Company Number 05375156

VERONA PHARMA PLC

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED DECEMBER 31, 2022

VERONA PHARMA PLC
CONTENTS

VERONA PHARMA PLC
DIRECTORS, SECRETARY AND ADVISORS

Directors	Dr. David Ebsworth (Non-Executive Chair) Dr. David Zaccardelli (President & Chief Executive Officer) Mr. James Brady Dr. Ken Cunningham Ms. Lisa Deschamps Dr. Martin Edwards Mr. Rishi Gupta Dr. Mahendra Shah Mr. Vikas Sinha Dr. Anders Ullman
Company Secretary	Ben Harber
Registered Office	One Central Square Cardiff CF10 1FS
Company Number	05375156
Independent Auditors	PricewaterhouseCoopers LLP 4th Floor, One Reading Central 23 Forbury Road Reading Berkshire RG1 3JH
Solicitors	Latham & Watkins LLP 99 Bishopsgate London EC2M 3XF
Registrars	Computershare Investor Services plc The Pavilions Bridgewater Road Bristol BS99 6ZZ

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements, audited company financial statements and auditors' report for the year ended December 31, 2022

Results and dividends

The Group results for the year are set out on page 62. The loss after taxation for the year was $75.4 million (2021: $59.3 million). The loss was higher in 2022 primarily because 2021 recorded upfront consideration received from a strategic collaboration with Nuance Pharma to develop and commercialize ensifentrine in Greater China, which offset spend. Please see note 7 of the financial statements for further information. The Group's spend on the Phase 3 ENHANCE program decreased in 2022 as the Phase 3 ENHANCE program neared completion. The Company has no distributable reserves so the Directors cannot recommend the payment of a dividend (2021: $nil). Cash and cash equivalents at December 31, 2022 increased to $227.8 million from $148.4 million at December 31, 2021 due to the public offering raising net proceeds of $140.2 million.

Research and Development Activities

The Strategic Report describes the Group's research and development strategy and activities.

Directors

The directors of the company who were in office during 2022 and up to the date of signing of the financial statements unless otherwise stated were:

Executive Directors

Dr. David Zaccardelli

Non-executive Directors

Dr. David Ebsworth

Mr. James Brady (appointed March 14, 2022)

Dr. Ken Cunningham

Ms. Lisa Deschamps

Dr. Martin Edwards

Mr. Rishi Gupta

Dr. Mahendra Shah

Dr. Andrew Sinclair (resigned April 27, 2022)

Mr. Vikas Sinha

Dr. Anders Ullman

To the extent permitted by the U.K. Companies Act 2006, we are empowered to indemnify our directors against any liability they incur by reason of their directorship. We have also entered into a deed of indemnity with each of our directors and executive officers, in accordance with the Companies Act. These deeds of indemnity were in place during the year ended December 31, 2022, and up to the date of signing of the financial statements. In addition to such indemnification, we provide our directors and executive officers with directors' and officers' liability insurance.

Pensions

Verona Pharma plc operates defined contribution pension plans open to all executive directors and employees.

Political and charitable contributions

There were no political or charitable contributions made by the Company during the years ended December 31, 2022, or 2021.

Future developments

The Strategic Report describes the Group's activities, strategy and future prospects.

Capital Structure

As at December 31, 2022, the Company had 631,338,246 ordinary shares of 5p nominal value each, of which 48,088,896 are non-voting. In all other respects they rank pari passu. The Company is listed on the Nasdaq Global Market ("Nasdaq") and American Depositary Shares ("ADSs") are traded on Nasdaq. One ADS represents eight ordinary shares.

As part of the July 2016 placement the Company issued 31,115,926 warrants that give the warrant holder the right to subscribe for 0.4 of an ordinary share at a per share exercise price of 172p (see note 20). The warrants were exercisable by the holders until May 2, 2022. None of the warrants were exercised prior to their expiration.

Corporate Governance

The Company's statement on corporate governance can be found in the corporate governance report of these financial statements. The corporate governance report forms part of this Directors' Report and is incorporated into it by cross-reference.

Principal Risks and Uncertainties

See the Strategic Report for a discussion of risks facing the Group.

Financial risk management

We are exposed to a variety of financial risks. Our overall risk management program seeks to minimize potential adverse effects of these financial risks on our financial performance.

Credit Risk

Financial instruments that potentially subject us to concentration of credit risk consist of principally cash and cash equivalents, bank deposits and certain receivables.

