinary shares may be the sole source of gains on such securities for the foreseeable future. Alternatively, if the Company winds down, liquidates and return remaining cash to shareholders, that may be the only source of return you may receive on your investment and such return of cash may be less than the amount you invested in the Company.

Holders of ADSs do not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise their right to vote.

Holders of ADSs representing our ordinary shares are not able to exercise voting rights attaching to the underlying ordinary shares on an individual basis. Holders of ADSs representing our ordinary shares have appointed the depositary or its nominee as their representative to exercise the voting rights attaching to the ordinary shares underlying such ADSs. Holders of ADSs representing our ordinary shares may not receive voting materials in time to instruct the depositary to vote, and it is possible that they, or persons who hold such ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. Furthermore, the depositary may not be liable for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of ADSs representing our ordinary shares may not be able to exercise voting rights and may lack recourse if such ADSs are not voted as requested. In addition, holders of ADSs representing our ordinary shares will not be able to call a shareholders' meeting.

Holders of ADSs representing our ordinary shares may not receive distributions on our ordinary shares underlying our ADSs or any value for them if it is illegal or impractical to make them available to such holders.

The depositary for ADSs representing our ordinary shares has agreed to pay to holders of such ADSs cash dividends or other distributions that it or the custodian receives on our ordinary shares after deducting its fees and expenses. Holders of ADSs representing our ordinary shares will receive these distributions in proportion to the number of our ordinary shares underlying their ADSs. However, in accordance with the limitations set forth in the deposit agreement, it may be unlawful or impractical for the depositary to make a distribution available to holders of ADSs representing our ordinary shares, in which case alternate provision would be made. For example, any equity that we have elected to distribute to shareholders which cannot be distributed to all ADS holders could be sold on the public markets by the depositary, which would instead distribute net cash proceeds thereof to ADS holders. We have no obligation to take any other action to permit the distribution of ADSs representing our ordinary shares, ordinary shares themselves, rights or anything else to holders of ADSs representing our ordinary shares. This means that holders of ADSs representing our ordinary shares may not receive any distributions that we make on our ordinary shares or any value from them if it is unlawful or impractical to make such distributions available to holders. These restrictions may negatively impact the trading value of ADSs representing our ordinary shares.

Holders of ADSs may be subject to limitations on transfer of their ADSs.

ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer, or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason in accordance with the terms of the deposit agreement.

The rights accruing to holders of the Company's ordinary shares may differ from the rights typically accruing to shareholders of a US State of Delaware corporation.

We are incorporated under the law of England and Wales. The rights of holders of ordinary shares are governed by the laws of England and Wales, including the provisions of the U.K. Companies Act 2006, and by our Articles of Association. These rights differ in certain respects from the rights of shareholders in a typical Delaware corporation. See Item 10.B Memorandum and Articles of Association, in the Company's Form 20F filed with the US Securities and Exchange Commission for a description of the principal differences between the provisions of the U.K. Companies Act 2006 applicable to us and, the Delaware General Corporation Law relating to shareholders' rights and protections.

Claims of U.S. civil liabilities may not be enforceable against us.

We are incorporated under the law of England and Wales. Certain of our directors reside outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce judgments obtained in U.S. courts against them or us, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. The United States and the United Kingdom do not currently have a treaty providing for recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment given by a court in the United States, whether or not predicated solely upon U.S. securities laws, would not automatically be recognized or enforceable in the United Kingdom. In addition, uncertainty exists as to whether English courts would entertain original actions brought in the United Kingdom against us or our directors predicated upon the securities laws of the United States or any state in the United States. Any final and conclusive monetary judgment for a definite sum obtained against us in U.S. courts would be treated by the courts of the United Kingdom as a cause of action in itself and sued upon as a debt at common law so that no retrial of the issues would be necessary, provided that certain requirements are met. Whether these requirements are met in respect of a judgment based upon the civil liability provisions of the U.S. securities laws, including whether the award of monetary damages under such laws would constitute a penalty, is an issue for the court making such decision. If an English court gives judgment for the sum payable under a U.S. judgment, the English judgment will be enforceable by methods generally available for this purpose. These methods generally permit the English court discretion to prescribe the manner of enforcement. As a result, U.S. investors may not be able to enforce against us or our certain of our directors, or certain experts named herein who are residents of the United Kingdom or countries other than the United States, any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities laws.

We currently qualify as a foreign private issuer and, as a result, we will not be subject to U.S. proxy rules and will be subject to reporting obligations under the Exchange Act, that, to some extent, are more lenient and less frequent

than those of a U.S. domestic public company.

We report under the Exchange Act, as a non-U.S. company with foreign private issuer status. Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. domestic public companies, including (i) the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act; (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers are not required to file their annual report on Form 20-F until 120 days after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file their annual report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers also are exempt from Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, you may not have the same protections afforded to shareholders of companies that are not foreign private issuers.

As a foreign private issuer and as permitted by the listing requirements of Nasdaq, we may follow U.K. corporate governance rules instead of certain corporate governance requirements of Nasdaq.

As a foreign private issuer, we may follow our home country corporate governance rules instead of certain corporate governance requirements of Nasdaq.

We may lose our foreign private issuer status, either due to the Group's own circumstances of because of a strategic transaction, which would then require us to comply with the Exchange Act's domestic reporting regime and Nasdaq's corporate governance requirements applicable to a domestic issuer, and cause us to incur significant incremental legal, accounting and other expenses.

A significant portion of our ADSs and ordinary shares are owned by U.S. residents Although we currently qualify as a foreign private issuer, in order to maintain this status, as of 30 June 2019 and at each June 30 thereafter that the Company remains an SEC registrant, either (a) a majority of our ordinary shares, including ordinary shares represented by ADSs, must be either directly or indirectly owned of record by non-residents of the United States or (b)(i) a majority of our executive officers or directors must not be U.S. citizens or residents, (ii) more than 50 percent of our assets must be located outside of the United States and (iii) our business must be administered principally outside of the United States. If we lose our status as a foreign private issuer, we would be required to comply with the Exchange Act reporting and other requirements applicable to U.S. domestic issuers, which are more detailed and extensive than the requirements for foreign private issuers. We would also be required to make changes in our corporate governance practices in accordance with various SEC and Nasdaq rules. The regulatory and compliance costs to us under U.S. securities laws if we are required to comply with the reporting requirements applicable to a U.S. domestic issuer will be significantly higher than the costs that we would incur as a foreign private issuer. As a result, we expect that the loss of foreign private issuer status would increase our legal and financial compliance costs and would make some activities highly time consuming and costly.

We are an "emerging growth company," and we cannot be certain if the reduced reporting requirements applicable to "emerging growth companies" will make ADSs representing our ordinary shares or our ordinary shares less attractive to investors.

We are an "emerging growth company" as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. As an emerging growth company, we are required to report only two years of financial results and selected financial data in the Company's Annual Report filed with the SEC, compared to three and five years, respectively, for comparable data reported by other public companies. We may take advantage of these exemptions until we are no longer an emerging growth company. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, including if the aggregate market value of ADSs representing our ordinary shares and our ordinary shares held by non-affiliates exceeds $700 million as of any June 30 (the end of our second fiscal quarter) before that time, in which case we would no longer be an emerging growth company as of the following December 31 (our fiscal year-end). We cannot predict if investors will find ADSs representing our ordinary shares or our ordinary shares less attractive because we may rely on these exemptions. If some investors find such securities less attractive as a result, there may be a less active trading market for ADSs representing our ordinary shares or our ordinary shares and the price of such securities may be more volatile.

If the Group fails to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, shareholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of ADSs representing our ordinary shares or our ordinary shares.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404, or any subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of ADSs representing our ordinary shares or our ordinary shares.

Management will be required to assess the effectiveness of the Group's internal controls annually, beginning in 2020. However, for as long as we are an "emerging growth company" under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements requiring us to incur the expense of remediation and could also result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

Shareholder protections and restrictions found in provisions under the Takeover Code, do not apply to the Company.

In March 2019, the UK Panel on Takeovers and Mergers (the "Takeover Panel") confirmed that, following the AIM Delisting, the Company is not considered to be subject to the UK City Code on Takeovers and Mergers (the "Takeover Code"), and, as a result, the Company's shareholders are not entitled to the benefit of certain takeover offer protections provided under the Takeover Code. The Takeover Code provides a framework within which takeovers of companies are regulated and conducted and which may operate to prohibit certain arrangements and courses of conduct considered customary in the United States. There are no provisions in the Company's Articles of Association which replicate the provisions of the Takeover Code.

The Company believes that this position is unlikely to change at any time in the near future, but in accordance with good practice, the Company will review the situation on a regular basis and co-operate and consult with the UK Takeover Panel if there is any material change in our circumstances with respect to matters which the UK Takeover Panel might consider relevant in their determination of jurisdiction over the Company.

We are a passive foreign investment company, or PFIC, for U.S. federal income tax purposes, the consequences to U.S. holders of ADSs representing our ordinary shares or our ordinary shares may be adverse.

Based on our analysis of our income, assets, activities and market capitalization, we were classified as a "passive foreign investment company," or PFIC, for the taxable year ended December 31, 2018. Under the Code, a non-U.S. company will be considered a PFIC for any taxable year in which (1) 75% or more of its gross income consists of passive income or (2) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. For purposes of these tests, passive income includes dividends, interest, gains from the sale or exchange of investment property and certain rents and royalties. In addition, for purposes of the above calculations, a non-U.S. corporation that directly or indirectly owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets and received directly its proportionate share of the income of such other corporation. If we are a PFIC for any taxable year during which a U.S. Holder (as defined below under "Material Income Tax Considerations — Material U.S. Federal Income Tax Considerations for U.S. Holders") holds our ordinary shares or ADSs representing our ordinary shares, we will continue to be treated as a PFIC with respect to such U.S. Holder in all succeeding years during which the U.S. Holder owns the ordinary shares or ADSs representing our ordinary shares, regardless of whether we continue to meet the PFIC test described above, unless the U.S. Holder makes a specified election once we cease to be a PFIC. If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares or ADSs representing our ordinary shares, the U.S. Holder may be subject to adverse tax consequences regardless of whether we continue to qualify as a PFIC, including ineligibility for any preferred tax rates on capital gains or on actual or deemed dividends, interest charges on certain taxes treated as deferred, and additional reporting requirements.

If a United States person is treated as owning at least 10% of our ordinary shares, such holder may be subject to adverse U.S. federal income tax consequences.

If a U.S. Holder is treated as owning, directly, indirectly or constructively, at least 10% of the value or voting power of our ordinary shares (directly or in the form of ADSs representing our ordinary shares), such U.S. Holder may be treated as a "United States shareholder" with respect to each "controlled foreign corporation" in our corporate group, if any. If such group includes one or more U.S. subsidiaries, certain of our non-U.S. subsidiaries could be treated as controlled foreign corporations, regardless of whether we are treated as a controlled foreign corporation. A United States shareholder of a controlled foreign corporation may be required to annually report and include in its U.S. taxable income its pro rata share of "Subpart F income," "global intangible low-taxed income" and investments in U.S. property by controlled foreign corporations, regardless of whether we make any distributions. An individual that is a United States shareholder with respect to a controlled foreign corporation generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a United States shareholder that is a U.S. corporation. Failure to comply with these reporting obligations may subject a United States shareholder to significant monetary penalties and may prevent the statute of limitations with respect to such shareholder's U.S. federal income tax return for the year for which reporting was due from starting. We cannot provide any assurances that we will assist our investors in determining whether any of our non-U.S. subsidiaries are treated as a controlled foreign corporation or whether such investor is treated as a United States shareholder with respect to any of such controlled foreign corporations. Further, we cannot provide any assurances that we will furnish to any United States shareholder information that may be necessary to comply with the reporting and tax paying obligations described in this risk factor. U.S. Holders should consult their tax advisors regarding the potential application of these rules to their investment in our ordinary shares or ADSs representing our ordinary shares.

Strategic Report Approval

The Strategic Report incorporates the Strategic Review, Key Performance Indicators, and the Risks and Uncertainties and is approved by the Board of Directors.

By order of the Board

Marella Thorell
Company Secretary

Cannon Place
78 Cannon Street
London EC4N 6AF

10 April 2019

❁Directors' Report

Disclosures in the Strategic Report

The principal activities of the business, the results and the particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Board of Directors

Charles Spicer
Non-Executive Chairman

Re-appointed 16 June 2016

Mr. Spicer, 54, joined Realm Therapeutics in June 2013 as an Independent Non-Executive Director and was named Non-Executive Chairman in June 2014. He has more than 20 years of experience working within the healthcare sector and specifically medtech and life sciences segments. Mr. Spicer is a Non-Executive Chairman of IXICO plc (LSE: IXI), Creo Medical Group plc (LSE: CREO) and 11 Health & Technologies Limited and chairs a UK Department of Health Invention for Innovation (i4i) Funding Panel. Mr. Spicer has also served as a Non-Executive of Aircraft Medical Limited and Stanmore Implants. Previously he was Chief Executive of MDY Healthcare plc, an AIM-quoted strategic investment company focused on medtech, and prior to that head of healthcare at Numis Securities and Nomura International. Mr. Spicer was awarded an MA in history from Cambridge University and a PhD from the University of London.

