2017 ANNUAL REPORT

Contents

Business Highlights

Submitted an Investigational New Drug (IND) application for PR022, a topical gel, for the treatment of Atopic Dermatitis, and received clearance from the US Food and Drug Administration (FDA) to move directly into a Phase 2 clinical study which was initiated in December 2017.

Submitted an IND application for PR013, a topical ophthalmic solution, for the treatment of Allergic Conjunctivitis, and received clearance from the FDA to move directly into a Phase 2 clinical study which was initiated in December 2017.

Completed a private placement, raising gross £19.3 million and attracting several leading specialist healthcare investors, including OrbiMed, BVF, RA Capital, Abingworth and Polar Capital, to the Company in October 2017.

In November 2017, the peer review journal *Clinical & Experimental Allergy*, published an article demonstrating PR022's ability to prevent the development of Atopic Dermatitis-like lesions, reduce existing lesions and associated scratching, and reduce the inflammatory response. PR022 demonstrated immunomodulatory effects without the immunosuppressive impact of steroids, the current standard of care.

Financial Highlights

$33.9 million
Cash, cash equivalents, and short-term investments available for sale as at 31 December 2017 (2016: $21.4m)

£19.3 million ($25.4 million)
Gross proceeds from the completion of a private placement in October 2017

$10.5 million
Loss from continuing operations* (2016: $7.3m loss) reflecting higher R&D investments

Realm Therapeutics plc is the Company and the Group represents the Company and its subsidiaries.

**Continuing operations comprise the Group's drug development activities, the out-licensing of the Wound Care business, and the operations of Realm Therapeutics plc.*

Post-period Events

In March 2018, we ceased clinical development of PR013 for Allergic Conjunctivitis, which has a different immunologic pathology to Atopic Dermatitis, following results of the Phase 2 clinical trial which did not demonstrate efficacy.

In May 2018, we announced the confidential submission of a registration statement to the US Securities and Exchange Commission (SEC) in connection with a proposed listing of American Depositary Shares (ADSs) representing the Company's ordinary shares on the Nasdaq Global Market (Nasdaq). The registration statement was submitted to facilitate the creation of a trading market in the US for ADSs representing the Company's ordinary shares and in satisfaction of its obligations under a registration rights agreement entered into with investors who participated in the Company's October 2017 private placement. The Company is not proposing to register any new issuance of securities. The registration statement is subject to ongoing review by the SEC, and the proposed listing of ADSs is subject to approval by Nasdaq. The Company expects that its ordinary shares will continue to be admitted to trading on the AIM market of the London Stock Exchange.

Chief Executive Officer's Report

2017 was an excellent year for Realm as we successfully established ourselves as a biopharmaceutical company executing on our key milestones.

Proprietary Immunomodulatory Platform Technology

We continue to enhance our proprietary technology which is centered around stabilizing high concentrations of hyphochlorous acid (HOCl). Realm's strategic focus is to develop novel prescription medicines for immune-mediated diseases, and our proprietary formulations have demonstrated broad-spectrum immunomodulatory properties that impact both the innate and adaptive immune systems. With evidence of anti-inflammatory and anti-pruritic effects, as well as the ability to modulate key cytokines, we believe our proprietary technology has application in dermatology as well as potentially other inflammatory diseases.

PR022 for Atopic Dermatitis

Our lead product candidate, PR022, is a topical gel currently being developed for the treatment of Atopic Dermatitis. Atopic Dermatitis, commonly known as eczema, is a chronic, relapsing, inflammatory disease characterized by itchy, inflamed skin. Patients with Atopic Dermatitis are at an increased risk for secondary infections, due to the impaired function of their skin barrier, and further skin damage caused by intense itching and scratching.

In 2017, we submitted an Investigational New Drug (IND) application for PR022, and as a result of the robust data package we provided, the US Food & Drug Administration (FDA) allowed us to proceed directly into a Phase 2 clinical trial. We subsequently initiated the Company's first clinical study and are on track to report top-line results in the third quarter of 2018.

We believe PR022 has the potential to offer patients suffering from Atopic Dermatitis an alternative treatment to steroids, the current standard of care, which can have significant side effects. In November 2017, *Clinical & Experimental Allergy* published data demonstrating PR022's ability to prevent the development of Atopic Dermatitis-like lesions, reduce existing lesions and associated scratching, and reduce the inflammatory response. PR022 demonstrated immunomodulatory effects, reducing key cytokines, including IL-4 and IL-13, which are associated with Atopic Dermatitis, and reducing itch, without the immunosuppressive impact, such as weight loss and skin thinning often associated with steroids. We believe that the potentially advantageous safety profile of PR022 is particularly attractive for the treatment of Atopic Dermatitis, which has a large pediatric patient population.

Atopic Dermatitis represents a large market opportunity, with growing prevalence and an unmet need, affecting an estimated 20 million people in the US, including up to 20% of children and up to 3% of adults. Analysts project the US market for Atopic Dermatitis treatments, excluding steroids, to grow to $5 billion by 2022 and we estimate that PR022 has the potential to be a $1 billion product in the US alone.

Additional Indications

We believe the anti-inflammatory and immunomodulatory properties of Realm's proprietary technology provide ample scientific rationale for exploring other indications.

We are developing RLM023 for Acne Vulgaris (common Acne), which is the most common chronic skin condition affecting approximately 45 million people in the US, or 14% of the population. Analysts valued the prescription market for Acne at close to $5 billion in the US in 2017, with expectations of continued growth. Current topical treatment options for Acne have safety drawbacks, and we believe a treatment for Acne with potent antimicrobial and anti-inflammatory properties, as well as a potentially advantageous safety profile, would be welcomed by patients. We plan to file an IND application for Acne Vulgaris in the fourth quarter of 2018 and, pending FDA clearance, to initiate a Phase 2 proof of concept study in the first quarter of 2019.

In addition, we are currently evaluating our formulations for the potential treatment of Psoriasis. Psoriasis is a common chronic autoimmune disorder of the skin characterized by focal formation of inflamed, raised plaques that constantly shed scales derived from excessive growth of skin epithelial cells. Psoriasis is the largest indication in dermatology with analysts estimating nearly $6 billion in sales in the US in 2017, primarily attributable to biologics. We believe that a topical alternative would be attractive to patients.

PR013 for Allergic Conjunctivitis

In March 2018, we announced that in a Phase 2 clinical trial for Allergic Conjunctivitis, an ophthalmic disease, our product candidate PR013, a topical solution, did not demonstrate efficacy. As a result, we are no longer pursuing the clinical development of PR013 in Allergic Conjunctivitis. Although these results were disappointing, Allergic Conjunctivitis has a different immunologic pathology to Atopic Dermatitis. We

remain confident in our technology's potential to deliver immunomodulatory and anti-inflammatory benefits in dermatology, and continue to believe that it has potential for application in other disease areas as well.

Planning for Realm's Future

In October 2017, we completed a private placement of £19.3 million, or $25.4 million, gross proceeds, comprising the issuance of 66.4 million ordinary shares (and warrants to subscribe for an additional 26.6 million ordinary shares) to US and UK healthcare specialist funds including OrbiMed, BVF Partners, RA Capital, Abingworth and Polar Capital, as well as certain other new and existing investors. We are extremely pleased to have the support of these leading specialist investors who believe in the potential of our proprietary technology.

We have transformed Realm into a clinical stage biopharmaceutical company and are confident in our ability to continue delivering on the milestones we have set for ourselves. We are excited about the progress we are making as well as by the opportunities we see to expand our pipeline by leveraging our existing technology and through in-licensing complementary novel therapies.

Thank you to our shareholders, employees, board members, and advisors – your support has been and remains critical to Realm's accomplishments. We look forward to continued success together.

Alex Martin
Chief Executive Officer

2 May 2018

Chief Financial Officer's Report

Realm Therapeutics is the Company and the Group represents the Company and its subsidiaries.

2017 results and 2016 continuing operations comprise the Group's drug development activities, the out-licensing of the Wound Care business, corporate costs of operating Realm Therapeutics, Inc. and costs of operating Realm Therapeutics plc. Group results described in this report reflect continuing operations, unless otherwise noted.

The Supermarket Retail (SR) business was sold in October 2016; therefore, the SR business results presented for 2016 in the Statement of Comprehensive Income are reflected as discontinued operations. The Cash Flow Statement for the period ended 31 December 2016 reflects SR results and the disposal accounting within operating and investing activities.

Financial Focus

Realm Therapeutics is a clinical stage biopharmaceutical company. The Group's financial results for the continuing operations reflect investment in pre-clinical and clinical development activities and general research and development (R&D), together with investment in business infrastructure to support these activities and the operations of Realm Therapeutics plc.

Financing

In October 2017, the Group completed a private placement with existing and new investors and issued 66.4 million units (consisting of one ordinary share and one warrant to subscribe to 0.4 ordinary shares) for net proceeds of $23.2 million after deal costs.

The Group expects its cash resources (comprising cash, cash equivalents and short-term investments), which were $33.9 million as at 31 December 2017 and $29.0 million as at 31 March 2018, to fund the current Phase 2 clinical trial for Atopic Dermatitis, the work necessary to support the filing of an Investigational New Drug (IND) application in Acne Vulgaris, an Acne Phase 2 proof of concept study and other research and development efforts. The Board is considering a variety of options to finance development of our pipeline candidates beyond these milestones and to evaluate other potential therapeutic areas.

Revenues

Revenues in 2017, comprising Wound Care royalties, were $1.1 million (2016: $0.9m primarily royalties) reflecting contract minimums.

Operating Expenses

Operating expenses from continuing operations increased to $11.8 million (2016: $8.1m) reflecting advancement of two of the Group's candidates into clinical development. Investment in R&D increased to $8.2 million (2016: $5.0m) primarily due to pre-clinical and clinical development cost, toxicology studies and regulatory support as two IND applications were filed and thereafter two Phase 2 clinical trials (for PR022 and PR013) were initiated during the year. G&A spending increased to $3.6 million (2016: $3.0m) primarily due to the fact that $1.0 million of overhead costs, were allocated to the discontinued operations in 2016 with none being allocated in 2017.

Loss from Continuing Operations

Loss from continuing operations was $10.5 million (2016: $7.3m), primarily due to greater investment in R&D as noted above.

Cash Flow

Cash, cash equivalents and short- term investments available for sale as at 31 December 2017 were $33.9 million (as at 31 December 2016: $21.4m). Net cash used in operating activities of continuing operations was $9.5 million (2016: $4.9m for continuing and discontinued operations) primarily attributable to loss from continuing operations offset by non-cash charges and changes in working capital.

In 2017, net cash proceeds of $23.2 million (after deal costs) were realized from the issuance of ordinary shares and warrants to subscribe for ordinary shares in the private placement.

In 2016, net cash proceeds of $11.8 million were realized from the sale of the Supermarket Retail business (after accounting for costs paid) and $1.1 million was used in 2017 for the payment of disposal costs which were accrued at 31 December 2016. The Group used $0.2 million in 2017 (2016: $0.8m for continuing and discontinued operations) to purchase fixed assets. The Group had no outstanding debt as at 31 December 2017 or 2016.

Marella Thorell
Chief Financial Officer and Chief Operating Officer

2 May 2018

Strategic Review and Key Performance Indicators

Strategy

Realm Therapeutics is focused on the development of novel, prescription treatments for immune mediated diseases in adults and children. Our pipeline of product candidates is initially focused on dermatological indications. Our lead candidate, PR022, is in a Phase 2 clinical study while other potential candidates and indications are in earlier stages.

We have identified KPIs that the Board believes will chart progress related to our strategic focus:

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

In 2017, these milestones and achievements were as follows:

- Submission of PR022 (Atopic Dermatitis) IND (Investigational New Drug) application – achieved
- Submission of PR013 (Allergic Conjunctivitis) IND application - achieved
- Initiation of PR022 Phase 2a clinical trial - achieved
- Initiation of PR013 Phase 2b clinical trial – achieved

For 2018, development milestones are as follows:

- Complete PR013 Phase 2b clinical trial
- Complete PR022 Phase 2a clinical trial
- Submit RLM023 (Acne Vulgaris) IND application

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

- Cash, cash equivalents, and short-term investments as at 31 December 2017 were $33.9 million. It is estimated that the Group has sufficient funds to conduct the initial Phase 2 clinical studies in PR022 and PR013, complete the work necessary to submit an IND application for Acne Vulgaris and conduct a Phase 2 clinical study for Acne, assuming that upon IND application submission and pending FDA clearance, the Group is able to proceed directly into a Phase 2 proof of concept study.
- An increase in operating cash outflow is planned for 2018 reflecting advancement of clinical development and general Research and Development activities.

Risks and Uncertainties

The Group operates in the inherently uncertain environment of drug development and with minimal revenue streams and significant cash investments necessary to advance the Group's strategy. Among the developments in 2018 which are reflected in the risks are the results of the Group's Phase 2 clinical study of PR013 and the announcement of the confidential submission of a registration statement to the SEC in connection with the proposed listing of ADSs representing ordinary shares of the Company on Nasdaq, which is currently under review by the respective organizations.

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 financial or operational results to differ materially from those contained in any forward-looking statements.

Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

RISKS RELATING TO THE GROUP'S BUSINESS AND DRUG DEVELOPMENT STRATEGY

We have incurred significant losses and negative cash flow since our inception. We expect to incur losses over the next several years and may never achieve or maintain profitability.

We are a clinical stage drug development company. Since inception, we have incurred significant net losses and negative cash flows from operations. We incurred net losses from continuing operations of $10.5 million and $7.3 million and negative cash flows from continuing operations of $9.5 million and from continuing and discontinued operations of $4.9 million for the years ended 31 December 2017 and 2016, respectively. As at 31 December 2017, we had an accumulated deficit of $184.4 million. We have no pharmaceutical products approved for commercialization from which to generate revenue, and our only source of revenue is the royalty stream from the out-licencing of our Wound Care product, which in 2017 was $1.1 million. We expect to continue to incur significant expenses and operating losses over the next several years. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase substantially as we:

- continue our ongoing clinical trials evaluating PR022 for the treatment of Atopic Dermatitis, or AD, as well as initiate and complete additional clinical trials, as needed;
- continue development of and pursue regulatory approvals for our product candidates for the treatment of Acne and Psoriasis;
- seek to develop additional product candidates based upon our proprietary technology;
- ultimately establish a commercialization infrastructure and scale up external manufacturing and distribution capabilities to commercialize any product candidates for which we may obtain regulatory approval;
- seek to in-license or acquire additional product candidates for development;
- adapt our regulatory compliance efforts to incorporate requirements applicable to marketed products;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, manufacturing, scientific, operational, financial, information technology and other personnel; and

To become and remain profitable, we must succeed in developing and eventually commercializing product candidates that generate significant revenue. This will require us to be successful in a range of challenging activities, including completing pre-clinical testing and clinical trials of our product candidates, obtaining regulatory approval, and manufacturing, marketing and selling any product candidates for which we may obtain regulatory approval, as well as discovering, developing and / or acquiring additional product candidates. We may never succeed in these activities and, even if we do, may never generate revenue that is significant enough to achieve profitability.

In cases where we are successful in obtaining regulatory approval to market one or more of our product candidates, our revenue will be dependent, in part, upon the size of the markets in the territories for which we gain regulatory approval, the accepted price for the product, the ability to obtain coverage and reimbursement, our label claims, and whether we own the commercial rights for that territory. If the number of our addressable patients is not as significant as we estimate, the indication approved by regulatory authorities is narrower than we expect, or the treatment population is narrowed by competition,

physician choice or treatment guidelines, we may not generate significant revenue from sales of such products, even if approved.

