realm THERAPEUTICS™

2016 ANNUAL REPORT

realm THERAPEUTICS™

Our vision

'As a clinical stage biopharmaceutical company, our team at Realm Therapeutics is passionately committed to developing novel immunomodulatory therapies to protect and improve the health of adults and children.'

Contents

Operational Highlights

Unveiled new strategic focus as a specialty biopharmaceutical company focused on leveraging its proprietary immunomodulatory technology.

- Development of novel, prescription treatments for inflammatory diseases including indications in Dermatology and Ophthalmology

Held successful pre-IND (Investigational New Drug) meetings with the US Food and Drug Administration (FDA) for two drug development programmes – PR022 for Atopic Dermatitis and PR013 for Allergic Conjunctivitis.

Added key new team members:

- Dr. Christian Peters joined as Chief Medical Officer
- Dr. Simba Gill joined the Board as a Non-Executive Director
- Dr. Ivan Gergel appointed to the Board as Non-Executive Director

Sold Supermarket Retail business to Chemstar Corp for gross proceeds of $13.5 million.

Grew IP portfolio through new issue patents for hypochlorous acid, at therapeutic concentrations, for the treatment of a broad range of inflammatory skin diseases.

Changed Company name to Realm Therapeutics (formerly PuriCore) to reflect the new strategy.

- LSE ticker: RLM
- Website: www.realmtx.com

Post-period Events

Submitted first IND application to the FDA for PR022 as a novel treatment for Atopic Dermatitis. Announced in February 2017 that the FDA has allowed the IND to proceed into Phase IIa clinical trials which are expected to commence in H2 2017.

Presented two posters at the Dermatology Innovation Forum in February 2017, demonstrating pre-clinical anti-itch properties and in vitro data elucidating the mechanism of action and supporting the linkage between the active ingredient in PR022 and reduced expression of protein markers associated with Atopic Dermatitis and related inflammation.

Presented at a number of other events in 2017:

- Dermatology Summit and Biotech Showcase events in San Francisco, coinciding with the 2017 J.P. Morgan Healthcare Conference in January
- BIO CEO & Investor Conference in New York in February
- Sachs 10th Annual European Life Science CEO Forum in Zurich in March

Financial Highlights

$21.4 million
Cash and cash equivalents as at 31 December 2016 (2015: $15.5m)

$13.5 million
Gross proceeds from the sale of the Supermarket Retail business

$5.0 million
Research and Development (R&D) costs from continuing operations* (2015: $1.8m) reflecting the change in strategy to focus on drug development

$7.3 million
Loss from continuing operations* (2015: $5.2m loss) reflecting higher R&D investments

$0.5 million
Net loss including gain on sale of Supermarket Retail Business (2015: $9.4m net loss)

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

**Continuing operations comprise the Group's drug development activities, Wound Care business and costs of operating Realm Therapeutics plc, following the sale of the Supermarket Retail (SR) business. Results of SR for all periods presented in the Statement of Comprehensive Income are reflected as discontinued operations.*

Chief Executive Officer's Report

2016 has been a transformative and important year in the history of the Company, as we executed on our strategy to become a specialty biopharmaceutical company. We have made excellent progress and now, as Realm Therapeutics, we are well-positioned to leverage our platform technology.

A Year of ... *Transformation*

Our ambition throughout 2016 was to build a business focused on the development of novel immunomodulatory therapies, as announced in our Strategic Review update in February 2016, and we took many steps to affect this change.

After thoughtful consideration, we decided that in order to facilitate the change in strategy and to focus exclusively on drug development, we should sell the Supermarket Retail business. In October 2016, we completed the sale for $13.5 million (gross proceeds) to Chemstar Corp.

In December 2016, we announced that we changed our name to Realm Therapeutics to reflect the new direction of the Company.

A Year of ... *Progress*

Our initial focus is on the development of novel, prescription, topical treatments for inflammatory diseases and in 2016 we progressed in the development of our two candidates – PR022 for Atopic Dermatitis and PR013 for Allergic Conjunctivitis.

Our first product, PR022, is a proprietary non-alcohol based, topical gel, which has shown statistically significant therapeutic effect in pre-clinical models of Atopic Dermatitis, but without the typical negative effects of commonly used drugs.

We were delighted to announce our first major milestone in January 2017 when we submitted an IND (Investigational New Drug) application to the US Food & Drug Administration (FDA) for PR022. In February 2017, we announced that the FDA has permitted Realm's IND application to proceed into Phase II clinical trials. We plan to begin a Phase IIa clinical trial in the second half of 2017.

We also had a successful pre-IND meeting with the FDA to discuss our second product, PR013, a proprietary topical ophthalmic solution for the treatment of Allergic Conjunctivitis. We are preparing for the submission of an IND application to the FDA for PR013, targeted for Q3 2017.

To ensure that we have the right skills in place, we have increased our team's expertise in clinical development through the additions of Dr. Simba Gill and Dr. Ivan Gergel to the Board as Non-Executive Directors, and the hiring of Dr. Christian Peters in the key role of Chief Medical Officer. Together, they bring a wealth of industry experience and successful track records in the industry, adding scientific depth to the leadership team at this critical stage of the Company's development.

A Year of ... *Appreciation*

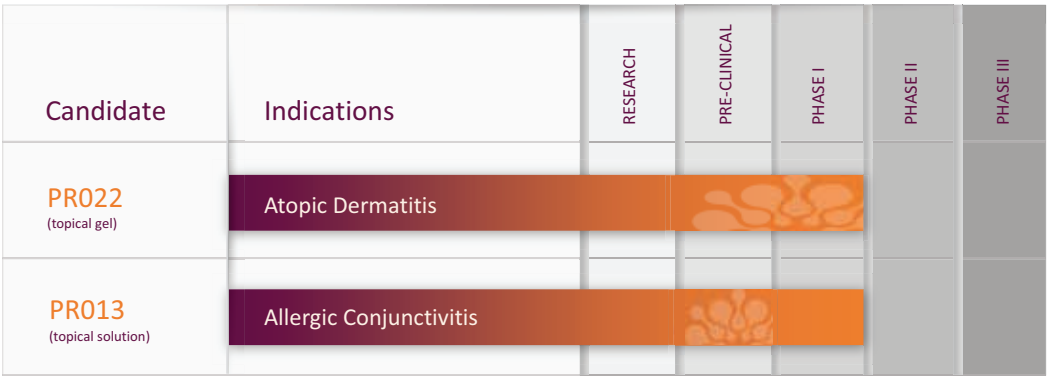
The pivoting of the business could not have happened without shareholder support for the new strategic direction and the sale of the Supermarket Retail business. We appreciate our shareholders' confidence. I also want to thank all our employees for their flexibility and unwavering dedication during an exciting time, but one filled with change and uncertainty. I am grateful to the Board for their vision and guidance. We are excited to continue to build a bright future for Realm Therapeutics in the biotech sector.

Alex Martin
Chief Executive Officer

23 March 2017

Our Products

Realm Therapeutics is advancing its immunomodulatory technology against inflammatory diseases with high unmet needs in Dermatology and Ophthalmology. The Company has developed proprietary formulations of our novel technology for initial application in Atopic Dermatitis (PR022) and Allergic Conjunctivitis (PR013) as reflected in our pipeline chart below. The formulations have shown positive results in pre-clinical studies. We believe our technology also offers an advantageous safety profile for potential use in infants and paediatrics. In the future, we intend to explore the feasibility of our technology to modulate other Th2-type inflammation and immune responses, and non-Th2 mediated diseases.



PR022 (topical gel)

PR022 is a proprietary, non-alcohol based, topical gel in which the active moiety is a patented high concentration of hypochlorous acid, offering a differentiated mechanism of action for the treatment of a significant disease.

The Company has demonstrated that PR022 is associated with a statistically significant therapeutic effect in pre-clinical models of Atopic Dermatitis (AD), including down modulation of key pro-inflammatory cytokines and reduced expression of Th2 cytokines, IL-4, IL-13 and IL-31, as well as TARC and TSLP, which are all linked to the signs and symptoms of the disease. Importantly, these results are delivered without the typical negative effects of commonly used AD immunomodulatory or immunosuppressant drugs, including corticosteroids, suggesting an advantageous safety profile for PR022.

The Company has submitted its first Investigational New Drug (IND) application to the US Food and Drug Administration (FDA) for PR022 as a novel treatment for AD.

The FDA has permitted Realm's IND application to proceed into Phase II clinical trials and the Company plans to initiate a Phase IIa clinical trial in the second half of 2017. The Phase IIa trial will be a randomised, double-blind, vehicle-controlled, multicentre, parallel-group study to assess the safety and efficacy of multiple doses of PR022 in approximately 120 adult patients with mild-to-moderate AD. Based on outcomes of this study, the Company intends to conduct a Phase IIb study to include adolescent patients, with the goal to incorporate paediatric patients in the pivotal Phase III trials.

PR013 (topical solution)

PR013 is a proprietary, topical ophthalmic solution containing high concentrations of hypochlorous acid as the active moiety. The Company has demonstrated that PR013 is associated with a statistically significant therapeutic effect in established pre-clinical models of Allergic Conjunctivitis.

The Company successfully completed a pre-IND meeting with the FDA on PR013 in November 2016, which validated plans to enter a Phase II trial following submission of the IND, anticipated in Q3 2017.

Our Markets

Realm Therapeutics worked with a leading pharmaceutical consulting firm and influential key opinion leaders to complete a comprehensive drug development strategic review. This review assessed unmet medical needs with considerable commercial value suitable for the development of a product pipeline based on our proprietary immunomodulatory technology. Target indications include inflammatory diseases and our initial focus is on two indications:

Atopic Dermatitis

Atopic Dermatitis (AD), a serious form of eczema, is a chronic, relapsing, inflammatory disease characterised by itchy, inflamed skin, which poses a significant burden on patients' quality of life and on the overall health care system.

Patients with AD have impaired function of their skin barrier, and this, combined with skin damage as a result of the intense itching and scratching associated with the disease, makes them at risk for secondary infections due to colonisation with pathogenic bacteria (particularly Staphylococcus aureus) and changes in the skin microbiome.

AD affects up to 20% of children and up to 3% of adults and prevalence numbers continue to increase. The Company believes that peak year sales for PR022 could potentially reach or exceed $1.0 billion in the US alone, based on market analysis.

Allergic Conjunctivitis

Allergic Conjunctivitis (AC) is an ophthalmic disease characterised by inflammation of the conjunctiva as a result of contact with airborne allergens.

AC can be divided into two main categories:

- Seasonal: most common form, predictable course that coincides with seasonal increases in allergens (e.g. pollen), less dramatic onset (develops over days to weeks).
- Perennial: chronic, waxing and waning, due to year-round allergen exposure (e.g. dust mites, dander, molds).

AC affects up to 40% of the US population and up to 20% of the population of Europe and Japan, including children.

Prominent symptoms include bilateral ocular pruritus, redness, and eyelid edema; watery discharge, burning, and photophobia can also occur. The Company believes that peak year sales for PR013 could potentially reach $400 million in the US, based on market analysis, and indications of superiority to standard of care demonstrated in pre-clinical models.

Chief Financial Officer's Report

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

Continuing operations comprise the Group's drug development activities, Wound Care business and costs of operating Realm Therapeutics plc, following the sale of the Supermarket Retail (SR) business. For the SR business results for all periods presented 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. Group results described in this report reflect continuing operations, unless otherwise noted.