Alex Martin
Chief Executive Officer and Executive Director

Re-appointed 16 June 2016

Mr. Martin, 51, joined Realm Therapeutics in June 2015 as Chief Executive Officer (CEO) and Executive Director. He serves on the Audit Committee. He brings more than 25 years of experience having held senior positions in both private and public companies principally in the pharmaceutical and biopharmaceutical industry. He previously served as a CEO of Affectis Pharmaceuticals AG, Chief Operating Officer of Intercept Pharmaceuticals (NASDAQ: ICPT) and Chief Business Officer at Bioxell S.p.A, which went public on the SWX and was subsequently acquired by Cosmo Pharmaceuticals S.A. He began his career at SmithKline Beecham Pharmaceuticals before joining Novartis as Vice President, Global Business Development & Licensing. Prior to Realm, Mr. Martin served as President at moksha8 Pharmaceuticals Inc., a leading Latin American specialty pharmaceutical company. Mr. Martin holds a BA from Cornell University and an MBA from Harvard.

Joseph William Birkett
Senior Independent Non-Executive Director

Re-appointed 6 June 2017

Mr. Birkett, 71, joined Realm Therapeutics in 1999 as an Independent Non-Executive Director and currently serves as Senior Independent Non-Executive Director and as Chairman of the Audit Committee. Mr. Birkett is an independent consultant and investor who has served on the board of a wide range of companies, both public and private, throughout his career. Following receipt of a BSc in Economics from Sheffield University, he qualified as an FCA with Touche Ross (now Deloitte & Touche LLP) before pursuing a career in finance, global investment banking, and private equity.

Ivan Gergel, MD
Independent Non-Executive Director

Re-appointed 6 June 2017

Dr. Gergel, 58, joined Realm Therapeutics in January 2017 as an Independent Non-Executive Director and serves on the Remuneration Committee. Dr. Gergel was Senior Vice President Drug Development and Chief Medical Officer at Nektar Therapeutics. He has more than 25 years of pharmaceutical leadership and drug development experience. Prior to Nektar, Dr. Gergel was Executive Vice President R&D and Chief Scientific Officer at Endo Pharmaceuticals and a Senior Vice President R&D at Forest Laboratories (subsequently acquired by Actavis / Allergan) and he has advanced multiple compounds from research through approval. Dr. Gergel received his MD from The Royal Free Medical School of The University of London and an MBA from the Wharton School of the University of Pennsylvania.

Balkrishan (Simba) Gill, PhD
Non-Executive Director

Re-appointed 16 June 2016

Dr. Gill, 54, joined Realm Therapeutics in 2016 as an Independent Non-Executive Director and serves as Chairman of the Remuneration Committee. He is currently President, CEO and a member of the board of directors of Evelo Biosciences, which he joined in September 2015. He is also the executive Chairman of Blackfynn Inc. Dr. Gill has served as a Venture Partner at Flagship Pioneering, a life sciences innovation enterprise, since 2015. From 2006 to 2015, Dr. Gill served as the President and Chief Executive Officer of moksha8 Pharmaceuticals, Inc. Dr. Gill has an MBA from INSEAD and completed his PhD, with a focus on developing humanized antibodies to treat cancer, at King's College, London.

Marella Thorell
Chief Financial Officer and Chief Operating Officer, Executive Director and Company Secretary

Re-appointed 16 June 2016

Ms. Thorell, 52, was appointed Chief Financial Officer and Executive Director in March 2013 and was appointed Chief Operating Officer in October 2014. Previously, she was a key member of the Realm Therapeutics senior leadership team and has been Company Secretary since October 2011. She offers more than 25 years of experience in finance, operations, and human resources. Previously, she was the President of Thorell Consulting, a business consulting firm. Ms. Thorell worked at Campbell Soup Company (NYSE: CPB), where she held a number of financial and management roles. She began her career and earned her CPA accounting qualification with Ernst & Young LLP. Ms. Thorell holds a BS in Business from Lehigh University.

Sanford (Sandy) Zweifach
Non-Executive Director

Appointed 1 December 2017

Mr. Zweifach, 63, joined Realm Therapeutics in December 2017 as an Independent Non-Executive Director and serves on the Audit Committee. Mr. Zweifach has over 25 years' experience in the life sciences industry, with a focus in corporate partnering, business development, operations, private and public investing, and capital raising. He is the Founder and Chief Executive Officer of Nuvelution Pharma, Inc. Previously, Mr. Zweifach was the founder and CEO of Ascendancy Healthcare, Inc. He has also been a Partner at Reedland Capital Partners, CEO of Pathways Diagnostics, Managing Director / CFO of Bay City Capital, and President and CFO of Epoch Biosciences, which was acquired by Nanogen. He currently serves as the Chairman of Lyric Pharmaceuticals Inc. and IMIDomics SL. He received his BA in Biology from UC San Diego and an MS in Human Physiology from UC Davis.

Director Interests

Details of the Director Interests can be found beginning on page 19 within the Directors' Remuneration Report.

Director Re-election

Based on the Company's Articles, four directors: Mr Spicer, Mr Martin, Ms Thorell and Dr Gill, would be up for re-election at the Company's next Annual General Meeting, pending the outcome of the strategic review.

Directors' Indemnity and Insurance

The Group maintained insurance cover during the year for its Directors and those of subsidiary companies under a Directors and Officers liability insurance policy against liabilities which may be incurred by them while carrying out their duties. Deeds of Indemnity have been executed for the benefit of Directors and officers.

Substantial Shareholdings

The Directors are aware of the following who were interested in 3% or more of the Group's Issued Share Capital (ISC) as at 1 April 2019.

		As at 1 April 2019	
Registered Holding	**Type**	**No. of Shares**	**% of ISC**
OrbiMed Private Investments VI, LP	Fund Manager	25,537,109	21.91%
BVF Partners LP	Fund Manager	15,322,266	13.15%
BAVARIA Industries Group AG	Owner	6,944,948	5.96%
Abingworth BioEquities Master Fund Ltd.	Fund Manager	6,384,277	5.48%
Sussex Trading Company Limited	Owner	6,148,880	5.28%
Daniel Hegglin	Owner	5,849,091	5.02%
Oracle Management Limited	Fund Manager	5,410,196	4.64%
Kanton Services Limited *	Owner	4,629,196	3.97%
Polar Capital Funds Plc	Fund Manager	3,500,000	3.00%

* The Kanton shares are held by Timberland Group Ltd. which is wholly owned by Kanton Services (Belize) Limited which is part of the Kanton Group.

Share Capital

The share capital of Realm Therapeutics plc comprises ordinary shares of 10 pence each and each share carries one vote per share and is entitled to dividends at the discretion of the Directors. Certain ordinary shares have been converted into ADSs representing ordinary shares which carry different voting rights, see Risks and Uncertainties for further discussion. The issued share capital of Realm Therapeutics plc, together with the movements in Realm Therapeutics plc's issued share capital during the year, are shown in Note 10.

Review of Business

A review of the business for the year ended 31 December 2018, is included within Strategic Report set out beginning on page 1.

Results

The Group's trading loss from continuing operations for the year ended 31 December 2018 was $13.6 million (2017: $10.5m). The financial results are shown in the financial statements beginning on page 25.

Research and Development (R&D)

During the year, the Group was focused on developing novel therapeutics for immune-mediated diseases in adults and children. In September 2018, the Group announced that, following the results of two Phase 2 clinical studies, it was discontinuing its clinical development programs and embarking upon a strategic review. There were certain costs incurred in winding down those programmes and no further R&D expenses were incurred thereafter.

Financial Instruments

The primary risk is liquidity risk associated with the Group's strategy since the strategic review will be involve utilizing the entirety of the Group's cash resources. The Group invests in cash, cash equivalents and short-term investments. See further details disclosed in Note 17.

Dividends

The Directors do not recommend the payment of a dividend (2017: $nil) at this time.

Financial Risk Management

Information on financial risk management is given in Note 17 of the Group's financial statements.

Political Contributions

Neither the Company nor its subsidiaries made any political donations or incurred any political expenditures during the year (2017: $nil).

Branches outside the United Kingdom

The Group's primary business location is in the United States.

Brexit

Brexit is not anticipated to have any impact on the Group. The Group's primary business location is in the United States and the Group has no interaction with the European Union. The Group's functional currency is the US dollar, the majority of transactions are denominated in US dollars and only a limited number of transactions are denominated in pounds sterling, so the risk of a material impact to the Group's financials or condition as a result of fluctuations in the pounds sterling exchange rate is minimal. The Group is focused on executing its Investing Policy and is no longer engaged in clinical development, is not making investments in research and development and therefore has a limited number of vendors and no customers.

Employee Matters

The Group engages with its employees on matters of job satisfaction and engagement, provides feedback on performance and supports an open-door policy for reporting of employee concerns in an effort to enhance employee satisfaction and performance.

Gender of Employees

As at 31 December 2018, the Group had 8 employees, 5 of whom are female and 3 of whom are male. The senior management team of 4 is comprised of 2 females and 2 males. Among the Directors, there are 6 males and 1 female.

Social Responsibility

The Group seeks to be socially responsible and does not do business with companies known to be in violation of human rights.

Environmental Matters

The Group seeks to minimize waste, engages in recycling and electronic communication to minimize use of natural resources, installed motion senor lighting in its offices and supports work-from-home days to reduce automobile emissions.

Greenhouse Gas Emissions

The Group considers its greenhouse gas emissions during the year were low and the Group endeavours to keep it low. As the focus of the Group in 2018 was on the advancement of its clinical trials and the majority of its activities were outsourced to third parties (such as clinical trial material manufacturers and contract research organizations), the Group does not monitor its emissions and the Directors do not consider it practical to measure the Group's greenhouse gas emissions.

Going Concern

The financial statements have been prepared on a going concern basis. Please refer to Page 33 under Accounting Policies – Going Concern section for further details.

Internal Controls

The Directors are responsible for the Group's system of internal control and reviewing its effectiveness and confirm that the Board has acknowledged this responsibility. The Directors further confirm that there is an ongoing process for evaluating internal controls and effectiveness as well as identifying, evaluating, and managing the significant risks facing the Group and its subsidiaries. This process was in place during the period from 1 January 2018 to 31 December 2018 and up to the date of approval of the annual report and accounts.

The Group's system of internal control is designed to provide the Directors with reasonable assurance that the Group's assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

Statutory Disclosures

Regulations made pursuant to the Companies Act 2006 require the Group to disclose certain information. Some of these disclosures are dealt with elsewhere in the Annual Report; however, the following additional disclosures are set out below.

The Company's Articles of Association (Articles) give power to the Board to appoint Directors but require Directors to submit themselves for election at the first Annual General Meeting following their appointment. In addition, any Director not appointed or reappointed at either of the previous two Annual General Meetings must retire by rotation. The Articles may be amended by special resolution of the shareholders.

The Board of Directors is responsible for the management of the business of Realm Therapeutics plc and may exercise all the powers of Realm Therapeutics plc subject to the provisions of the relevant statutes, the Articles, and any directions given by special resolution of the Company. The Articles contain specific provisions and restrictions regarding Realm Therapeutics plc's power to borrow money. Powers relating to the issuing and buying back of shares are also included in the Articles. The authority to issue shares is renewed by shareholders each year at the Annual General Meeting.

Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives and to exercise voting rights. Holders of ordinary shares may receive a dividend and on liquidation may share in the assets of the Group. Holders of ordinary shares are entitled to receive the Group's annual report and accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or may propose resolutions at Annual General Meetings.

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every ordinary share held.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- pursuant to the Company's share dealing code whereby the Directors and certain employees of the Company require approval of the Company to deal in the Company's shares; and
- where a person with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of ordinary shares and on voting rights.

The rights and obligations attaching to the ordinary shares are set out in the Company's Articles, which are posted on the Group's website at www.realmtx.com.

Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's Auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

Auditor

The Board of Directors re-appointed KPMG LLP as auditor to undertake the 2018 audit. A resolution to re-appoint KPMG LLP as auditor for 2019 is expected to be proposed at the Company's next Annual General Meeting, pending the outcome of the strategic review.

By order of the Board

Charles Spicer
Non-Executive Chairman

Cannon Place
78 Cannon Street
London EC4N 6AF

10 April 2019

❁Directors' Remuneration Report

Principles of Remuneration Policy

The Group's remuneration policy is to compensate Executive Directors in line with those in comparable businesses in the biotech sector, adjusting for experience, scope of role, geography, and performance. The policy is structured to balance base salary and benefits with short and long-term performance-related remuneration to align Executive Directors' rewards with both shareholder interests and the Group's strategy. A significant portion of pay is variable based on performance. Performance targets are set to drive behaviour in support of both near and long-term Group goals and important milestones.

2018 Performance

Two clinical trials were completed in 2018. While most performance objectives were achieved in 2018, given the outcome of the clinical trials and the entry into a strategic review processes, no annual performance bonuses were awarded for the year.

Executive Directors' Remuneration

$'000	Salary		Benefits[1]		Annual & One-time Bonus[2]		Pension benefits[3]		Share Options[4]		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Mr. Martin	**370**	370	**58**	43	**–**	278	**8**	8	**–**	–	**436**	699
Ms. Thorell	**300**	300	**40**	31	**17**	188	**8**	8	**–**	–	**365**	527
Total	**670**	670	**98**	74	**17**	466	**16**	16	**–**	–	**801**	1,226

1 Increase from 2017 to 2018 due to higher costs of medical insurance premiums resulting from fewer Group employees.

2 Ms. Thorell's 2018 amount includes a one-time bonus related to the Nasdaq listing.

3 The Executive Directors each received a contribution to their 401(k) (retirement) plans. These contribution amounts were in accordance with US Internal Revenue Service limits for the plans.

4 The value for share options are zero as all historical grants awarded had exercise prices equal to the market price of the ordinary shares on the date of grant. No options were awarded to Executive Directors in 2018.