Because of the numerous risks and uncertainties associated with product development, we are unable to accurately predict the timing or amount of expenses or when, or if, we will be able to achieve profitability. If we are required by regulatory authorities to perform studies in addition to those expected, or if there are any delays in the initiation and completion of our clinical trials or the development of any of our product candidates, our expenses could increase.

Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress the value of the Company and could impair our ability to raise capital, expand our business, maintain our development efforts, obtain product approvals, diversify our offerings or continue our operations. A decline in the value of our Company could also cause you to lose all or part of your investment in our ordinary shares and proposed ADSs representing our ordinary shares.

We will be required to raise additional capital to support our drug development strategy, which may cause dilution to or adversely affect the rights of holders of proposed ADSs representing our ordinary shares and our ordinary shares, restrict our operations or require us to relinquish rights to our technologies or product candidates.

We had cash, cash equivalents and short-term investments of $33.9 million as at 31 December 2017 (and $29.0 million as at 31 March 2018). The costs associated with developing, testing and obtaining regulatory approval for drugs are significant, and the timelines for obtaining regulatory approvals for drugs are lengthy and uncertain. We expect to continue to incur significant expenses and operating losses over the next several years associated to support our clinical development program, the costs of which are subject to the factors set forth in the preceding risk factor. The following factors, among others, may cause our future funding requirements to be greater than anticipated or to accelerate the need for funds:

- unforeseen developments during pre-clinical trials, including toxicology studies;
- unfavorable or unexpected events related to or the outcomes of clinical trials, including delays in enrollment;
- delays in the timing of receipt of required regulatory approvals or clearances for next phases of clinical trials;
- broader than anticipated safety or efficacy trials imposed by regulators;
- unanticipated expenses in research and development;
- unanticipated expenses or delays in the manufacture of clinical trial material;
- the success or failure of existing or potential new therapies for the treatment of diseases being targeted by us;
- unanticipated expenses in defending or fortifying intellectual property rights;
- lack of financial resources to adequately support operations;
- the need to respond to technological changes and competition;
- unforeseen problems in attracting and retaining qualified personnel;
- claims that might be brought in excess of our insurance coverage;
- warranty claims related to the sale of our Supermarket Retail business in October 2016; or
- imposition of penalties for failure to comply with regulatory guidelines.

Until such time, if ever, as we can generate substantial product revenues, we may finance our cash needs through securities offerings, debt financings, license and collaboration agreements, or other capital raising transactions. If we raise capital through equity securities offerings, your equity interest ownership in our Company will be diluted, and the terms of the securities that we issue in such transaction may include liquidation or other preferences that adversely affect your rights as a holder of proposed ADSs representing our ordinary shares or of our ordinary shares. Debt financing, if available, could result in fixed payment obligations, and we may be required to agree to certain restrictive covenants, such as limitations on our ability to incur additional debt, to acquire, sell or license intellectual property rights, to make capital expenditures, to declare dividends, or other operating restrictions. If we raise additional funds through collaboration or licensing agreements, we may have to relinquish valuable rights to our technologies, future revenue streams, or product candidates or grant

licenses on terms that may not be favorable to us. In addition, we could also be required to seek funds through arrangements with collaborators or others at an earlier stage than otherwise would be desirable. Raising additional capital through any of these or other means could adversely affect our business and the holdings or rights of our security holders, and may cause the market price of proposed ADSs representing our ordinary shares or our ordinary shares to decline.

All of our current product candidates contain the same active pharmaceutical ingredient, or API, which was also the API in our former product candidate for the treatment of Allergic Conjunctivitis, or AC, which did not demonstrate efficacy in its Phase 2 clinical trial.

Hypochlorous acid, or HOCl, based on our proprietary platform technology is the API in all of our current product candidates. Since our current pipeline does not contain product candidates other than those with HOCl as the API, we may be limited in our future product development efforts unless we in-license or acquire additional product candidates, products or technologies, which in any such case could be costly and / or unsuccessful. In March 2018, we announced that our Phase 2 clinical trial of PR013, a product candidate designed as a topical solution for AC, an ophthalmic disease, did not demonstrate efficacy. As a result, we are no longer pursing the clinical development of PR013. While we believe that there are significant differences between our Phase 2 clinical trials in AC and AD, PR013 contains the same API, as the other product candidates in our pipeline. There could be an actual or perceived impact on the likelihood of our other product candidates to be successful in their clinical trials. If the failure of our AC Phase 2 clinical trial is indicative of an underlying inefficacy of HOCl for indications other than AC, it could have a material adverse effect on the other product candidates in our pipeline and on our business, more generally.

HOCl is inherently unstable, which may affect the marketability of our product candidates.

HOCl is formed from the dissolution of chlorine in water. The form of chlorine changes from Cl2 to HOCl to OCL- depending on the pH of its environment. HOCl is the form in which chlorine predominantly exists at a pH range of 4.0 to 6.5. This presents a challenge to the stability, and therefore the marketability, of our product candidates. While we have been granted patents regarding the stabilization of HOCl, there can be no assurance that we will be able to develop and manufacture one or more formulations of HOCl that provide a sufficient shelf-life for the commercialization of product candidates based on such technology. To achieve a commercially viable shelf-life for such product candidates may require a significant investment of money and resources, as well as time to develop, test and potentially patent, new formulations and packaging designs. Cold-chain maintenance may also be required to be instituted in the drug supply chain in order to maintain the necessary shelf life in order for our product candidates, if and when approved, to be competitive in the marketplace. Additionally, we may not be able to achieve a shelf-life comparable to the products of our competitors, which could result in higher costs to manufacture and distribute our products.

We only have one product candidate, PR022, in clinical trials at this time.

Our lead product candidate, PR022, is currently undergoing a Phase 2 clinical trial, from which we expect to report top-line data in the third quarter of 2018. Unsuccessful trial results would have a material adverse effect on the potential viability of PR022 as a product for the treatment of AD. In addition, given this concentration of clinical development risk in a single product candidate, unsuccessful trial results could also have a material adverse effect on the trading value of our ordinary shares and proposed ADSs representing our ordinary shares and our potential to develop the other product candidates in our pipeline due to the actual or perceived impact on the likelihood of our other product candidates being successful in prospective clinical trials.

Our current product candidate pipeline is focused solely on dermatological indications.

All of the candidates currently in our clinical development pipeline are targeted topical treatments for dermatological conditions. This focus on a particular subset of indications may not be sufficiently diversified to manage the risk that the failure of any specific clinical trial may implicate the prospective viability of the other product candidates in our clinical development pipeline. Furthermore, we may not be able to identify other therapeutic areas for which our platform technology has potential utility. If our efforts to develop our HOCl platform technology in dermatology are unsuccessful, and we are not able to pursue alternate indications, our business will be materially adversely affected.

In addition, we are aware of recent high profile failures of products in clinical trials for AD and Acne, which

could negatively influence investor confidence in the ability of companies to develop new drugs for these indications and, therefore, their willingness to further invest in products being developed to treat AD or Acne.

It is not uncommon in any trial, but particularly in dermatology trials, for the placebo to demonstrate some level of efficacy, making it more difficult to demonstrate a clinically meaningful or statistically significant difference between the drug and placebo response, which is one of the key measures for determining success in a clinical trial. If we are not able to determine clinically meaningful or statistically significant responses in clinical trials of our product candidates, it will have a material adverse effect on our ability to obtain regulatory approvals to market our product candidates.

Clinical product development involves a lengthy and expensive process, with an uncertain outcome. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

In clinical development, the risk of failure for product candidates is high. It is impossible to predict when or if any of our product candidates will prove effective or safe in humans or will receive regulatory approval. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we must complete pre-clinical testing and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans.

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. 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 biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier trials. Our 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.

We have not completed all clinical trials required for the approval of any of our product candidates and we cannot assure you that any clinical trial that we are conducting, or may conduct in the future, will demonstrate adequate efficacy and safety to obtain regulatory approval to market our product candidates. We may experience numerous unforeseen events during or as a result of clinical trials that could delay or prevent our ability to receive marketing approval or commercialize our product candidates, including:

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- we may experience delays in reaching, or fail to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites or prospective contract research organizations, or CROs, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- clinical trials of our product candidates may produce negative or inconclusive results, including failure to demonstrate statistical significance, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs;
- the number of patients required for clinical trials of our product candidates may be larger than we anticipate, enrolment in these clinical trials may be slower than we anticipate or participants may drop out of these clinical trials or fail to return for post-treatment follow-up at a higher rate than we anticipate;
- our product candidates may have undesirable side effects, cause adverse events, or AEs, or other unexpected characteristics, causing us or our investigators, regulators or institutional review boards to suspend or terminate the trials and in the case of AEs for us to incur losses as a result of claims, actions or settlements;

- our current or future third party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;
- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical development for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;
- the cost of clinical trials of our product candidates may be greater than we anticipate; and
- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient, delayed or inadequate.

We could also encounter delays if a clinical trial is suspended or terminated by us, by the institutional review boards of the institutions in which such trials are being conducted, by the data safety monitoring board for such trial or by the FDA or other regulatory authorities. Such authorities may impose such a suspension or termination due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a product, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. If we experience delays in the completion of, or termination of, any clinical trial of our product candidates, the commercial prospects of our product candidates will be harmed, and our ability to generate product revenues from any of these product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and jeopardize our ability to commence product sales and generate revenues. Any of these occurrences may harm our business, financial condition and prospects significantly.

There are also a number of factors particular to the clinical development of our product candidate pipeline that could affect the timing and cost of development of our product candidates. The toxicology studies necessary to support the submission of a New Drug Application, or NDA, for all of our product candidates have not yet been conducted and there is no certainty as to the outcome of these studies. In addition, the toxicology studies necessary to support the submission of an IND for our product candidates in development for the treatment of Acne or Psoriasis have not been completed and there is no certainty as to the outcome of these studies. In determining that we could complete a proof-of-concept study in Acne based on our currently available cash resources, we have made the key assumption that the FDA will permit us to skip a Phase 1 study. If it is necessary for us to conduct a Phase 1 study for RLM023 for the treatment of Acne, then it will take longer and cost more than we currently expect to spend on the clinical development of this product candidate, and we may not have sufficient resources to complete the proof-of-concept study. Finally, many of the therapeutic areas being targeted by our pipeline candidates have a significant pediatric patient population. Clinical trials and commercialization of products involving a pediatric population carry a higher degree of risk than they otherwise would, given the potential liability associated with AEs involving children.

In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates. If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our product candidates or other testing, if the results of these trials or tests are not favorable or if there are safety concerns, we may:

- be delayed in obtaining marketing approval for our product candidates;
- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings;
- be subject to additional post-marketing testing requirements; or
- have the product removed from the market after obtaining marketing approval.

Our product development costs will also increase if we experience delays in testing or marketing approvals. We do not know whether any of our pre-clinical studies or clinical trials will begin as planned, will need to be restructured or will be completed on schedule,

or at all. Significant pre-clinical study or clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do and impair our ability to successfully commercialize, or receive approval for, our product candidates.

Even if any of our product candidates receive marketing approval, they may fail to achieve the degree of market acceptance by physicians, patients, third party payors and others in the medical community necessary for commercial success.

If any of our product candidates receive marketing approval, they may nonetheless fail to gain sufficient market acceptance by physicians, patients, third party payors and others in the medical community. If our product candidates do not achieve an adequate level of acceptance, we may not generate significant revenue and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

- the efficacy, safety and potential advantages of any of our product candidates compared to alternative treatments;
- our ability to offer our products for sale at competitive prices;
- the stability, shelf life, convenience and ease of storage and administration compared to alternative treatments;
- the willingness of the target patient population to try new treatments and of physicians to prescribe these treatments;
- our ability to hire and retain a sales force in the US, or to engage one or more third party distributors for our products;
- the strength of marketing and distribution support;
- the availability of third party coverage and adequate reimbursement for PR022 and any other product candidates;
- the prevalence and severity of any side effects; and
- any restrictions on the use of our products together with other medications.

If we are unable to establish sales, marketing and distribution capabilities for PR022 or any other product candidate that may receive regulatory approval, we may not be successful in commercializing those product candidates if and when they are approved.

We do not have sales or marketing infrastructure. To achieve commercial success for PR022 and any other product candidate for which we may obtain marketing approval, we will need to establish a sales and marketing organization or to engage one or more third party distributors for our products. In the future, we expect to build a focused sales and marketing infrastructure to market or co-promote some of our product candidates in the US, if and when they are approved. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force is expensive and time consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel. If we are unable to establish our own sales, marketing and distribution capabilities and are forced to enter into arrangements with, and rely on, third parties to perform these services, our revenue and our profitability, if any, are likely to be lower than if we had developed such capabilities ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell, market and distribute our product candidates or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

Even if we obtain regulatory approval for PR022 or any other product candidates, such product candidates will remain subject to ongoing regulatory oversight.

Even if we obtain any regulatory approval for PR022 or any other product candidates, such product candidates will be subject to ongoing regulatory requirements for

manufacturing, labeling, packaging, storage, advertising, promotion, sampling, record-keeping and submission of safety and other post-market information. Any regulatory approvals that we receive for PR022 or any other product candidates may also be subject to Risk Evaluation and Mitigation Strategies, or REMS, limitations on the approved indicated uses for which the drug may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase 4 trials, and surveillance to monitor the quality, safety and efficacy of the drug.

In addition, drug manufacturers and their facilities are subject to payment of user fees and continual review and periodic inspections by the FDA and other regulatory authorities for compliance with Current Good Manufacturing Practices, or cGMP, requirements and adherence to commitments made in the NDA or foreign marketing application. If we, or a regulatory authority, discover previously unknown problems with a drug, such as Adverse Events, or AEs, of unanticipated severity or frequency, or problems with the facility where the drug is manufactured or if a regulatory authority disagrees with the promotion, marketing or labelling of that drug, a regulatory authority may impose restrictions relative to that drug, the manufacturing facility or us, including requesting a recall or requiring withdrawal of the drug from the market or suspension of manufacturing.

If we fail to comply with applicable regulatory requirements following approval of PR022 or any other product candidates, a regulatory authority may:

- issue an untitled letter or warning letter asserting that we are in violation of the law;
- seek an injunction or impose administrative, civil or criminal penalties or monetary fines;
- suspend or withdraw regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve a pending NDA or comparable foreign marketing application (or any supplements thereto) submitted by us or our strategic partners;
- restrict the marketing or manufacturing of the drug;
- seize or detain the drug or otherwise require the withdrawal of the drug from the market;
- refuse to permit the import or export of product candidates; or
- refuse to allow us to enter into supply contracts, including government contracts.

Any government investigation of alleged violations of law could require us to expend significant time and resources in response and could generate negative publicity. The occurrence of any event or penalty described above may inhibit our ability to commercialize PR022 or any other product candidates and harm our business, financial condition, results of operations and prospects.

We may not be successful in our efforts to increase our pipeline, including by pursuing additional indications for our current product candidates, identifying additional indications for our proprietary platform technology or in-licensing or acquiring additional product candidates for dermatological or other indications.