Financial Focus

Realm Therapeutics is a clinical development company following the change in strategic focus and the sale of the Supermarket Retail business. The Group's financial results reflect the increased spend on clinical development activities and research & development, together with investment in business infrastructure to support drug development.

Sale of Supermarket Retail Business

In October 2016, the Group completed the sale of the Supermarket Retail business to Chemstar Corp for gross proceeds of $13.5 million (net proceeds of $10.7 million, after payment of all costs including accruals remaining at the end of 2016).

Revenue

Group revenue, from continuing operations in the period, comprising primarily Wound Care royalties was $0.9 million (2015: $1.2m), reflecting an increase in royalties offset by the absence of Biocidal Products Regulation (BPR) related revenue in 2016 (2015 BPR revenue: $0.6m).

Operating Expenses

Operating expenses from continuing operations increased to $8.1 million (2015: $6.2m) reflecting our new drug development strategy, regulatory investments and other costs. Investment in R&D increased to $5.0 million (2015: $1.8m) primarily due to resources and activities in drug development, formulation development, and pre-clinical and toxicology studies to support planned submission of Investigational New Drug (IND) applications for PR022 and PR013. Continuing operations absorbed a greater portion of overhead costs in 2016 than in 2015 due to the sale of the Supermarket Retail business in October 2016.

Loss

Loss from continuing operations was $7.3 million (2015: $5.2m), reflecting greater investments in R&D. Including the impact of the sale of the Supermarket Retail business, Net loss was $0.5 million (2015: $9.4m), reflecting improved operating results in Supermarket Retail along with the gain on sale.

Cash Flow

Cash and cash equivalents held as at 31 December 2016 were $21.4 million (as at 31 December 2015: $15.5m). Net cash used in operating activities of continuing and discontinued operations was $4.9 million (2015: $3.4m) and spending to fund the purchase of fixed assets was $0.8 million (2015: $1.7m). In 2016, net cash proceeds of $11.8 million were realised from the sale of the Supermarket Retail business (prior to payment of sale related accruals of $1.1 million in 2017). The Group had no outstanding debt as at 31 December 2016.

Future Financing

The Group has announced that its current cash resources are sufficient to fund a Phase IIa trial for Atopic Dermatitis and a Phase IIb trial for Allergic Conjunctivitis, based on current clinical development plans and timelines and other planned investments. The Board is considering a variety of options to finance development beyond these milestones and to evaluate other potential therapeutic areas.

Marella Thorell
Chief Financial Officer and Chief Operating Officer

23 March 2017

Strategic Review and Key Performance Indicators

Strategy

Following the Strategic Review announced in February 2016, Realm Therapeutics confirmed a new strategic direction for the business – to become a speciality biopharmaceutical company based on its core proprietary hypochlorous acid technology. The Group is focused on the development of novel, prescription, topical treatments for inflammatory diseases that are based on formulations containing high concentrations of hypochlorous acid. Target initial indications include inflammatory diseases in Dermatology and Ophthalmology.

Following this change in focus, historical KPIs no longer apply to the business. KPIs previously established for 2016 were related primarily to the Supermarket Retail business, which was sold on 7 October 2016. Those KPIs were to increase recurring revenue and to drive higher gross margins. In 2016, prior to completion of the sale, progress was demonstrated with regard to both of these KPIs.

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

Development milestones – used to monitor the performance of the Group's drug candidates through the planned clinical development. In 2017, these milestones are:

- Submission of PR022 (Atopic Dermatitis) IND (Investigational New Drug) application – *achieved*
- Submission of PR013 (Allergic Conjunctivitis) IND application
- Initiation of PR022 Phase IIa clinical trial
- Initiation of PR013 Phase IIb clinical trial

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

- Cash and cash equivalents as at 31 December 2016 were $21.4 million. It is estimated that the Group has sufficient funds to conduct initial Phase II clinical studies in PR022 and PR013.
- An increase in operating cash outflow is planned for 2017 reflecting the increased R&D and clinical development activities.

Risks and Uncertainties

The Group operates in the inherently uncertain environment of drug development and with minimal revenue streams. 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

The new strategic focus is subject to the vagaries of drug development, including cost and timeline uncertainties.

Realm Therapeutics has transitioned to a company focused on developing its platform technology at high concentrations for drug applications. Such a strategy involves inherent risks associated with demonstrating safety and efficacy of compounds, ensuring stable formulations, demonstrating clinical efficacy, achieving regulatory approval and then delivering commercial success.

Failure to execute a successful research and development strategy could result in an inability to deliver products and indications, which would have a material detrimental effect on the sustainability of the business. Failure of programmes could result from lack of resources, inadequate planning or anticipation of obstacles, poorly designed testing protocols, changes in the regulatory landscape, failure to achieve clinical results or regulatory approvals, adverse events in clinical trials or from the formulations simply not having the clinical benefits or safety profiles that were anticipated in clinical trials.

Even if regulatory approvals are obtained, market adoption of the Group's products could prove slow or impossible, depending upon other products or available therapies for the indications. Other drug companies could develop safer or more effective products for the same indications and secure a significant portion of the available market. Macro-economic factors and the political climate could impact the pricing or payers' willingness to reimburse patients for the Group's products. There are many uncertainties and variables which could impact the timing and likelihood of the Group successfully delivering a new drug and/or in the projected timelines and at the anticipated costs.

Significant investment will be required to support the drug development strategy and the Group has limited on-going revenue which will likely result in additional funding requirements. Existing shareholders' interests in the Company may be diluted as a result of a funding event. If no additional funding can be raised, the impact to the business could be significant.

The Group has a cash position of $21.4 million as at 31 December 2016. Following the sale of the Supermarket Retail business, the Group's primary source of revenue is limited to the royalties received related to the sale of its Wound Care products by a partner. The costs associated with developing, testing and obtaining regulatory approval for drugs are significant. In addition, the timeline for obtaining regulatory approvals for drugs are lengthy and uncertain. As the Group does not currently have sufficient cash to cover the costs of developing new drug products to commercialisation, additional funding will likely be necessary.

The Group may seek to obtain additional funds through equity or debt financings, or strategic alliances with third parties either alone or in combination with equity or debt financing investments. If the Group is unable to raise additional funding in the future, product development could be limited and long-term viability may be at risk.

Without limitation, the factors that may cause the Group's future funding requirements to be greater than anticipated or to accelerate the need for funds include:

- unforeseen developments during pre-clinical and/or clinical trials;
- delays in the timing of receipt of required regulatory approval or clearances;
- unanticipated expenses in research and development and manufacture of clinical trial material;
- unanticipated expenses in defense of 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 the Group's insurance coverage;
- warranty claims related to the sale of the Supermarket Retail business; or,
- imposition of penalties for failure to comply with regulatory guidelines.

All or any of these factors may utilise the Group's cash resources and increase the amount, and accelerate the timing of, any funding event. An equity raise or even a debt raise (which could include a convertible feature or warrants) may dilute existing shareholders' ownership stakes.

The Group is dependent on a limited number of contract manufacturers and other vendors to support its drug development efforts.

The Group, like many development-stage drug companies with small internal teams, has partnered with several third parties in relation to development efforts, clinical trial material production, pre-clinical/ safety studies, analytical studies and regulatory support. As such, the Group is dependent on a limited number of key partners to deliver services and products to expected timelines and costs in order to meet the Group's plans. The Group seeks to partner with vendors with a good track-record of results, but there is no certainty as to future performance of these vendors.

The Group relies on a small team of key management to execute the strategy.

The Group has in place a motivated management team focused on its strategy and a supportive R&D team of scientists focused on development. Loss of key team members could result in a delay of the Group's plans and operations or additional costs to recruit and train replacements. The Group seeks to motivate and retain key employees by providing incentivising remuneration packages and a positive, developmental working environment.

The Group's drug development strategy exposes it to a higher level of risk associated with clinical studies.

As the Group's business strategy is to develop drug formulations, there is an increased risk associated with the clinical studies which will need to be conducted for approval. The clinical testing could results in harm to patients for which the Group could be held responsible. If patients were harmed as a consequence of the Group's actions, it could have a material negative effect on the Group's financial results and cash flow as well as its reputation and consequently its access to potential financing.

The Group's products are subject to various legislative and regulatory requirements.

The Group's products are subject to various legislative and regulatory requirements. If the Group or its vendors fail to satisfy legislative and regulatory requirements or violate any such requirements, this could result in the imposition of sanctions on the Group or its vendors, including fines, injunctions (such as stoppages of clinical development activities), penalties, import bans, delays, suspension or withdrawal of approvals, seizures or recall of products, operating restrictions, and criminal prosecutions, any of which could materially harm the Group's product and clinical development efforts.

There are a broad range of regulations relating to the development, approval and manufacturing of drugs which the Group must successfully navigate and achieve in order to commercialise new drugs. Even if regulatory clearance is granted, it is subject to continual review and this approval maybe withdrawn or restricted.

Additionally, the Group and its distribution, manufacturing and other partners must comply with many regulations relating to the marketing of its medical device products.

Any one or a combination of these factors could have a material adverse effect on the Group's business, financial condition and development timelines. While the Group endeavors to manage these risks through contractual arrangements and monitoring, there is inherent risk in arrangements that are not completely under the Group's control.

Legislative changes or regulatory reform of the healthcare systems may also affect the Group's ability to develop or ultimately commercialise its products.

The Group is reliant on core platform technology for its products which limits diversification.

The Group is reliant on its core technology platform and is subject to competition from other companies that might have products in development or commercially available which are more advanced and/or less expensive. In relation to future products, competitors, particularly in key therapeutic areas, may precede the Group in commercialising, developing and receiving regulatory approval for their products and competitors may also succeed in developing products

that are safer, more effective or more economically viable than products developed by the Group. As a result, the Group's products may not be competitive or available in the market in a timely manner therefore eroding the Group's market share and/or potential for growth or creating pricing pressure in the market.

Relying on a platform technology as the basis for its drug products makes the business less diverse.

RISKS RELATING TO INTELLECTUAL PROPERTY

The Group may be unable to adequately protect its intellectual property.

The Group is the owner of intellectual property rights, comprising patents, trademarks, designs, copyright, trade secrets and confidential information. While it may apply from time to time to register additional patents, trademarks, designs and copyright and take reasonable steps to protect its trade secrets and confidential information, there can be no assurance that any of its registered intellectual property rights will not be successfully challenged or that third parties will not misappropriate such secrets and information. The Group relies to a great extent on its patents and whilst no validity challenges have previously been made there is no guarantee that they will not be made in the future. Other companies may obtain intellectual property rights based on developments in technology used by the Group. Without obtaining a license to utilise such intellectual property rights, the Group would be restricted from utilising such new developments.

Any misappropriation, or challenge to its intellectual property rights, or failure to obtain protection for a license in relation to such intellectual property could have a material adverse effect on the Group's business, financial condition and results of operations and may require it to engage in costly litigation.

Intellectual property litigation and/or infringement actions may be brought against the Group or may need to be brought by the Group.

There can be no assurance that the Group will not receive a notification that any products infringe any third-party intellectual property rights in the future. Any litigation to determine the validity of third-party infringement claims, whether or not determined in the Group's favour or settled by the Group, would be costly and would divert the efforts and attention of the management and R&D personnel from important strategic tasks, which could have a material adverse effect on the Group's business and timelines and/or financial condition.