Executive Director Share Options

The following represents Executive Director share options outstanding as at 31 December 2018. No share options were awarded to Non-Executive Directors in 2018.

	Date of Grant	Share option grant	Exercise Price	Terms
Mr. Martin	June 2015[(1)]	2,323,551	29.75 pence	Vest in equal increments on each of the three anniversaries following the date of grant based on the achievement of performance conditions; and are fully vested.
	November 2016[(1)]	1,161,775	29.50 pence	Vest in equal increments on each of the three anniversaries following the date of grant based on the achievement of performance conditions; one-third became vested in November 2017 and 85% of one-third became vested in November 2018.
	December 2017	830,000	38.50 pence	Vest in equal increments on each of the three anniversaries following the date of grant based based on the achievement of performance conditions. One-third became vested in December 2018.
Ms. Thorell	November 2016[(1)]	1,161,775	29.50 pence	Vest in equal increments on each of the three anniversaries following the date of grant based on the achievement of performance conditions; one-third became vested in November 2017 and one-third became vested in November 2018.
	December 2017	350,000	38.50 pence	Vest in equal increments on each of the three anniversaries following the date of grant based on the achievement of performance conditions; one-third became vested in December 2018.

(1) In October 2017 as a result of the Company's private placement and as permitted under the terms of its equity incentive plan, the number of shares issuable pursuant to options to purchase ordinary shares previously awarded to Mr. Martin and Ms. Thorell was increased by 1,985,326 and 671,747, respectively, such that each of their percentages of the Company's outstanding share capital following the private placement represented by their respective outstanding share options was the same as it had been prior to the private placement. Exercise prices, vesting terms and expiry dates for these share options remained unchanged.

Non-Executive Directors' Fees

Fees paid to Non-Executive Directors who served during 2018 are set out in the table below. Fees include basic fees, fees paid to Committee Chairmen and fees paid to the Non-Executive Chairman.

Non-Executive Directors' fees are paid in pounds sterling and the amounts below represented in US dollars are impacted by currency fluctuations. The values for share options in the table below are zero as all grants awarded to Non-Executive Directors had exercise prices equal to the market price of the ordinary shares on the date of grant.

No share options were awarded to Non-Executive Directors in 2018.

	Fees		**Share options**		**Total**		**Notes**
	2018	2017	**2018**	2017	**2018**	2017	
	$	$	**$**	$	**$**	$	
Mr. Birkett	**52,738**	34,780	**–**	–	**52,738**	34,780	
Dr. Gergel	**46,730**	28,984	**–**	–	**46,730**	28,984	
Dr. Gill	**52,738**	34,780	**–**	–	**52,738**	34,780	
Mr. Hammond	**–**	26,568	**–**	–	**–**	26,568	Mr. Hammond resigned from the Board effective November 2017
Mr. Hegglin	**–**	–	**–**	–	**–**	–	Mr. Hegglin waived Director fees, at his request. Mr. Hegglin resigned from the Board effective November 2017
Mr. Spicer	**86,785**	64,408	**–**	–	**86,785**	64,408	
Mr. Zweifach	**46,730**	2,415	**–**	–	**46,730**	2,415	Mr. Zweifach joined the Board in December 2017
Total	**285,721**	191,935	**–**	–	**285,721**	191,935	

Non-Executive Director Share Options

The Company considers the share options granted to Non-Executive Directors align their interests with those of shareholders and the quantities do not, in the Company's opinion, prejudice the independence of the Non-Executive Directors.

The following represents Non-Executive Director share options outstanding as at 31 December 2018. No share options were awarded to Non-Executive Directors in 2018.

	Date of Grant	Share option grant	Exercise Price
Mr. Birkett	November 2016(1)	151,031	30 pence
	December 2017	100,000	38.5 pence
Dr. Gergel	January 2017(1)	151,031	30 pence
	December 2017	100,000	38.5 pence
Dr. Gill	March 2016(1)	81,324	26 pence
	November 2016(1)	151,031	30 pence
	December 2017	100,000	38.5 pence
Mr. Spicer	August 2013(1)	81,324	41 pence
	November 2016(1)	232,355	30 pence
	December 2017	100,000	38.5 pence
Mr. Zweifach	December 2017	150,000	38.5 pence

(1) In October 2017 as a result of the Company's private placement and as permitted under the terms of its equity incentive plan, the number of shares issuable pursuant to options to purchase ordinary shares previously awarded to Mr. Spicer, Mr. Birkett, Dr. Gill and Dr. Gergel was increased by 178,589, 92,649, 132,355 and 86,031, respectively, such that each of their percentages of the Company's outstanding share capital following the private placement represented by their respective outstanding share options was the same as it had been prior to the private placement. Exercise prices, vesting terms and expiry dates for these share options remained unchanged.

Statement of Directors' Shareholdings

The interests in shares of the Directors, including share options, as at 31 December 2018 are set out below.

	Shares owned outright	Unvested share options	Vested but unexercised share options	Total interests in shares	Share options exercised during 2018
Mr. Birkett	–	117,011	134,020	251,031	–
Dr. Gill	–	117,011	215,344	332,355	–
Dr. Gergel	–	117,011	134,020	251,031	–
Mr. Martin	248,115	940,591	3,275,146	4,463,852	–
Mr. Spicer	273,930	144,120	188,235	606,285	–
Ms. Thorell	50,000	620,592	891,183	1,561,775	–
Mr. Zweifach	–	100,000	50,000	150,000	–

Balkrishan (Simba) Gill
Chairman of the Remuneration Committee

10 April 2019

Statement of Directors’ Responsibilities in Respect of the Annual Report and Financial Statements

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors’ Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Joseph William Birkett
Chairman of the Audit Committee

10 April 2019

Independent auditor's report

to the members of Realm Therapeutics plc

1. Our opinion is unmodified

We have audited the financial statements of Realm Therapeutics plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Company Statement of Changes in Equity, the Company Statement of Financial Position, the Company Statement of Cash Flows and the related notes, including the accounting policies.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;

— the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

— the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality: group financial statements as a whole	$572,000 (2017:$540,000) 5% (2017: 5%) of Loss before tax	
Coverage	100% (2017:100%) of group loss before tax	
Key audit matters		**vs 2017**
Recurring risks	Parent company recoverable amount of investment in subsidiary	▲
Event driven	**New:** Going concern	▲

2. Material uncertainty related to going concern

	The risk	Our response
Going concern We draw attention to the Basis of Preparation on Page 33 which indicates that during the 2018 the Group decided to discontinue all drug development program s and therefore ceased operations while a strategic review took place. Following the strategic review the Group is adopting an Investing Policy whereby the Group will continue to seek to invest in, partner with, acquire and/or be acquired by companies with meaningful development potential in the life sciences sector or with good overall business prospects or, if a suitable transaction is not identified, the Group will consider winding down and distributing the remaining assets to shareholders, following satisfaction of applicable obligations. These events and conditions, along with the other matters explained in the Basis of Preparation constitute a material uncertainty that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	**Disclosure quality:** There is little judgement involved in the directors' conclusion that risks and circumstances described in note 1 to the financial statements represent a material uncertainty over the ability of the Group and Company to continue as a going concern for a period of at least a year from the date of approval of the financial statements. However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	Our procedures included: **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by reviewing the basis of preparation within the accounting policies to ensure that this is consistent with our understanding of the business.

3. Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matter was as follows:

	The risk	Our response
Parent Comp any: recoverable amount of investment in subsidiary ($19.4 million; 2017: $36.5 million) *Refer to page 38 (accounting policy) and pages 50, 51 and 57 (financial disclosures).*	**Forecast- based valuation:** The carrying amount of the parent company's investments in subsidiaries are significant and at risk of irrecoverability as the subsidiaries have historically been loss making and the Group has decided to discontinue all drug development programs and therefore ceased operations while a strategic review took place. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets.	Our procedures included: **Our sector experience:** Evaluating the current level of trading, including identifying any future cash flows, by examining the post year end transactions, post year end management accounts and considering our knowledge of the Group and the market; **Assessing transparency:** Assessing the adequacy of the parent company's disclosures in respect of the investment in subsidiaries; and **Market capitalisation:** Com paring the carrying value of the investment to the market capitalisation of the Group at the statement of financial position date.

Following the decision made during the year to cease drug development, we have not assessed the completeness of the research and development expense as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

KPMG

4. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at $572,000 (2017: $540,000), determined with reference to a benchmark of Group loss before tax (of which it represents 4.2% (2017: 5%)).

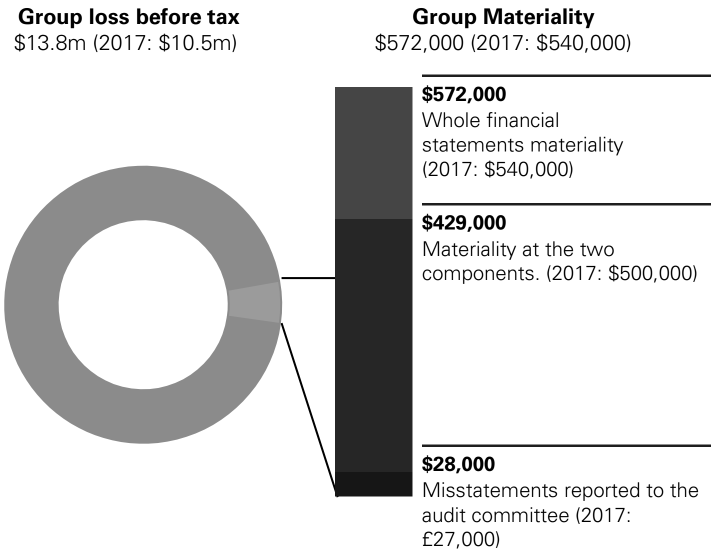
Materiality for the parent company financial statements as a whole was set at $429,000, determined with reference to a benchmark of company net assets and chosen to be lower than materiality for the group financial statements as a whole represents 2.2% of the stated benchmark.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $28,000, in addition to other identified misstatements that we believe warranted reporting on qualitative grounds.

Of the group's three reporting components, one of which is the parent Company, two were subjected to full scope audits for group purposes.

The components within the scope of our work accounted for 100% of the revenue, loss before tax and total assets of the group.

The Group team approved the component materialities, of $429,000, having regard to the mix of size and risk profile of the Group across the components.



5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 20, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

KPMG

7. Respective responsibilities (continued)

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Will Baker

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One St Peter's Square Manchester M2 3AE

10 April 2019

KPMG

Consolidated Statement of Comprehensive Income

	Note	2018 $	2017 $
CONTINUING OPERATIONS			
Revenue	2	**253,340**	1,120,840
Cost of sales		**–**	–
Gross Profit		**253,340**	1,120,840
Research and development expenses		**(8,570,258)**	(8,189,196)
General and administrative expenses		**(4,906,772)**	(3,622,796)
Restructure expenses		**(805,003)**	–
Total operating expenses		**(14,282,033)**	(11,811,992)
Loss from before Interest and Tax		**(14,028,693)**	(10,691,152)
Finance income	6	**405,637**	58,082
Total Finance income		**405,637**	58,082
Loss before Taxation	8	**(13,623,056)**	(10,633,070)
Taxation (expense) benefit	7	**(4,100)**	107,687
Loss from Continuing Operations		**(13,627,156)**	(10,525,383)
Loss for the Year Attributable to Equity Holders of the Parent		**(13,627,156)**	(10,525,383)
Other Comprehensive Income / (Loss):			
Items that Are or May Be Reclassified to Profit and Loss:			
Unrealized gain on investments		**329**	13,748
Foreign currency translation differences for foreign operations		**47,557**	(21,899)
Total Comprehensive Loss for the Period Attributable to Equity Holders of the Parent		**(13,579,270)**	(10,533,534)
Loss per Share, Basic and Diluted	9	**(0.12)**	(0.16)

Consolidated Statement of Changes in Equity

	Share capital $	Share premium $	Other reserves (Notes 10 and 11) $	Retained earnings $	Other Compre-hensive Income / (Loss) $	Total $
At 31 December 2016	8,519,391	81,417,557	103,207,275	(174,092,996)	(3,113)	19,048,114
Loss for the year	–	–	–	(10,525,383)	–	(10,525,383)
Unrealized gain on investments	–	–	–	–	13,748	13,748
Other comprehensive loss	–	–	–	–	(21,899)	(21,899)
Total comprehensive loss	–	–	–	(10,525,383)	(8,151)	(10,533,534)
New share and warrant capital issued	8,743,685	13,857,926	624,177	–	–	23,225,788
Reclassification following lapse of share options	–	–	(183,113)	183,113	–	–
Share-based payment movement	–	–	455,470	–	–	455,470
Transactions with owners	8,743,685	13,857,926	896,534	183,113	–	23,681,258
At 31 December 2017	**17,263,076**	**95,275,483**	**104,103,809**	**(184,435,266)**	**(11,264)**	**32,195,838**
Adoption of IFRS 15	**–**	**–**	**–**	**2,460,273**	**–**	**2,460,273**
Adjusted balance at 1 January 2018	**17,263,076**	**95,275,483**	**104,103,809**	**(181,974,993)**	**(11,264)**	**34,656,111**
Loss for the year	**–**	**–**	**–**	**(13,627,156)**	**–**	**(13,627,156)**
Unrealized gain on investments	**–**	**–**	**–**	**–**	**329**	**329**
Other comprehensive loss	**–**	**–**	**–**	**–**	**47,557**	**47,557**
Total comprehensive loss	**–**	**–**	**–**	**(13,627,156)**	**47,886**	**(13,579,270)**
Reclassification following lapse of share options	**–**	**–**	**(350,267)**	**350,267**	**–**	**–**
Share-based payment movement	**–**	**–**	**269,525**	**–**	**–**	**269,525**
Transactions with owners	**–**	**–**	**(80,742)**	**350,267**	**–**	**269,525**
At 31 December 2018	**17,263,076**	**95,275,483**	**104,023,067**	**(195,251,882)**	**36,622**	**21,346,366**

Other reserves includes share-based payments and warrant expense. Reclassification of Other Reserves to Retained Earnings in 2018 and 2017 related to costs associated with share-based payment expense for share options which lapsed in the year.