A key element of our strategy is to build and expand our pipeline of product candidates, including by developing our HOCl platform technology for the treatment of additional indications. In addition, we intend to in-license or acquire additional product candidates for dermatological and other indications. We may not be able to develop or identify product candidates that are safe, tolerable and effective. Even if we are successful in continuing to build our pipeline, the potential product candidates that we identify, in-license or acquire may not be suitable for clinical development, including as a result of being shown to have harmful side effects or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance.

The success of PR022 and our other product candidates will depend significantly on adequate reimbursement.

Our product candidates have neither been approved for reimbursement, nor have reimbursement rates for our product candidates been determined by commercial or government payors in the US or elsewhere, since all of our product candidates remain in clinical development. Our success will depend in part on adequate reimbursement by such payors for PR022 for the treatment AD and of our other product candidates for their respective indications. Third party payors determine which treatments they will cover and establish reimbursement levels. Even if a third party payor covers a particular treatment, the reimbursement rate therefor may not be adequate. Reimbursement by a third party payor may depend upon a number of factors including whether a treatment is appropriate for the specific patient; is cost-effective; is supported

by peer-reviewed medical journals; and is included in clinical practice guidelines. In addition, since we are pursuing clinical development of product candidates in AD, Acne and Psoriasis and given that low-cost, and often generic, steroids are one of the standards of care in each of the these three indications, payors could require step-through therapy with steroids before reimbursing a patient for our product candidates, if and when they are approved for marketing, or the low price point of these alternative steroid treatments could result in pricing pressure on our product candidates, which would have a material adverse effect on our business and financial results. Furthermore, the payor reimbursement, competition and pricing in these three indications are different. Since our product candidates are all based on the same API, we may not be able to develop products for the three different indications that are sufficiently differentiated in their formulation such that we would be able to market and price them differently or, even if we did, that clinicians won't prescribe the least-cost formulation for their patients among these different indications. This could result in price pressures across our planned portfolio of products, which would have a material adverse effect on our business and financial results.

Healthcare legislative reform measures may have a negative impact on our business and results of operations.

In the US, there have been, and continue to be, legislative and regulatory developments regarding the healthcare system that could prevent or delay marketing approval of our product candidates, restrict or regulate post-approval activities, and affect our ability to profitably sell any product candidates for which we obtain marketing approval. Additionally, there has been heightened governmental scrutiny in the US of pharmaceutical pricing practices in light of the rising cost of prescription drugs and biologics. Such scrutiny has resulted in several recent congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for products. While any proposed measures will require authorization through additional legislation to become effective, Congress and the Trump administration have each indicated that they will continue to seek new legislative and / or administrative measures to control drug costs. At the state level, legislatures are increasingly passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability or successfully commercialize our drugs.

We are subject to significant competition in the indications that we are pursuing and also with respect to our underlying HOCl platform technology.

We currently rely on our HOCl technology platform as the source of the product candidates in our clinical development pipeline. Our HOCl technology platform is subject to competition from other companies whose technology may offer advantages in terms of safety, efficacy or cost. Competitors may also precede us in commercializing, developing and receiving regulatory approval for products developed based on such technology. As a result, our products may not be competitive or available in the market in a timely manner, which could have a material adverse effect on our business by limiting the potential for sales of our products or creating pricing pressure for our products, if and when they are approved for marketing.

We face competition with respect to our current product candidates, and will face competition with respect to any product candidates that we may seek to develop or commercialize in the future, from many different sources, including major pharmaceutical and specialty pharmaceutical companies, academic institutions and governmental agencies and public and private research institutions. We are aware of a significant number of commercialized products as well as products in development in each of the three therapeutic areas that we target in our clinical development pipeline, which could result in a significantly greater field of competition by the time our products are approved and thereafter commercialized. We consider PR022's prospective competitors for the treatment of AD to be topical steroids; Crisaborole topical PDE-4 inhibitor; and Dupilumab, an injectable IL-4 and IL-13 inhibitor for moderate to severe AD. Certain calcineurin inhibitors, such as Elidel, are also prescribed for the treatment of AD. Standard treatments for Acne include antibiotics, antibacterials, retinoids and oral contraceptives. There are a number of treatments for Psoriasis on the market, including biologics, topical therapies such as corticosteroids or

vitamin D, as well as systemic immunosuppressive drugs, or phototherapy.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than PR022 or any other product that we may develop. Our competitors also may obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for our product, which could result in our competitors establishing a strong market position before we are able to enter the market or could result in the approval of our product being delayed until the expiration of any new chemical entity exclusivity or other regulatory exclusivity received by such competitor.

We are also aware of other companies that manufacture, market and / or sell HOCl or chlorine based products at different concentrations and formulations and for different indications than we target. Some of these products are sold over-the-counter, or OTC. If we demonstrate clinical efficacy in our trials with our HOCl based products, these other companies could use our results to promote their products as having the same or similar efficacy as our products. If successful, they may offer their products at a lower cost for the same indications, or they may seek to convince clinicians, patients or payors that their products are a good alternative to our products. If these OTC companies are successful in such efforts, our ability to market our products, if and when approved, may be limited.

Many of the companies against which we are competing, or against which we may compete in the future, have significantly greater financial resources and expertise in research and development, manufacturing, pre-clinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or that may be necessary for, our programs.

We are dependent on third parties to support our drug development efforts.

We currently utilize one contract manufacturer for our API and a separate contract manufacturer for PR022. We do not have long-term supply agreements in place with these contract manufacturers. These contract manufacturers may not be able to scale-up sufficiently to meet our requirements for material needed for our pre-clinical studies and clinical trials and potentially for commercialization of PR022 and our other product candidates, and they may not be have the capacity, ability or willingness to manufacture multiple product candidates within our required timeframe. In addition, like many development stage drug companies with small internal teams, we have partnered with third parties in relation to development efforts, clinical trial material manufacturing, pre-clinical / safety studies, analytical studies and regulatory support. As such, we are dependent on a few key partners to deliver equipment, services and products on specified timelines and costs in order to meet our development plans. In some cases, it may be necessary to dual source goods and services in order to meet timelines or other requirements, resulting in additional costs. Finally, we source a critical element of our manufacturing equipment from one supplier, so if a replacement or additional part is needed, we are reliant on that supplier to provide the component on a timely basis and in the required timeframe. The supplier's inability to meet these requirements could have a material adverse effect on the timeline, cost and viability of our clinical development program.

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

We rely on small management and research and development teams. In particular, we rely on the efforts of our Chief Executive Officer, Alex Martin, our Chief Financial Officer and Chief Operating Officer, Marella Thorell, and our Chief Medical Officer, Dr. Christian Peters. While we have entered into employment agreements with certain executive officers, each of these employees may terminate their employment with us at any time. We do not maintain "key person" insurance for either of these executive officers. Our scientific staff, including our Chief Medical Officer, possesses a significant amount of unregistered intellectual property or know-how regarding chlorine in general and our product candidates specifically which,

if these team members were to leave our Group, it could take a significant amount of time and money to re-build. The loss of key members of either our management or research and development teams could result in a delay of our business and strategic plans and operations or require us to incur additional costs to recruit and / or train replacements, any of which could have a material adverse effect on our business.

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

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

Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any products that we may develop.

We face an inherent risk of product liability exposure related to the testing of our product candidates in human clinical trials and will face an even greater risk if we commercially sell any products that we may develop. 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:

- decreased demand for any product candidates or drugs that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards paid to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to commercialize any products that we may develop.

We currently hold $10 million in product liability insurance coverage in the aggregate, with a per incident limit of $10 million, which may not be adequate to cover all liabilities that we may incur. We may need to increase our insurance coverage as we expand our clinical trials or if we commence commercialization of our product candidates. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

Our business and operations would suffer in the event of computer system failures, cyberattacks or a deficiency in our cybersecurity.

Despite the implementation of security measures, our internal computer systems, and those of third parties on which we rely, are vulnerable to damage from computer viruses, malware, natural disasters, terrorism, war, telecommunication and electrical failures, cyberattacks or cyber intrusions over the Internet, attachments to emails, persons inside our organization, or persons with access to systems inside our organization. The risk of a security breach or disruption, particularly through cyberattacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our product development programs. For example, the loss of clinical trial data from completed or ongoing or planned clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach was to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur material legal claims and liability, damage to our reputation, and the further development of our product candidates could be delayed.

RISKS RELATING TO INTELLECTUAL PROPERTY MATTERS

If we are unable to obtain or protect intellectual property rights related to any of our product candidates, we may not be able to compete effectively in our markets.

We rely upon a combination of patents, trade secret protection, and confidentiality agreements to protect the intellectual property related to our product candidates. The issuance, scope, validity, enforceability, strength and commercial value of patents in the pharmaceutical field involves complex legal and scientific questions and can be uncertain. Some patent applications that we own may fail to result in issued patents with claims that cover the product candidates in the US or in foreign jurisdictions. If this were to occur, early generic competition could be expected against our product candidates in development. There may be relevant prior art relating to our current or future patents and patent applications which could invalidate a patent or prevent a patent from issuing based on a pending patent application.

We have in-licensed certain intellectual property, including patents, from Dr. Vitold Bakhir relating to electrochemical cell devices for production of HOCl. While our licenses are exclusive at least within our field and require cooperation from the licensor to enforce the licensed patents, there is no guarantee that these patents will be successfully enforced against competitors, or that the licensor will fully comply with the terms of the license, including obligations relating to patent enforcement and defense of the patents. Further, we have sublicensed certain intellectual property licensed from Dr. Bakhir to Chemstar Corp. for certain unrelated fields, including rights to enforce this intellectual property in these fields. Enforcement of the intellectual property in the sublicensed fields could compromise or result in invalidation of some or all of the intellectual property sublicensed to Chemstar Corp.

The patent prosecution process is expensive and time consuming. We may not be able to prepare, file, and prosecute all necessary or desirable patent applications for a commercially reasonable cost or in a timely manner or in all jurisdictions. It is also possible that we may fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Further, there are other companies pursuing HOCl related technologies. These third parties may file patent applications or disclose concepts relevant to our technology before we are able to file our patent applications, and thus these third party patents and disclosures may constitute prior art against our patents and applications. Moreover, depending on the terms of any future in licenses to which we may become a party, we may not have the right to control the preparation, filing, and prosecution of patent applications, or to maintain or enforce the patents, covering technology in licensed from third parties. Therefore, these patents and patent applications may not be prosecuted and enforced in a manner consistent with the best interests of our business.

In addition to the protection afforded by patents, we rely on trade secret protection and confidentiality agreements to protect proprietary know-how, information, or technology that is not patentable or is difficult to patent, including processes and information relating to our manufacturing and drug development programs for which patents are difficult to enforce or would not provide a competitive advantage in our market. Although we generally require all of our employees to assign their inventions to us, and all of our employees, consultants, advisors, and any third parties who have access to our proprietary know-how, information, or technology to enter into confidentiality agreements, we cannot provide any assurances that all such agreements have been duly executed, or that our trade secrets and other confidential proprietary information will not be disclosed, or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. We also seek to preserve the integrity and confidentiality of our data and trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems. While we have confidence in these individuals, organizations and systems, agreements, or security measures may be breached, and we may not have adequate remedies for any breach. Also, if the steps taken to maintain our trade secrets are deemed inadequate, we may have insufficient recourse against third parties for misappropriating the trade secret. In addition, others may independently discover our trade secrets and proprietary information. For example, the FDA is considering whether to make additional information publicly available on a routine basis, including information that we may consider to be trade secrets or other proprietary information, and it is not clear at the present time how the FDA's disclosure policies may change in the future. Furthermore, we have sold certain of our businesses over the past few years, pursuant to which licenses were granted to the

acquirers of such businesses to utilize certain of our intellectual property rights, including rights to produce and market HOCl for particular purposes. We have also out-licensed our intellectual property to certain third parties. If the licensees do not respect the terms of such agreements, including limitations as to the field of use, then we could be adversely affected due to the loss of potential business opportunities outside the scope of those granted to the licensees, or we could be subject to non-contractual disclosure of such information. If we are unable to prevent material disclosure of the non-patented intellectual property related to our technologies to third parties, and there is no guarantee that we will have any such enforceable trade secret protection, we may not be able to establish or maintain a competitive advantage in our market, which could materially adversely affect our business, results of operations and financial condition.

We may enjoy only limited geographical protection with respect to certain patents and we may not be able to protect our intellectual property rights throughout the world.

Filing and prosecuting patent applications and defending patents covering our product candidates in all countries throughout the world would be prohibitively expensive. While we have filed patent applications in jurisdictions that we believe are important to our business, our patent position in these jurisdiction may not be the same as our position in the US. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we have patent protection, but enforcement rights are not as strong as those in the US or Europe. These products may compete with our product candidates, and our future patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

In addition, we may decide to abandon national and regional patent applications before grant. The examination of each national or regional patent application is an independent proceeding. As a result, patent applications in the same family may issue as patents in some jurisdictions, such as in the US, but may issue as patents with claims of different scope or may even be refused in other jurisdictions. It is also quite common that depending on the country, the scope of patent protection may vary for the same product candidate or technology.

While we intend to protect our intellectual property rights in our expected significant markets, we cannot ensure that we will be able to initiate or maintain similar efforts in all jurisdictions in which we may wish to market our product candidates. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate, which may have an adverse effect on our ability to successfully commercialize our product candidates in all of our expected significant foreign markets. If we encounter difficulties in protecting, or are otherwise precluded from effectively protecting, the intellectual property rights important for our business in such jurisdictions, the value of these rights may be diminished, and we may face additional competition from others in those jurisdictions.

The laws of some jurisdictions do not protect intellectual property rights to the same extent as the laws or rules and regulations in the US and Europe, and many companies have encountered significant difficulties in protecting and defending such rights in such jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets, and other intellectual property rights, which could make it difficult for us to stop the infringement of our future patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in other jurisdictions, whether or not successful, could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our future patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing as patents, and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

Some countries also have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In addition, some countries limit the enforceability of patents against government agencies or government contractors. In those countries, the patent owner may have limited remedies, which could materially diminish the value of such patents. If we are forced to grant a license to third parties with respect to any patents relevant to our business, our competitive position may be impaired.

Patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our future patents.

Our ability to obtain patents is highly uncertain because, to date, some legal principles remain unresolved, there has not been a consistent policy regarding the breadth or interpretation of claims allowed in patents in the US and the specific content of patents and patent applications that are necessary to support and interpret patent claims is highly uncertain due to the complex nature of the relevant legal, scientific, and factual issues. Changes in either patent laws or interpretations of patent laws in the US and other jurisdictions or countries may diminish the value of our intellectual property or narrow the scope of our patent protection.

Depending on actions by the US Congress, the federal courts, and the USPTO, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce patents that we have owned or licensed or that we might obtain in the future. An inability to obtain, enforce, and defend patents covering our proprietary technologies would materially and adversely affect our business prospects and financial condition.