We hold cash and cash equivalents with highly rated financial institutions and in highly rated money market funds and we have not experienced any significant credit losses in these accounts and do not believe we are exposed to any significant credit risk on these instruments.

Liquidity Risk

We manage our liquidity risk by investing surplus cash in funds with highly liquid money market funds investing in U.S. and U.K. government debt.

Market Risk

Foreign currency risk reflects the risk that the value of a financial commitment or recognized asset or liability will fluctuate due to changes in foreign currency rates. Our financial position, as expressed in U.S. dollars, is exposed to movements in foreign exchange rates against pounds sterling and the euro. Our main trading currencies are the U.S. dollar, pounds sterling, and the euro. We are exposed to foreign currency risk as a result of operating transactions and the translation of foreign bank accounts. We monitor our exposure to foreign exchange risk; sensitivity analysis and exposure is described further in note 3.1 in the financial statements. We have not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

Locations

The Company’s principal place of business is in London, U.K., and it operates subsidiary offices in Raleigh, North Carolina, and Savannah, Georgia, USA.

Hiring policy

The Company's hiring policy with regards to disability, belief, sex and sexual orientation is discussed in the Corporate Governance Report.

Carbon dioxide emissions

The Strategic Report discusses the Company's carbon dioxide emissions.

Post Period Events

Additionally, between January 1, 2023 and March 3, 2023, the Group sold 20,321,384 ordinary shares (equivalent to 2,540,173 ADSs) under the ATM Program, at an average price of approximately $2.88 per share (equivalent to $23.08 per ADS), raising aggregate net proceeds of approximately $56.9 million after deducting issuance costs. As of March 3, 2023, there remained $40.6 million of ordinary shares, in the form of ADSs, available for sale under the ATM Program.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors for another year. In accordance with Section 489 of the Companies Act 2006, a resolution proposing that PricewaterhouseCoopers LLP be re-appointed as auditors of the Company and that the Directors be authorized to approve their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

A notice of Annual General Meeting of the Company will be sent out in due course, setting out time, date and location of the meeting, together with the resolutions relating to the business which the Company proposes to conduct at such meeting.

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the group and company financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

On behalf of the Board.

Dr. David Zaccardelli

Chief Executive Officer

March 14, 2023

CORPORATE GOVERNANCE REPORT

It is the Board's belief that good corporate governance is integral to a successful business, and the Company seeks to apply the highest standards of corporate governance appropriate to its size and stage of development.

THE BOARD OF DIRECTORS

At December 31, 2022, the Board comprised nine non-Executive Directors, and one Executive Director. The Board, through its Nomination and Governance Committee, regularly reviews its composition to ensure that it has a sufficiently wide range of skills and experience to enable it to pursue its strategic goals and to address anticipated issues in the foreseeable future. As part of this process, on March 14, 2022, the Board appointed Mr. James Brady, a non-Executive Director with significant experience in the biopharmaceutical industry, serving in multiple leadership roles of increasing responsibility across the US, Europe and China, during his 30-plus-year career at AstraZeneca. Most recently, Mr. Brady served as Chief Financial Officer of MedImmune, the biologics discovery and development division of AstraZeneca. During his tenure at MedImmune, biologics grew to represent more than half of the product development portfolio of AstraZeneca and five biologics were successfully brought to market. Mr. Brady currently serves as a non-Executive Director on the board of Panavance Therapeutics. He is a Certified Public Accountant, holds an MBA from Drexel University and a BS in accounting from St. Joseph University. In March 2022, Dr. Andrew Sinclair notified his intention to not offer himself for re-election at the 2022 AGM, and thereby ceased being a non-Executive Director of the Board on April 27, 2022. The Board has also considered and concluded that the appointment of a Senior Independent Director is not necessary at this time, but keeps this issue under review.

The Board typically has five scheduled meetings per year (approximately every two and half months), with additional Board meetings and Board sub-committee meetings convened as circumstances and business needs dictate.

The Board is responsible to the shareholders for the proper management of the Company and sets the overall direction and strategy of the Company, and reviews scientific, operational and financial performance. All key operational and investment decisions are subject to Board approval.

There is a clear separation of the roles of Chief Executive Officer and non-Executive Chairperson. The non-Executive Chairperson is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board’s decision-making and ensuring the non-Executive Directors are properly briefed on matters. The Chief Executive Officer has the responsibility for implementing the strategy of the Board and managing the day to day business activities of the Company.