Consolidated Statement of Financial Position

	Note	2018 $	2017 $
ASSETS			
Non-Current Assets			
Property, plant, and equipment	12	**201,993**	245,550
Non-current royalty receivable	14	**1,016,260**	–
Non-current other assets	14	**311,791**	320,000
Total Non-Current Assets		**1,530,044**	565,550
Current Assets			
Trade and other receivables and other current assets	14	**489,612**	244,507
Royalty receivable	14	**929,735**	443,569
Short-term investments	15	**15,972,446**	24,345,346
Cash and cash equivalents	15	**2,915,422**	9,507,804
Total Current Assets		**20,307,215**	34,541,226
Total Assets		**21,837,259**	35,106,776
LIABILITIES			
Current Liabilities			
Trade and other payables	16	**(214,968)**	(2,910,938)
Restructure accruals	16	**(275,925)**	–
Total Liabilities		**(490,893)**	(2,910,938)
Net Assets		**21,346,366**	32,195,838
EQUITY			
Share capital	10	**17,263,076**	17,263,076
Share premium		**95,275,483**	95,275,483
Other reserves		**104,023,067**	104,103,809
Retained earnings		**(195,251,882)**	(184,435,266)
Accumulated other comprehensive income / (loss)		**36,622**	(11,264)
Issued Capital and Reserves Attributable to Equity Holders of the Parent		**21,346,366**	32,195,838
Total Equity		**21,346,366**	32,195,838

The consolidated financial statements and related notes beginning on page 25 were approved by the Board of Directors and authorised for issue on 10 April 2019 and were signed on its behalf by:

Marella Thorell
Chief Financial Officer
Company no: 05789798

Consolidated Statement of Cash Flows

	2018 $	2017 $
Cash Flows from Operating Activities		
Loss for the year	**(13,627,156)**	(10,525,383)
Adjustments for non-cash:		
Share-based payment expense	**269,525**	455,470
Depreciation and amortisation	**68,380**	85,787
Write off of property, plant, and equipment	**21,276**	10,380
Finance income	**(405,637)**	(58,082)
Taxation expense / (benefit)	**4,100**	(107,687)
Operating Loss before Movement in Working Capital	**(13,669,512)**	(10,139,515)
Decrease / (Increase) in royalty receivable	**834,395**	(177,264)
Increase in trade and other receivables and other current assets	**(113,442)**	(152,557)
(Decrease) / Increase in trade and other payables	**(2,424,147)**	912,904
Cash Used in Operations	**(15,372, 706)**	(9,556,432)
Finance income	**405,637**	58,082
Net Cash Flows from Operating Activities	**(14,967,069)**	(9,498,350)
Cash Flows from Investing Activities		
Purchases of short-term investments	**(37,761,413)**	(29,331,620)
Proceeds from sale of short-term investments	**46,134,632**	5,000,000
Purchases of property, plant, and equipment	**(46,099)**	(207,682)
Proceeds from sale of plant, property and equipment	**–**	4,850
Payment of Supermarket Retail disposal costs	**–**	(1,093,154)
Net Cash Flows from Investing Activities	**8,327,130**	(25,627,606)
Cash Flows from Financing Activities		
Proceeds from sale of placing units, net of costs paid	**–**	23,225,788
Net Cash Flows from Financing Activities	**–**	23,225,788
Net Decrease in Cash and Cash Equivalents	**(6,639,939)**	(11,900,168)
Cash and Cash Equivalents at Beginning of Year	**9,507,804**	21,429,871
Effect of Foreign Exchange Rate Changes on Cash Held	**47,557**	(21,899)
Total Cash and Cash Equivalents Held at End of Year	**2,915,422**	9,507,804
Total Short-term Investments at End of Year	**15,972,446**	24,345,346
Total Cash, Cash Equivalents and Short-term Investments	**18,887,868**	33,853,150

Company Statement of Changes in Equity

	Share capital $	Share premium $	Other reserves (Notes 10 and 11) $	Retained earnings $	Cumulative translation adjustment $	Total $
At 31 December 2016	8,519,391	81,417,557	4,512,611	(82,933,981)	4,304,817	15,820,395
Loss for the year	–	–	–	(859,914)	–	(859,914)
Other comprehensive income	–	–	–	–	3,555,394	3,555,394
Total comprehensive income	–	–	–	(859,914)	3,555,394	2,695,480
New share and warrant capital issued	8,743,685	13,857,926	624,177	–	–	23,225,788
Reclassification following lapse of share options	–	–	(183,113)	183,113	–	–
Share-based payment movement	–	–	455,470	–	–	455,470
Transactions with owners	8,743,685	13,857,926	896,534	183,113	–	23,681,258
At 31 December 2017	**17,263,076**	**95,275,483**	**5,409,145**	**(83,610,782)**	**7,860,211**	**42,197,133**
Loss for the year	**–**	**–**	**–**	**(24,450,134)**	**–**	**(24,450,134)**
Other comprehensive loss	**–**	**–**	**–**	**–**	**1,336,454**	**1,336,454**
Total comprehensive loss	**–**	**–**	**–**	**(24,450,134)**	**1,336,454**	**(23,113,680)**
Reclassification following lapse of share options	**–**	**–**	**(350,267)**	**350,267**	**–**	**–**
Share-based payment movement	**–**	**–**	**269,525**	**–**	**–**	**269,525**
Transactions with owners	**–**	**–**	**(80,742)**	**350,267**	**–**	**269,525**
At 31 December 2018	**17,263,076**	**95,275,483**	**5,328,403**	**(107,710,649)**	**9,196,665**	**19,352,978**

Other reserves includes share-based payments and warrant expense. Reclassification of Other Reserves to Retained Earnings in 2018 and 2017 related to costs associated with share-based payment expense for share options which lapsed in the year.

Company Statement of Financial Position

	Note	2018 $	2017 $
ASSETS			
Non-Current Assets			
Investments in subsidiaries	13, 20	**15,889,431**	36,519,860
Total Non-Current Assets		**15,889,431**	36,519,860
Current Assets			
Other current assets	14	**283,614**	53,894
Amounts owed from group undertakings	14	**3,510,568**	5,855,769
Cash and cash equivalents	15	**67,708**	169,636
Total Current Assets		**3,861,890**	6,079,299
Total Assets		**19,751,321**	42,599,159
LIABILITIES			
Current Liabilities			
Trade payables and other payables	16	**(55,447)**	(127,776)
Restructure cost accrual	16	**(83,200)**	–
Amounts owed to group undertakings	16	**(259,696)**	(274,250)
Total Current Liabilities		**(398,343)**	(402,026)
Total Liabilities		**(398,343)**	(402,026)
Net Assets		**19,352,978**	42,197,133
EQUITY			
Share capital		**17,263,076**	17,263,076
Share premium		**95,275,483**	95,275,483
Other reserves		**5,328,403**	5,409,145
Retained earnings		**(107,710,649)**	(83,610,782)
Cumulative translation adjustment		**9,196,665**	7,860,211
Total Equity Attributable to Equity Holders of the Parent		**19,352,978**	42,197,133

The Company loss for the financial year attributable to equity holders was $24,450,134 (2017: $859,914) which included a $20.8 million loss on impairment of investment in subsidiary, including foreign exchange movements (see Notes 13 and 20), $1.5 million related to the Company's Nasdaq registration, higher Directors' and Officers' insurance and other ongoing Nasdaq listing costs and strategic transaction costs.

The financial statements and related notes beginning on page 25 were approved by the Board of Directors and authorised for issue on 10 April 2019 and were signed on its behalf by:

Marella Thorell
Chief Financial Officer
Company no: 05789798

Company Statement of Cash Flows

	2018 $	2017 $
Cash Flows from Operating Activities		
Loss for the year	**(24,450,134)**	(859,914)
Adjustments for:		
Loss on impairment of Investment in Subsidiary[1]	**20,803,264**	–
Share-based payment expense	**269,525**	124,465
Operating Loss before Movement in Working Capital	**(3,377,345)**	(735,449)
Increase in other current assets	**(229,719)**	(15,369)
Decrease in trade and other payables	**(72,330)**	(52,568)
Increase in restructure cost accrual	**83,200**	–
Decrease in amounts owed to group undertakings[1]	**3,522,822**	1,216,731
Cash (Used in) / Provided by Operations	**(73,372)**	413,345
Net Cash Flows from Operating Activities	**(73,372)**	413,345
Cash Flows from Investing Activities		
Capital contribution to group undertakings	**–**	(23,488,588)
Net Cash Flows from Investing Activities	**–**	(23,488,588)
Proceeds from sale of placing units, net of costs paid	**–**	23,225,788
Net Cash Flows from Financing Activities	**–**	23,225,788
Net (Decrease) / Increase in Cash and Cash Equivalents	**(73,372)**	150,545
Cash and Cash Equivalents at Beginning of Year	**169,636**	62,682
Effect of Foreign Exchange Rate Changes on Cash Held	**(28,556)**	(43,591)
Total Cash and Cash Equivalents Held at End of Year	**67,708**	169,636

(1) Reported amounts include foreign exchange impact.

Accounting Policies

GENERAL INFORMATION, INCLUDING CERTAIN SUBSEQUENT EVENTS

Realm Therapeutics plc (the Company) is a public company incorporated, domiciled and registered in the United Kingdom (UK). The registered number is 5789798 and the registered address is c/o CMS Cameron McKenna Nabarro Olswang, LLP, Cannon Place, 78 Cannon Street, London EC4N 6AF, UK. The Group represents the Company and all its subsidiaries including Realm Therapeutics, Inc., PuriCore Europe Limited and PuriCore Scientific Limited, a non-trading entity which was dissolved February 2019.

In July 2018, the Company listed American Depositary Shares ("ADSs") representing its ordinary shares on the Nasdaq Capital Market ("Nasdaq") and the United States Securities and Exchange Commission ("SEC") declared effective the Company's registration statements on Form F-1 and F-6 with respect to such securities. The Company's ADSs began trading on Nasdaq under the symbol "RLM" on 5 July 2018.

In March 2018 and August 2018, the Group announced that in its Phase 2 clinical trials for Allergic Conjunctivitis and Atopic Dermatitis, respectively, its related product candidates did not demonstrate efficacy. As a result, the Group is no longer pursing the clinical development of its product candidates, and the Group does not intend to make any additional investments in its clinical programs. Accordingly, in September 2018, the Group announced the hiring of MTS Health Partners, L.P. to act as an advisor in relation to a strategic review initiated by the Company, which may include the potential sale of the Company as a possible outcome.

On 15 February 2019, the Company announced that it had agreed to sell certain assets, which comprise its Vashe® wound care royalty stream, hypochlorous acid ("HOCl") related equipment, intellectual property (including know-how, patents and copyrights), program records, and certain assigned contracts and intellectual property licenses. As at 31 December 2018, these assets are included within the Drug Development and Wound Care segment. Realm further announced its intention to delist its ordinary shares from admission to trading on AIM. The assets disposal and AIM delisting are each subject to approval by Realm shareholders, which the Company is seeking pursuant to a circular that details the background to and reasons for the proposed assets disposal and AIM delisting, and the proposed Investing Policy for adoption by the Company.

On 15 March 2019 a general meeting was held at which resolutions proposing the assets disposal, AIM delisting and investment policy adoption were approved. As further announced in March 2019, the AIM delisting was effective on 27 March 2019 and the asset disposal closed on 28 March 2019. The Investing Policy requires the Directors to examine potential strategic opportunities. The Investing Policy requires the Company to seek to invest in, partner with, acquire and/or be acquired by companies with meaningful development potential in the life sciences sector or with good overall business prospects; or, if a suitable transaction is not identified, the Company will consider winding down and distributing the remaining assets to Shareholders, following satisfaction of applicable obligations.

On 5 April 2019, the Company announced that it had received written notice from the Listing Qualifications Staff of Nasdaq indicating that, due to the fact that it sold substantially all of the Group's non-cash assets, the Staff believes the Company is a "shell company" and, as such, the continued listing of the Company's ADS on Nasdaq is no longer warranted. The Company has requested a hearing before the Nasdaq Hearings Panel (the Panel), which request will stay any suspension or delisting action by Nasdaq pending the outcome of the hearing. At the hearing, the Company will have the ability to present its plan to evidence compliance with all applicable requirements for listing on Nasdaq, and to request an extension within which to do so. Although the Company is taking steps to satisfy the applicable listing criteria, there can be no assurance that the Panel will grant the Company's request for continued listing or that the Company will be able to evidence compliance with the applicable listing rules within any extension period that may be granted by the Panel.

BASIS OF PREPARATION

The Group consolidated financial statements were authorised for issue by the Board of Directors on 10 April 2019. European Union law (EULAW) (IAS Regulation EC 1606/2002) requires the financial statements of the Group be prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The financial statements have been prepared on the basis of the recognition and measurement requirements of Adopted IFRSs that are endorsed by the EU and effective as at 31 December 2018.