The Directors cannot guarantee that infringement claims by third parties or claims by customers or end users of the Group's products resulting from infringement claims will not be asserted in the future or that such assertions, if proven to be true, will not materially adversely affect the Group's business and timelines and/or financial condition. In the event of an adverse ruling in any such matter, the Group could be required to pay substantial damages; cease the manufacture, use and sale of infringing products; discontinue the use of certain processes; or obtain a license under the intellectual property rights of the third-party claiming infringement. A license may not be available on reasonable terms or at all. Any limitations on the Group's ability to market its products, or delays and costs associated with redesigning its products or payments of license fees to third parties, or any failure by the Group to develop or license a substitute technology on commercially reasonable terms could have a material adverse effect on the Group's business and timelines and/or financial condition. There can be no assurance that the Group will not need to bring (or otherwise participate in) claims against third parties for infringement of intellectual property owned by the Group.

RISKS RELATING TO THE ORDINARY SHARES

The share price of the Company may fluctuate significantly.

The share price may, in addition to being affected by the Group's actual or forecasted results and milestones as well as market reception to the drug development business strategy, fluctuate significantly as a result of factors beyond the Group's control and may not always reflect the underlying asset value or the prospects of the Group. The factors that may affect the Group's share price include:

- liquidity of the ordinary shares and willingness of shareholders to sell where there are demand or supply imbalances;
- fluctuations in stock market prices and volumes, and general market volatility;
- changes in laws, rules and regulations applicable to the Group, its operations and involvement in actual or threatened litigation;
- general economic and political conditions.

There can be no assurance that an active or liquid trading market for the Company's ordinary shares will be developed or, if developed, that it will be maintained.

The Company's shares were admitted to trading on AIM following delisting from the Main Market on 23 December 2014. There can be no assurance that an active or liquid trading market for the ordinary shares will develop or, if developed, that it will be maintained. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies and may not provide the liquidity normally associated with the premium segment of the Official List. The ordinary shares may, therefore, be difficult to sell compared to the shares of companies listed on the premium segment of the Official List and their market prices may be subject to greater fluctuations than might otherwise be the case.

Further, a quotation on AIM affords shareholders a lower level of regulatory protection than that afforded to shareholders in a company with its shares listed on the premium segment of the Official List. The future success of AIM and liquidity in the market for the Company's Shares cannot be guaranteed. Potential investors and shareholders should be aware that the value and any income from the ordinary shares can go down as well as up and that investment in securities which are traded on AIM might be less realisable and might carry a higher risk than a security listed on the Official List. Liquidity on AIM is currently provided by market makers who are member firms of the London Stock Exchange and are obliged to quote a share price for each company for which they make a market between 8.00 a.m. and 4.30 p.m. on a business day.

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

23 March 2017

DIRECTORS' REPORT
Board of Directors

Charles Spicer

Non-Executive Chairman

Re-appointed 16 June 2016

Mr. Spicer, 52, 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.

Alex Martin

Chief Executive Officer and Executive Director

Re-appointed 16 June 2016

Mr. Martin, 49, joined Realm Therapeutics in June 2015 as Chief Executive Officer (CEO) and Executive Director. He brings more than 25 years 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. He serves on the Audit Committee.

Marella Thorell

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

Re-appointed 16 June 2016

Ms. Thorell, 50, 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 Company Secretary. She offers more than 26 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.

Joseph William Birkett

Senior Independent Non-Executive Director

Re-appointed 19 June 2014

Mr. Birkett, 69, joined Realm Therapeutics in 1999 as an Independent Non-Executive Director and currently serves as Senior Independent Non-Executive Director. 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. Mr. Birkett is Chairman of the Audit Committee.

Ivan Gergel, MD

Independent Non-Executive Director

Appointed 3 January 2017

Dr. Gergel, 56, joined Realm Therapeutics in January 2017 as an Independent Non-Executive Director. Dr. Gergel is currently 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 M.D. from The Royal Free Medical School of The University of London and an MBA from the Wharton School of the University of Pennsylvania. He serves on the Remuneration Committee.

Balkrishan (Simba) Gill, PhD

Non-Executive Director

Re-appointed 16 June 2016

Dr. Gill, 52, joined Realm Therapeutics in 2016 as an Independent Non-Executive Director. He is currently CEO of Evelo Biosciences and Executive Chairman of Blackfynn Inc. Previously, Dr. Gill has been a founder or senior executive at private and public companies including moksha8 Pharmaceuticals Inc., Epirus Biopharmaceuticals Inc., Maxygen Inc., Verdia Inc., Avidia Inc., Codexis Inc., Systemix Inc. and Megabios Corp. In addition, Dr. Gill served as a Venture Partner at TPG Capital LP, a leading global private equity firm, focused on investments in life sciences and emerging markets. Dr. Gill has an MBA from INSEAD and completed his Ph.D., with a focus on developing humanised antibodies to treat cancer, at King's College, London. He is Chairman of the Remuneration Committee.

Matthew Hammond

Non-Executive Director

Re-appointed 19 June 2014

Mr. Hammond, 42, joined Realm Therapeutics in 2010 as a Non-Executive Director and brings more than 20 years of banking and finance industry experience. He is currently the Chief Financial Officer and Group Managing director of Mail.Ru Group Limited, one of Europe's largest internet companies. Before that he was Group Strategist for Metalloinvest Holdings where he had broad-ranging responsibilities including equity forecasting, modelling, marketing, asset origination, portfolio management, and M&A. Mr. Hammond started his career at Credit Suisse where he was an analyst for 11 years. He is also a Non-Executive Director of Strike Resources Limited and member of the audit committee. Mr. Hammond earned a BA (Hons) in history and economics from Bristol University in 1997. He serves on the Remuneration Committee and represents the Kanton Group, which is a major shareholder of the Company.

Daniel Hegglin

Non-Executive Director

Re-appointed 16 June 2016

Mr. Hegglin, 55, joined Realm Therapeutics in January 2013 as a Non-Executive Director. Mr. Hegglin was a partner at TT International, where he was responsible for TT's hedge fund and Asian businesses. Prior to joining TT, he worked at Morgan Stanley in Europe and in Asia for 24 years. He began his career in London, moving to Switzerland and Germany to build their local equity businesses, ran equity trading in London, and served on the boards of various industry groups. In 2004 he moved to Hong Kong as Head of Pan Regional Equity, and later ran the combined equity and fixed income businesses. He was elected to Morgan Stanley's global operating committee. Mr. Hegglin serves on the Audit Committee and is a major shareholder of the Company.

Committee Membership as at 2 January 2017	
Audit Committee	Mr. Birkett (Chairman), Mr. Hegglin, and Mr. Martin
Remuneration Committee	Dr. Gill (Chairman), Dr. Gergel and Mr. Hammond

Director Change

In December 2016 it was announced that Peter Larkin, who had joined the Company in 2013 as an Independent Non-Executive Director, was stepping down from the Board on 31 December 2016. Following the sale of the Supermarket Retail business, Mr. Larkin resigned from the Board to allow the addition of a biopharmaceutical sector specialist.

Director Interests

Details of the Directors' Interests can be found on pages 21 to 23 within the Directors' Remuneration Report.

Director Re-election

Three Directors are up for re-election at the Company's Annual General Meeting to be held in June 2017.

Review of Business

A review of the business for the year ended 31 December 2016, including likely future developments and research and development activities is included within the Chief Executive Officer's Report and the Chief Financial Officer's Report set out on pages 4 and 7.

Results

The Group's trading loss from continuing operations for the year ended 31 December 2016 was $7.3 million (2015: $5.2m loss). The financial results are shown in the financial statements on pages 26 to 60.

Dividends

The Directors do not recommend the payment of a dividend (2015: $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 6 March 2017.

Registered Holding	Type	As at 6 March 2017 No. of Shares	% of ISC
Invesco Asset Management, as agent for and on behalf of its discretionary managed clients	Fund Manager	14,747,027*	29.41%
Daniel Hegglin	Owner	5,909,091	11.79%
Sussex Trading Company Limited	Owner	5,096,294	10.16%
Kanton Services Limited **	Owner	4,629,196	9.23%
Oracle Management Limited	Fund Manager	3,000,755	5.98%

* Includes the holdings of Perpetual Income & Growth Investment Trust plc (8,442,046; 16.84%); Invesco Institutional Income & Growth Fund (2,986,769; 5.96%), Keystone Investment Trust (2,720,919 shares; 5.43%), and Invesco Perpetual UK Equity Fund (597,293 shares; 1.19%).

** 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. 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 the development of novel immunomodulatory therapies for anti-inflammatory diseases with an initial focus on Dermatology and Ophthalmology. The Directors believe that maintaining strong research and development is absolutely essential to innovation, formulation development, better understanding the mechanism of action and advancing clinical objectives, in order to advance 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.

Financial Instruments

The primary risk is liquidity risk associated with the Group's new strategy since significant investments will be required utilising current cash resources. See further details disclosed in Note 21.

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 meets its day-to-day working capital requirements through its cash balances. Cash and cash equivalents were $21.4 million as at 31 December 2016 and $19.2 million as at 28 February 2017.

The Directors have prepared cash flow forecasts to 31 March 2018. These forecasts make a number of assumptions, the most significant of which relate to the planned investment in R&D, overall operating expenses and projected royalty income. The working model cash flow forecasts show the Group will be able to continue to operate within its available cash throughout the period to 31 March 2018. Due to the fact that the some of the significant investments remain discretionary, the Directors have prepared a sensitivity to the working model, 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 31 March 2018, with greater headroom.

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.

The Board is considering a variety of options for further financing to support additional research and development efforts including evaluating other potential therapeutic areas.

Annual General Meeting

The Annual General Meeting of the Group will be held at 10:00 am on Tuesday, 6 June 2017, at the offices of CMS Cameron McKenna 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 has appointed Grant Thornton UK LLP as Auditor for the year ended 31 December 2017.

By order of the Board

Charles Spicer
Non-Executive Chairman

23 March 2017

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 Group's shareholders.

The role of the Board is to provide strategic leadership of 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 was admitted to AIM on 23 December 2014 and no longer adopts the provisions of the Financial Reporting Council Code on Corporate Governance. The Company has continuing 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 Company, 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 eight Directors: the Non-Executive Chairman, the Executive Directors, the Senior Independent Director, two Non-Executive Directors, and two 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 2016 through 31 December 2016, 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 roles of the Non-Executive Chairman and Senior Independent Director are separate. 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 2016 to 31 December 2016 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 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 of capital expenditure and other large expenditures as well as information systems for monitoring the Group's financial performance against approved working budgets and forecasts.

During 2016, 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 2016 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 8. 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 Company. 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 2016 through 31 December 2016, the Audit Committee comprised Mr. Birkett (Chairman), Mr. Hegglin and Mr. Martin. 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. Hegglin offers 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 three meetings during 2016.

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 are available on request from the Company Secretary. The Audit Committee received reports from the Group's external auditors (Grant Thornton UK LLP) 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.

Grant Thornton UK LLP was appointed the Group's auditor as of September 2015. The Committee considered the tenure of the audit firm as well as the audit partner in assessing on-going independence and appointment or re-appointment of the auditor. The Committee also evaluates independence by requiring reports from the auditor, by pre-approving scope and fees for non-audit work, and by ensuring that fees for non-audit work remain appropriate and reasonable in relation to fees for audit work. The Committee is satisfied that the auditor continues to remain independent and objective in the performance of the external audit function. The Committee has recommended to the Board that Grant Thornton UK LLP, be recommended to shareholders for re-appointment as the external auditor for the year ended 31 December 2017.

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 2016 through 31 December 2016, the Remuneration Committee comprised Dr. Gill (Chairman appointed March 2016 who replaced Mr. Spicer as Chairman at that time), Mr. Hammond and Mr. Larkin (until his resignation in December 2016 and Dr. Gergel replaced him upon his appointment in 2017).