In accordance with our Articles of Association, one third of our directors retire from office at every annual general meeting of shareholders. However, if the number of directors serving on our Board is not divisible by three, then the number nearest but not exceeding 33.3% shall retire from office at each annual general meeting of shareholders. Retiring directors are eligible for re-election and, if no other director is elected to fill his or her position and the director is willing, shall be re-elected by default.

The Board has considered the guidelines on independence and regards Dr. David Ebsworth, Mr. James Brady, Dr. Ken Cunningham, Ms. Lisa Deschamps, Dr. Martin Edwards, Mr. Rishi Gupta, Dr. Mahendra Shah, Mr. Vikas Sinha and Dr. Anders Ullman as independent directors. Although the non-Executive Directors have been awarded equity awards under the Company's 2017 Incentive Plan, the Board considers that the grant of equity awards is aligned with U.S. best practice for comparable Nasdaq-listed companies. The Board is also satisfied that each non-executive director continues to demonstrate independence of character and judgement with respect to his or her non-executive directors duties.

BIOGRAPHIES

David Zaccardelli, Pharm.D. Dr. Zaccardelli has served as our President and Chief Executive Officer and on our board of directors since February 2020. From December 2018 until its acquisition by Swedish Orphan Biovitrum for up to $915 million in November 2019, Dr. Zaccardelli served as President and CEO of Dova Pharmaceuticals, a U.S. company developing therapeutics for rare diseases. Previously, he was Acting CEO of Cempra, from December 2016 until the company's merger with Melinta Therapeutics in November 2017. From 2004 until 2016, Dr Zaccardelli served in several senior management roles at United Therapeutics Corporation, including Chief Operating Officer, Chief Manufacturing Officer and Executive Vice President, Pharmaceutical Development and Operations. Prior to United Therapeutics, he founded and led a start-up company focused on contract research positions and held a variety of clinical research positions at Burroughs Wellcome & Co, Glaxo Wellcome, and Bausch & Lomb Pharmaceutical. Dr. Zaccardelli received a Pharm.D. from the University of Michigan.

David Ebsworth, Ph.D. Dr. Ebsworth has served as the Non-Executive Chairperson of our board of directors since December 2014. From October 2009 to August 2014, Dr. Ebsworth served as Chief Executive Officer of Vifor Pharma, based in Zürich, the specialty pharma division of Galenica AG Group, a pharmaceutical wholesaler and retailer, and as a member of Galenica's Executive Committee. In 2012, Dr. Ebsworth was also named as Chief Executive Officer of Galenica and as Chair of Galenica's Executive Committee, positions he held until August 2014. In his earlier career, Dr. Ebsworth worked with Bayer AG for over 19 years, heading the Canadian, North American and global pharmaceutical business. He also served as Chief Executive Officer of Oxford Glycosciences, a biotech company, listed on the London Stock Exchange and Nasdaq, which was acquired by Celltech plc (now part of UCB) in 2003. Dr. Ebsworth currently serves on the boards of Synlab AG and Sartorius AG and Kyowa Kirin International. He received a Ph.D. in industrial relations from the University of Surrey.

James Brady. Mr. Brady was appointed to the board as a Non-Executive Director in March 2022. Mr. Brady has extensive experience in the biopharmaceutical industry, serving in multiple leadership roles of increasing responsibility across the US, Europe and China, during his 30-plus-year career at AstraZeneca. Most recently, Mr. Brady served as Chief Financial Officer of MedImmune, the biologics discovery and development division of AstraZeneca. During his tenure at MedImmune, biologics grew to represent more than half of the product development portfolio of AstraZeneca and five biologics were successfully brought to market. Mr. Brady currently serves as a Non-Executive Director on the board of Panavance Therapeutics. He is a Certified Public Accountant, holds an MBA from Drexel University and a BS in accounting from St. Joseph University.

Ken Cunningham, M.D. Dr. Cunningham has served as a Non-Executive Director on our board of directors since September 2015. Dr. Cunningham has over 30 years' experience in the pharmaceutical industry including leadership roles at several companies focused on developing respiratory medicines. Between 2008 and 2010, he was at SkyePharma plc (now part of Vectura Group plc), initially as Chief Operating Officer and subsequently as Chief Executive Officer where he was involved in the late-stage development of flutiform® for asthma. Earlier in his career, Dr. Cunningham held a variety of clinical development and commercial strategy roles at Glaxo Wellcome plc and Warner-Lambert. Dr. Cunningham serves as Non-Executive Chairperson of the board of directors of Medherant Ltd. Dr. Cunningham received a degree in medicine from St. Mary's, Imperial College, London University.