Accounting Policies

The Company has chosen to present its own results under Adopted IFRSs and by publishing the Company financial statements here with the Group financial statements the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statements of comprehensive income and related notes.

The financial statements are presented in US dollars (USD), rounded to the nearest dollar. The USD has been chosen as the presentational currency as most of the Group's revenue and expenses are denominated in USD. The accounting policies set out below have, unless otherwise stated, been applied consistently throughout the year.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Realm Therapeutics plc and its wholly owned subsidiaries, Realm Therapeutics, Inc., and non-operating entities PuriCore Europe Limited and PuriCore Scientific Limited, which was dissolved February 2019. All intercompany balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period.

Actual results could differ from these estimates. Due to the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may materially vary from these estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary (see Note 20).

Charges to profit or loss, in relation to share option are based on valuation techniques (principally the Black-Scholes option pricing model). These valuation techniques require a number of assumptions to be made such as those in relation to volatility, movement in interest rates, and dividend yields as detailed in Note 11. These assumptions are made on the basis of information and conditions that exist at the time of the valuation.

The Company holds investments in subsidiary companies and amounts due from group undertakings. The Directors have reviewed the carrying value of investments and intergroup amounts due compared to the recoverable amount computed using both qualitative and quantitative factors. The recoverable amount assessed by the Directors was less than the carrying amount; therefore, an impairment is required.

GOING CONCERN

In September 2018, the Group announced that it was discontinuing all drug development programs as the results of two Phase 2 trials, completed in 2018, did not support continued investment in its proprietary technology. Also in September 2018, the Group announced the hiring of MTS Health Partners, L.P., to act as an advisor in relation to a strategic review that was initiated by the Board to explore options which include the potential sale of the Group.

In February 2019, the Group announced that it had agreed to sell certain assets, which comprise its Vashe® wound care royalty stream, hypochlorous acid ("HOCl") related equipment, intellectual property (including know-how, patents and copyrights), program records, and certain assigned contracts and intellectual property licenses to Urgo US, Inc. for gross proceeds of $10 million. The Group further announced its intention to delist its ordinary shares from admission to trading on AIM and adopt an Investing Policy. The disposal, AIM delisting and Investing Policy adoption were approved by shareholders at a general meeting held on 15 March 2019. The AIM delisting was effective on 27 March 2019 and the asset disposal completed on 28 March 2019.

The Investing Policy requires the Directors to examine potential strategic opportunities. The Investing Policy, which remains the strategic focus of the Directors, requires the Group to seek to invest in, partner with, acquire and/or be acquired by companies with meaningful development potential in the life sciences sector or with good overall business prospects; or, if a suitable transaction is not identified, the Group will consider winding down and distributing the remaining assets to shareholders, following satisfaction of applicable obligations.

Accounting Policies

GOING CONCERN (CONTINUED)

The Group has incurred net losses and negative cash flows from operations and expects to continue to incur losses for the foreseeable future as it has no current source of on-going cash in-flows. As at 31 December 2018, the Group had an accumulated deficit of $195.3 million and net assets of $21.3 million. The Group had cash and cash equivalents of $18.9 million as at 31 December 2018, and $27.7 million as at 31 March 2019, following the March 2019 disposal. Cash flow forecasts show the Group will be able to continue to operate within its available cash throughout the period to at least 30 June 2020.

The Directors believe the Group has sufficient cash resources, net of estimated costs in relation to such a transaction, to complete a strategic transaction. The Group is in discussions with a few parties regarding a potential transaction. However, there is no guarantee a strategic transaction will be achieved or the associated timing.

If the Group does not complete a strategic transaction, the Directors will consider dissolving the Group and liquidating the assets. In that case, the Directors believe that the Group's cash resources are sufficient to satisfy estimated liabilities and costs of such a process. However, the associated timing, costs and potential provisions which may be required to be held back for future claims are uncertain.

Based on the foregoing, the Directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, the circumstances represent a material uncertainty that may cast significant doubt upon the Group's ability to achieve a strategic transaction and therefore to continue as a going concern and, realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

MEASUREMENT CONVENTION

The Group and Company financial statements are prepared on the historical cost basis, as modified to include share-based payments estimated at fair value and short-term investments measured at fair value.

SEGMENTAL ANALYSIS AND PRESENTATION

The primary reporting format is business segments and the secondary reporting format is geographic. All directly attributable revenues, expenses, assets, and liabilities are allocated to these segments. All Company income, expenses, assets, and liabilities are disclosed separately. Operating segment results are reported in a manner consistent with internal reporting provided to Executive Management and the Board.

In 2018 and 2017, the Group operated the following business segments:

- Drug Development and Wound Care:
    - o Drug development programmes and other research and development costs
    - o Royalty revenue from the out-license of the Group's Wound Care product (2017 only as 2018 no royalty revenue was recognized due to the adoption of IFRS 15, although cash payments were received)
- Company and Corporate:
    - o Costs associated with operating Realm Therapeutics plc
    - o Corporate costs associated with operating Realm Therapeutics, Inc.

FOREIGN CURRENCIES

The reporting currency of the Group is the US Dollar given the majority of the Group's operations are located in the US and transactions are denominated in US Dollars. The functional currency of Realm Therapeutics plc, is the pound sterling and its assets and liabilities are translated at the rate of exchange at year-end, while the statements of operations are translated at the average exchange rates in effect during the year. The net effect of these translation adjustments is shown as a component of other comprehensive income (loss).

The share capital of the Realm Therapeutics plc is denominated in Sterling (£) and translated at the historical rate at the date of issue for the purpose of the financial statements.

Accounting Policies

FOREIGN CURRENCIES (CONTINUED)

The functional currencies of the principal companies in the Group are as follows:

Realm Therapeutics plc	Sterling (£)
Realm Therapeutics, Inc.	US Dollar ($)
PuriCore Europe Limited	Sterling (£)

The exchange rates used to translate the Sterling (£) financial statements into US Dollar ($) financial statements are as follows:

Closing Rate as at 31 December		Average Rate for year ended 31 December	
2018	2017	**2018**	2017
1.2800	1.3517	**1.3351**	1.2882

REVENUE

Adoption of IFRS 15: Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) establishes a framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application which was 1 January 2018. Accordingly, the information presented for 2017 has not been restated – it is presented as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

Under IFRS 15, minimum royalty payments are included in the transaction price as variable consideration, subject to a constraint. Therefore, the future minimum payments are recognized at the time of adoption of IFRS 15, rather than over the future periods. The revenue recognized is net of the effect of financing components calculated using the customers-specific risk, risk-adjusted lending rates and will be recognized as interest income over time on an effect interest rate basis. Any revenue earned in excess of guaranteed minimums is recognized in the period earned.

The impact of the adoption to the Group's financial statements was a decrease of $2.5 million in its accumulated deficit as at 1 January 2018 and a corresponding increase to royalty receivable.

Accounting Policies

Adoption of IFRS 15 had no impact to cash-basis royalty payments received. In accordance with IFRS 15, the disclosure of the impact of adoption on the Company's Consolidated Statement of Operations and Consolidated Statement of Financial Position was as follows.

	For the year ended 31 December 2018		
	As Reported **$**	**Effect of Change** **$**	**Balances without the adoption of IFRS 15** **$**
Revenues	253,340	857,938	1,111,278
Research and development expenses	(8,570,258)	–	(8,570,258)
General and administrative expenses	(4,906,772)	–	(4,906,772)
Restructure costs	(805,003)	–	(805,003)
Total operating expenses	(14,282,033)	–	(14,282,033)
Loss before interest and taxes	(14,028,693)	857,938	(13,170,755)
Finance income	405,637	(131,661)	273,976
Loss before taxation	(13,623,056)	726,277	(12,896,779)
Taxation expense	(4,100)	–	(4,100)
Net Loss	(13,627,156)	726,277	(12,900,879)
Other Comprehensive Income	47,886	–	47,886
Total Comprehensive Loss	(13,579,270)	726,277	(12,852,993)

	As at 31 December 2018		
	As Reported **$**	**Effect of Change** **$**	**Balances without the adoption of IFRS 15** **$**
Assets			
Non-current Royalty receivable	1,016,260	(1,016,260)	–
Royalty and Trade receivable	1,053,187	(717,736)	335,451
Total Assets	21,837,258	(1,733,996)	20,103,262
Total Liabilities	(490,893)	–	(490,893)
Net Assets	21,346,365	(1,733,996)	19,612,369
Retained Earnings	(195,251,882)	(1,733,996)	(196,985,878)
Issued Capital and Reserves	21,346,366	(1,733,996)	19,612,370
Total Equity	21,346,366	(1,733,996)	19,612,370

Accounting Policies

RECOGNITION AND MEASURING FINANCIAL ASSETS AND LIABILITIES

Adoption of IFRS 9: Revenue from Contracts with Customers

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 has been implemented prospectively from 1 January 2018 and the impact on the Group has not been material. The main impact on the Group has been in respect of the classification of the Short term investments. Under IAS 39 these were classified as Available for Sale, under IFRS 9 this classification has been removed. Under IFRS 9 these investments are measured at fair value through other comprehensive income (FVOCI), the impact of this is presentational only.

Research and Development

Research and development costs are expensed as incurred and consist primarily of funds paid to third parties for the provision of services for product development, clinical and pre-clinical development and related supply and manufacturing costs, and regulatory and other consulting costs. At the end of the reporting period, the Group compares payments made to third-party service providers to the estimated progress toward completion of the research or development objectives. Such estimates are subject to change as additional information becomes available. Depending on the timing of payments to the service providers and the progress that the Group estimates has been made as a result of the services provided, the Group may record net prepaid or accrued expense relating to these costs.

The Group has not capitalized its costs for drug development given the significant uncertainty of technological feasibility / completion and the requirement of regulatory approval which is outside the Group's control and the Group announced in September 2018 that it was discontinuing any further clinical development. As a result, none of the criteria in IAS 38, Intangible Assets, paragraph 57 has been met.

EMPLOYEE BENEFITS

401(k) Retirement Income Plan

Obligations for contributions to the Group's 401(k) retirement plan are recognised as an expense in profit or loss as incurred.

Equity-Based and Share-Based Payment Transactions

The Group measures equity based and share-based awards granted to employees and directors based on the estimated fair value on the date of grant and recognizes compensation expense of those awards, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. The Group recognizes compensation expense for performance based awards when the performance condition is probable of achievement. The fair value of each share option grant is estimated on the date of grant using the Black-Scholes option pricing model (see Note 11).

Share-based awards granted to consultants are measured based on the fair value of the award on the date on which the related services are completed. Compensation expense is recognized over the period during which services are rendered by such consultants until completed. At the end of each financial reporting period prior to completion of the service, the fair value of these awards is re-measured using the then-current fair value of the Company's common shares and updated assumption inputs in the Black-Scholes option-pricing model.

Accounting Policies

FINANCE INCOME

Interest Income

Finance income is earned on the Group's invested cash, cash equivalent and short-term investment balances.

Interest Income Related to Royalty Payments

Effective 1 January 2018, the Company adopted IFRS 15 using the modified retrospective method with the impact of the adoption reflected in opening accumulated deficit. The impact of the standard relates to the Group's agreement related to its Vashe® Wound Care product and the recognition of the future minimum guaranteed royalty payments. Under IFRS 15, minimum royalty payments are included in the transaction price as variable consideration, subject to a constraint. Therefore, the future minimum payments are recognized at the time of adoption of IFRS 15, rather than over the future periods. The revenue recognized is net of the effect of the interest income calculated using the customer's-specific risk-adjusted lending rate. Interest income will then be recognized over time on an effective interest rate basis.

TAXATION

Tax on the profit or loss for the year comprises current tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the estimated tax payable (or tax benefit, if applicable) on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that is probable that future profits will be available against which the asset can be utilised.

INVESTMENTS

Investments in subsidiaries recorded in the Company financial statements are carried at cost less impairment, if applicable. The fair value of share options granted to employees of subsidiaries is included in investments as a capital contribution.

PROPERTY, PLANT, AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation and amortization is determined using the straight-line method over the estimated useful lives ranging from 3 to 7 years. Leasehold improvements are amortized over the life of the lease or the estimated useful life of the assets, whichever is shorter. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. When property and equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in operations.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated. Impairment charges are recognized at the amount by which the carrying amount of an asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. The Company recognized an impairment of long-lived assets for the years ended 31 December 2018 (see Note 13).

OPERATING LEASES

Payments made under operating leases are recognised as expense in profit or loss on a straight-line basis over the term of the lease.

Accounting Policies

CASH AND CASH EQUIVALENTS

The Group considers all highly liquid investments purchased with a maturity of three months or less from acquisition date to be cash equivalents. As at 31 December 2018, cash equivalents consisted of cash sweep accounts, US Treasury money market funds, and US Treasury bills.

SHORT-TERM INVESTMENTS

The Group determines the appropriate classification of its short-term investments at the time of purchase and re-evaluates such determination at each balance sheet date. As at 31 December 2018, short-term investments include US Treasury bills and are carried at their estimated fair value. Unrealized gains and losses are recorded as a component of other comprehensive income (loss). The Group periodically reviews its investments for impairment and adjusts these investments to their fair value when a decline in market value is deemed to be other than temporary. If losses on these securities are considered to be other than temporary, the loss is recognized in earnings.

NEW STANDARDS AND INTERPRETATIONS

The following Adopted IFRSs have been issued but have not been applied in these financial statements and the potential impact, if it has been evaluated by the Group, is noted below. The Group does not intend to apply any of these pronouncements early.