Similarly, changes in patent laws and regulations in other countries or jurisdictions or changes in the governmental bodies that enforce them or changes in how the relevant governmental authority enforces patent laws or regulations may weaken our ability to obtain new patents or to enforce patents that we may obtain in the future. Further, the laws of some foreign countries do not protect proprietary rights to the same extent or in the same manner as the laws of the US. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the US and abroad. For example, if the issuance to us, in a given country, of a patent covering an invention is not followed by the issuance, in other countries, of patents covering the same invention, or if any judicial interpretation of the validity, enforceability, or scope of the claims, or the written description or enablement, in a patent issued in one country is not similar to the interpretation given to the corresponding patent issued in another country, our ability to protect our intellectual property in those countries may be limited. Changes in either patent laws or in interpretations of patent laws in the US and other jurisdictions or countries may materially diminish the value of our intellectual property or narrow the scope of our patent protection.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by government patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees, and various other government fees on patents and / or applications, including certain in-licensed patents, will be due to be paid to the USPTO and various government patent agencies outside of the US over the lifetime of our patents and / or applications and patent rights we may obtain or apply for in the future. We rely on our outside counsel to coordinate payment of these fees. The USPTO and various non-US government patent agencies require compliance with several procedural, documentary, fee payment, and other similar provisions during the patent application process. We employ reputable law firms and other professionals to help us comply with procedural and formal requirements relating to our patents. In many cases, an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with the applicable rules. There are situations, however, in which non-compliance can result in abandonment or lapse of the patents or patent applications, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, potential competitors might be able to enter the market, and this circumstance could harm our business.

We may be involved in lawsuits to protect or enforce our patents, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our patents. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming. If we initiate legal proceedings against a third party to enforce a patent covering one of our product candidates, the defendant could counterclaim that the patent covering our product or product candidate is invalid and / or unenforceable. In patent litigation in the US, defendant counterclaims alleging invalidity and / or unenforceability are common, and there are numerous grounds upon which a third party can assert invalidity or unenforceability of a patent. In an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. Third parties may also raise similar claims before administrative

bodies in the US or abroad, even outside the context of litigation. Such mechanisms include re-examination, post grant review, inter partes review, or IPR, and equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings). Such proceedings could be more expeditious or cost-effective for plaintiffs than a standard court proceeding, and could result in revocation of or amendment to our patents in such a way that they no longer cover our product candidates or similar products of our competitors. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we, our patent counsel, and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and / or unenforceability, we would lose at least part, and perhaps all, of the patent protection on our product candidates. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly, could put our patent applications at risk of not issuing and could have a material adverse effect on our business.

Interference or derivation proceedings provoked by third parties or brought by us may be necessary to determine the priority of inventions with respect to our patent applications. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms. Our defense of litigation or interference or derivation proceedings may fail and, even if successful, may result in substantial costs and distract our management and other employees. We may not be able to prevent misappropriation of our intellectual property rights, particularly in countries where the laws may not protect those rights as fully as in the US.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our ordinary shares and proposed ADSs representing our ordinary shares.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which could have a material adverse effect on our business.

As our current and future product candidates progress toward commercialization, the possibility of a patent infringement claim against us increases. There can be no assurance that our current and future product candidates do not infringe other parties' patents or other proprietary rights, and competitors or other parties may assert that we infringe their proprietary rights in any event. For instance, we are aware of a significant patent estate around HOCl. We may become party to, or threatened with, adversarial proceedings or litigation regarding intellectual property rights with respect to our current and future product candidates, including interference or derivation proceedings before the USPTO. Third parties may assert infringement claims against us based on existing patents or patents that may be granted in the future. There are third parties that hold significant patent estates relating to HOCl. While we do not believe these third party patent estates cover any of our technology, if we are found to infringe a third party's intellectual property rights, we could be required to obtain a license from such third party to continue commercializing our product candidates. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if a license can be obtained on acceptable terms, the rights may be non-exclusive, which could give our competitors access to the same technology or intellectual property rights licensed to us. If we fail to obtain a required license, we may be unable to effectively market product candidates based on our technology, which could limit our ability to generate revenue or achieve profitability and possibly prevent us from generating revenue sufficient to sustain our operations. Alternatively, we may need to redesign our infringing products, which may be impossible or require substantial time and monetary expenditure. Under certain circumstances, we could be forced, including by court orders, to cease commercializing our product candidates. In addition, in any such proceeding or litigation, we could be found liable for substantial monetary damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could harm our business. Any claims by third parties that we have misappropriated their confidential

information or trade secrets could have a similar negative impact on our business.

The cost to us in defending or initiating any litigation or other proceeding relating to patent or other proprietary rights, even if resolved in our favor, could be substantial, and litigation would divert our management's attention. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could delay our research and development efforts and limit our ability to continue our operations.

We may be subject to claims challenging the inventorship or ownership of our future patents and other intellectual property.

We may also be subject to claims that former employees, collaborators, or other third parties have an ownership interest in our patent applications, our future patents or other intellectual property. We may be subject to ownership disputes in the future arising, for example, from conflicting obligations of consultants or others who are involved in developing our product candidates. Litigation may be necessary to defend against these and other claims challenging inventorship or ownership. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on our business. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

RISKS RELATING TO THE GROUP'S ORDINARY SHARES AND PROPOSED ADSs REPRESENTING ORDINARY SHARES

The price of our ordinary shares or our ordinary shares may be volatile and may fluctuate due to factors beyond our control.

The trading market for publicly traded clinical stage drug development companies has been highly volatile and is likely to remain highly volatile in the future. The market price our ordinary shares may fluctuate significantly due to a variety of factors, including:

- positive or negative results from, or delays in, testing or clinical trials conducted by us or our competitors;
- technological innovations or commercial product introductions by us or competitors;
- changes in US and international government regulations;
- developments concerning proprietary rights, including patents and litigation matters;
- public concern relating to the commercial value or safety of our product candidates;
- financing events, or our inability to obtain financing, or other corporate transactions;
- publication of research reports or comments by securities or industry analysts;
- general market conditions in the biopharmaceutical and pharmaceutical industries or in the economy as a whole;
- the loss of any of our key scientific or senior management personnel;
- sales of our ordinary shares by us, our senior management and board members, or other holders of such securities in the future; or
- other events and factors, many of which are beyond our control.

These and other market and industry factors may cause the market price and demand for our ordinary shares to fluctuate substantially, regardless of our actual operating performance, which may limit or prevent investors from readily selling their ordinary shares and may otherwise negatively affect the liquidity of our ordinary shares. In addition, the stock market in general, and the equities of emerging companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies.

Future sales, or the possibility of future sales, of a substantial number of our ordinary shares could adversely affect the price of such securities.

Future sales of a substantial number of our ordinary shares, or the perception that such sales will occur, could cause a decline in the market price of our ordinary shares. As at 30 April 2018, we had 116,561,917 ordinary shares issued and outstanding.

If holders sell substantial amounts of ordinary shares in the respective public markets therefor, or if the market perceives that such sales may occur, the market price of our ordinary shares and our ability to raise capital

through an issue of equity securities in the future could be adversely affected.

Because we do not anticipate paying any cash dividends on our ordinary shares in the foreseeable future, capital appreciation, if any, will be the sole source of gains on such securities and you may never receive a return on your investment

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 intend to retain earnings, if any, for use in our business and do not anticipate paying any cash dividends in the foreseeable future. As a result, capital appreciation, if any, of proposed ADSs representing our ordinary shares or our ordinary shares are expected to be the sole source of gains on such securities for the foreseeable future.

Securities traded on AIM may carry a higher risk than securities traded on certain other exchanges, which may impact the value of your investment.

Our ordinary shares are currently traded on AIM. Investment in equities traded on AIM is sometimes perceived to carry a higher risk than an investment in equities quoted on exchanges with more stringent listing requirements, such as the main market for listed securities of the London Stock Exchange. This is because AIM imposes less stringent corporate governance and ongoing reporting requirements than these other exchanges. In addition, AIM requires only half-yearly financial reporting. You should be aware that the value of our ordinary shares may be influenced by many factors, some of which may be specific to us and some of which may affect AIM-quoted companies generally, including the depth and liquidity of the market, our performance, a large or small volume of trading in our ordinary shares, legislative changes, and general economic, political, or regulatory conditions, and that prices may be volatile and subject to significant fluctuations. Therefore, the market price of ADSs representing our ordinary shares and our ordinary shares may not reflect the underlying value of our Company.

We have confidentially submitted a registration statement to the SEC, with respect to ADSs, representing our ordinary shares, and an application to list such ADSs representing our ordinary shares for trading on Nasdaq. Subject to and upon the effectiveness of the SEC registration statement, we will become a public reporting company in the US.

We expect to incur increased costs as a result of operating as a company with securities listed in both the UK and the US subject to and upon the effectiveness of the registration statement that we have confidentially submitted to the SEC with respect to ADSs representing our ordinary shares, and our senior management team and other personnel will be required to devote substantial time to compliance initiatives and corporate governance practices resulting therefrom. U.S. laws, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of Nasdaq and other applicable securities rules and regulations, impose various requirements on public reporting companies in the US, including the establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. We initially expect to qualify for certain exemptions from reporting and corporate governance requirements accorded to "foreign private issuers" and "emerging growth companies," as such terms are defined under US securities laws; however, each such designation may be inapplicable if we fail to meet certain criteria, the effect of which would be to increase our reporting and compliance obligations under US securities laws and Nasdaq rules. We will also become subject to US federal securities law liability, and claims made thereunder could be time-consuming and costly to defend.

To date, there has been no public market for ADSs representing our ordinary shares, although our ordinary shares have traded on AIM since December 2014. We cannot predict the extent to which an active market for our proposed ADSs representing our ordinary shares would develop or be sustained after the listing of ADSs representing our ordinary shares on Nasdaq, or how the development of such a market would affect the price for our ordinary shares on AIM. The price at which our proposed ADSs representing our ordinary shares would trade on Nasdaq may or may not be correlated with the price at which our ordinary shares trade on AIM. The listing of proposed ADSs representing our ordinary shares could have the effect of increasing the volatility of the price of our ordinary shares on AIM, whether due to potential increased volume of trading of ordinary shares or due to fluctuations in the exchange rate between the currency in which the proposed ADSs representing our ordinary shares are expected to be traded (US dollars) and the currency in which our ordinary shares are traded (British pounds sterling). Furthermore, 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 our ordinary shares.

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Strategic Report Approval

The Strategic Report incorporates the Chief Executive Officer's Report, the Chief Financial Officer's Report, the Strategic Review and 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

2 May 2018

DIRECTORS' REPORT
Board of Directors

Charles Spicer

Non-Executive Chairman

Re-appointed 16 June 2016

Mr. Spicer, 53, 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.

Alex Martin

Chief Executive Officer and Executive Director

Re-appointed 16 June 2016

Mr. Martin, 50, 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 was acquired by Cosmo Pharmaceuticals S.A. He began his career at SmithKline Beecham Pharmaceuticals before joining Novartis as Vice President, Global Business Development & Licensing. Most recently, 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, 70, 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, 57, 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, 53, 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, 51, 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, 62, 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.

Committee Membership as at 31 December 2017	
Audit Committee	Mr. Birkett (Chairman), Mr. Martin, and Mr. Zweifach
Remuneration Committee	Dr. Gill (Chairman), and Dr. Gergel

Director Changes

In November 2017 it was announced that Matthew Hammond and Daniel Hegglin, who had joined the Company as Non-Executive Directors in 2010 and 2013, respectively, were stepping down from the Board to allow the addition of a life sciences industry specialist Director.

Director Interests

Details of the Director Interests can be found on beginning on page 31 within the Directors' Remuneration Report.

Director Re-election

One Director is up for re-election at the Company's Annual General Meeting to be held in June 2018.

Review of Business

A review of the business for the year ended 31 December 2017, including potential future development and activities is included within the Chief Executive Officer's Report and the Chief Financial Officer's Report set out beginning on page 2.

Results

The Group's trading loss from continuing operations for the year ended 31 December 2017 was $10.5 million (2016: $7.3m loss). The financial results are shown in the financial statements beginning on page 36.

Dividends

The Directors do not recommend the payment of a dividend (2016: $nil) at this time.

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 30 April 2018.

Registered Holding	Type	As at 30 April 2018	
		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%
Invesco Asset Management Limited, as agent for and on behalf of its discretionary managed clients	Fund Manager	**14,747,027***	12.65%
RA Capital Management, LLC	Fund Manager	**11,491,699**	9.86%
Abingworth BioEquities Master Fund Ltd.	Fund Manager	**6,384,277**	5.48%
Sussex Trading Company Limited	Owner	**6,098,880**	5.18%
Daniel Hegglin	Owner	**5,909,091**	5.07%
Oracle Management Limited	Fund Manager	**5,426,780**	4.66%
Kanton Services Limited **	Owner	**4,629,196**	3.97%

* Includes the holdings of Perpetual Income & Growth Investment Trust plc (8,442,046; 7.24%); Invesco Institutional Income & Growth Fund (2,986,769; 2.56%), Keystone Investment Trust (2,720,919 shares; 2.33%), and Invesco Perpetual UK Equity Fund (597,293 shares; 0.51%).

** 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. In October 2017, the Group completed

a private placement and issued 66.4 million units (consisting of one ordinary share and one warrant to subscribe to 0.4 ordinary shares). 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 12.

Statutory Disclosures

Regulations made pursuant to the Companies Act 2006 require the Company 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 Company. Holders of ordinary shares are entitled to receive the Company'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.

Research and Development

The Group is focused on developing novel therapeutics for immune-mediated diseases in adults and children.

The Company's lead drug development program utilize its proprietary immunomodulatory technology for the treatment of Atopic Dermatitis (PR022) and the Company is exploring its efficacy in additional dermatology indications, including Acne Vulgaris and Psoriasis as well as other potential disease areas.

The Directors believe that maintaining strong research and development efforts is essential to innovation, pre-clinical and clinical development, including formulation development, and advancing the Group's strategy.

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.

Financial Instruments

The primary risk is liquidity risk associated with the Group's strategy since significant investments will be required utilizing cash resources. The Group invests

in cash, cash equivalents and short-term investments to satisfy its short-term cash needs. See further details disclosed in Note 17.

Going Concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The Group had cash, cash equivalents and short-term investments of $33.9 million as at 31 December 2017 and $29.0 million as at 31 March 2018. While the cost, timeline for and likelihood of success of the development and regulatory approval of drugs are inherently uncertain and change over time, the Directors have prepared cash flow forecasts to 30 June 2019 based on the current pipeline of candidates. These forecasts make a number of assumptions, the most significant of which relate to the planned investment in research and development, overall operating expenses and projected royalty income. The 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 2019. Due to the fact that the some of the significant investments remain discretionary, the Directors have prepared a sensitivity to the cash flow forecasts, reflecting spending delays and deferrals, including those portions of planned spending which are not yet committed, which shows that the Group will be able to continue to operate within its available cash throughout the period to at least 30 June 2019, with greater headroom at the end of that period.

The Directors have concluded the assumptions discussed above do not cast significant doubt on the Group's and the Company's ability to continue to operate as a going concern and therefore they continued to prepare the financial statements on a going concern basis. The financial statements do not contain any adjustments that would result from the basis of preparation being inappropriate.

Annual General Meeting

The Annual General Meeting of the Group will be held at 10:00 am on Thursday, 14 June 2018, at the offices of CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London EC4N 6AF. The Notice of Annual General Meeting will be mailed to shareholders and its distribution notified.

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 Company'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 Company's Auditor is aware of that information.

Auditor

The Board of Directors re-appointed Grant Thornton UK LLP as auditor at the Annual General Meeting held in June 2017. Subsequently, following a tender process, the Board appointed KPMG LLP as auditor to undertake the 2017 audit in place of Grant Thornton UK LLP. A resolution to re-appoint KPMG LLP as auditor for 2018 will be proposed at the Company's next Annual General Meeting.

By order of the Board

Charles Spicer
Non-Executive Chairman

2 May 2018

Corporate Governance Statement

Principles of Corporate Governance

The Group is firmly committed to business integrity, high ethical values, and professionalism in its activities and operations. As an essential part of this commitment, the Board endorses the highest standards of corporate governance and is accountable to the Company's shareholders.