Lisa Deschamps. Ms. Deschamps was appointed to the board as a Non-Executive Director in March 2021. Ms. Deschamps is CEO and executive board member of AviadoBIO Ltd, a private gene therapy company. Prior to joining AviadoBIO Ltd, she was Senior Vice President and Chief Business Officer of Novartis Gene Therapies and previously was Head of Novartis' Global Neuroscience Franchise. During her 25-year career at Novartis AG, Ms. Deschamps gained significant global and U.S. experience in bringing respiratory and other specialized therapeutic area products from the clinic to commercialization. Ms. Deschamps has an MBA in General Management from NYU Stern School of Business and a BBA in marketing from IONA College, Hagan School of Business.

Martin Edwards, M.D. Dr. Edwards has served as a Non-Executive Director on our board of directors since April 2019. Previously, he was Senior Partner at Novo Ventures, life sciences investment firm, from 2003-2020, and Corporate VP and Corporate VP and Global Head of Drug Development for Novo Nordisk, where he led all aspects of pre-clinical and clinical drug development. Dr. Edwards currently serves on the boards of directors of Inozyme Pharma Inc, Morphic Therapeutic Inc, and Reata Pharmaceuticals Inc. Dr. Edwards trained in physiology and medicine at the University of Manchester. He is a Member of the Royal College of Physicians, a Member with distinction of the Royal College of General Practitioners, a Fellow of the Faculty of Pharmaceutical Medicine and holds a MBA from the University of Warwick.

Rishi Gupta. Mr. Gupta has served as a Non-Executive Director on our board of directors since July 2016. Mr. Gupta was designated for appointment to our board of directors by OrbiMed Private Investments VI, LP, or OrbiMed, pursuant to our relationship agreement with OrbiMed. Since 2002, Mr. Gupta has held various positions at OrbiMed Advisors LLC, an investment firm, where he is currently a Partner. Prior to that, he was a healthcare investment banker at Raymond James & Associates and served as manager of corporate development at Veritas Medicine. Mr. Gupta currently is a member of the board of directors of Enliven Therapeutics, Inc and several private companies. Mr. Gupta received an A.B. in biochemical sciences from Harvard College and a J.D. from Yale Law School.

Mahendra Shah, Ph.D. Dr. Shah has served as a Non-Executive Director on our board of directors since July 2016. Dr. Shah was designated for appointment to our board of directors by funds affiliated with Vivo Capital pursuant to our relationship agreement with such funds. Dr. Shah is a successful pharmaceutical entrepreneur and executive and Senior Fellow of Vivo Capital, a healthcare investment firm, where he was formerly a Managing Partner. Dr. Shah previously served as a member of the board of directors of Soleno Therapeutics Inc, Crinetics Pharmaceuticals Inc, Aadi Bioscience Inc and Homology Medicines Inc. He currently serves as a member of the board of directors of several private companies in the biopharmaceutical and biotechnology industries. Dr. Shah received his Ph.D. in industrial pharmacy from St. John's University and a Master's Degree in Pharmacy from L.M. College of Pharmacy in Gujarat, India.

Vikas Sinha. Mr. Sinha has served as a Non-Executive Director on our board of directors since September 2016. Mr. Sinha has over 20 years' experience working in executive finance roles in the life sciences industry. Mr. Sinha is co-founder and Chief Financial Officer of ElevateBio, Inc, a holding company focused on building cell and gene therapy companies. He also serves as President and Chief Financial Officer of AlloVir, Inc, an ElevateBio portfolio company. From 2005 to 2016, Mr. Sinha was the Chief Financial Officer of Alexion Pharmaceuticals, Inc, a biotechnology company. Prior to joining Alexion, Mr. Sinha held various positions with Bayer AG in the U.S., Japan, Germany and Canada, including Vice President and Chief Financial Officer of Bayer Pharmaceuticals Corporation in the U.S. and Vice President and Chief Financial Officer of Bayer Yakuhin Ltd. in Japan. Mr. Sinha holds a master's degree in business administration from the Asian Institute of Management. He is also a qualified Chartered Accountant from the Institute of Chartered Accountants of India and a Certified Public Accountant in the U.S.