IFRS 16 Leases (effective date 1 January 2019)

- The Group will adopt IFRS 16 with an initial application date of 1 January 2019. The modified retrospective transition method will be applied and the Group will also apply the practical expedient that permits the Group not to reassess whether a contract is, or contains, a lease at the date of initial application. In addition, the Group will apply the recognition exemptions for short-term leases and leases for which the underlying asset is of low value. Management is undergoing an exercise to determine the financial impact of IFRS 16, which is currently not known, therefore the impact has not been disclosed.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods on or after 1 January 2019)

  - o The Group is currently evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

Notes to the Financial Statements

For the Years Ended 31 December 2018 and 2017

1 SEGMENTAL ANALYSIS

The Group is a clinical-stage biopharmaceutical company focused on developing novel therapeutics for immune-mediated diseases in adults and children. Segmental information is provided having regard to the operations being conducted during the reporting periods. The Group's Drug Development and Wound Care segment represents costs associated with the development of potential drug products and royalty revenue from the out-licensing of the Group's Vashe® Wound Care product (medical device). An analysis of the Group's business segments for the years ended 31 December is as follows.

	2018		
	Drug Development and Wound Care (1)	**Company & Corporate (2)**	**Total**
	$	**$**	**$**
Revenue	253,340	–	253,340
Gross Profit	253,340	–	253,340
Loss before Interest, Tax, Depreciation & Amortisation, Fixed Asset write-off and Share-Based Payment Expense	(8,119,713)	(5,549,799)	(13,669,512)
Finance income	131,661	273,976	405,637
Depreciation and amortisation	(29,771)	(38,609)	(68,380)
Write-off of capital assets	(21,276)	–	(21,276)
Share-based payment expense	(146,157)	(123,368)	(269,525)
Loss before Tax	(8,185,256)	(5,437,800)	(13,623,056)
Taxation expense	–	(4,100)	(4,100)
Loss after Tax	(8,185,256)	(5,441,900)	(13,627,156)
Segment Assets			
Non-current assets	1,125,639	404,405	1,530,044
Current assets	1,053,187	366,160	1,419,347
Total assets excluding cash and cash equivalents and short-term investments	2,178,826	770,565	2,949,391
Segment Liabilities			
Current liabilities	(43,215)	(447,678)	(490,893)
Total liabilities	(43,215)	(447,678)	(490,893)
Other Segment Items:			
Capital expenditures – Property, plant, and equipment	28,515	17,584	46,099

	2017		
	Drug Development and Wound Care(1) $	Company & Corporate (2) $	Total $
Revenue	1,120,840	–	1,120,840
Gross Profit	1,120,840	–	1,120,840
Loss before Interest, Tax, Depreciation & Amortisation, Fixed Asset write-off and Share-Based Payment Expense	(6,812,712)	(3,326,803)	(10,139,515)
Finance income	–	58,082	58,082
Depreciation and amortisation	(46,344)	(39,443)	(85,787)
Write-off of capital assets	(10,380)	–	(10,380)
Share-based payment expense	(209,300)	(246,170)	(455,470)
Loss before Tax	(7,078,736)	(3,554,334)	(10,633,070)
Taxation benefit	–	107,687	107,687
Loss after Tax	(7,078,736)	(3,446,647)	(10,525,383)
Segment Assets			
Non-current assets	84,632	480,918	565,550
Current assets	514,225	173,852	688,077
Total assets excluding cash, cash equivalents and short-term investments	598,857	654,770	1,253,627
Segment Liabilities			
Current liabilities	(1,990,826)	(920,112)	(2,910,938)
Total liabilities	(1,990,826)	(920,112)	(2,910,938)
Other Segment Items:			
Capital expenditure: property, plant, and equipment	103,228	104,454	207,682

(1) In 2018 and 2017, Drug Development and Wound Care includes costs associated with the development of products and included royalty revenue from out-licensing of the Group's Wound Care product.

(2) Company and Corporate includes costs associated with operating Realm Therapeutics plc and corporate costs associated with operating Realm Therapeutics, Inc.

Information about Geographical Areas
An analysis of the Group's revenue by geographic location of its partners, segment assets (excluding cash, cash equivalents, and short-term investments) and capital expenditures are as follows.

	Revenue For the Years Ended 31 December		Segment Assets As at 31 December		Capital Expenditures For the Years Ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017
	$	$	**$**	$	**$**	$
North America	**253,340**	1,120,840	**2,665,778**	1,199,732	**46,099**	207,682
United Kingdom	**–**	–	**283,613**	53,894	**–**	–
	253,340	1,120,840	**2,949,391**	1,253,626	**46,099**	207,682

2 REVENUE

The Group's revenue from royalty income was $0.3 million and $1.1 million for the years ended 31 December 2018 and 2017, respectively.

3 STAFF COSTS

An analysis of the average number of persons employed by the Group (including Executive Directors) during the years ended 31 December is as follows.

	2018	2017
Research and development	**9**	11
Head office and administration	**3**	4
Average persons employed	**12**	15

The aggregate remuneration of persons employed by the Group (including Executive Directors) during the years ended 31 December is as follows.

	2018	2017
	$	$
Wages and salaries	**2,242,145**	3,142,977
Social Security costs	**102,540**	171,229
Retirement plan costs	**68,926**	67,017
Share based compensation costs	**269,525**	455,470
Total Remuneration	**2,683,136**	3,836,693

In September 2018, in connection with the discontinuance of its clinical development programmes and in order to preserve its cash resources, the Company reduced the size of its workforce (see Note 16).

Key Management

The key management of the Group comprises the Executive Directors of the Group together with senior members of the management team. The aggregate remuneration of key management for the years ended 31 December is as follows.

	2018	2017
	$	$
Wages and salaries-Executive Directors	**784,328**	1,209,800
Wages and salaries-Other Key Management	**600,956**	1,076,505
Retirement plan costs (1)	**32,550**	39,750
Share based compensation costs	**133,502**	324,581
Total Key Management Remuneration	**1,551,336**	2,650,636

(1) Includes retirement plan costs for two executive directors.

The aggregate of remuneration (excluding share based payments) of the highest paid Director was $435,851 (2017: $698,919), including company retirement plan benefits of $8,250 (2017: $7,950).

Key management share option activity for the years ended 31 December is as follows.

	2018	2017
Number of share options granted	**–**	1,530,000
Number of share options lapsed	**549,667**	–
Number of anti-dilution share option adjustment following the private placement	**N/A**	3,866,753

No share options granted to key management were exercised during the years ended 31 December 2018 or 2017.

4 EMPLOYEE BENEFITS

401(k) Retirement Income Plan

The Group operates a 401(k) retirement plan for its employees. The total expense relating to this plan during the year ended 31 December 2018 was $68,926 (2017: $67,017).

5 OPERATING LEASES

The Group recognizes rent expense on a straight-line basis over the lease term and landlord allowances for tenant improvements are deferred and recognized as a reduction to rent expense on a straight line basis over the lease term. The Group also has non-cancellable office equipment leases with remaining lease terms of less than two years. Leasing arrangements do not include restrictive covenants, contingent rents or purchase options. Included in Current and Non-current Other Assets on the Consolidated Statement of Financial Position as at 31 December 2018 and 2017 is a deposit totalling $0.3 million related to the Company's US office lease.

An analysis of the Group's minimum lease payments under operating leases recognised as an expense for the years ended 31 December is as follows.

	2018	2017
	$	$
Minimum lease payments under operating leases recognised as an expense in the period	**185,440**	231,677

As at 31 December, the Group has outstanding commitments under operating leases (which do not net out any associated deposits), which fall due as follows.

	As at December 31	
	2018	2017
	$	$
Land and buildings		
Within one year	**160,434**	156,908
In the second to fifth years inclusive	**855,051**	837,424
After five years	**59,745**	237,807
Plant and machinery		
Within one year	**4,577**	15,889
In the second to fifth years inclusive	**1,025**	12,537
Outstanding commitments under non-cancellable operating leases	**1,080,832**	1,260,565

6 FINANCE INCOME

An analysis of the Group's finance income for the years ended 31 December is as follows.

	2018	2017
	$	$
Interest income on cash, cash equivalent and short-term investment balances	**273,976**	58,082
Interest income imputed on royalty payments	**131,661**	–
Total Finance Income	**405,637**	58,082

7 INCOME TAXES

Recognised Deferred Tax Assets and Tax Liabilities

As at 31 December 2018 and 2017, the Group did not have any recognised deferred tax assets or deferred tax liabilities. An analysis of Group's current and deferred tax recognised for the years ended 31 December is as follows.

	2018	2017(1)
	$	$
Current tax (expense) / benefit	**(4,100)**	107,687
Deferred tax:		
Origination and reversal of temporary differences	**–**	–
Total deferred tax	**–**	–
Total tax (expense) / benefit	**(4,100)**	107,687

(1) The Group has US Alternative Minimum Tax (AMT) credits of $0.1 million that have an indefinite carryforward period. These AMT credits are refundable under US law, resulting in an income tax benefit in 2017, and are collectible one-third per year upon each of the filings of the Company's 2018, 2019 and 2020 federal income tax returns.

As at 31 December 2018 the Group has UK net operating loss (NOL) carryforwards amounting to $14.5 million (2017: $9.5m) that can be carried forward and applied against certain future UK taxable income, but has not recognized any deferred tax assets in relation thereto.

As at 31 December 2018, the Group has not recognised U.S. deferred tax assets of approximately $16.6 million (tax effected), as the realisations of the U.S. deferred tax assets is not considered probable. The Group has U.S. net operating loss carryforwards of approximately $87.7 million, which expire from 2020 through 2038. The Group has U.S. research and development credits of approximately $0.6 million which expire from 2021 to 2030, and the Group has refundable U.S. Alternative Minimum Tax credits of approximately $0.1 million. The Group has no U.S. tax uncertainties as at 31 December 2018.

An analysis of the Group's reconciliation of its effective tax rate for the years ended 31 December is as follows. The current tax benefit for the period is higher (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below.

	2018	2017
	$	$
Reconciliation of Effective Tax Rate		
Loss before tax	**(13,623,056)**	(10,633,070)
Tax using UK corporation tax rate of 19% (2017: 19.25%)	**(2,588,381)**	(2,046,866)
Tax loss carryforwards utilised during the year	**–**	3,319
Non-deductible expenses	**2,639**	–
Other unrecognised temporary differences	**531,794**	(181,774)
US state income tax (2018) and federal alternative minimum tax (2017)	**(4,100)**	107,687
Deferred tax asset on current year losses not recognised	**2,053,948**	2,225,321
Total tax (expense) / benefit	**(4,100)**	107,687

The UK's 2016 Finance Bill, which was enacted on 15 September 2016, contained reductions in corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. Due to the Company's net losses, the Company does not expect tax rate changes to have a significantly impact on its operations.

8 LOSS FOR THE YEAR

An analysis of the Group's loss for the years ended 31 December has been arrived at after charging:

	2018	2017
	$	$
Research and development expenses	**8,570,258**	8,189,196
Nasdaq listing costs (1)	**1,524,838**	–
Restructure expense (2)	**805,003**	–

(1) Nasdaq listing costs included within General and Administrative expenses on the Consolidated Statement of Comprehensive Income.

(2) In August 2018, the Company reduced the scope of its operations, including the size of its workforce, in order to preserve its cash resources. For the year ended 31 December 2018, the Company recorded restructuring charges including expenses of $0.3 million for employee severance and $0.5 million for financial advisor fees (see Note 16).

An analysis of Group auditor's remuneration for the years ended 31 December is as follows.

	2018	2017
	$	$
Amounts receivable by the Group's auditor and its associates in respect of:		
Audit of Company and non-US subsidiaries	**88,400**	96,612
Audit of US subsidiary and Public Company Accounting Oversight Board (PCAOB) audit work completed by KPMG US	**185,000**	167,461
Nasdaq registration statement services	**295,000**	–
Taxation compliance services	**27,000**	6,505
Auditor's remuneration for all services	**595,400**	270,578

Notes to the Financial Statements

For the Years Ended 31 December 2018 and 2017

9 LOSS PER SHARE

The Company's issued share capital at 31 December 2018 consisted of 116,561,917 ordinary shares of 10 pence each. The calculation of the Group's basic and diluted loss per share for the years ended 31 December is based on the following data.

	2018	2017
Loss from Continuing Operations for the purpose of Adjusted basic and diluted loss per share	**$(13,627,156)**	$(10,525,382)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share (1)	**116,561,917**	65,081,903
Net Loss per Share, basic and diluted (2)	**$(0.12)**	$(0.16)

(1) On 9 October 2017, 66,396,485 ordinary shares were issued and outstanding for 82 days during the year ended 31 December 2017.

(2) The calculation for diluted loss per share is identical to that used for basic loss per share. The exercise of share options would have the effect of reducing the loss per share and are excluded since not dilutive under the terms of IAS 33 'Earnings per share'.

10 SHARE CAPITAL

In July 2018, the Company listed ADSs representing its ordinary shares on the Nasdaq and the SEC declared effective the Company's registration statements on Form F-1 and F-6 with respect to such securities. The Company's ADSs began trading on Nasdaq under the symbol "RLM" on 5 July 2018.

On April 5, 2019 the Company announced that it had received written notice from the Listing Qualifications Staff of Nasdaq Market indicating that, based upon the Company's recent Assets Disposal, the Staff believes the Company is a "shell company" (i.e., a non-operating entity) and, as such, the continued listing of our ADSs on Nasdaq is no longer warranted. The Company plans to timely request a hearing before the Nasdaq Hearings Panel (the Panel), which request will stay any suspension or delisting action by Nasdaq at least pending the ultimate outcome of the hearing.