Committee Meetings

The Committee held two meetings during 2016.

Responsibilities

The 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. The Board determines the remuneration of the Non-Executive Directors. Terms of reference are available on request from the Company Secretary.

Directors' Remuneration Report

Principles of Remuneration Policy

The Company'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 and geography, as well as performance. The policy is structured to balance base salary and benefits with short and long-term performance-related remuneration. This is meant to align Executive Directors' rewards with both shareholder interests and the Group's strategy and therefore a significant portion of pay is variable. Performance targets are set to drive behaviour in support of both near and long-term Group goals and important milestones.

2016 Performance

Significant progress was made during the year in advancing the strategic direction of Realm Therapeutics as a drug development company, re-positioning the Company externally, building the team, selling the Supermarket Retail business and preparing for the PR022 IND submission in 2017. In recognition of these accomplishments the Board awarded the Executive Directors bonuses in 2016, a portion of which the Executive Directors used to purchase shares in the Company.

Executive Directors Remuneration

$'000	Salary		Benefits		Annual & One-time Bonus		Pension benefits[2]		VCP[3]		Share Options[7]		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Mr. Martin[1]	**370**	221	**41**	19	**278**	158	**8**	8	**–**	–	**–**	–	**697**	406
Ms. Thorell	**300**	300	**24**	15	**250[4]**	100	**8**	8	**–**	–	**–**	–	**582**	423
Mr. Ashton[5]	**–**	271[6]	**–**	17	**–**	–	**–**	8	**–**	–	**–**	–	**–**	296
Total	**670**	792	**65**	51	**528**	258	**16**	24	**–**	–	**–**	–	**1,279**	1,125

1 Mr. Martin joined the Group in June 2015 as Chief Executive Officer and Executive Director.

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

3 In September 2013, Mr. Ashton and Ms. Thorell as Executive Directors were granted performance units under the Realm Therapeutics plc 2013 Value Creation Plan (the VCP). Performance units create the opportunity for future conditional share awards based upon the achievement of performance criteria, which were not met at any of the measurement dates. No payments or award of shares were made under the VCP and the plan has now expired.

4 Includes a one-time bonus related to the successful sale of the Supermarket Retail business, as well as an annual bonus.

5 Mr. Ashton retired as Chief Executive Officer and Executive Director in June 2015.

6 Includes unused vacation payout and separation pay.

7 The value for share options are zero as all grants awarded as at the date of grant had exercise prices equal to or in excess of the market price on that date.

Share Options

Mr. Martin was granted 1,000,000 share options in June 2015 upon his appointment as Chief Executive Officer and Executive Director at an exercise price of 29.75 pence. The share options vest in equal increments on each of the three years following the date of grant based on the achievement of performance conditions; accordingly, one-third became vested in June 2016. Mr. Martin was granted an additional 500,000 share options in November 2016 at an exercise price of 29.5 pence. These options vest in equal increments on each of the three years following the date of grant based on the achievement of performance conditions tied to his goals and Company performance.

Ms. Thorell was granted share options in respect of her service as an employee of the Company prior to her appointment as an Executive Director, of which 7,500 are fully vested, carry an exercise price of £3.05 and remain outstanding at 31 December 2016. Ms. Thorell was granted 500,000 share options in November 2016 at an exercise price of 29.5 pence. These options vest in equal increments on each of the three years following the date of grant based on the achievement of performance conditions tied to her goals and Company performance.

Value Creation Plan Awards

In September 2013, Mr. Ashton and Ms. Thorell were granted awards under the Realm Therapeutics plc 2013

Value Creation Plan (the VCP). Performance units create the opportunity for future conditional share awards based upon the achievement of performance criteria, including minimum level of shareholder return measured by reference to share price growth. None of the performance conditions were met; therefore no payments or award of shares were made under the VCP to any participants and the plan has now expired.

Non-Executive Directors Fees

Fees paid to Non-Executive Directors who served during 2016 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 as at the date of grant had exercise prices equal to or in excess of the market price on that date.

	Fees		Share options		Total		Notes
	2016	2015	**2016**	2015	**2016**	2015	
	$	$	**$**	$	**$**	$	
Mr. Birkett	**36,603**	41,264	**–**	–	**36,603**	41,264	
Dr. Gill	**28,977**	–	**–**	–	**28,977**	–	Dr. Gill joined the Board in March 2016.
Mr. Hammond	**30,502**	34,387	**–**	–	**30,502**	34,387	
Mr. Hegglin	**–**	–	**–**	–	**–**	–	Mr. Hegglin has waived any fees, at his request.
Mr. Larkin	**30,502**	34,387	**–**	–	**30,502**	34,387	Mr. Larkin resigned from the Board effective December 2016.
Mr. Spicer	**67,783**	76,415	**–**	–	**67,783**	76,415	
Total	**194,367**	186,805	**–**	–	**194,367**	186,805	

Statement of Directors' Shareholdings

The interests in shares of the Directors as at 31 December 2016 are set out below.

	Shares owned outright	Unvested share options	Vested but unexercised share options	Total interests in shares	Share options exercised during 2016
Mr. Birkett[1]	92,686	65,000	75,000	232,686	–
Dr. Gill [2]	–	100,000	–	100,000	–
Mr. Hammond[3]	–	65,000	35,000	100,000	–
Mr. Hegglin[4]	5,909,091	–	35,000	5,944,091	–
Mr. Larkin[5]	–	–	35,000	35,000	–
Mr. Martin[6]	100,000	1,166,667	333,333	1,600,000	–
Mr. Spicer[7]	187,723	100,000	35,000	322,723	–
Ms. Thorell[6]	50,000	500,000	7,500	557,500	–

1 Mr. Birkett was granted 65,000 options in November 2016, for his service to the board, at an exercise price of 29.5 pence. These options vest in equal instalments on the first, second and third anniversaries of the date of grant and have no attaching performance conditions. In addition, Mr. Birkett holds 70,000 vested options at an exercise price of 61.43 pence and 5,000 vested options at an exercise price of £3.05.

2 Dr. Gill was granted 65,000 options in November 2016, for his service to the board, at an exercise price of 29.5 pence. These options vest in equal instalments on the first, second and third anniversaries of the date of grant and have no attaching performance conditions. In addition, Dr. Gill was granted 35,000 options in March 2016 upon his appointment, as an exercise price of 26.25 pence. These options vest in equal instalments on the first and second anniversaries of the date of grant and have no attaching performance conditions.

3 Mr. Hammond was granted 65,000 options in November 2016, for his service to the board, at an exercise price of 29.5 pence. These options vest in equal instalments on the first, second and third anniversaries of the date of grant and have no attaching performance conditions. In addition, Mr. Hammond holds 35,000 vested options at an exercise price of 61.43 pence.

4 Mr. Hegglin was granted 35,000 options in February 2013, upon his appointment, at an exercise price of 40 pence. These options are fully vested. Mr. Hegglin chose not to participate in the November 2016 option grant to directors.

5 Mr. Larkin was granted 35,000 options in May 2013, upon his appointment, at an exercise price of 47.5 pence. These options are fully vested. In addition, Mr. Larkin was granted 65,000 options in November 2016, for his service to the board, at an exercise price of 29.5 pence. These options vest in equal instalments on the first, second and third anniversaries of the date of grant and have no attaching performance conditions; however these options lapsed upon his resignation on 31 December 2016 and therefore are not reflected in the table.

6 See Share Options on page 21 for details of Executive Director options.

7 Mr. Spicer was granted 100,000 options in November 2016, for his service to the board, at an exercise price of 29.5 pence. These options vest in equal instalments on the first, second and third anniversaries of the date of grant and have no attaching performance conditions. In addition, Mr. Spicer was granted 35,000 options in August 2013, upon his appointment, at an exercise price of 41 pence. These options are fully vested.

Balkrishan Gill
Chairman of the Remuneration Committee

23 March 2017

Directors' Responsibilities in the Preparation of Financial Statements

Directors' Responsibilities Statement

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. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 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 confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Joseph William Birkett
Chairman of the Audit Committee

23 March 2017

Independent Auditor's Report to the Members of Realm Therapeutics plc (formerly PuricCore plc)

We have audited the financial statements of Realm Therapeutics plc (formerly PuriCore plc) for the year ended 31 December 2016 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
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 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge

Date: 23 March 2017

Consolidated Statement of Comprehensive Income

For the Years Ended 31 December

	Note	2016 $	2015 $
CONTINUING OPERATIONS *			
Revenue	3	**866,937**	1,232,593
Cost of sales		**(120,906)**	(240,729)
Gross Profit		**746,031**	991,864
Research and development expenses		**(5,049,043)**	(1,792,971)
General and administrative expenses		**(3,003,910)**	(3,074,650)
Sales and marketing expenses		**–**	(1,316,759)
Total operating expenses		**(8,052,953)**	(6,184,380)
Loss from Continuing Operations before Interest and Tax		**(7,306,922)**	(5,192,516)
Finance income / (expense)	8	**2,875**	(12,089)
Total Finance income / (expense)		**2,875**	(12,089)
Loss from Continuing Operations before Taxation	10	**(7,304,047)**	(5,204,605)
Taxation expense on Continuing Operations	9	**(26,612)**	(34,004)
Loss from Continuing Operations		**(7,330,659)**	(5,238,609)
DISCONTINUED OPERATIONS			
Profit / (Loss) from Discontinued Operations including Gain on Sale	2	**6,823,418**	(4,134,839)
Loss for the Year Attributable to Equity Holders of the Parent		**(507,241)**	(9,373,448)
Other Comprehensive Loss:			
Items that Are or May Be Reclassified to Profit and Loss:			
Foreign currency translation differences for foreign operations		**(11,155)**	(26,895)
Total Comprehensive Loss for the Period Attributable to Equity Holders of the Parent		**(518,396)**	(9,400,343)
Loss per Share, Basic and Diluted	11	**(0.01)**	(0.19)
Loss per Share, Continuing Operations, Basic and Diluted	11	**(0.15)**	(0.10)

**** Continuing Operations comprise the Group's drug development activities, 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 $	Cumulative translation adjustment $	Total $
At 31 December 2014 (as restated)	8,515,641	81,414,651	107,764,975	(169,368,806)	34,937	28,361,398
Loss for the year	–	–	–	(9,373,448)	–	(9,373,448)
Other comprehensive loss	–	–	–	–	(26,895)	(26,895)
Total comprehensive loss	–	–	–	(9,373,448)	(26,895)	(9,400,343)
Reclassification following lapse of share options and warrants	–	–	(4,446,250)	4,446,250	–	–
Share-based payment movement	–	–	374,166	–	–	374,166
Transactions with owners	–	–	(4,072,084)	4,446,250	–	374,166
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**

Other reserves includes share-based payments and warrant expense. 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. The 2015 Reclassification related to costs associated with prior share-based payment and warrant expense for share options and warrants which lapsed.