The role of the Board is to provide strategic leadership to the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews executives' performance. The Board ensures that its obligations to its shareholders and others are understood and met.

Statement by the Directors on Compliance with the Provisions of the UK Corporate Governance Code

The Company's shares are traded on AIM. The Company has regard to, but does not comply with, the UK Corporate Governance Code and considers the QCA Code and the Investment Association Guidelines. The Directors review the Company's corporate governance procedures on an on-going basis, having regard to the business strategy as well as the size, nature and resources of the Group, to ensure such procedures are appropriate and implemented or to make changes, as deemed appropriate.

Board Structure

The Group is currently led and controlled by a Board comprising seven Directors: the Non-Executive Chairman, the two Executive Directors, the Senior Independent Non-Executive Director, and three Independent Non-Executive Directors. All Directors are subject to re-election at least once every three years. The Board has a formal schedule of matters reserved to it and usually meets quarterly, with five Board meetings occurring in and from 1 January 2017 through 31 December 2017, not including the Annual General Meeting.

The Board is responsible to shareholders for the proper management of the Group. The differing roles of Executive Directors and Non-Executive Directors are clearly delineated, with both having fiduciary duties towards Realm Therapeutics plc. The Executive Directors are responsible for the operation of the business, whilst the Non-Executive Directors bring objective judgment to bear on Board decisions by constructively challenging management and ensuring that the strategies proposed by the Executive Directors are fully considered.

The Board is responsible for overall Group strategy, approval of major expenditures and consideration of significant financing and corporate structure matters. The Non-Executive Chairman, Mr. Spicer, is responsible for ensuring the efficient and effective working of the Board as well as for implementing the strategy of the Group and ensuring the effectiveness of executive functions. He leads the Board in the determination of the Group's long-term strategy and the achievement of its objectives. The Senior Independent Director, Mr. Birkett, is responsible for assisting the Chairman with Board meeting processes, setting agendas, as needed, presiding at meetings of the Non-Executive Directors at least once per year and meeting with shareholders and understanding their issues and concerns, as needed.

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. All Board members have access to advice of the Company Secretary.

Performance Evaluation

The performance of Executive Directors was evaluated by the Remuneration Committee.

Internal Control

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 2017 to 31 December 2017 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.

The key elements of the internal control system in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority. The Board receives periodic reports from both the Audit and Remuneration Committees.
- Management is responsible for the identification and evaluation of significant risks and for the design, implementation and monitoring of appropriate internal controls, including financial and computer systems, business operations, and compliance. Management regularly reports to the Board on the key risks inherent in the business and on the way in which these risks are managed.
- There are established procedures for planning, approving, and monitoring large expenditures, including capital expenditures, as well as processes for monitoring the Group's financial performance against approved budgets and forecasts.

During 2017, the Audit Committee has reviewed the effectiveness of the system of internal control as described above. There are no significant issues disclosed in the report and financial statements for the period ended 31 December 2017 and up to the date of approval of the report and financial statements that have required the Board to deal with any related material internal control issues.

Relations with Shareholders

The Group values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors, and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

This annual report contains a strategic review set out on page 5. Further, an interim business review is released to the public market and published on the Group's website. With these documents, the Group's press releases and conference calls, the Board seeks to present a balanced and understandable assessment of the Group's position and prospects. The Company's website at www.realmtx.com also provides information about the Group.

Realm Therapeutics maintains regular contact with institutional shareholders through one-to-one visits and briefings. Contact with major shareholders is principally maintained by the Chief Executive Officer, Chief Financial Officer, Non-Executive Chairman and Senior Independent Director who ensure that shareholder views are communicated to the Board as a whole. Private investors are encouraged to participate in the Annual General Meeting. The Non-Executive Chairman, Chief Executive Officer and Chief Financial Officer will be available to review the results and comment on current business activity at the Annual General Meeting. The Chairmen of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer shareholder questions.

The Board believes that appropriate steps have been taken during the year to ensure that the members of the Board, and in particular the Non-Executive Directors, develop an understanding of the issues and concerns of major shareholders about the Group. The Board is provided with brokers/financial advisors feedback from shareholder meetings. The Board believes that these methods are a practical and efficient way both to keep the Non-Executive Chairman and Senior Independent Director in touch with major shareholder opinion on governance and strategy and for the Senior Independent Director to learn the views of major shareholders and to develop a balanced understanding of their issues and concerns. The Senior Independent Director is available to attend meetings with major shareholders, if requested.

Board Committees

Audit Committee Statement

Membership

From 1 January 2017 through 17 November 2017, the Audit Committee comprised Mr. Birkett (Chairman), Mr. Hegglin and Mr. Martin. Upon Mr. Hegglin's resignation from the Board in November 2017, Mr. Zweifach joined the Audit Committee.

The Board believes the Committee composition is appropriate for the size of the Group, the members are well-qualified for their roles on the Committee and exercise independence in their duties. Mr. Birkett qualified with Deloitte and Touche as an auditor early in his career and has also served as chairman of the Audit Committee of an AIM listed company. Mr. Zweifach has extensive experience with a focus in corporate partnering, business development, public investing and capital raising. In addition, he has been the Managing Director/CFO of Bay City Capital.

Mr. Hegglin offered more than 30 years of experience in international finance. He was a partner at TT International, a Hong Kong investment management fund, where he was responsible for its hedge fund and Asia businesses. Mr. Hegglin was previously with Morgan Stanley in Europe and Asia for 24 years.

Committee Meetings

The Audit Committee held four meetings during 2017.

Responsibilities

The Audit Committee undertakes its activities in line with an annual pre-determined programme of business based on its terms of reference. Terms of reference for the Committee are available on request from the Company Secretary. The Audit Committee received reports from the Group's external auditors and reviewed the half-yearly and annual results presented to the Board, focusing in particular on accounting policies and areas of management judgement and estimation. The Audit Committee is responsible for monitoring the controls that are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee acts as a forum for discussion of internal control issues, including review of the enterprise risk management programme, and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes.

The Committee advises the Board on the appointment of external auditors and their remuneration for both audit and non-audit work. The Committee meets with the auditor, with and without the presence of management, and discusses the nature and scope of the audit. The Committee is responsible for overseeing the performance, as well as the independence and objectivity of the auditor.

KPMG LLP was appointed the Group's auditor in January 2018, following a tender process. Selection criteria included quality of advice and responsiveness in support of business matters, ability to complete annual audit on a timely basis, reputation, reference feedback, and fees. The Committee has recommended to the Board that KPMG LLP, be recommended to shareholders for re-appointment as the external auditor for the year ended 31 December 2018.

The Committee also advises the Board on the need for an internal audit function. The Committee has concluded that an internal audit function is not appropriate at this time given the current scale and focus of its operations.

Remuneration Committee Statement

Membership

From 1 January 2017 through 17 November 2017, the Remuneration Committee comprised Dr. Gill (Chairman), Dr. Gergel and Mr. Hammond until his resignation from the Board in November 2017.

Committee Meetings

The Committee held three meetings during 2017.

Responsibilities

The Remuneration Committee is responsible for making recommendations to the Board on the Group's framework of Executive remuneration. The Committee determines the contract terms, remuneration, and other benefits for Executive Directors including performance related cash and equity bonus schemes and performance targets, retirement plan rights, and other compensation. Terms of reference for the Committee are available on request from the Company Secretary.

The Board determines the remuneration of the Non-Executive Directors.

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.

2017 Performance

Significant progress was made during the year in achieving key clinical and financial goals. Two IND applications were submitted and cleared by the FDA to enter the clinic and trials were initiated in both Atopic Dermatitis and Allergic Conjunctivitis. Further, a private placement was completed bringing a number of new healthcare specialist funds to the Group. The Board awarded the Executive Directors bonuses in 2017 based upon their achievements.

Executive Directors' Remuneration

$'000	**Salary**		**Benefits**		**Annual & One-time Bonus[3]**		**Pension benefits[1]**		**Share Options[2]**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Mr. Martin	**370**	370	**43**	41	**278**	278	**8**	8	**–**	–	**699**	697
Ms. Thorell	**300**	300	**31**	24	**188**	250	**8**	8	**–**	–	**527**	582
Total	**670**	670	**74**	65	**466**	528	**16**	16	**–**	–	**1,226**	1,279

1 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.

2 The value for share options are zero as all grants awarded had exercise prices equal to the market price of the ordinary shares on the date of grant.

3 Ms. Thorell's 2016 amount includes a one-time bonus related to the successful sale of the Supermarket Retail business, as well as an annual bonus.

Executive Director Share Options

The following represents Executive Director share options outstanding as at 31 December 2017. Executive Directors received share option grants in December 2017, following a review of market practices and award levels for similarly situated positions.

	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; one-third became vested in June 2016 and an additional one-third became vested in June 2017.
	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.
	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. None have vested.
Ms. Thorell	February 2008(1)	17,427	£3.05	Fully vested, but expire in February 2018.
	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.
	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. None have vested.

(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 2017 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.

	Fees		Share options		Total		Notes
	2017	2016	**2017**	2016	**2017**	2016	
	$	$	**$**	$	**$**	$	
Mr. Birkett	**34,780**	36,603	**–**	–	**34,780**	36,603	
Dr. Gergel	**28,984**	–	**–**	–	**28,984**	–	
Dr. Gill	**34,780**	28,977	**–**	–	**34,780**	28,977	Dr. Gill joined the Board in March 2016
Mr. Hammond	**26,568**	30,502	**–**	–	**26,568**	30,502	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	**64,408**	67,783	**–**	–	**64,408**	67,783	
Mr. Zweifach	**2,415**	–	**–**	–	**2,415**	–	Mr. Zweifach joined the Board in December 2017
Total	**191,936**	194,367	**–**	–	**191,936**	194,367	

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 2017. Non-Executive Directors received share option grants in December 2017, following a review of market practices and award levels for similarly situated positions.

	Date of Grant	Share option grant	Exercise Price
Mr. Birkett	February 2008(1)	11,618	£3.05
	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 2017 are set out below.

	Shares owned outright	Unvested share options	Vested but unexercised share options	Total interests in shares	Share options exercised during 2017
Mr. Birkett	92,686	200,688	61,961	355,335	–
Dr. Gill	–	241,350	91,005	332,355	–
Dr. Gergel	–	251,031	–	251,031	–
Mr. Martin	248,115	2,599,626	1,715,700	4,563,441	–
Mr. Spicer	273,930	254,904	158,775	687,609	–
Ms. Thorell	50,000	1,345,109	184,093	1,579,202	–
Mr. Zweifach	–	150,000	–	150,000	–

Balkrishan (Simba) Gill

Chairman of the Remuneration Committee

2 May 2018

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company'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

2 May 2018

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 2017 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 2017 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:	$ 540,000
group financial statements as a whole	5% of Loss before tax
Coverage	100% group loss before tax

Risks of material misstatement

- Completeness of research and development accrual
- Parent company recoverable amount of investment in subsidiary

2. 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. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Completeness of research and development accrual ($1.2 million; 2016 $nil) Refer to page 50 (accounting policy) and page 74 (financial disclosures).	**Subjective Estimate** The Company has engaged two contract research organizations (CROs) to conduct clinical studies for Allergic Conjunctivitis and for Atopic Dermatitis. These contracts have specific statements of work (SOW) in relation to the studies which include cost estimates and milestone-based payment terms. Services provided by the CROs are governed by statements of work defining pricing and deliverables. At year end, the Company compares payments made to CRO against its estimate of progress made towards the completion of the related research and development activities to determine the required necessary accrual.	Our procedures included: • **Tests of detail:** Assessing CRO contracts and schedule to the statement of works to assess reasonableness of the progress made to date • **Personnel interviews:** The engagement team had communication with the project manager at each of the CRO's to corroborate our understanding of the progress made to date • **Reperformance:** Recalculation of accrued liabilities to test for mathematical accuracy
Parent Company: recoverable amount of investment in subsidiary ($36.5 million; 2016: $11.0 million) Refer to page 51 (accounting policy) and page 74 (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 there is uncertainty regarding the successful completion and the subsequent marketing of products under development. 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. This is particularly dependant on the success of the development of new products.	Our procedures included: **Our sector experience:** Evaluating the current level of trading, including identifying any indications of the future success of drug trials, by examining the 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:** comparing the carrying value of the investment to the market capitalisation of the Group at the statement of financial position date.

3. 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 $540,000 determined with reference to a benchmark of group loss before taxation, of which it represents 5%.

Materiality for the parent company financial statements as a whole was set at $500,000, 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 1.2% of the stated benchmark.

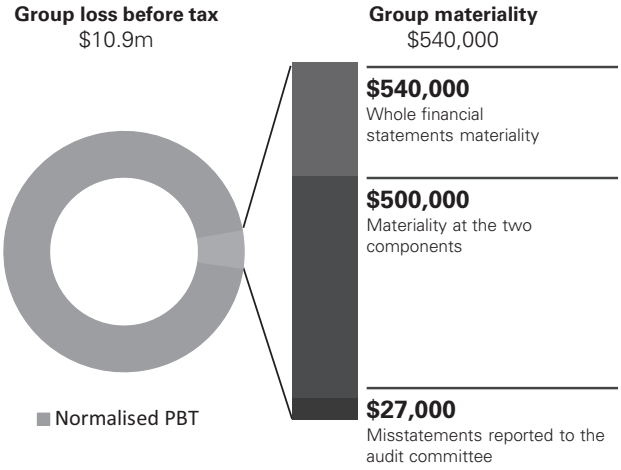
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $27,000, in addition to other identified misstatements that we believe warranted reporting on qualitative grounds.

Of the group's four 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 $500,000, having regard to the mix of size and risk profile of the Group across the components. The work on one of the four components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

The Group team reviewed the files of the only component location in Philadelphia to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors. During these reviews and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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 35, 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.

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

2 May 2018

Consolidated Statement of Comprehensive Income

For the Years Ended 31 December

	Note	2017 $	2016 $
CONTINUING OPERATIONS *			
Revenue	3	**1,120,840**	866,937
Cost of sales		**–**	(120,906)
Gross Profit		**1,120,840**	746,031
Research and development expenses		**(8,189,196)**	(5,049,043)
General and administrative expenses		**(3,622,796)**	(3,003,910)
Total operating expenses		**(11,811,992)**	(8,052,953)
Loss from Continuing Operations before Interest and Tax		**(10,691,152)**	(7,306,922)
Finance income	8	**58,082**	2,875
Total Finance income		**58,082**	2,875
Loss from Continuing Operations before Taxation	10	**(10,633,070)**	(7,304,047)
Taxation benefit/(expense) on Continuing Operations	9	**107,687**	(26,612)
Loss from Continuing Operations		**(10,525,383)**	(7,330,659)
DISCONTINUED OPERATIONS			
Profit from Discontinued Operations including Gain on Sale	2	**–**	6,823,418
Loss for the Year Attributable to Equity Holders of the Parent		**(10,525,383)**	(507,241)
Other Comprehensive Income / (Loss):			
Items that Are or May Be Reclassified to Profit and Loss:			
Unrealized gain on investments		**13,748**	–
Foreign currency translation differences for foreign operations		**(21,899)**	(11,155)
Total Comprehensive Loss for the Period Attributable to Equity Holders of the Parent		**(10,533,534)**	(518,396)
Loss per Share, Basic and Diluted	11	**(0.16)**	(0.01)
Loss per Share, Continuing Operations, Basic and Diluted	11	**(0.16)**	(0.15)

** Continuing Operations comprise the Group's drug development activities, out-licensed Wound Care business and costs associated with operating Realm Therapeutics plc*

Consolidated Statement of Changes in Equity

For the Years Ended 31 December

	Share capital $	Share premium $	Other reserves (Notes 12 and 13) $	Retained earnings $	Other Comprehensive Income / (Loss) $	Total $
At 31 December 2015	8,515,641	81,414,651	103,692,891	(174,296,004)	8,042	19,335,221
Loss for the year	–	–	–	(507,241)	–	(507,241)
Other comprehensive loss	–	–	–	–	(11,155)	(11,155)
Total comprehensive loss	–	–	–	(507,241)	(11,155)	(518,396)
Issuance of shares upon option exercise	3,750	2,906	–	–	–	6,656
Reclassification following lapse of share options	–	–	(710,249)	710,249	–	–
Share based payment movement	–	–	224,633	–	–	224,633
Transactions with owners	3,750	2,906	(485,616)	710,249	–	231,289
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**

Other reserves includes share-based payments and warrant expense. Reclassification of Other Reserves to Retained Earnings in 2017 related to costs associated with share-based payment expense for share options which lapsed in the year. Reclassification of Other Reserves to Retained Earnings in 2016 related to costs associated with share-based payment expense for share options and the Value Creation Plan which lapsed in the year.