On 9 October 2017, the Group completed a private placement and issued 66,396,485 units to new and existing investors at a price of 29 pence per unit (the Placing). Each unit comprises one ordinary share and one warrant (with an entitlement to subscribe for 0.4 ordinary shares at a per share exercise price of 58 pence – or 200% of the placing price). The warrants entitle the investors to subscribe for an aggregate maximum of 26,558,600 ordinary shares. The gross proceeds received were £19.3 million and net proceeds after expenses were $23.2 million.

An analysis of the issued share capital of the Company as at 31 December is as follows.

	Allotted, called up, and fully paid	
	Ordinary shares of £0.10 each Number	**Ordinary shares of £0.10 each £**
As at 31 December 2016	50,165,432	5,016,543
Allotments during 2017	66,396,485	6,639,649
As at 31 December 2017	116,561,917	11,656,192
Allotments during 2018	–	–
As at 31 December 2018	116,561,917	11,656,192

No shares were held in treasury at 31 December 2018 or 2017. Each of the ordinary shares carries one vote per share and is entitled to dividends at the discretion of the Directors. There are no restrictions on any of the shares.

WARRANTS

An analysis of outstanding warrants as at 31 December 2018 is as follows.

Exercise price (1) $	Number of Warrants outstanding	Number of Warrants exercisable	Weighted average life in years as at 31 December 2018	2017
0.63	26,558,600	26,558,600	**1.29**	2.29

(1) Exercise price has been translated using the exchange rate at the year-end closing date.

On 9 October 2017 in connection with a private placement of ordinary shares, warrants to subscribe for 26,558,600 ordinary shares were issued and had a fair value at issuance of $0.6 million. Each warrant carries an exercise price of 58 pence and a term of 2.5 years from date of issue.

In December 2018, warrants previously issued in December 2013 in conjunction with a secured revolving credit arrangement with a U.S. bank expired and were not exercised.

The sale of substantially all of the Group's non-cash assets to Urgo US, Inc. in March 2019 which constituted a Fundamental Transaction under the terms of the warrants. As a result, the Company revalued the warrants in accordance with their terms, resulting in planned cash payments to the warrant holders of approximately $13,500, in total, and cancellation of the warrants, which is expected to be completed in April 2019. This has not impact to the Company's financial statements for the year ended 31 December 2018.

Capital Management

The Group manages capital to ensure that it has adequate resources to enable it to operate its principle drug development activities. Management's policies are to invest Group assets in investments that permit immediate or short-term liquidity and preserve capital.

Capital includes share capital, share premium, shares to be issued and retained earnings. There are no externally imposed capital requirements on the Group.

An analysis of the Group's net capital is as follows:

	2018 $	2017 $
Cash, cash equivalents and short-term investments	**18,887,868**	33,853,150
Equity attributable to owners of the parent	**(21,346,366)**	(32,195,838)
Net capital	**(2,458,498)**	1,657,312

11 SHARE BASED PAYMENTS

The Company operates the 2016 Executive Omnibus Incentive Plan (the Plan), under which a variety of equity instruments can be issued to employees. The amount and terms of grants are determined by the Company's board of directors. Issued share options carry a term of up to 10 years and are exercisable in cash or as otherwise determined by the Directors. Generally, share options vest annually over a three year period or, for Executive Directors, vest upon the achievement of performance conditions measured over a three year period. All share options granted to date have exercise prices equal to the fair value of the underlying ordinary shares on the date of the grant. Share options are denominated in pounds sterling and the amounts represented in US dollars are impacted by currency fluctuations.

The Company's October 2017 private placement of new ordinary shares (the Placing) constitute a variation of share capital under the anti-dilution provisions of the Plan rules. Accordingly, the Remuneration Committee exercised its discretion and increased the number of options held by current employees and directors such that each option holder's potential percentage of the new (enlarged) share capital of the Company would be the same as it was immediately before the Placing. The Group recorded share based compensation expense, as computed using the Black-Scholes option valuation model related to these share option adjustments.

Share options are denominated in pounds sterling and the amounts represented in US dollars are impacted by currency fluctuations.

An analysis of Group option activity for the years ended 31 December is as follows.

	2018		2017	
	Weighted average exercise price $	**Number of options**	Weighted average exercise price $	Number of options
Share options outstanding, beginning of year	**0.45**	**11,418,175**	0.46	4,250,668
Share options granted during the year	**0.55**	**90,000**	0.52	2,531,000
Share options expired & forfeited during the year	**0.63**	**(1,439,431)**	0.99	(451,225)
Share option adjustment issued as a result of a variation of share capital arising from the Placing	**–**	**–**	0.43	5,087,732
Share options exercised during the year	**–**	**–**	–	–
Share options outstanding, end of the year	**0.40**	**10,068,744**	0.45	11,418,175
Share options exercisable, end of the year	**0.39**	**6,652,355**	0.48	4,095,946

An analysis of Group's share options outstanding as at 31 December is as follows.

	Exercise Price (1)	Options outstanding	Options exercisable	Weighted average life in years
2018				
	$0.23 – $0.24	**87,134**	**87,134**	**2.47**
	$0.33 – $0.38	**7,501,196**	**5,704,310**	**2.42**
	$0.44 – $0.50	**2,480,414**	**860,911**	**6.85**
	Total options, 2018	**10,068,744**	**6,652,355**	
2017				
	$0.24 – $0.46	8,589,216	3,616,987	3.46
	$0.52 – $0.83	2,756,916	406,916	8.61
	$4.11	72,043	72,043	0.14
	Total options, 2017	11,418,175	4,095,946	

(1) Exercise prices have been translated at the exchange rate at the year-end closing date.

An analysis of the inputs for the Black Scholes valuation model for share options granted during the years ended 31 December is as follows.

	2018	2017
Weighted average share price	**$ 0.43**	$ 0.52
Weighted average exercise price	**$ 0.43**	$ 0.52
Expected volatility	**35%**	35%
Dividend yield	**–**	–
Expected term (in years)	**6**	6
Risk-free interest rate	**1.69% – 2.19%**	1.69% – 2.19%

Expected volatility is based on historical volatility of the Company's ordinary shares commensurate with the expected term assumption. Awards are considered to be equity settled under IFRS 2. The weighted average per share fair value of share options granted in 2018 was $0.26 (2017: $0.15), as calculated using the Black Scholes option valuation model.

The Group recorded share based payment expense during the years ended 31 December as follows.

	2018 $	2017 $
Research and development	**146,157**	209,300
General and administrative	**123,368**	246,170
	269,525	455,470

The cumulative expense of $5,414,475 included in Other Reserves in the Consolidated Statement of Financial Position reflects total share-based payments outstanding which have not lapsed or been exercised.

12 PROPERTY, PLANT, AND EQUIPMENT

An analysis of the Group's property, plant, and equipment at 31 December is as follows.

	2018			
	Leasehold improvements $	Furniture & fixtures $	Machinery & equipment $	Total $
Cost				
As at 1 January	**56,650**	**246,755**	**222,100**	**525,505**
Additions	**1,595**	**16,627**	**27,877**	**46,099**
Disposals	**–**	**(86,378)**	**(29,792)**	**(116,170)**
As at 31 December	**58,245**	**177,004**	**220,185**	**455,434**
Accumulated depreciation				
As at 1 January	**7,870**	**134,617**	**137,468**	**279,955**
Depreciation charge for the year	**12,964**	**22,774**	**32,642**	**68,380**
Disposals	**–**	**(35,590)**	**(59,304)**	**(94,894)**
As at 31 December	**20,834**	**121,801**	**110,806**	**253,441**
Net book value, end of year	**37,411**	**55,203**	**109,379**	**201,993**

	2017			
	Leasehold improvements $	Furniture & fixtures $	Machinery & equipment $	Total $
Cost				
As at 1 January	708,357	687,522	158,182	1,554,061
Additions	56,650	58,684	92,348	207,682
Disposals	(708,357)	(499,451)	(28,430)	(1,236,238)
As at 31 December	56,650	246,755	222,100	525,505
Accumulated depreciation				
As at 1 January	708,357	576,812	130,004	1,415,173
Depreciation charge for the year	7,870	30,389	47,528	85,787
Disposals	(708,357)	(472,584)	(40,064)	(1,221,005)
As at 31 December	7,870	134,617	137,468	279,955
Net book value, end of year	48,780	12,138	84,632	245,550

13 INVESTMENTS IN SUBSIDIARIES

Details of the Group's subsidiaries as at 31 December are as follows.

Name of Subsidiary (class of shares)	Place of incorporation (or registration and operation)	Principal activity	Proportion of ownership held by the Group as at 31 December 2018	2017
Realm Therapeutics, Inc. (ordinary) (1)	US	Operating company	**100%**	100%
PuriCore Europe Limited (ordinary), as a subsidiary of Realm Therapeutics, Inc. (2)	UK	Biocidal Products Regulation-related activity	**100%**	100%
PuriCore Scientific Limited (ordinary) (3)	UK	Non-trading company	**100%**	100%

(1) Registered address is 267 Great Valley Parkway, Malvern, Pennsylvania, 19355, US; aggregate amount of capital and reserves and loss for the year have not been included as Statement of Financial Position is not published in the UK.

(2) Registered address is c/o CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London EC4N 6 AF, UK; aggregate amount of capital and reserves and profit for the year have not been included as amounts are not material.

(3) PuriCore Scientific was dissolved in February 2019. Registered address is c/o CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London EC4N 6 AF, UK; aggregate amount of capital and reserves have not been included as entity is inactive.

An analysis of Realm Therapeutics plc's investment in 100% owned subsidiaries is as follows:

	$
As at 31 December 2016	11,000,819
Capital contribution	23,488,588
Share-based payment charge (1)	331,005
Foreign exchange movement	1,699,448
As at 31 December 2017	36,519,860
Impairment (including foreign exchange movement) (2)	(20,803,264)
Share-based payment charge (1)	172,835
As at 31 December 2018	**15,889,431**

(1) The share-based payment charge reflects the fair value of employee awards to employees of the subsidiaries.

(2) An impairment was recognised as at 31 December 2018 given the Group announced it is in a formal sale process and has discontinued its clinical development programs (see Note 20).

14 RECEIVABLES, CURRENT AND NON-CURRENT ASSETS

The Directors consider the carrying amount of receivables and other current assets (excluding cash, cash equivalents and short-term investments which are addressed in Note 15), and non-current assets (excluding property, plant and equipment which is addressed in Note 12) to approximate fair value. An analysis of Group and Company other receivables and other current and non-current assets as at 31 December is as follows.

	Group		Company	
	2018	2017	**2018**	2017
	$	$	**$**	$
Current:				
Royalty receivable	**929,735**	443,569	**–**	–
Trade and other receivables	**123,453**	17,131	**–**	–
Tax receivable	**35,896**	107,687	**–**	–
Prepayments and other current assets (1)	**330,263**	119,689	**283,614**	53,894
Amounts owed from group undertakings (3)	**–**	–	**3,510,568**	5,855,769
	1,419,347	688,076	**3,794,182**	5,909,663
Non-Current:				
Non-current royalty receivable	**1,016,260**	–	**–**	–
Non-current tax receivable	**71,791**	–	**–**	–
Other assets (2)	**240,000**	320,000	**–**	–
	1,328,051	320,000	**–**	–
Total Current and Non-Current Assets (4)	**2,747,398**	1,008,076	**3,794,182**	5,909,663

(1) Primarily includes prepaid Directors' and Officers' insurance and deposit related to the Company's US office lease to be refunded April 2019.

(2) Long-term portion of deposit related to the Company's US office lease.

(3) Nasdaq registration costs and certain strategic transaction costs related to the Company were paid by Realm Therapeutics, Inc.

(4) Excludes cash, cash equivalents and short-term investments as well as property, plant and equipment.

An analysis of Group and Company current and non-current receivables (Company amounts represent inter-group receivables) by currency as at 31 December is as follows.

	Group		Company	
	2018	2017	**2018**	2017
	$	$	**$**	$
US Dollar	**2,177,135**	568,387	**–**	–
Sterling	**–**	–	**3,510,568**	5,855,769
Total Other Receivables	**2,177,135**	568,387	**3,510,568**	5,855,769

15 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

An analysis of the Group's and Company's cash, cash equivalents and short-term investments as at 31 December is as follows.

	Group		Company	
	2018	2017	**2018**	2017
	$	$	**$**	$
Cash at bank	**464,433**	530,097	**67,708**	169,636
Cash equivalents (1)	**2,450,989**	8,977,707	**–**	–
Total Cash and Cash Equivalents	**2,915,422**	9,507,804	**67,708**	169,636
Short-term investments measured at fair value:				
US Treasury bills and US government agency	**15,972,446**	20,871,541	**–**	–
Certificates of deposit	**–**	3,473,805	**–**	–
Total Short-term Investments (2)	**15,972,446**	24,345,346	**–**	–
Total Cash, Cash Equivalents and Short-term Investments	**18,887,868**	33,853,150	**67,708**	169,636

(1) Includes cash sweep accounts, US Treasury money market fund, bank certificates of deposit (2017 only) and US Treasury bills (2017 only) that have a maturity of three months or less from the original acquisition date.

(2) As at 31 December 2018 includes US Treasury bills that have a maturity of more than three months from original acquisition date; As at 31 December 2017 includes US government agency securities and bank certificates of deposit that have a maturity of more than three months from original acquisition date.

An analysis of the Group's short-term investments as at 31 December 2018 and 2017 is as follows.