Consolidated Statement of Financial Position

As at 31 December

	Note	2016 $	2015 $
ASSETS			
Non-Current Assets			
Intangible assets	14	**–**	589,468
Property, plant, and equipment	15	**138,888**	2,631,507
Non-current other assets	18	**323,013**	1,308,640
Total Non-Current Assets		**461,901**	4,529,615
Current Assets			
Inventories	17	**2,902**	1,643,465
Trade, other receivables and other current assets	18	**352,315**	3,149,147
Cash and cash equivalents	19	**21,429,871**	15,456,624
Total Current Assets		**21,785,088**	20,249,236
Total Assets		**22,246,989**	24,778,851
LIABILITIES			
Current Liabilities			
Trade payables and other accruals	20	**(3,198,875)**	(5,443,630)
Total Liabilities		**(3,198,875)**	(5,443,630)
Net Assets		**19,048,114**	19,335,221
EQUITY			
Share capital	12	**8,519,391**	8,515,641
Share premium		**81,417,557**	81,414,651
Other reserves		**103,207,275**	103,692,891
Retained earnings		**(174,092,996)**	(174,296,004)
Cumulative translation adjustment		**(3,113)**	8,042
Issued Capital and Reserves Attributable to Equity Holders of the Parent		**19,048,114**	19,335,221
Total Equity		**19,048,114**	19,335,221

The consolidated financial statements and related notes on pages 26 to 60 were approved by the Board of Directors and authorised for issue on 23 March 2017 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

	2016 * $	2015 * $
Cash Flows from Operating Activities		
Loss for the year	**(507,241)**	(9,373,448)
Adjustments for non-cash:		
Supermarket Retail net assets disposed	**(5,278,528)**	–
Write off of property, plant, and equipment	**171,739**	1,020,240
Depreciation and amortisation	**772,205**	1,744,229
Share-based payment expense	**224,633**	374,166
Finance income	**(176,572)**	(315,718)
Finance costs	**–**	12,089
Taxation	**26,612**	–
Operating Loss before Movement in Working Capital	**(4,767,152)**	(6,538,442)
Decrease in trade and other receivables	**488,506**	866,193
Decrease / (Increase) in inventories	**575,694**	(534,317)
(Decrease) / Increase in trade payables and other accruals	**(319,882)**	2,534,018
Increase in Supermarket Retail disposal related costs payable	**(1,093,154)**	–
Decrease in taxes payable	**–**	(75,000)
Cash Used in Operations	**(5,115,988)**	(3,747,548)
Finance income (includes Continuing and Discontinued Operations)	**176,572**	315,718
Net Cash Flows used in Operating Activities	**(4,939,416)**	(3,431,830)
Cash Flows from Investing Activities		
Proceeds from sale of Supermarket Retail, net of costs paid	**11,790,217**	–
Purchases of property, plant, and equipment	**(844,885)**	(1,704,676)
Purchases of intangible assets	**–**	(24,418)
Net Cash Flows from Investing Activities	**10,945,332**	(1,729,094)
Cash Flows from Financing Activities		
Proceeds from exercise of stock options	**6,656**	–
Repayment of line of credit / borrowings	**–**	(223,323)
Interest paid on borrowings	**–**	(12,089)
Net Cash Flows from Financing Activities	**6,656**	(235,412)
Net Increase / (Decrease) in Cash and Cash Equivalents	**6,012,572**	(5,396,336)
Cash and Cash Equivalents at Beginning of Year	**15,456,624**	20,887,379
Effect of Foreign Exchange Rate Changes on Cash Held	**(39,325)**	(34,419)
Total Cash and Cash Equivalents Held at End of Year	**21,429,871**	15,456,624

** Includes Continuing and Discontinued Operations (see Note 2)*

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 2014	8,515,641	81,414,651	4,716,263	(61,032,960)	9,713,282	43,326,877
Loss for year	–	–	–	(21,718,077)	–	(21,718,077)
Other comprehensive loss	–	–		–	(2,012,834)	(2,012,834)
Total comprehensive loss	–	–	–	(21,718,077)	(2,012,834)	(23,730,911)
Reclassification following lapse of share options and warrants			(92,202)	92,202		–
Share-based payment movement	–	–	374,166	–	–	374,166
Transactions with owners	–	–	281,964	92,202	–	374,166
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**

Other reserves includes share-based payments and warrant expense. 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. The 2015 Reclassification related to costs associated with prior share-based payment and warrant expense for share options and warrants which lapsed.

Company Statement of Financial Position

As at 31 December

	Note	2016 $	2015 $
ASSETS			
Non-Current Assets			
Investments in subsidiaries	16, 24	**11,000,819**	13,000,723
Total Non-Current Assets		**11,000,819**	13,000,723
Current Assets			
Other current assets	18	**30,165**	44,325
Amounts owed from group undertakings	18	**5,161,504**	7,008,624
Cash and cash equivalents	19	**62,682**	374,714
Total Current Assets		**5,254,351**	7,427,663
Total Assets		**16,255,170**	20,428,386
LIABILITIES			
Current Liabilities			
Trade payables and other accruals	20	**(184,987)**	(157,940)
Amounts owed to group undertakings	20	**(249,788)**	(300,314)
Total Current Liabilities		**(434,775)**	(458,254)
Total Liabilities		**(434,775)**	(458,254)
Net Assets		**15,820,395**	19,970,132
EQUITY			
Share capital		**8,519,391**	8,515,641
Share premium		**81,417,557**	81,414,651
Other reserves		**4,512,611**	4,998,227
Retained earnings		**(82,933,981)**	(82,658,835)
Cumulative translation adjustment		**4,304,817**	7,700,448
Total Equity Attributable to Equity Holders of the Parent		**15,820,395**	19,970,132

The Company loss for the financial year attributable to equity holders was $985,395 (2015: $21,718,077).

The financial statements and related notes on pages 26 to 60 were approved by the Board of Directors and authorised for issue on 23 March 2017 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

	2016 $	2015 $
Cash Flows from Operating Activities		
Loss for the year	**(985,395)**	(21,718,077)
Adjustments for:		
Share-based payment expense	**7,517**	–
Loss on impairment of Investment in Subsidiary	**–**	20,552,000
Operating Loss before Movement in Working Capital	**(977,878)**	(1,166,077)
Decrease in other receivables and other current assets	**7,380**	13,504
Increase / (Decrease) in trade payables and other accruals	**54,761**	(131,232)
Cash Used in Operations	**(915,737)**	(1,283,805)
Net Cash Flows from Operating Activities	**(915,737)**	(1,283,805)
Cash Flows from Investing Activities		
Increase in amounts owed to group undertakings	**630,137**	1,727,680
Repayments to group undertakings	**–**	(166,379)
Net Cash Flows from Investing Activities	**630,137**	1,561,301
Proceeds from exercise of stock options	**10,544**	–
Net Cash Flows from Financing Activities	**10,544**	–
Net (Decrease) / Increase in Cash and Cash Equivalents	**(275,056)**	277,496
Cash and Cash Equivalents at Beginning of Year	**374,714**	111,178
Effect of Foreign Exchange Rate Changes on Cash Held	**(36,976)**	(13,960)
Total Cash and Cash Equivalents Held at End of Year	**62,682**	374,714

Accounting Policies

BASIS OF PREPARATION

Realm Therapeutics plc (the Company) is incorporated in the United Kingdom (UK). In December 2016, the Company changed its name from PuriCore plc to Realm Therapeutics plc to more accurately reflect the Company's strategic focus and direction. Realm Therapeutics, Inc. (a United States (US) subsidiary), is incorporated under the laws of Delaware in the 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 23 March 2017. 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 2016.

On 7 October 2016, Realm Therapeutics, Inc. 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 and for the year ended 31 December 2015 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).

Continuing operations primarily include drug development activities, the Wound Care business which is out-licensed and costs of operating the Company.

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

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

Some asset and liability amounts reported in the accounts are based on management estimates and assumptions that affect the reported amounts. There is therefore a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year. Management regularly reviews the estimates and assumptions that drive key financial calculations and disclosures. Key risks are considered in these calculations, where necessary (see Note 24).

BASIS OF CONSOLIDATION

Realm Therapeutics plc consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries (the Group) made up to 31 December each year. Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The results of subsidiary undertakings acquired or disposed of in the year are included in the Group Statement of Comprehensive Income from the effective date of acquisition or disposal. Accounting policies are consistently applied throughout the Group. Intergroup balances and any unrealised gains and losses or income and expense arising from intergroup transactions are eliminated in preparing the consolidated financial statements.

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 meets its day-to-day working capital requirements through its cash balances. Cash and cash equivalents were $21.4 million at 31 December 2016 and $19.2 million at 28 February 2017. The Company had no debt as at 31 December 2016 and 2015.

The Directors have prepared cash flow forecasts to 31 March 2018. These forecasts make a number of assumptions, the most significant of which relate to the planned investment in Research & Development, overall operating expenses and projected royalty income. The working model cash flow forecasts show the Group will be able to continue to operate within its available cash throughout the period to 31 March 2018. Due to the fact that the some of the significant investments remain discretionary, the Directors have prepared a sensitivity to the working model, 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 31 March 2018, with greater headroom.

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.

SEGMENTAL ANALYSIS AND PRESENTATION

In 2016 and 2015, the Group operated the following business segments:

- Health Sciences:
  - Drug development programmes,
  - Wound Care and other business, and
- Company and other
- Supermarket Retail: Discontinued Operations

In 2016, Company and Other include costs associated with operating Realm Therapeutics plc. In 2015, Company and Other include costs associated with operating Realm Therapeutics plc, and revenue and costs associated with the Group's Active Chlorine Biocidal Products Regulation (BPR) dossier.

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 to make decisions about resources to be allocated to the segment and assess performance, and for which discrete financial information is available.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated into the functional currency of the respective group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in within profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of operations with a functional currency other than US Dollars (primarily Realm Therapeutics plc and PuriCore Europe Limited), including fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of operations with a functional currency other than US Dollars are translated at an average rate for the period since this rate approximates the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are charged/credited to other comprehensive income and recognised in the cumulative translation adjustment within Equity, and are released into profit or loss on disposal and recognised as part of gain/loss on disposal or as recycled translation reserve.

The presentational currency adopted by the Group and Parent Company is the US Dollar ($). The share capital of the Parent Company 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	
2016	2015	**2016**	2015
1.2312	1.4802	**1.3557**	1.5283

REVENUE

Continuing Operations

The Group earns royalty income related to its partnership distribution arrangement for its Wound Care business. During 2015, the Group earned fees paid by third parties to gain letters of access to the Group's Biocidal Products Regulation (BPR) dossier. Revenue recognition practices are as follows:

- Royalty income is based upon partnership sales of licensed products and is recorded in accordance with contract terms when partnership results are reliably measurable.
- BPR revenue is recognised when cash payment is received and access has been granted to the Group's dossier.

Revenue represents the net amounts charged or chargeable in respect of services rendered and goods supplied, excluding intercompany sales, and excluding any taxes. Revenue is recognised net of any discounts given to the customer.

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

Expenditures on the development of new products that do not meet the recognition criteria of an intangible asset are expensed as incurred. Research costs are expensed as incurred. These expenditures include the costs of salaries and benefits of employees and other operational costs related to the Company's research and development activities.

Development activities involve a plan of design for the production of new products and processes. Development expenditures are capitalised only if development costs can be measured reliably, the product or process is technically

and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development costs are expensed as incurred.

EMPLOYEE BENEFITS

401(k) Retirement Income Plan

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

Equity-Based and Share-Based Payment Transactions

The Company's share option programme allows employees to acquire shares of Realm Therapeutics plc to be settled in equity. The fair value of options granted is recognised as an employee expense by the subsidiary employing the grantee with a corresponding increase in equity on Company accounts. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Value Creation Plan (VCP), a long-term incentive plan approved by the Company's shareholders in 2013, provides certain Executive Directors and certain members of senior management an award of performance units. Performance units create the opportunity for future conditional share awards based upon the achievement of performance criteria, including minimum level of shareholder return measured by reference to share price growth. No payment or award of shares was made under the VCP since inception and the VCP expired in 2016. The fair value of performance units were recognised as an employee expense with a corresponding increase in equity. The fair value was measured at grant date and the expense spread over the three year performance period.