Consolidated Statement of Financial Position

As at 31 December

	Note	2017 $	2016 $
ASSETS			
Non-Current Assets			
Property, plant, and equipment	14	**245,550**	138,888
Non-current other assets	16	**320,000**	323,013
Total Non-Current Assets		**565,550**	461,901
Current Assets			
Inventories		**–**	2,902
Other receivables and other current assets	16	**688,076**	352,315
Short-term investments: available for sale	17	**24,345,346**	–
Cash and cash equivalents	17	**9,507,804**	21,429,871
Total Current Assets		**34,541,226**	21,785,088
Total Assets		**35,106,776**	22,246,989
LIABILITIES			
Current Liabilities			
Trade payables and other accruals	18	**(2,910,938)**	(3,198,875)
Total Liabilities		**(2,910,938)**	(3,198,875)
Net Assets		**32,195,838**	19,048,114
EQUITY			
Share capital	12	**17,263,076**	8,519,391
Share premium		**95,275,483**	81,417,557
Other reserves		**104,103,809**	103,207,275
Retained earnings		**(184,435,266)**	(174,092,996)
Accumulated other comprehensive loss		**(11,264)**	(3,113)
Issued Capital and Reserves Attributable to Equity Holders of the Parent		**32,195,838**	19,048,114
Total Equity		**32,195,838**	19,048,114

The consolidated financial statements and related notes beginning on page 40 were approved by the Board of Directors and authorised for issue on 2 May 2018 and were signed on its behalf by:

Marella Thorell
Chief Financial Officer
Company no: 05789798

Consolidated Statement of Cash Flows

For the Years Ended 31 December

	2017 $	2016 * $
Cash Flows from Operating Activities		
Loss for the year	**(10,525,383)**	(507,241)
Adjustments for non-cash:		
Share-based payment expense	**455,470**	224,633
Depreciation and amortisation	**85,787**	772,205
Write off of property, plant, and equipment	**10,380**	312,480
Finance income	**(58,082)**	(176,572)
Taxation (benefit) / expense	**(107,687)**	26,612
Gain of Sale of Supermarket Retail	**–**	(5,418,534)
Operating Loss before Movement in Working Capital	**(10,139,515)**	(4,766,417)
(Increase) / Decrease in other receivables and other current assets	**(329,821)**	488,506
Increase / (Decrease) in trade payables and other accruals	**912,904**	(1,413,771)
Decrease in inventories	**–**	575,694
Cash Used in Operations	**(9,556,432)**	(5,115,988)
Finance income (2016 includes Continuing and Discontinued Operations)	**58,082**	176,572
Net Cash Flows from Operating Activities	**(9,498,350)**	(4,939,416)
Cash Flows from Investing Activities		
Purchases of short-term investments	**(29,331,620)**	–
Proceeds from sale of short-term investments	**5,000,000**	–
Purchases of property, plant, and equipment	**(207,682)**	(844,885)
Proceeds from sale of plant, property and equipment	**4,850**	–
Payment of Supermarket Retail disposal costs	**(1,093,154)**	–
Proceeds from sale of Supermarket Retail, net of costs paid	**–**	11,790,217
Net Cash Flows from Investing Activities	**(25,627,606)**	10,945,332
Cash Flows from Financing Activities		
Proceeds from sale of placing units, net of costs paid	**23,225,788**	–
Proceeds from exercise of share options	**–**	6,656
Net Cash Flows from Financing Activities	**23,225,788**	6,656
Net (Decrease) / Increase in Cash and Cash Equivalents	**(11,900,168)**	6,012,572
Cash and Cash Equivalents at Beginning of Year	**21,429,871**	15,456,624
Effect of Foreign Exchange Rate Changes on Cash Held	**(21,899)**	(39,325)
Total Cash and Cash Equivalents Held at End of Year	**9,507,804**	21,429,871
Total Short-term Investments Available for Sale at End of Year	**24,345,346**	–
Total Cash, Cash Equivalents and Short-term Investments	**33,853,150**	21,429,871

* Includes Continuing and Discontinued Operations. The 2016 Statement of Cash Flows has been restated to correct an error in the presentation of certain Supermarket Retail (SR) discontinued operations amounts. The effect is: to replace the SR net assets disposed of $5,278,528 with gain on sale of SR business of $5,418,534; to adjust the write off of property, plant and equipment to $312,480 (previously $171,739); to adjust the decrease in trade payables and other accruals to $1,413,77 (previously $319,882) and to remove the $1,093,154 of disposal costs payable previously shown separately.

Company Statement of Changes in Equity

For the Years Ended 31 December

	Share capital $	Share premium $	Other reserves (Notes 12 and 13) $	Retained earnings $	Cumulative translation adjustment $	Total $
At 31 December 2015	8,515,641	81,414,651	4,998,227	(82,658,835)	7,700,448	19,970,132
Loss for the year	–	–	–	(985,395)	–	(985,395)
Other comprehensive loss	–	–	–	–	(3,395,631)	(3,395,631)
Total comprehensive loss	–	–	–	(985,395)	(3,395,631)	(4,381,026)
Issuance of shares upon option exercise	3,750	2,906	–	–	–	6,656
Reclassification following lapse of share options	–	–	(710,249)	710,249	–	–
Share-based payment movement	–	–	224,633	–	–	224,633
Transactions with owners	3,750	2,906	(485,616)	710,249	–	231,289
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 loss	**–**	**–**	**–**	**–**	**3,555,394**	**3,555,394**
Total comprehensive loss	**–**	**–**	**–**	**(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**

Other reserves includes share-based payments and warrant expense. Reclassification of Other Reserves to Retained Earnings in 2017 related to costs associated with share-based payment expense for share options which lapsed in the year. Reclassification of Other Reserves to Retained Earnings in 2016 related to costs associated with share-based payment expense for share options and the Value Creation Plan which lapsed in the year.

Company Statement of Financial Position

As at 31 December

	Note	2017 $	2016 $
ASSETS			
Non-Current Assets			
Investments in subsidiaries	15, 22	**36,519,860**	11,000,819
Total Non-Current Assets		**36,519,860**	11,000,819
Current Assets			
Other current assets	16	**53,894**	30,165
Amounts owed from group undertakings	16	**5,855,769**	5,161,504
Cash and cash equivalents	17	**169,636**	62,682
Total Current Assets		**6,079,299**	5,254,351
Total Assets		**42,599,159**	16,255,170
LIABILITIES			
Current Liabilities			
Trade payables and other accruals	18	**(127,776)**	(184,987)
Amounts owed to group undertakings	18	**(274,250)**	(249,788)
Total Current Liabilities		**(402,026)**	(434,775)
Total Liabilities		**(402,026)**	(434,775)
Net Assets		**42,197,133**	15,820,395
EQUITY			
Share capital		**17,263,076**	8,519,391
Share premium		**95,275,483**	81,417,557
Other reserves		**5,409,145**	4,512,611
Retained earnings		**(83,610,782)**	(82,933,981)
Cumulative translation adjustment		**7,860,211**	4,304,817
Total Equity Attributable to Equity Holders of the Parent		**42,197,133**	15,820,395

The Company loss for the financial year attributable to equity holders was $859,914 (2016: $985,395).

The financial statements and related notes beginning on page 40 were approved by the Board of Directors and authorised for issue on 2 May 2018 and were signed on its behalf by:

Marella Thorell
Chief Financial Officer
Company no: 05789798

Company Statement of Cash Flows

For the Years Ended 31 December

	2017 $	2016 $
Cash Flows from Operating Activities		
Loss for the year	**(859,914)**	(985,395)
Adjustments for:		
Share-based payment expense	**124,465**	7,517
Operating Loss before Movement in Working Capital	**(735,449)**	(977,878)
(Increase) / Decrease in other current assets	**(15,369)**	7,380
(Decrease) / Increase in trade payables and other accruals	**(52,568)**	54,761
Increase in amounts owed to group undertakings	**1,216,731**	630,137
Cash Provided by / (Used in) Operations	**413,345**	(285,600)
Net Cash Flows from Operating Activities	**413,345**	(285,600)
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	**23,225,788**	–
Proceeds from exercise of share options	**–**	10,544
Net Cash Flows from Financing Activities	**23,225,788**	10,544
Net Increase / (Decrease) in Cash and Cash Equivalents	**150,545**	(275,056)
Cash and Cash Equivalents at Beginning of Year	**62,682**	374,714
Effect of Foreign Exchange Rate Changes on Cash Held	**(43,591)**	(36,976)
Total Cash and Cash Equivalents Held at End of Year	**169,636**	62,682

Accounting Policies

BASIS OF PREPARATION

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. Realm Therapeutics, Inc. (a United States (US) subsidiary), is incorporated under the laws of Delaware in the US. Realm Therapeutics, Inc.'s address, which is the Group's operating address, is 267 Great Valley Parkway, Malvern, Pennsylvania, US. The Group represents the Company and all its subsidiaries including Realm Therapeutics, Inc., PuriCore Europe Limited and PuriCore Scientific Limited. The Group consolidated financial statements were authorised for issue by the Board of Directors on 2 May 2018. 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 2017.

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 Group is a clinical-stage biopharmaceutical company focused on developing novel therapeutics for immune-mediated diseases in adults and children. The Group's lead drug candidate, PR022, utilizes its proprietary immunomodulatory technology, and is in a Phase 2 clinical trial for the treatment of Atopic Dermatitis. The Group is also exploring potential efficacy of its technology in other dermatology indications, including Acne Vulgaris and Psoriasis, as well as other therapeutic areas.

In March 2018, the Group announced that in its Phase 2 clinical trial for Allergic Conjunctivitis, its product candidate PR013, did not demonstrate efficacy. As a result, the Group is no longer pursing the clinical development of PR013 and other than the costs of completing the trial in 2018 and closing out the program, the Group does not intend to make any additional investments in this program.

On 7 October 2016, the Group sold its Supermarket Retail business for gross proceeds of $13.5 million. Accordingly, the Supermarket Retail business operational results for the period through 7 October 2016 presented in the Consolidated Statement of Comprehensive Income are reflected as discontinued operations. The Consolidated Statement of Cash Flows for the period ended 31 December 2016 reflects the Supermarket Retail business results and the sale within operating and investing activities. A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed. Classification as a discontinued operation occurred upon disposal (see Note 2).

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. All intercompany balances and transactions have been eliminated in consolidation. For the year ended 31 December 2016, the Group has classified the results of operations and cash flows of its Supermarket Retail business as discontinued operations. Unless indicated otherwise, the information in the notes to the consolidated financial statements relates to the Group's continuing operations.

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 22).

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 13. 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 is greater than the carrying amount; therefore, no impairment is required.

GOING CONCERN

The Group has incurred net losses and negative cash flows from operations and expects to continue to incur significant losses for the foreseeable future. As at 31 December 2017, the Group had an accumulated deficit of $184.4 million. The only source of revenue, following the sale of the Supermarket Retail business in October 2016, is the royalty revenue generated from the Group's out-licensing agreement for its Wound Care product. The Group has not generated any product revenues in relation to its drug development business. The Group is increasing its investments in research and development in support of its drug development plans. Development activities, clinical and pre-clinical testing, and ultimately the commercialization of the Group's products will require significant additional capital over time.

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The Group had cash, cash equivalents and short-term investments of $33.9 million as at 31 December 2017 and $29.0 million as at 31 March 2018. While the cost, timeline for and likelihood of success of the development and regulatory approval of drugs in inherently uncertain and changes over time the Directors have prepared cash flow forecasts to 30 June 2019 based on the current pipeline of candidates. These forecasts make a number of assumptions, the most significant of which relate to the planned investment in research and development, overall operating expenses and projected royalty income. The 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 2019. Due to the fact that the some of the significant investments remain discretionary, the Directors have prepared a sensitivity to the cash flow forecasts, reflecting spending delays and deferrals, including those portions of planned spending which are not yet committed, which shows that the Group will be able to continue to operate within its available cash throughout the period to at least 30 June 2019, with greater headroom at the end of that period.

The Directors have concluded the assumptions discussed above do not cast significant doubt on the Group's and the Company's ability to continue to operate as a going concern and therefore they continued to prepare the financial statements on a going concern basis. The financial statements do not contain 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 2017 and 2016, the Group operated the following business segments:

- Drug Development and Wound Care:
  - Drug development programmes and other research and development costs
  - Royalty revenue from the out-license of the Group's Wound Care product
  - In 2016, includes costs associated with certain Wound Care and other health-science related businesses which were discontinued in 2016
- Company and Corporate:
  - Costs associated with operating Realm Therapeutics plc
  - Corporate costs associated with operating Realm Therapeutics, Inc.

For the period through 7 October 2016, the Group also operated its Supermarket Retail business shown as Discontinued Operations.

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.

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	
2017	2016	**2017**	2016
1.3517	1.2312	**1.2882**	1.3557

REVENUE

Continuing Operations

The Group has a licensing arrangement with a third party to whom it has granted rights to manufacture, market and distribute its Wound Care product. The Group receives royalties that are tiered and based upon net sales and is entitled to receive minimum royalties for a defined period. Royalty revenues reported are based upon actual royalty revenues earned by the Group, including minimums.

Discontinued Operations
Revenue related to the Group's Supermarket Retail prior to its disposal included the sale of inventories (capital equipment and consumables), the sale of capital equipment under capital lease arrangements, the leasing of equipment under operating lease arrangements, and service (including spare parts and extended warranty) income.

- Revenue from the sale of inventories is recognised by the Group when the risks and rewards associated with the transaction have been transferred to the purchaser, which is usually demonstrated when all the following conditions are met: evidence of a binding arrangement exists (generally purchase orders), products have been delivered or services have been rendered, and amounts are deemed collectable under normal payment terms.
- Revenue from capital lease arrangements (which transfer substantially all the risks and rewards of ownership, and give rise to a receivable by the lessor) is recognised when products have been delivered and installed.
- Lease income received on operating lease arrangements is recognised on a straight-line basis over the term of the lease.
- Revenue from non-warranty repair services rendered is recognised when the service has been completed.
- Warranty revenue is recognised over the warranty or service coverage period.