Anders Ullman, M.D., Ph.D. Dr. Ullman has served as a Non-Executive Director on our board of directors since September 2015. Since December 2021, Dr. Ullman has served as Head of R&D and Chief Medical Officer of Sobi. From 2016 to 2021, he was Head of the COPD Centre at Sahlgrenska University Hospital, Sweden, and from 2013 to 2014, was Executive Vice President and Head of Research and Development in the BioScience business unit of Baxter International Inc, a healthcare company, which became Baxalta Inc. From 2007 to 2013, Dr. Ullman was Executive Vice President, Head of Research and Development at Nycomed Pharma Private Limited (now part of Takeda Pharmaceuticals Company Limited), where he led the development and approval of Daxas, the PDE4 inhibitor used to prevent COPD exacerbations. Earlier in his career, he held a number of roles in AstraZeneca. Dr. Ullman received a M.D. and a Ph.D. in clinical pharmacology from the University of Gothenburg.

Committees of our Board of Directors

Our Board has three standing committees: an Audit and Risk Committee, a Remuneration Committee and a Nomination and Corporate Governance Committee.

The composition and scope of the Audit and Risk Committee of the Board is described further below, within the Audit and Risk Committee Report.

Remuneration Committee of the Board

The Remuneration Committee, which consists of Dr. Ken Cunningham, Dr. David Ebsworth and Dr. Mahendra Shah, assists the Board in determining directors' and executive officers' compensation. Dr. Cunningham serves as Chairperson of the Committee.

The Remuneration Committee's responsibilities include, among other things:

- identifying, reviewing and proposing policies relevant to the compensation of the Company's directors, executive officers and senior executives;
- evaluating each executive officer's performance in light of such policies and reporting to the Board;
- analyzing the possible outcomes of the variable remuneration components and how they may affect the remuneration of the executive officers;
- recommending any equity long-term incentive component of each executive officer's compensation in line with the remuneration policy and reviewing our executive officer compensation and benefits policies generally;
- appointing and setting the terms of engagement for any remuneration consultants who advise the Committee and obtain benchmarking data with respect to the directors' and executive officers' compensation; and
- reviewing and assessing risks arising from our compensation policies and practices.

The Directors' Remuneration Report is presented on pages 35 to 54.

Nomination and Corporate Governance Committee of the Board

The Nomination and Corporate Governance Committee, which consists of Dr. David Ebsworth, Lisa Deschamps and Vikas Sinha, assists our Board in identifying individuals qualified to become executive and non-executive directors of our Company consistent with criteria established by our Board and in developing our corporate governance principles. Dr. Ebsworth serves as Chairperson of the Committee.

The Nomination and Corporate Governance Committee's responsibilities include, among other things:

- reviewing and evaluating the structure, size and composition of our Board and making recommendations with regard to any adjustments considered necessary;
- drawing up selection criteria and appointment procedures for Board members;
- identifying and nominating, for the approval of our Board, candidates to fill vacancies on the Board and its corresponding committees;
- keeping under review the leadership needs of the Company, both executive and non-executive, and planning the orderly succession of such appointments; and
- assessing the functioning of our Board and individual members and reporting the results of such assessment to the Board.

AUDIT AND RISK COMMITTEE REPORT

In this Report, we describe the work of the Audit and Risk Committee and the significant issues considered in 2022.

Audit and Risk Committee of the Board

The Audit and Risk Committee, which consists of Vikas Sinha, Dr. David Ebsworth and James Brady, assists the Board in overseeing our accounting and financial reporting processes and the audits of our financial statements and monitoring U.K. Governance Code compliance and business risk. Mr. Sinha serves as Chairperson of the Audit and Risk Committee. The Audit and Risk Committee consists of members of our Board who are financially literate and are also considered to be "audit committee financial experts" as defined by applicable SEC rules and have the requisite financial sophistication as defined under the applicable Nasdaq rules and regulations. Our Board has determined that all of the members of the Audit and Risk Committee satisfy the "independence" requirements set forth in Rule 10A-3 under the Securities Exchange Act of 1934. The Audit and Risk Committee is governed by a charter that complies with Nasdaq rules.

The Audit and Risk Committee's responsibilities include, among other things:

- recommending the appointment of the independent auditors to the general meeting of shareholders;
- the appointment, compensation, retention and oversight of the independent auditors;
- pre-approving the audit services and non-audit services to be provided by the independent auditors before the auditors are engaged to render such services;
- evaluating the independent auditors' qualifications, performance and independence, and presenting its conclusions to our Board on at least an annual basis;
- reviewing and discussing with the executive officers, our Board and the independent auditors our financial statements and our financial reporting process;
- considering and recommending to our Board whether the audited financial statements be approved; and
- monitoring our review and mitigation of corporate and operational risk.