The Company has outstanding warrants to purchase its shares. Warrants are valued at fair market based upon the Company's share price on date of grant.

FINANCE INCOME

Continuing Operations

Finance income is earned on the Group's invested cash balances.

Discontinued Operations

Finance income related to the Group's Supermarket Retail 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.

FINANCE EXPENSE

Finance expense comprises interest payable on debt. Interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

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 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.

LEASED ASSETS – RECEIVABLES, CURRENT AND LONG-TERM

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.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and related employee benefits that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and costs to be incurred in marketing, selling, and distribution.

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.

INTANGIBLE ASSETS

Intangible assets which represent capitalised development costs meeting the relevant criteria are amortised on a straight-line basis over the assets' expected useful life of five years. Amounts capitalised prior to 2015 related to the Health Sciences business were fully amortised and written-off in 2015 based on a change in the Group's strategy to focus on drug development activities.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at cost plus any related costs of installation and readying the asset for use less accumulated depreciation and impairment losses.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant, and equipment. Residual values and useful economic lives of assets are assessed at each year-end.

The estimated original useful lives are as follows:

Leasehold improvements	1-6 years (life of lease)
Furniture & fixtures	5 years
Machinery & equipment	3-5 years

IMPAIRMENT

The carrying amounts of the Group's long-lived assets, if any, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

Receivables with a short duration are not discounted unless there is objective evidence of impairment. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

OPERATING LEASE PAYMENTS

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

Financial assets or liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Borrowings are measured initially at fair value and subsequently measured at their amortised cost.

Cash and cash equivalents comprise cash in hand and on-demand deposits less overdrafts (see Note 19). Cash equivalents are held in a U.S. Treasury-backed money market fund. Unless an enforceable right of set-off exists, the components of cash and cash equivalents are reflected on a gross basis in the statement of financial position. The carrying value of other financial assets, including short-term receivables, are stated at amortised cost less any impairment provision. The carrying value of other financial liabilities, including short-term payables, are stated at amortised cost.

The carrying amount of the following financial assets and liabilities is considered a reasonable approximation of fair value:

- Trade and other receivables
- Trade payables and other accruals

NEW STANDARDS AND INTERPRETATIONS

New standards and interpretations currently in issue but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2016 are:

	EU effective date
IFRS 9 Financial Instruments (Issued on 24 July 2014)	01 January 2018
IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015)	01 January 2018
IFRS 16 Leases (Issued on 13 January 2016)	01 January 2019
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	Not yet endorsed
Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016)	Not yet endorsed
Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)	Not yet endorsed
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)	Not yet endorsed
Annual improvements to IFRS 2014-2016 Cycle (Issued 8 December 2016) - Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investment in associates and joint ventures	Not yet endorsed
Annual improvements to IFRS 2014-2016 Cycle (Issued 8 December 2016) - Relating to IFRS 12 Disclosure of interest in other entities	Not yet endorsed

Given the transition of the business to drug development, the assessment of IFRS 15 on revenue and IFRS 16 on leases will be completed based on future revenue and operating lease arrangements. IFRS 16 will require operating leases, including property rental arrangements, to be reflected within the Statement of Financial Position. The Group does not expect the other standards, amendments or interpretations to have a material impact on the consolidated financial statements when they become effective. The Group does not intend to apply any of these pronouncements early.

1 SEGMENTAL ANALYSIS

Segmental information is provided having regard to the markets served. Realm Therapeutics is a clinical biopharmaceutical company focused on leveraging its proprietary core technology to develop pharmaceuticals. The Group also has royalty revenue from its Wound Care product (as a medical device). During the years ended 31 December 2015 and 2016, the Health Sciences segment represented revenue and costs related to these programmes. 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.

	2016			
	Health Sciences $	**Company & Other [1] $**	**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
Interest 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

	2015			
	Health Sciences $	Company & Other [1] [2] $	Total $	Discontinued Operations: Supermarket Retail $
Revenue	611,076	621,517	1,232,593	22,173,276
Gross Profit	370,347	621,517	991,864	5,656,947
Loss before Interest, Tax, Depreciation & Amortisation, and Share-Based Payment Expense	(3,345,216)	(914,933)	(4,260,149)	(2,524,642)
Interest income / (expense)	–	(12,089)	(12,089)	315,718
Depreciation and amortisation	(461,225)	(96,976)	(558,201)	(1,186,028)
Write-off of capital assets [3]	–	–	–	(739,887)
Share-based payment expense	–	(374,166)	(374,166)	–
Loss before Tax	(3,806,441)	(1,398,164)	(5,204,605)	(4,134,839)
Segment Assets				
Non-current assets	46,563	128,861	175,424	4,354,191
Current assets	12,771	–	12,771	4,779,841
Total assets excluding cash and cash equivalents	59,334	128,861	188,195	9,134,032
Segment Liabilities				
Current liabilities	(387,889)	(900,177)	(1,288,066)	(4,155,564)
Total liabilities	(387,889)	(900,177)	(1,288,066)	(4,155,564)
Other Segment Items				
Capital expenditure: property, plant, and equipment	114,077	58,461	172,538	1,457,140
Capital expenditure: intangible assets	–	–	–	24,418

1) In 2016 and 2015, Company and Other include costs associated with operating Realm Therapeutics plc.

2) In 2015, Company and Other include Biocidal Products Regulation (BPR) revenue and costs.

3) Represents the write off of certain concentrate delivery system assets, as customers purchased alternate capital equipment (generators), no longer in use (see Note 15).

Information about Geographical Areas

An analysis of the Group's revenue by geographic location of its customers, segment assets (excluding cash and cash equivalents) and capital and intangible expenditures are as follows.

	Revenue For the Years Ended 31 December		Segment Assets At 31 December		Capital Expenditures For the Years Ended 31 December	
	2016	2015	**2016**	2015	**2016**	**2015**
	$	$	**$**	$	**$**	**$**
North America	**817,479**	1,156,378	**786,953**	143,870	**73,849**	**172,538**
United Kingdom	**49,458**	42,545	**30,165**	44,325	**–**	**–**
Other	**–**	33,670	**–**	–	**–**	**–**
Continuing Operations	**866,937**	1,232,593	**817,118**	188,195	**73,849**	**172,538**
Discontinued Operations, North America	**14,759,521**	22,173,276	**–**	9,134,032	**771,036**	**1,481,558**

2 DISCONTINUED OPERATIONS

Discontinued operations represent the Supermarket Retail business. The Supermarket Retail segment was sold in October 2016; therefore, the 2016 results are for the period ended 7 October 2016. The Statement of Comprehensive Income, Summary Statement of Cash Flows, and Statement of Financial Position for the Supermarket Retail segment are as follows:

	For the period from 1 January through 7 October	
	2016	2015
	$	$
Results of Discontinued Operations		
Revenue	**14,759,521**	22,173,276
Cost of sales	**(8,730,546)**	(16,516,329)
Gross Profit	**6,028,975**	5,656,947
Sales and marketing expenses	**(1,873,965)**	(3,071,954)
General and administrative expenses	**(1,756,715)**	(4,614,811)
Research and development expenses	**(1,167,108)**	(2,420,739)
Operating Expenses	**(4,797,788)**	(10,107,504)
Profit/(Loss) from Operating Activities	**1,231,187**	(4,450,557)
Finance Income	**173,697**	315,718
Profit/(Loss) from Operating Activities, net of tax	**1,404,884**	(4,134,839)
Gain on Sale of Discontinued Operations	**5,418,534**	–
Profit/(Loss) from Discontinued Operations	**6,823,418**	(4,134,839)
Basic and diluted Earnings / (Loss) per Share from Discontinued Operations	**0.14**	(0.09)

	For the period from 1 January through 7 October	
	2016	2015
	$	$
Net Cash Flow from Operating Activities	**1,903,703**	(692,961)
Net Cash Flow from Investing Activities	**(771,036)**	(1,598,001)
Net Cash Generated by / (Used in) Discontinued Operations	**1,132,667**	(2,290,962)

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.

	2016	2015
	$	$
Royalty income	**709,458**	399,963
Sale of inventories	**157,479**	211,113
BPR access rights	**–**	621,517
Group Revenue	**866,937**	1,232,593
Revenue, Discontinued Operations	**14,759,521**	22,173,276

4 OPERATING LEASES

Minimum lease payments under operating leases for Discontinued Operations recognised as income were $29,244 and $606,401 for the years ended 31 December 2016 and 2015, respectively. The Group's Supermarket Retail receivables under capital leases were disposed as part of the Discontinued Operations in 2016. Operating lease receivables for the Group's Discontinued Operations as at 31 December 2015 were as follows.

	2015
	$
Discontinued Operations:	
Due within one year	20,485
Due in the second to fifth years inclusive	1,666
Due after five years	–
	22,151

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.

	2016	2015
Research and development	**11**	10
Head office and administration	**4**	4
Average persons employed, Continuing Operations	**15**	14
Average persons employed, Discontinued Operations	**26**	37
Average total persons employed	**41**	51

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

	2016	2015
	$	$
Wages and salaries [1]	**2,665,284**	2,257,304
Social Security costs	**126,963**	130,130
Retirement plan costs	**51,966**	49,737
Share based compensation costs	**224,633**	374,166
Total Remuneration, Continuing Operations	**3,068,846**	2,811,337
Total Remuneration, Discontinued Operations	**2,720,318**	4,547,343
Total Remuneration	**5,789,164**	7,358,680

(1) 2015 includes Chief Executive Officer transition costs.

Key Management

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

	2016	2015
	$	$
Wages and salaries	**2,122,533**	1,567,687
Retirement plan costs	**37,479**	36,232
Share based compensation costs	**138,323**	214,069
Total Key Management Remuneration, Continuing Operations	**2,298,335**	1,817,988
Total Key Management Remuneration, Discontinued Operations[1]	**929,158**	402,812
Total Key Management Remuneration	**3,227,493**	2,220,800

(1) 2016 includes disposal-related remuneration.

The aggregate of remuneration and amounts receivable under long term incentive schemes (excluding share based payment schemes) of the highest paid Director was $696,921 (2015: $423,026), including company retirement plan benefits of $7,950 (2015: $7,890).

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 on pages 21 - 23.

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

	2016	2015
Number of share options granted	**2,235,000**	1,000,000
Number of share options exercised	**–**	–
Number of share options lapsed	**(155,000)**	(165,000)
Number of share options lapsed, Discontinued Operations	**(120,000)**	N/A

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 2016 was $140,307 (2015: $181,185) and included both Continuing Operations and Discontinued Operations.

7 OPERATING LEASE COMMITMENTS

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.

	2016	2015
	$	$
Minimum lease payments under operating leases recognised as an expense in the period	**525,164**	504,689

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

	As at December 31	
	2016	2015
	$	$
Land and buildings		
Within one year	**123,084**	500,548
In the second to fifth years inclusive	**650,382**	–
After five years	**443,544**	–
Plant and machinery		
Within one year	**18,395**	18,395
In the second to fifth years inclusive	**25,859**	33,953
After five years	**–**	–
Outstanding commitments under non-cancellable operating leases	**1,261,264**	552,896

In December 2016, the Company's existing office lease expired and a new 96 month lease, beginning 1 April 2017, was executed. Included within Non-current Other Assets on the Consolidated Statement of Financial Position as at 31 December 2016 is a deposit of $0.3 million related to the new office lease.