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. As a result, almost none of the criteria in IAS 38, Intangible Assets, paragraph 57 has been met. The Group does not expect to capitalize research and development costs until regulatory approval.

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 13).

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.

FINANCE INCOME

Continuing Operations

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

Discontinued Operations

Finance income related to the Group's Supermarket Retail business prior to its disposal was accrued on a time basis, by reference to the receivable outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Imputed interest income earned on capital leases was recognised as finance income.

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.

LEASED ASSETS – Discontinued Operations

In line with IAS 17, receipts under operating leases are recognised in revenue on a straight–line basis over the term of the lease. Assets under an operating lease are held on the balance sheet of the Group in property, plant, and equipment and are amortised over the useful life of the underlying asset which is generally three to four years.

Revenue and related expenses from capital lease arrangements are recognised in profit or loss when products have been delivered and installed. Revenue represents the present value of minimum lease payments computed at a market rate of interest. Finance income is recognised over the lease term on an effective interest rate basis. There are no guaranteed residual values accruing to the Group. Cash receipts from capital lease arrangements are received monthly over the lease term. Amounts due within twelve months are reflected as current assets and amounts due beyond twelve months are reflected as long-term assets.

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 has not recognized any impairment of long-lived assets for the years ended 31 December 2017 and 2016.

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.

FINANCIAL INSTRUMENTS

Recognition and Valuation of Financial Instruments

As at 31 December 2017 and 2016, the Group's financial instruments included short-term investments, accounts payable and accrued expenses. The carrying amount of accounts payable and accrued expenses approximates fair value due to the short-term maturities of these instruments. The carrying value of short-term investments is the estimated fair value.

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 2017, cash equivalents consisted of cash sweep accounts, US Treasury money market funds, bank certificates of deposit 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 2017, short-term investments include bank certificates of deposit and US Treasury and Agency bills and all are classified as available for sale and 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 9 Financial Instruments (effective date 1 January 2018)
  - The Group does not expect the adoption of IFRS 9 to have a material impact on its financial statements as the change in fair value on its short-term investments is minimal.
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018)
  - The Group has completed its assessment of the impact of the new revenue standard on the Group's consolidated financial statements. The Group will adopt the new standard and its related amendments effective 1 January 2018 using the modified retrospective method with the impact of the adoption reflected in opening accumulated deficit. The expected impact of the standard relates to the Group's agreement related to its Wound Care product and the recognition of the future minimum royalty payments. Under the new standard, 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 Group estimates that the impact of the adoption will be a decrease of $2.5 million in its accumulated deficit as of 1 January 2018 and a corresponding increase in royalty receivables, subject to change based on further analysis and application of the standard.
- IFRS 16 Leases (effective date 1 January 2019)
  - The Group is currently evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods on or after 1 January 2019)
  - The Group is currently evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions Contracts (effective for annual periods on or after 1 January 2018).
  - The Group is currently evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

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. The Group's Drug Development and Wound Care (WC) segment represents costs associated with the development of potential drug products and royalty revenue from the out-licensing of the Group's WC product (medical device). Discontinued operations represent the Group's Supermarket Retail business which was sold on 7 October 2016.

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

	2017		
	Drug Development and WC [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

	2016			
	Drug Development and WC [1] $	Company & Corporate [2] $	Total $	Discontinued Operations: Supermarket Retail $
Revenue	866,937	–	866,937	14,759,521
Gross Profit	746,031	–	746,031	6,028,975
(Loss) / Profit before Interest, Tax, Depreciation & Amortisation, Fixed Asset write-off and Share-Based Payment Expense	(5,955,383)	(1,000,778)	(6,956,161)	2,018,005
Finance income	–	2,875	2,875	173,697
Depreciation and amortisation	(59,345)	(66,783)	(126,128)	(646,077)
Write-off of capital assets [3]	–	–	–	(140,741)
Share-based payment expense	–	(224,633)	(224,633)	–
(Loss) / Profit before Tax	(6,014,728)	(1,289,319)	(7,304,047)	1,404,884
Taxation expense	–	(26,612)	(26,612)	–
(Loss) / Profit after Tax	(6,014,728)	(1,315,931)	(7,330,659)	1,404,884
Segment Assets				
Non-current assets	100,859	361,042	461,901	–
Current assets	312,249	42,968	355,217	–
Total assets excluding cash and cash equivalents	413,108	404,010	817,118	–
Segment Liabilities				
Current liabilities	(1,121,102)	(2,077,773)	(3,198,875)	–
Total liabilities	(1,121,102)	(2,077,773)	(3,198,875)	–
Other Segment Items:				
Capital expenditure: property, plant, and equipment	67,197	6,652	73,849	771,036

(1) In 2017 and 2016, Drug Development and WC includes costs associated with the development of products and royalty revenue from out-licensing of the Group's Wound Care product. In 2016, Drug Development (previously included within Health Sciences) also includes revenues and costs associated with other health-science related businesses which ceased after 2016.

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

(3) Represents the write off of certain concentrate delivery system assets no longer in use, as customers purchased alternate capital equipment (generators) (see Note 14).

Information about Geographical Areas

An analysis of the Group's revenue by geographic location of its customers, 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 At 31 December		Capital Expenditures For the Years Ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$
North America	**1,120,840**	817,479	**1,199,732**	786,953	**207,682**	73,849
United Kingdom	**–**	49,458	**53,894**	30,165	**–**	–
Continuing Operations	**1,120,840**	866,937	**1,253,626**	817,118	**207,682**	73,849
Discontinued Operations, North America		14,759,521		–		771,036

2 DISCONTINUED OPERATIONS

In order to focus exclusively on drug development and to provide resources to advance its business plan, the Group divested its Supermarket Retail business. The sale was completed in October 2016 for net proceeds of $10.7 million. As at 31 December 2016, there were $1.1 million of costs associated with the sale accrued, which were paid during the year ended 31 December 2017. The operating results of the discontinued operations reflect revenue and expenses that are directly attributable to the business that was eliminated from ongoing operation. The key components from discontinued operations were as follows:

	For the period from 1 January through 7 October 2016 $
Results of Discontinued Operations	
Revenue	14,759,521
Cost of sales	(8,730,546)
Gross Profit	6,028,975
Sales and marketing expenses	(1,873,965)
General and administrative expenses	(1,756,715)
Research and development expenses	(1,167,108)
Operating Expenses	(4,797,788)
Profit from Operating Activities	1,231,187
Finance Income	173,697
Profit from Operating Activities, net of tax	1,404,884
Gain on Sale of Discontinued Operations	5,418,534
Profit from Discontinued Operations	**6,823,418**
Basic and diluted Earnings per Share from Discontinued Operations	**0.14**

	For the period from 1 January through 7 October 2016 $
Net Cash Flow from Operating Activities	1,903,703
Net Cash Flow from Investing Activities	(771,036)
Net Cash Generated by Discontinued Operations	**1,132,667**

Effect of Disposal on the Financial Position of the Group	**7 October 2016 (Date of Disposal) $**
ASSETS	
Non-Current Assets	
Intangible assets	445,309
Property, plant, and equipment	2,396,978
Other assets	282,255
Total Non-Current Assets	3,124,542
Current Assets	
Inventories	1,064,869
Trade and other receivables	3,028,411
Total Current Assets	4,093,280
Total Assets	7,217,822
LIABILITIES	
Current Liabilities	
Trade and other payables	(1,939,294)
Total Current Liabilities	(1,939,294)
Net Assets	5,278,528
Gross proceeds	13,500,000
Less: disposal costs paid	1,709,783
Less: disposal costs included in trade payables and other accruals	1,093,155
Consideration received, net of expenses, satisfied in cash	10,697,062
Net assets disposed	5,278,528
Gain on Sale of Discontinued Operations	5,418,534

3 REVENUE

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

	2017	2016
	$	$
Royalty income	**1,120,840**	709,458
Sale of inventories	**–**	157,479
Group Revenue	**1,120,840**	866,937
Revenue, Discontinued Operations		14,759,521

4 OPERATING LEASES

There were no minimum lease payments under operating leases for the year ended 31 December 2017. Minimum lease payments under operating leases for Discontinued Operations recognised as income were $29,244 for the year ended 31 December 2016. The Group's Supermarket Retail receivables under capital leases were disposed as part of the sale in 2016.

5 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.

	2017	2016
Research and development	**11**	11
Head office and administration	**4**	4
Average persons employed, Continuing Operations	**15**	15
Average persons employed, Discontinued Operations		26
Average total persons employed,		41

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

	2017	2016
	$	$
Wages and salaries	**3,142,977**	2,665,284
Social Security costs	**171,229**	126,963
Retirement plan costs	**67,017**	51,966
Share based compensation costs	**455,470**	224,633
Total Remuneration, Continuing Operations	**3,836,693**	3,068,846
Total Remuneration, Discontinued Operations		2,720,318
Total Remuneration		5,789,164

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.

	2017	2016
	$	$
Wages and salaries	**2,286,305**	2,122,533
Retirement plan costs	**39,750**	37,479
Share based compensation costs	**324,581**	138,323
Total Key Management Remuneration, Continuing Operations	**2,650,636**	2,298,335
Total Key Management Remuneration, Discontinued Operations[1]		929,158
Total Key Management Remuneration		3,227,493

(1) 2016 includes disposal-related remuneration

The aggregate of remuneration (excluding share based payments) of the highest paid Director was $698,919 (2016: $696,921), including company retirement plan benefits of $7,950 (2016: $7,950).

Disclosures of directors' remuneration required by the AIM rules and the Companies Act 2006 and details of Executive Directors' remuneration are presented in the Directors' Remuneration Report within this Annual Report.

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

	2017	2016
Number of share options granted	**1,530,000**	2,235,000
Number of anti-dilution share option adjustment following the private placement	**3,866,753**	–
Number of share options exercised	**–**	–
Number of share options lapsed	**–**	(155,000)
Number of share options lapsed, Discontinued Operations	N/A	(120,000)

6 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 2017 was $67,017 (2016: $140,307, including both Continuing Operations and Discontinued Operations).

7 OPERATING LEASES

In December 2016, the Group's existing facilities lease expired and a new 96 month lease for new office space (with occupancy beginning 1 April 2017) was executed. 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 and over the lease term. The Group also leases office equipment with non-cancelable lease terms between five and seven years. Leasing arrangements do not include restrictive covenants, contingent rents or purchase options. Included in Non-current Other Assets on the Consolidated Statement of Financial Position as at 31 December 2017 and 2016 is a deposit of $0.3 million related to the current 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.

	2017	2016
	$	$
Minimum lease payments under operating leases recognised as an expense in the period	**231,677**	525,164

As at 31 December, the Group has outstanding commitments under operating leases, which fall due as follows.

	As at December 31	
	2017	2016
	$	$
Land and buildings		
Within one year	**156,908**	123,084
In the second to fifth years inclusive	**837,424**	650,382
After five years	**237,807**	443,544
Plant and machinery		
Within one year	**15,889**	18,395
In the second to fifth years inclusive	**12,537**	25,859
Outstanding commitments under non-cancellable operating leases	**1,260,565**	1,261,264

8 FINANCE INCOME

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

	2017	2016
	$	$
Interest income on cash, cash equivalent and short-term investment balances	**58,082**	2,875
Total Finance Income	**58,082**	2,875
Discontinued Operations:		
Interest income on capital leases		173,697
Total Finance Income		173,697

9 INCOME TAXES

Recognised Deferred Tax Assets and Tax Liabilities

As at 31 December 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.

	2017	2016
	$	$
Current tax benefit / (expense) (1)	**107,687**	(26,612)
Deferred tax:		
Origination and reversal of temporary differences	**–**	–
Total deferred tax	**–**	–
Total tax benefit / (expense)	**107,687**	(26,612)

(1) The Group has US Alternative Minimum Tax (AMT) credits of $0.1 million that have an indefinite carryforward period. These AMT credits are now refundable under US law resulting in an income tax benefit in 2017. Tax expense for 2016 primarily represents US AMT tax.

As at 31 December 2017, the Group has UK net operating loss (NOL) carryforwards amounting to $9.5 million (2016: $8.2m) 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 2017, the Group has US federal and state NOLs of $60.8 million and $11.0 million, respectively that have not been recognized. These NOLs may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three year period in excess of 50%. This could limit the amount of NOLs and credits that the Group can utilize annually to offset future US taxable income or tax liabilities, if any. The amount of the annual limitation, if any, will be determined based on the value of the Group immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years. While an analysis has not been completed, the Group believes that the private placement completed in October 2017 likely caused an ownership change which would give rise to limitations on the US Federal and State NOLs. These federal and state carry forwards will begin to expire in 2020 through 2037.

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 lower (2016: higher) than the standard rate of corporation tax in the UK of 19.25% (2016: 20.0%). The differences are explained below.

	2017	2016
	$	$
Reconciliation of Effective Tax Rate		
Loss before tax	**(10,633,070)**	(480,629)
Tax using UK corporation tax rate of 19.25% (2016: 20.0%)	**(2,046,866)**	(96,126)
Tax loss carryforwards utilised during the year	**3,319**	**(336,895)**
Non-deductible expenses	**–**	42,035
Other unrecognised temporary differences	**(181,774)**	150,586
US federal alternative minimum tax	**107,687**	(26,612)
Deferred tax asset on current year losses not recognised	**2,225,321**	240,400
Total tax benefit / (expense)	**107,687**	(26,612)

The UK corporate tax rate was reduced to 19% effective 1 April 2017 and will be further reduced to 18% on 1 April 2020.

10 LOSS FOR THE YEAR

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

	2017	2016
	$	$
Continuing Operations:		
Research and development expense	**8,189,196**	5,049,043
Discontinued Operations:		
Cost of inventories recognised as expense	**–**	5,973,968
Research and development expense	**–**	1,167,108
Depreciation of property, plant, and equipment	**–**	501,918
Loss on disposal of property, plant, and equipment	**–**	132,848
Amortisation and impairment of intangible assets	**–**	144,159

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

	2017	2016
	$	$
Audit of the Group's financial statements	**–**	35,000
Amounts receivable by the Group's auditor and its associates in respect of:		
Audit of Company and non-US subsidiaries	**96,612**	–
Audit of US subsidiary and Public Company Accounting Oversight Board (PCAOB) audit work completed by KPMG US	**167,461**	–
Taxation compliance services	**6,505**	71,500
Audit of financial statements of subsidiaries of the Company	**–**	55,000
All other services (interim review)	**–**	3,313
Auditor's remuneration for all services	**270,578**	164,813

11 EARNINGS / (LOSS) PER SHARE

The Company's issued share capital at 31 December 2017 consisted of 116,561,917 ordinary shares of 10 pence each. The calculation of the Group's basic and diluted earnings or (loss) per share for the years ended 31 December is based on the following data.

	2017	2016
	$	$
Loss for the Year Attributable to Equity Holders of the Parent	**(10,525,382)**	(507,241)
Profit from Discontinued Operations including Gain on Sale	**–**	6,823,418
Loss from Continuing Operations for the purpose of Adjusted basic and diluted loss per share	**(10,525,382)**	(7,330,659)

	As at 31 December	
Number of Shares	**2017**	2016
Weighted average number of ordinary shares for the purpose of basic and diluted profit or (loss) per share, Continuing and Discontinued Operations	**65,081,903**	50,139,141

	2017	2016
Earnings / (Loss) Per Share	**$**	$
Basic and diluted from Continuing Operations (1)	**(0.16)**	(0.15)
Basic and diluted from Discontinued Operations	**–**	0.14
Total basic and diluted	**(0.16)**	(0.01)

(1) 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'.