	As at 31 December 2018			
	Original Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Total Carrying Value (1)**
	$	**$**	**$**	**$**
US Treasury bills	15,958,369	14,077	–	15,972,446
Total Short-term Investments	**15,958,369**	**14,077**	**–**	**15,972,446**

	As at 31 December 2017			
	Original Cost $	Gross Unrealized Gains $	Gross Unrealized Losses $	Total Carrying Value [1] $
US government agency	20,856,588	14,953	–	20,871,541
Certificates of deposit	3,475,011	–	(1,206)	3,473,805
Total Short-term Investments	**24,331,599**	**14,953**	**(1,206)**	**24,345,346**

(1) Represents quoted prices in active markets

Fair Values of Financial Assets

The guidance requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 — Inputs for the asset or liability that are not based on observable market data, which require the Group to develop its own assumptions

This hierarchy requires the use of observable market data when available and to minimize the use of unobservable inputs when determining fair value.

The Group has classified assets measured at fair value on a recurring basis as follows.

	As at 31 December 2018				
			Fair Value Measurement Based on		
	Carrying Value $	Fair Value $	Quoted Prices in Active Markets (Level 1) $	Significant other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Financial Assets					
Cash equivalents:					
Cash equivalents [1]	2,450,989	2,450,989	2,450,989	–	–
Short-term Investments:					
US Treasury bills	15,972,446	15,972,446	–	15,972,446	–
	18,423,435	18,423,435	2,450,989	15,972,446	–

(1) Includes cash sweep accounts and US Treasury money market mutual fund. Total cash and cash equivalents reported on Consolidated Statement of Financial Position of $2.9 million includes cash bank accounts of $0.5 million.

	As at 31 December 2017				
			Fair Value Measurement Based on		
	Carrying Value $	Fair Value $	Quoted Prices in Active Markets (Level 1) $	Significant other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Financial Assets					
Cash equivalents:					
Cash equivalents (1)	8,977,707	8,977,707	8,977,707	–	–
Short-term Investments:					
U.S. government agency	20,871,541	20,871,541	–	20,871,541	–
Certificates of deposit	3,473,805	3,473,805	3,473,805	–	–
Total Short-term investments	24,345,346	24,345,346	3,473,805	20,871,541	–
Total Cash Equivalents and Short-term investments (2)	33,323,053	33,323,053	12,451,512	20,871,541	–

(1) Includes cash sweep accounts, US Treasury money market mutual fund, bank certificates of deposit and US Treasury bills that have a maturity of three months or less from the original acquisition date. Total cash and cash equivalents reported on Consolidated Statement of Financial Position of $9.5 million includes cash bank accounts of $0.5 million.

(2) Total cash and cash equivalents and short-term investments reported on Consolidated Statement of Financial Position of $33.8 million includes cash bank accounts of $0.5 million.

16 TRADE AND OTHER PAYABLES

The Directors believe the carrying amount of trade and other payables approximates their fair value. An analysis of the Group's and the Company's trade payables and other accruals as at 31 December is as follows.

	Group		Company	
	2018 $	2017 $	**2018 $**	2017 $
Trade payables	**86,393**	1,008,715	**12,712**	60,266
Research and development related and other accruals	**126,332**	1,900,097	**40,652**	65,531
Other taxes and social security	**2,243**	2,126	**2,083**	1,979
Total trade payables and other accruals	**214,968**	2,910,938	**55,447**	127,776
Restructure cost accruals (1)	**275,925**	–	**83,200**	–
Amounts owed to group undertakings	**–**	–	**259,696**	274,250
Trade and other payables and amounts owed to group undertakings	**490,893**	2,910,938	**398,343**	402,026

(1) In August 2018, the Company reduced the scope of its operations, including the size of its workforce, in order to preserve its cash resources. As at 31 December 2018, restructure cost accruals include $0.1 million for severance benefits and $0.2 million for financial advisor fees (see Note 8).

17 FINANCIAL INSTRUMENTS

All financial instruments held by the Group, as detailed in this note, are classified as "Loans and Receivables" and "Financial Liabilities Measured at Amortised Cost" under IFRS 9. See Notes 14, 15 and 16 for the carrying amount of these financial instruments.

An analysis of the Group's and the Company's borrowings and cash, cash equivalents and short-term investments by currency as at 31 December is as follows.

ANALYSIS BY CURRENCY

	2018 $	2017 $
Group		
Sterling	**67,708**	169,636
US Dollar	**18,820,160**	33,683,514
Total Group	**18,887,868**	33,853,150
Company		
Sterling	**67,708**	169,636

The Group had no borrowings as at 31 December 2018 and 2017.

INTEREST BEARING ASSETS AND LIABILITIES

An analysis of Group and Company floating and fixed rate interest rate exposures on assets (as there are no liabilities subject to interest rate risk) as at 31 December is as follows.

	Floating Rate		Fixed Rate	
	2018 $	2017 $	2018 $	2017 $
Group				
Cash and cash equivalents	**965,431**	6,984,996	**1,949,991**	2,522,809
Short-term investments	**–**	–	**15,972,446**	24,345,346
Net Cash, Cash Equivalents and Short-term Investments	**965,431**	6,984,996	**17,922,437**	26,868,155
Company				
Cash	**67,708**	169,636	**–**	–
Net Cash	**67,708**	169,636	**–**	–

FAIR VALUE OF BORROWINGS AND CASH, CASH EQUIVALENTS

Fair value for cash, cash equivalents, other receivables, trade payables and other accruals (and inter-group amounts for the Company) approximates book value due to their short maturities. An analysis of book values of the Group's and Company's financial assets and liabilities as at 31 December is as follows.

	Book Value	
	2018	2017
	$	$
Group		
Loans and receivables		
Cash and cash equivalents	**2,915,422**	9,507,804
Trade and other receivables	**2,105,343**	568,387
Financial liabilities at amortised cost		
Trade payables and other accruals	**(488,650)**	(2,908,812)
Net Financial Assets and Liabilities	**4,532,115**	7,167,379

	Book Value	
	2018	2017
	$	$
Company		
Loans and receivables		
Cash at bank and in hand	**67,708**	169,636
Amounts owed from group undertakings	**3,510,568**	5,855,769
Financial liabilities at amortised cost		
Trade payables and other accruals	**(136,562)**	(125,797)
Amounts owed to group undertakings	**(259,696)**	(274,250)
Net Financial Assets and Liabilities	**3,182,018**	5,625,358

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to financial risks that include the effects of changes in credit risks, liquidity, interest rates and foreign exchange rates, including market risks, to varying degrees. The Group has in place risk management policies that seek to limit the adverse effects on the financial results and condition of the Group by using various techniques.

Risk management policies have been set by the Board and applied by the Group.

(a) Credit Risk

The Group's financial assets are bank balances and cash, cash equivalents, short-term investments, and other receivables. The carrying value of these assets represents the Group's maximum exposure to credit risk in relation to financial assets. The credit risk on liquid funds is limited because the counterparties are backed by the US Government in the case of certain cash equivalents and short-term investments.

The Group's receivables are limited and primarily represent royalty receivables with no historical collections issues or tax receivable from the US Government. There are no impairment losses recognised on other financial assets for the Group.

The Group had no credit losses during the year ended 31 December 2018.

(b) Liquidity Risk

The Group does not currently maintain any borrowing facility, and meets its day-to-day working capital requirements through its cash, cash equivalents and short term investment balances. The Directors have prepared cash flow forecasts to 30 June 2020 and have determined that the Group will be able to continue to operate within its available cash throughout the period to at least 30 June 2020.

(c) Interest Rate Risk

The Group operates an interest rate policy designed to minimise risk of invested assets. As at 31 December 2018, $18.9 million for the Group and $0.1 million for the Company (2017: $33.9 million for the Group and $0.2 million for the Company) was on deposit or invested with various banks or financial institutions, and the Group had no borrowings outstanding. A 1% change in interest rates would have a minimal impact on the loss before tax for both the Group and the Company in the current year.

(d) Foreign Exchange Risk

The Group has limited transactional currency exposures as minimal purchases are made in currency other than the local currency. A 5% change in foreign exchange (US Dollar ($) against Sterling (£)) would have a minimal impact on the loss before tax for both the Group and the Company in the current year.

18 RELATED PARTY TRANSACTIONS

In 2018, Realm Therapeutics, Inc. and Realm Therapeutics plc had transactions in the ordinary course of business that took place on an arm's length basis. Payments to key management in the year are disclosed in Note 3 to the financial statements. In 2018, Dr. Gill, a Director, was paid $12,000 (2017: $36,000) by Realm Therapeutics, Inc. for consultancy services under an agreement which terminated in 2018.

19 GROUP COMPANIES

A full list of Group companies, which comprises the principal trading companies, is included in Note 13. The proportion of voting rights of subsidiaries held by the group is the same as the proportion of shares held.

20 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires management to make estimates and assumptions as well as judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Due to the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may materially vary from these estimates which could impact future reporting periods. Estimates, assumptions and judgements are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

Share-Based Payment

Charges to profit or loss, in relation to share options are based on valuation techniques (principally the Black-Scholes option pricing model). These valuation techniques require a number of assumptions to be made such as those in relation to volatility, movement in interest rates, and dividend yields as detailed in Note 11. These estimates are made on the basis of information and conditions that exist at the time of the valuation. As at 31 December 2018, if the volatility rate varied by 5% from what was utilized in the Black-Scholes model, share based payment charges would be different by approximately $1,000.

Investment in Subsidiary Impairment Evaluation

The Company holds investments in subsidiary companies and amounts due from group undertakings. The Directors have reviewed the carrying value of investments and intergroup amounts due compared to the recoverable amount which is assumed to be total cash and cash equivalent balances. The recoverable amount was less than the carrying amount of investment in subsidiary companies and amounts due from Group undertakings; therefore, an impairment of $20.8 million, including foreign exchange movement, was recognised in 2018. The recoverable amount was impacted as the Group began to explore strategic alternatives rather than further developing its clinical programs. The impairment may be temporary in nature and will be re-evaluated in the future.

Notes to the Financial Statements

21 CONTINGENT LIABILITIES

In connection with the sale of its Supermarket Retail business in October 2016, the Group provided customary representations and warranties. No claims related to these representations and warranties have been made and the Group is not aware of any matters which could give rise to a claim and therefore a judgement has been made that no liabilities are necessary at 31 December 2018. Due to the nature of this judgement no sensitivities have been applied.

22 POST BALANCE SHEET EVENTS

On 15 February 2019, the Company announced that it had agreed to sell certain assets for $10 million, which comprise its Vashe® wound care royalty stream, hypochlorous acid ("HOCl") related equipment, intellectual property (including know-how, patents and copyrights), program records, and certain assigned contracts and intellectual property licenses. Realm further announced its intention to delist its ordinary shares from admission to trading on AIM. The assets disposal and AIM delisting are each subject to approval by Realm shareholders, which the Company is seeking pursuant to a circular that details the background to and reasons for the proposed assets disposal and AIM delisting, and the proposed Investing Policy for adoption by the Company.

On 15 March 2019, a general meeting was held at which resolutions proposing the assets disposal, AIM delisting and investment policy adoption were approved. As further announced in March 2019, the AIM delisting was effective on 27 March 2019 and the asset disposal closed on 28 March 2019. The Investing Policy requires the Directors to examine potential strategic opportunities. The Investing Policy requires the Company to seek to invest in, partner with, acquire and/or be acquired by companies with meaningful development potential in the life sciences sector or with good overall business prospects; or, if a suitable transaction is not identified, the Company will consider winding down and distributing the remaining assets to Shareholders, following satisfaction of applicable obligations.

On 5 April 2019, the Company announced that it had received written notice from the Listing Qualifications Staff of Nasdaq indicating that, due to the fact that it sold substantially all of the Group's non-cash assets, the Staff believes the Company is a "shell company" and, as such, the continued listing of the Company's ADS on Nasdaq is no longer warranted. The Company has requested a hearing before the Nasdaq Hearings Panel (the Panel), which request will stay any suspension or delisting action by Nasdaq pending the outcome of the hearing. At the hearing, the Company will have the ability to present its plan to evidence compliance with all applicable requirements for listing on Nasdaq, and to request an extension within which to do so. Although the Company is taking steps to satisfy the applicable listing criteria, there can be no assurance that the Panel will grant the Company's request for continued listing or that the Company will be able to evidence compliance with the applicable listing rules within any extension period that may be granted by the Panel.

Ultimate Parent Company

This set of financial statements is the largest and smallest group of which the Company is a member, and for which consolidated accounts are prepared. Copies of these consolidated financial statements can be obtained from the registered office address of c/o CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London EC4N 6 AF, UK.

realm THERAPEUTICS plc

Corporate Information

Directors
Charles Spicer (Chairman)
Alex Martin (Chief Executive Officer)
Joseph William Birkett (Senior Independent Non-Executive)
Balkrishan (Simba) Gill (Independent Non-Executive)
Ivan Gergel (Independent Non-Executive)
Marella Thorell (Chief Financial Officer and Chief Operating Officer)
Sanford (Sandy) Zweifach (Independent Non-Executive Director)

Registered office
c/o CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place
78 Cannon Street
London
EC4N 6AF

Company secretary
Marella Thorell

Solicitors to the Company
Cooley (UK) LLP
Dashwood
69 Old Broad Street
London
EC2M 1QS

Headquarters:
Realm Therapeutics, Inc.
267 Great Valley Parkway
Malvern, PA 19355
USA

Tel: +1.484.321.2700
Fax: +1.484.321.2725

Auditors
KPMG LLP
One St Peters Square
Manchester
M2 3AE

Registrar
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Company website
www.realmtx.com