Operating lease payments also represent rentals payable by the Group for certain of its equipment. Leases have varying terms and renewal rights. The above leasing arrangements do not contain any restrictive covenants, contingent rents or purchase options.

8 FINANCE INCOME AND EXPENSE

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

	2016	2015
	$	$
Interest income on bank balances	**2,875**	–
Interest expense on bank loans	**–**	(12,089)
Total Finance Income / (Expense)	**2,875**	(12,089)

	2016	2015
	$	$
Discontinued Operations:		
Interest income on capital leases	**173,697**	315,718
Total Finance Income	**173,697**	315,718

9 INCOME TAXES

Recognised Deferred Tax Assets and Tax Liabilities

As at 31 December 2016, 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.

	2016	2015
	$	$
Current tax, Continuing Operations [1]	**26,612**	34,004
Discontinued Operations:		
US tax on Sale of Discontinued Operations	**–**	–
Deferred tax:		
Origination and reversal of temporary differences	**–**	–
Total deferred tax, Discontinued Operations	**–**	–
Total tax expense	**26,612**	34,004

(1) Current tax expense for 2016 primarily represents US federal alternative minimum tax. Tax expense for 2015 primarily represented state income taxes paid.

The Group has not recognised deferred tax assets in respect of UK tax losses amounting to $1.0 million (2015: $7.3m) that can be carried forward against future taxable income.

As at 31 December 2016, the Group has not recognised U.S. deferred tax assets of approximately $19.0 million (tax effected), as the realisations of the U.S. deferred tax assets is not considered probable. The Group has U.S. net operating loss carryforwards of approximately $50.7 million, gross, which expire from 2020 through 2035. The Group has U.S. research and development credits of approximately $0.6 million which expire from 2021 to 2029, and the Group has U.S. Alternative Minimum Tax credits of approximately $0.1 million that have an indefinite carryforward period. The Group has no U.S. tax uncertainties as at 31 December 2016.

An analysis of the Group's reconciliation of its effective tax rate for the years ended 31 December is as follows. The current tax charge for the period is higher (2015: higher) than the standard rate of corporation tax in the UK of 20.0% (2015: 20.0%). The differences are explained below.

	2016 $	2015 $
Reconciliation of Effective Tax Rate		
Loss before tax	**(480,629)**	(9,339,444)
Tax using UK corporation tax rate of 20.0% (2015: 20.0%)	**(96,126)**	(1,867,889)
Tax loss carryforwards utilised during the year	**(336,895)**	–
Non-deductible expenses	**42,035**	82,296
Other unrecognised temporary differences	**150,586**	381,015
U.S. federal alternative minimum tax	**26,612**	–
Deferred tax asset on current year losses not recognised	**240,400**	1,404,578
State taxes paid	**–**	34,004
Total tax expense	**26,612**	34,004

The UK corporate tax rate reduces to 19% effective 1 April 2017.

10 PROFIT / (LOSS) FOR THE YEAR

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

	2016 $	2015 $
Continuing Operations:		
Research and development expense	**5,049,043**	1,792,971
Depreciation of property, plant, and equipment	**126,128**	129,312
Cost of inventories recognised as expense	**58,799**	95,299
Loss on disposal of property, plant, and equipment	**38,891**	1,208
Amortisation and impairment of intangible assets	**–**	428,888
Inventories written down or provisioned	**–**	125,581
Discontinued Operations:		
Cost of inventories recognised as expense	**5,973,968**	10,064,146
Research and development expense	**1,167,108**	2,420,739
Depreciation of property, plant, and equipment	**501,918**	996,259
Loss on disposal of property, plant, and equipment	**132,848**	1,019,032
Amortisation and impairment of intangible assets	**144,159**	189,770
Inventories written down or provisioned	**–**	188,188

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

	2016 $	2015 $
Audit of the Company's financial statements	**35,000**	35,000
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**55,000**	55,000
Taxation compliance services	**71,500**	66,900
All other services (interim review)	**3,313**	–
Auditor's remuneration for all services	**164,813**	156,900

11 EARNINGS / (LOSS) PER SHARE

The Company's issued share capital at 31 December 2016 consisted of 50,165,432, 10 pence ordinary shares.

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.

	2016	2015
	$	$
Loss for the Year Attributable to Equity Holders of the Parent	**(507,241)**	(9,373,448)
Profit / (Loss) from Discontinued Operations including 2016 Gain on Sale	**6,823,418**	(4,134,839)
Loss from Continuing Operations for the purpose of Adjusted basic and diluted loss per share	**(7,330,659)**	(5,238,609)

	As at 31 December	
Number of Shares	**2016**	2015
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**50,139,141**	50,135,432
Weighted average number of ordinary shares for the purpose of diluted profit per share	**50,139,141**	50,135,432

	2016	2015
Earnings Per Share	**$**	$
Basic and diluted from Continuing Operations [1]	**(0.15)**	(0.10)
Basic and diluted from Discontinued Operations	**0.14**	(0.09)
Total basic and diluted	**(0.01)**	(0.19)

(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 therefore excluded since not dilutive under the terms of IAS 33 'Earnings per share'.

12 SHARE CAPITAL

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 2014	50,135,432	5,013,543
Allotments during 2015	–	–
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

No shares were held in treasury at 31 December 2016 or 2015. 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.

Capital Management

The Group manages capital to ensure that it has adequate resources to enable it to efficiently operate its principal activities. Management's policies are to invest Group assets in low risk investments that maximise 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:

	2016 $	2015 $
Cash and cash equivalents	**21,429,871**	15,456,624
Equity attributable to owners of the parent	**(19,048,114)**	(19,335,221)
Net capital	**2,381,757**	(3,878,597)

WARRANTS

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

Exercise price $	**Number of Warrants outstanding**	**Number Warrants exercisable**	**Weighted average life in years as at 31 December 2016**	2015
0.61	154,229	154,229	**2.00**	3.00

In December 2013, in conjunction with a secured revolving credit arrangement with a US bank, the Company issued warrants to purchase 154,229 shares of common stock at the market price on the date of the loan closing. The warrants are fully exercisable at 49.43 pence per share for a period of five years from date of issue.

13 SHARE-BASED PAYMENTS

The Company operates an Employee Share Option Scheme. The share options granted under the scheme are not subject to performance conditions (except in the case of awards made to Executive Directors which carry performance conditions) and generally have a term of five years. For grants without performance conditions, the options become vested at various points in time (generally within three years of date of grant). See Directors' Remuneration Report on pages 21 - 23 for Executive Director option grants.

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.

	2016		2015	
	Weighted average exercise price $	**Number of options**	Weighted average exercise price $	Number of options
Options outstanding, beginning of year	**0.67**	**2,458,168**	0.92	1,646,068
Options granted during the year	**0.36**	**2,627,500**	0.44	1,205,000
Options exercised during the year	**0.22**	**(30,000)**	–	–
Options forfeited during the year	**0.40**	**(805,000)**	0.69	(392,900)
Options outstanding, end of the year	**0.46**	**4,250,668**	0.67	2,458,168
Options exercisable, end of the year	**0.80**	**926,501**	0.91	1,179,834

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

2016				2015			
Exercise price	**Options outstanding**	**Options exercisable**	**Weighted average life in years**	Exercise price	Options outstanding	Options exercisable	Weighted average life in years
$0.22 - $0.36	**2,697,500**	**45,000**	**4.82**	$0.27 – $0.29	112,500	–	4.94
$0.37 - $0.76	**1,460,000**	**788,333**	**2.89**	$0.37 – $0.41	687,500	687,500	0.73
$3.76 - $4.68	**93,168**	**93,168**	**1.14**	$0.46	1,055,000	–	4.43
				$0.48 – $0.94	490,000	379,166	2.62
Total options	**4,250,668**	**926,501**		$4.66 – $5.81	113,168	113,168	2.14
				Total options	2,458,168	1,179,834	

The above exercise prices have been translated at the exchange rate at the year-end closing date. The weighted average per share fair value of options granted in 2016 was $0.14 (2015: $0.19), as calculated using the Black Scholes option valuation model.

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

	2016	2015
Weighted average share price	**$ 0.36**	$ 0.44
Weighted average exercise price	**$ 0.36**	$ 0.44
Expected volatility	**43%**	50%
Dividend yield	**–**	–
Option life in years	**5**	5
Risk-free interest rate	**1.20% – 1.73%**	1.33% – 1.75%

Expected volatility has been estimated using a weighted average of comparable companies and indices relevant to the Group's operations. Awards are considered to be equity settled under IFRS 2.

Value Creation Plan

In 2013, the Company Shareholders approved a long-term incentive plan, the VCP, to provide Executive Directors and certain members of senior management an award of performance units. Performance units create the opportunity for future conditional share awards based upon the achievement of performance criteria, including minimum level of shareholder return measured by reference to share price growth. No payment or award of shares was made under the VCP and the VCP expired in April 2016 with no awards granted. The fair value of awards granted is recognised as an employee expense with a corresponding increase in equity. The fair value was measured at grant date and the expense spread over the period during which the employees become unconditionally entitled to the performance unit. Mr. Martin, appointed as Chief Executive Officer in June 2015, is not a participant in the VCP.

The inputs for the valuation of the VCP as at the grant date of 26 September 2013 were as follows.

Share price at grant date	$0.63
Expected volatility	50%
Dividend yield	–
Expected life in years	2.7 years
Risk-free interest rate	0.75%

The Group has recognised total expenses of $224,633 (2015: $374,166) related to Director and employee share-based remuneration during the year. The cumulative expense of $5,222,860 included in Other Reserves in the Consolidated Statement of Financial Position reflects total equity share based payments outstanding which have not lapsed or been exercised.

14 INTANGIBLE ASSETS

An analysis of the Group's intangible assets at 31 December is as follows.

	Development Costs	
	2016	2015
	$	$
Cost		
As at 1 January	**3,865,111**	5,784,711
Additions-internally developed, Discontinued Operations	**–**	24,418
Discontinued Operations-Sale	**(445,309)**	–
Fully amortised, no longer in use, Discontinued Operations	**(3,419,802)**	(1,944,018)
As at 31 December	**–**	3,865,111
Accumulated Amortisation		
As at 1 January	**3,275,643**	4,601,003
Amortisation for the year, Discontinued Operations	**144,159**	189,771
Discontinued Operations-Sale	**–**	428,887
Fully amortised, no longer in use, Discontinued Operations	**(3,419,802)**	(1,944,018)
As at 31 December	**–**	3,275,643
Net Book Value, end of year	**–**	589,468

No development costs associated with the Company's drug development business have been capitalised during 2016 or 2015. During the year ended 31 December 2015, the Group determined its medical device-related intangible assets should be fully amortised and written to a $nil value. In 2016, the remaining capitalised development costs were written-off further to the Supermarket Retail disposal.