12 SHARE CAPITAL

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 2015	50,135,432	5,013,543
Allotments during 2016	30,000	3,000
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

No shares were held in treasury at 31 December 2017 or 2016. 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 is as follows.

Exercise price [1] $	Number of Warrants outstanding	Number Warrants exercisable	Weighted average life in years as at 31 December 2017	2016
0.78	26,558,600	26,558,600	**2.29**	–
0.67	358,573	358,573	**1.00**	2.00

(1) Exercise prices have 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 2013, in conjunction with a secured revolving credit arrangement with a U.S. bank, the Company issued warrants to purchase 154,229 shares of common shares at the market price on the date of the loan closing (49.43 pence). The warrants are fully exercisable and a term of five years from date of issue. As a result of the private placement in October 2017, in accordance with anti-dilution provisions of this warrant, the number of ordinary shares underlying the warrants was adjusted from 154,229 to 358,573. All other warrant terms and conditions remain unchanged.

Capital Management

The Group manages capital to ensure that it has adequate resources to enable it to operate its principal 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:

	2017 $	2016 $
Cash, cash equivalents and short-term investments	**33,853,150**	21,429,871
Equity attributable to owners of the parent	**(32,195,838)**	(19,048,114)
Net capital	**1,657,312**	2,381,757

13 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 certain key executives, 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. See Directors' Remuneration Report within this Annual Report for Executive Directors' share option information.

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.

	2017		2016	
	Weighted average exercise price $	**Number of options**	Weighted average exercise price $	Number of options
Share options outstanding, beginning of year	**0.46**	**4,250,668**	0.67	2,458,168
Share option adjustment issued as a result of a variation of share capital arising from the Placing	**0.43**	**5,087,732**	–	–
Share options granted during the year	**0.52**	**2,531,000**	0.36	2,627,500
Share options exercised during the year	**–**	**–**	0.22	(30,000)
Share options expired & forfeited during the year	**0.99**	**(451,225)**	0.40	(805,000)
Share options outstanding, end of the year	**0.45**	**11,418,175**	0.46	4,250,668
Share options exercisable, end of the year	**0.48**	**4,095,946**	0.80	926,501

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

	2017			2016		
Exercise Price [1]	**Options outstanding**	**Options exercisable**	**Weighted average life in years**	Exercise Price [1]	Options outstanding	Options exercisable	Weighted average life in years
$0.24 – $0.46	**8,589,216**	**3,616,987**	**3.46**	$0.22 - $0.36	2,697,500	45,000	4.82
$0.52 – $0.83	**2,756,916**	**406,916**	**8.61**	$0.37 - $0.76	1,460,000	788,333	2.89
$4.11	**72,043**	**72,043**	**0.14**	$3.76 - $4.68	93,168	93,168	1.14
Total options	**11,418,175**	**4,095,946**		Total options	4,250,668	926,501	

(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.

	2017	2016
Weighted average share price	**$ 0.52**	$ 0.36
Weighted average exercise price	**$ 0.52**	$ 0.36
Expected volatility	**35%**	43%
Dividend yield	**–**	–
Expected term (in years)	**6**	5
Risk-free interest rate	**1.69% – 2.19%**	1.20% – 1.73%

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 2017 was $0.15 (2016: $0.14), as calculated using the Black Scholes option valuation model.

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

	2017	2016
	$	$
Research and development	**209,300**	–
General and administrative	**246,170**	224,633
	455,470	224,633

The cumulative expense of $5,495,217 included in Other Reserves in the Consolidated Statement of Financial Position reflects total share-based payments outstanding which have not lapsed or been exercised.

14 PROPERTY, PLANT, AND EQUIPMENT

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

	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**	**112,138**	**84,632**	**245,550**

Included in cost and accumulated depreciation as at 31 December 2017 are the following items of property, plant, and equipment that are fully depreciated but still in use within the business:

	Original Cost $
Furniture and fixtures	88,413
Machinery and equipment	82,935
	171,348

	2016			
	Leasehold improvements $	Furniture & fixtures $	Machinery & equipment $	Total $
Cost				
As at 1 January	724,950	1,114,101	3,413,683	5,252,734
Additions	–	12,097	832,788	844,885
Disposals	–	(299,254)	(443,114)	(742,368)
Write-off for the year, Discontinued Operations			(248,817)	(248,817)
Discontinued Operations-Sale	(16,593)	(139,422)	(3,396,358)	(3,552,373)
As at 31 December	708,357	687,522	158,182	1,554,061
Accumulated depreciation				
As at 1 January	697,283	935,052	988,892	2,621,227
Depreciation charge for the year	27,667	52,201	548,178	628,046
Disposals	–	(297,446)	(273,183)	(570,629)
Write-off for the year, Discontinued Operations			(108,076)	(108,076)
Disposals, Discontinued Operations-Sale	(16,593)	(112,995)	(1,025,807)	(1,155,395)
As at 31 December	708,357	576,812	130,004	1,415,173
Net book value, end of year	–	110,710	28,178	138,888

During the year ended 31 December 2016, the Group determined certain fixed assets (concentrate delivery systems) related to its Supermarket Retail business should be written off as they were no longer in use following customers' purchase of alternate capital equipment (generators). All fixed assets related to the Discontinued Operations were eliminated as part of the Supermarket Retail sale.

15 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 2017	2016
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) (2)	UK	Non-trading company	**100%**	100%

(1) Registered address is 267 Great Valley Parkway, Malvern, Pennsylvania, 19355, US

(2) Registered address is c/o CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London EC4N 6 AF, UK

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

	$
As at 31 December 2015	13,000,723
Share-based payment charge	224,633
Foreign exchange movement	(2,224,537)
As at 31 December 2016	11,000,819
Capital contribution	23,488,588
Share-based payment charge	331,005
Foreign exchange movement	1,699,448
As at 31 December 2017	**36,519,860**

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

16 RECEIVABLES, CURRENT AND NON-CURRENT ASSETS

The Directors consider the carrying amount of receivables and other current and non-current assets 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	
	2017	2016	**2017**	2016
	$	$	**$**	$
Current:				
Other receivables	**460,700**	267,061	**–**	–
Tax receivable	**107,687**	–	**–**	–
Prepayments and other current assets	**119,689**	85,254	**53,894**	30,165
Amounts owed from group undertakings	**–**	–	**5,855,769**	5,161,504
	688,076	352,315	**5,909,663**	5,191,669
Non-Current:				
Other assets	**320,000**	323,013	**–**	–
Total Current and Non-Current Assets	**1,008,076**	675,328	**5,909,663**	5,191,669

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

	Group		Company	
	2017	2016	**2017**	2016
	$	$	**$**	$
US Dollar	**568,387**	267,061	**–**	–
Sterling	**–**	–	**5,855,769**	5,161,504
Total Other Receivables	**568,387**	267,061	**5,855,769**	5,161,504

17 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AVAILABLE FOR SALE

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

	Group		Company	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cash at bank	**530,097**	1,107,950	**169,636**	62,682
Cash equivalents [1]	**8,977,707**	20,321,921	**–**	–
Total Cash and Cash Equivalents	**9,507,804**	21,429,871	**169,636**	62,682
Short-term investments available for sale measured at fair value:				
US government agency	**20,871,541**	–	**–**	–
Certificates of deposit	**3,473,805**	–	**–**	–
Total Short-term Investments [2]	**24,345,346**	–	**–**	–
Total Cash, Cash Equivalents and Short-term Investments	**33,853,150**	21,429,871	**169,636**	62,682

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

(2) 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 2017 is as follows.

	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 2017				
			Fair Value Measurement Based on		
	Carrying Amount $	Fair Value $	Quoted Prices in Active Markets (Level 1) $	Significant other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Available for Sale Financial Assets					
Cash equivalents [1]	8,977,707	8,977,707	8,977,707	—	—
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	—	—
	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.

	As at 31 December 2016				
			Fair Value Measurement Based on		
	Carrying Amount $	Fair Value $	Quoted Prices in Active Markets (Level 1) $	Significant other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Available for Sale Financial Assets					
Cash equivalents[1]	20,321,921	20,321,921	20,321,921	—	—

(1) U.S. Treasury money market fund

18 TRADE PAYABLES AND OTHER ACCRUALS

The Directors believe the carrying amount of trade payables and other accruals 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	
	2017 $	2016 $	**2017** $	2016 $
Trade payables	**1,008,715**	642,915	**60,266**	29,420
Research and development related and other accruals	**1,900,097**	1,460,440	**65,531**	61,360
Other taxes and social security	**2,126**	2,364	**1,979**	1,910
Supermarket Retail disposal costs payable	**–**	1,093,156	**–**	92,297
Total trade payables and other accruals	**2,910,938**	3,198,875	**127,776**	184,987
Amounts owed to group undertakings	**–**	–	**274,250**	249,788
Trade payables, other accruals and amounts owed to group undertakings	**2,910,938**	3,198,875	**402,026**	434,775

19 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 IAS 39. See Notes 16 and 19 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 available for sale by currency as at 31 December is as follows.

ANALYSIS BY CURRENCY

	2017	2016
	$	$
Group		
Sterling	**169,636**	62,682
US Dollar	**33,683,514**	21,367,189
Total Group	**33,853,150**	21,429,871
Company		
Sterling	**169,636**	62,682

The Group had no borrowings as at 31 December 2017 and 2016.

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**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Group				
Cash and cash equivalents	**6,984,996**	21,429,871	**2,522,809**	–
Short-term investments	**–**	–	**24,345,346**	–
Net Cash, Cash Equivalents and Short-term Investments	**6,984,996**	21,429,871	**26,868,155**	–
Company				
Cash	**169,636**	62,682	**–**	–
Net Cash	**169,636**	62,682	**–**	–

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	
	2017	2016
	$	$
Group		
Loans and receivables		
Cash and cash equivalents	**9,507,804**	21,429,871
Other receivables	**568,387**	267,061
Financial liabilities at amortised cost		
Trade payables and other accruals	**(2,908,812)**	(3,169,899)
Net Financial Assets and Liabilities	**7,167,379**	18,527,033

	Book Value	
	2017	2016
	$	$
Company		
Loans and receivables		
Cash at bank and in hand	**169,636**	62,682
Amounts owed from group undertakings	**5,855,769**	5,161,504
Financial liabilities at amortised cost		
Trade payables and other accruals	**(125,797)**	(183,077)
Amounts owed to group undertakings	**(274,250)**	(249,788)
Net Financial Assets and Liabilities	**5,625,358**	4,791,321

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, 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 banks with high credit ratings assigned by international credit rating agencies or 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. There are no impairment losses recognised on other financial assets for the Group.

(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 2019 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 2019.

(c) Interest Rate Risk
The Group operates an interest rate policy designed to minimise risk of invested assets. As at 31 December 2017, $33.9 million for the Group and $0.2 million for the Company (2016: $21.4 million for the Group and $0.1 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.

20 RELATED PARTY TRANSACTIONS
In 2017, Realm Therapeutics, Inc. and Realm Therapeutics plc had transactions that took place on an arm's length basis. Payments to key management in the year are disclosed in Note 5 to the financial statements. In 2017, Dr. Gill, a Director, was paid $36,000 (2016: $36,000) by Realm Therapeutics, Inc. for consultancy services.

21 GROUP COMPANIES
A full list of Group companies, which comprises the principal trading companies, is included in Note 15 to these financial statements. The proportion of voting rights of subsidiaries held by the group is the same as the proportion of shares held.

22 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. 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.

Accruals
Accrual amounts are judgmental by their nature and are included in Other Accruals on the Consolidated Statement of Financial Position.

In the course of normal business operations, the Group enters into agreements with contract research organizations (CROs), to assist in its drug development activities. At period ends, the Group must make estimates as to the percentage of completion of various services provided under these agreements. Depending on the timing of payments to CROs (which are generally milestone based) and percentage of completion estimates, the Group may record accrued expenses associated with these agreements. As at 31 December 2017, if the percentage of completion was 5% different than as estimated by the Group, expenses and accruals related thereto would be different by approximately $50,000.

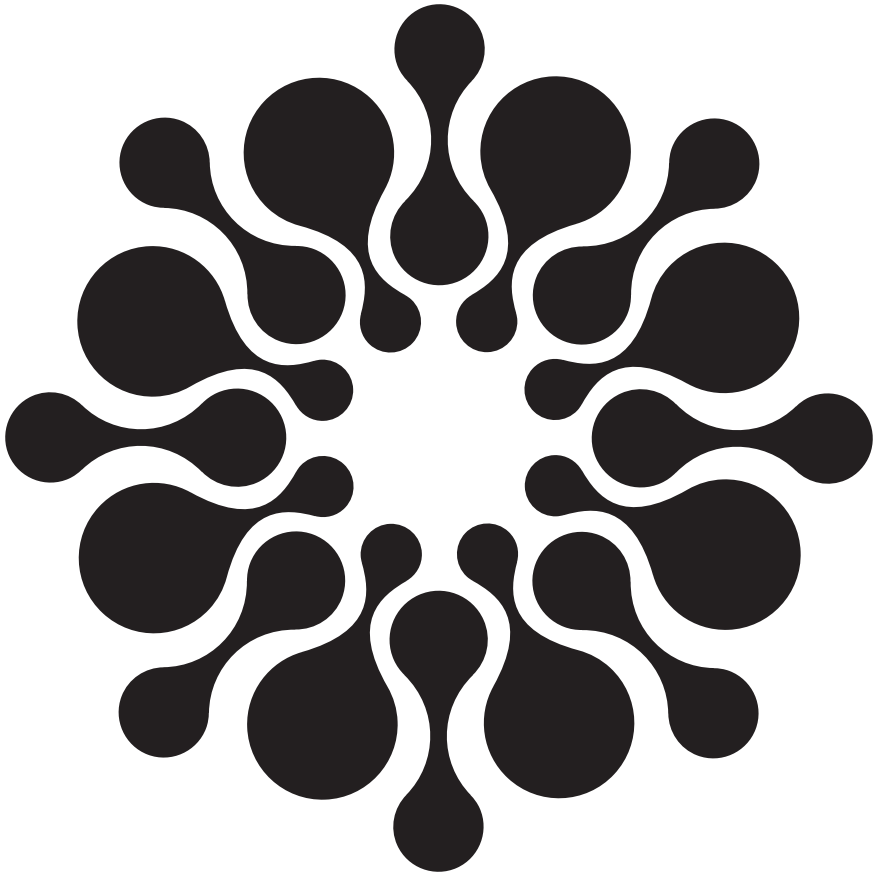
Share-Based Payment
Charges to profit or loss, in relation to share options are based on valuation techniques (principally the Black-Scholes option pricing model). These valuation techniques require a number of assumptions to be made such as those in relation to volatility, movement in interest rates, and dividend yields as detailed in Note 13. These estimates are made on the basis of information and conditions that exist at the time of the valuation. As at 31 December 2017, 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 $140,000.

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

computed using both qualitative and quantitative factors (including the market capitalization of the Group). The recoverable amount assessed by the Directors is greater than the carrying amount; therefore, no impairment is required. The methods to determine the recoverable amount represent a significant judgment that may change over time as the circumstances of the business change. As at 31 December 2017, if recoverable amount derived from the primary method used by the Directors differed by 5% there would still be no impairment.

23 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 2017. Due to the nature of this judgement no sensitivities have been applied.



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