15 PROPERTY, PLANT, AND EQUIPMENT

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

	2016				2015			
	Leasehold improvements $	**Furniture & fixtures $**	**Machinery & equipment $**	**Total $**	Leasehold improvements $	Furniture & fixtures $	Machinery & equipment $	Total $
Cost								
As at 1 January	**724,950**	**1,114,101**	**3,413,683**	**5,252,734**	696,181	1,283,213	4,473,073	6,452,467
Additions	**–**	**12,097**	**832,788**	**844,885**	28,769	58,461	1,542,448	1,629,678
Disposals	**–**	**(299,254)**	**(443,114)**	**(742,368)**	–	(227,573)	–	(227,573)
Write-off for the year, Discontinued Operations	**–**	**–**	**(248,817)**	**(248,817)**	–	–	(2,601,838)	(2,601,838)
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**	724,950	1,114,101	3,413,683	5,252,734
		–						
Accumulated depreciation								
As at 1 January	**697,283**	**935,052**	**988,892**	**2,621,227**	677,423	1,108,464	1,518,940	3,304,827
Depreciation charge for the year	**27,667**	**52,201**	**548,178**	**628,046**	19,860	52,171	1,053,540	1,125,571
Disposals	**–**	**(297,446)**	**(273,183)**	**(570,629)**	–	(225,583)	–	(225,583)
Write-off for the year, Discontinued Operations			**(108,076)**	**(108,076)**	–	–	(1,583,588)	(1,583,588)
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**	697,283	935,052	988,892	2,621,227
Net book value, end of year	**–**	**110,710**	**28,178**	**138,888**	27,667	179,049	2,424,791	2,631,507

During the year ended 31 December 2016 and 2015, the Group determined certain fixed assets related to its Discontinued Operations, Supermarket Retail business should be fully amortised and written to a $nil value. Certain Supermarket Retail customers shifted from purchasing concentrate delivered using concentrate delivery system (CDS) asset to purchasing capital equipment (generators sold as inventory) therefore the related CDSs were written-off. The remaining value of these assets was eliminated as part of the Supermarket Retail disposal.

Included in cost above are the following items of property, plant, and equipment that are fully depreciated but still in use within the business:

	Original Cost $
Leasehold improvements	696,797
Furniture and fixtures	190,479
Machinery and equipment	375,321
	1,262,597

16 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 2016	2015
Realm Therapeutics, Inc. (ordinary)	US	Operating company	**100%**	100%
PuriCore Europe Limited (ordinary) (as a subsidiary of Realm Therapeutics, Inc.)	UK	BPR-related activity	**100%**	100%
PuriCore Scientific Limited (ordinary)	UK	Non-trading company	**100%**	100%

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

	$
As at 31 December 2014	34,814,846
Impairment	(20,552,000)
Share-based payment charge	374,166
Foreign exchange movement	(1,636,289)
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**

An impairment of $20.6 million was recognised in 2015 in relation to the Group's change in business strategy to focus on drug development activities (see Note 24). The share-based payment charge reflects the fair value of employee awards to employees of the subsidiaries.

17 INVENTORIES

An analysis of the Group's inventories at 31 December is as follows.

	2016 **$**	2015 $
Finished goods	**2,902**	–
Inventories, Continuing Operations	**2,902**	–
Inventories, Discontinued Operations	**–**	1,643,465
Total Inventories	**2,902**	1,643,465

Inventories held at the year-end are expected to be realised. Cost of inventories, related to the Continuing Operations, recognised as expense for 2016 were $0.1 million (2015: $0.1m).

18 TRADE, OTHER RECEIVABLES AND OTHER CURRENT ASSETS

The Directors consider the carrying amount of trade and other receivables approximates fair value. An analysis of Group and Company trade and other receivables as at 31 December is as follows.

	Group		Company	
	2016	2015	**2016**	2015
	$	$	**$**	$
Current:				
Trade receivables	**–**	2,529	**–**	–
Less: provision for impairment of receivables	**–**	–	**–**	–
	–	2,529	**–**	–
Other receivables	**267,061**	75,949	**–**	–
Prepayments and other current assets	**85,254**	125,898	**30,165**	44,325
Amounts owed from group undertakings	**–**	–	**5,161,504**	7,008,624
	352,315	204,376	**5,191,669**	7,052,949
Non-Current:				
Non-current prepayments	**323,013**	39,378	**–**	–
	323,013	39,378	**–**	–
Trade, Other Receivables and Other Current Assets, Continuing Operations	**675,328**	243,754	**5,191,669**	7,052,949
Trade, Other Receivables and Other Current Assets, net of provision for impairment of receivables, Discontinued Operations	**–**	4,214,033	**–**	–
Total Trade, Other Receivables and Other Current Assets	**675,328**	4,457,787	**5,191,669**	7,052,949

An analysis of the Group's capital lease receivables as at 31 December is as follows.

	Future minimum lease payments		Interest		Present value of minimum lease payments	
Discontinued Operations:	**2016** **$**	2015 $	**2016** **$**	2015 $	**2016** **$**	2015 $
Due within one year	**–**	1,517,301	**–**	208,603	**–**	1,308,698
Due in the second to fifth years inclusive	**–**	1,269,260	**–**	69,220	**–**	1,200,040
Total Capital Lease Receivables	**–**	2,786,561	**–**	277,823	**–**	2,508,738

The capital lease receivables were all assigned as part of the Supermarket Retail disposal.

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

	Group		Company	
	2016	2015	**2016**	2015
Loans and receivables	**$**	$	**$**	$
US Dollar	**267,061**	78,478	**–**	–
Sterling	**–**	–	**5,161,504**	7,008,624
Trade and Other Receivables, Continuing Operations	**267,061**	78,478	**5,161,504**	7,008,624
Trade and Other Receivables, Discontinued Operations, US Dollar	**–**	4,173,139	**–**	–
Total Trade and Other Receivables	**267,061**	4,251,617	**5,161,504**	7,008,624

19 CASH AND CASH EQUIVALENTS

An analysis of the Group's and Company's cash and cash equivalents as at 31 December is as follows.

	Group		Company	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cash at bank	**1,107,950**	896,338	**62,682**	374,714
Cash equivalents (1)	**20,321,921**	14,560,286	**–**	–
Total Cash and Cash Equivalents	**21,429,871**	15,456,624	**62,682**	374,714

(1) Cash equivalents represent funds held in a money market fund backed by U.S. Treasury securities.

20 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	
	2016	2015	**2016**	2015
	$	$	**$**	$
Trade payables	**642,915**	1,336,277	**29,420**	–
Other taxes and social security	**2,364**	18,523	**1,910**	2,035
Accruals	**1,460,440**	3,907,545	**61,360**	155,905
Supermarket Retail disposal costs payable	**1,093,156**	–	**92,297**	–
Deferred income	**–**	181,285	**–**	–
Total current trade payables and other accruals	**3,198,875**	5,443,630	**184,987**	157,940
Amounts owed to group undertakings	**–**	–	**249,788**	300,314
Trade payables and other accruals	**3,198,875**	5,443,630	**434,775**	458,254

21 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 18 and 19 for the carrying amount of these financial instruments.

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

ANALYSIS BY CURRENCY

	2016	2015
	$	$
Group		
Sterling	**62,682**	374,714
US Dollar	**21,367,189**	15,081,910
Total Group	**21,429,871**	15,456,624
Company		
Sterling	**62,682**	374,714

The Group had no borrowings as at 31 December 2016 and 2015.

UNDRAWN COMMITTED BORROWING FACILITIES

As at 31 December 2016 and 2015, undrawn committed borrowing facilities were $nil.

INTEREST BEARING ASSETS AND LIABILITIES

An analysis of Group and Company interest rate exposure as at 31 December is as follows.

	Floating rate	
	2016	2015
	$	$
Group		
Cash and cash equivalents	**21,429,871**	15,456,624
Borrowings	**–**	–
Net Cash	**21,429,871**	15,456,624
Company		
Cash	**62,682**	374,714
Net Cash	**62,682**	374,714

The Group had no fixed rate interest rate exposures.

FAIR VALUE OF BORROWINGS AND CASH AND CASH EQUIVALENTS

Fair value for cash at bank, trade and 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	
	2016	2015
	$	$
Group		
Loans and receivables		
Cash at bank and in hand	**21,429,871**	15,456,624
Trade and other receivables	**267,061**	4,251,617
Financial liabilities at amortised cost		
Trade payables and other accruals	**(3,169,899)**	(5,243,822)
Net Financial Assets and Liabilities	**18,527,033**	14,464,419

	Book Value	
	2016	2015
	$	$
Company		
Loans and receivables		
Cash at bank and in hand	**62,682**	374,714
Trade and other receivables	**–**	–
Amounts owed from group undertakings	**5,161,504**	7,008,624
Financial liabilities at amortised cost		
Trade payables and other accruals	**(183,077)**	(155,905)
Amounts owed to group undertakings	**(249,788)**	(300,314)
Net Financial Assets and Liabilities	**4,791,321**	6,927,119

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. The Group has in place risk management policies that seek to limit the adverse effects on the financial performance 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, trade 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 and backed by the US Government treasuries in the case of cash equivalents.

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 balances. The Directors have prepared cash flow forecasts to 31 March 2018 and have determined that the Group will be able to continue to operate within its available cash throughout the period to 31 March 2018.

(c) Interest Rate Risk
The Group operates an interest rate policy designed to minimise risk of invested assets. As at 31 December 2016, $21.4 million for the Group and $0.1 million for the Company (2015: $15.5 million for the Group and $0.4 million for the Company) was on deposit 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.

22 RELATED PARTY TRANSACTIONS
In 2016, 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.

During 2016, Dr. Gill was paid $36,000 (2015: nil) for consultancy services by Realm Therapeutics, Inc.

23 GROUP COMPANIES
A full list of Group companies is included in Note 16 to these financial statements. The Group comprises the principal trading companies detailed in Note 16. The proportion of voting rights of subsidiaries held by the group is the same as the proportion of shares held.

24 ACCOUNTING ESTIMATES AND JUDGEMENTS
Some asset and liability amounts reported in the accounts are based on management estimates and assumptions. There is therefore a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year. Additionally, management allocates total corporate overhead costs to its business segments, including the Supermarket Retail discontinued operation, based upon estimates of man hours spent supporting each business segment. Management regularly reviews the estimates and assumptions that drive key financial calculations and disclosures. Key risks are considered in these calculations, where necessary.

Provisions
The Group has a provision related to costs payable to return certain leasehold property to its original condition upon conclusion of the US facility lease. Provision amounts are judgmental by their nature and are included in Trade Payables and Other Accruals on the Consolidated Statement of Financial Position.

Share-Based Payment
Charges to profit or loss, in relation to options and the VCP 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.

Development Costs
In accordance with IAS 38 in 2015, the Group capitalised certain development costs associated with projects anticipated to generate future revenues. Those capitalised development costs related to Discontinued Operations. Management judgment is applied in the determination as to whether or not development costs should be capitalised and whether the definition of allowable expenditure as per IAS 38 is met. The carrying value of these amounts is reviewed against recoverable amounts calculated on a value in use basis over a projection period of 5 years. Management believes this forecast period is justified due to the nature of the business.

The Group had no development costs allocated to its Continuing Operations as at 31 December 2016. Development costs allocated to the Group's Discontinued Operations-Supermarket Retail business as at 31 December 2015 were $589,468.

Amounts capitalised prior to 2015 related to the Health Sciences business were fully amortised and written-off in 2015 based on a change in the Group's strategy to focus on drug development activities.

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. The recoverable amount assessed by the Directors is greater than the carrying amount; therefore, no impairment is required. During 2015, an impairment of $20.6 million was recognised. The impairment may be temporary in nature and will be re-evaluated in the future.

realm THERAPEUTICS™

Headquarters:

Realm Therapeutics, Inc.
508 Lapp Road
Malvern, PA 19355
USA

Tel: +1.484.321.2700
Fax: +1.484.321.2725

UK registered office:

c/o CMS Cameron McKenna LLP
Cannon Place
78 Cannon Street
London EC4N 6AF
United Kingdom

www.realmtx.com