The Audit and Risk Committee meets as often as one or more members of the Committee deem necessary, but in any event must meet at least four times per year. The Audit and Risk Committee must meet at least once per year with our independent auditors, without our executive officers being present.

Risk Identification and Management

The Audit and Risk Committee monitors the Company’s approach to risk management. Management review the Company's risks on an ongoing basis and consider both corporate and project risk, which is risk relating the Company's sole product candidate, ensifentrine. Management reports their risk assessment to the Committee analyzing risk by severity and probability of occurrence. They also discuss mitigation strategies that have been or are intended to be implemented.

External Auditors

PricewaterhouseCoopers LLP ("PwC") has been the Group’s auditors since 2016. PwC operates procedures to safeguard against the possibility of their objectivity and independence being compromised. This includes the use of quality review partners, consultation with internal compliance teams and the carrying out of an annual independence procedure within their firm. PwC report to the Audit Committee on matters including independence and non-audit fees on an annual basis. The audit partner changes every five years. The amount charged by the external auditors for the provision of services during the twelve month period under review is set out in note 8 to the Financial Statements.

The Committee assesses the performance of the auditors and is comfortable that PwC has operated effectively and a resolution to reappoint the firm as auditors will be put to shareholders at the Company's AGM.

Internal Control

The Audit and Risk Committee reviews the Group's internal control framework. The Group does not have an internal audit function and so the Committee has engaged an external firm of accountants to test management's systems of internal control. Any significant control deficiencies and mitigation strategies are reported to the Committee for review.

The Board is responsible for the systems of internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of these systems quarterly by considering the risks potentially affecting the Group.

Significant financial reporting issues considered by the Committee in 2022

The Audit and Risk Committee considers risk areas in the financial statements throughout the year and before the audit commences. The Committee considered the following items to be areas of risk:

Ligand contingent liability

The Group has a material liability for the future payment of a milestone and royalties associated with contractual liabilities over ensifentrine, its development product acquired as part of the acquisition of Rhinopharma. The liability is measured at amortized cost. At each reporting date the liability is re-measured where there are changes in estimated cashflows or probabilities of success. The contingent liability therefore requires quarterly re-assessment for any such triggering event.

In the year-ended December 31, 2021, the Group entered into the Nuance Agreement. Consequently, the Group estimated potential cashflows from that agreement and the related royalties payable to Ligand, and remeasured the liability accordingly. For the years ended December 31, 2022 and 2021, management also reviewed the timing of expected royalties from the maintenance treatment of COPD in the U.S. and amended the sales forecasts to reflect the Group's expected timelines and expected sales. The Committee reviewed and agreed with management's estimates of potential royalties payable, and the timing of the expected sales that drive them.

Research and development costs

Research and development ("R&D") costs are charged as incurred. Management is required to estimate the expenses resulting from obligations under contracts with vendors and consultants and clinical site agreements in connection with our R&D efforts. The financial terms of these contracts are subject to negotiations which vary contract to contract and may result in payment flows that do not match the periods over which materials or services are provided under such contracts. Management's objective is to reflect the appropriate clinical trial expenses in the accounts by matching those expenses with the period in which services and efforts are expended. Management accounts for these expenses according to the progress of the trials and other development activities measured by patient progression and the timing of various aspects of the trial. Management also determines prepaid and accrual estimates through discussions with applicable personnel and outside service providers as to the progress of clinical trials, or other services completed. During the course of a clinical trial management may adjust the rate of clinical trial expense recognition if actual results differ from its estimates. Management makes estimates of its prepaid and accrued expenses as of each year end in our accounts based on facts and circumstances known at that time. Although management does not expect the estimates to be materially different from amounts actually incurred, management's understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in reporting amounts that are too high or too low for any particular period. The Group's clinical trial prepaid and accrual expense is dependent upon the timely and accurate reporting of study recruitment from contract research organizations and activities carried out by other third-party vendors as well as the timely processing of any change orders from the contract research organizations. The Committee reviewed and agreed with management's estimates of R&D costs.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group is required to assess and report on the effectiveness of the internal controls over financial reporting under Section 404(a) of the Sarbanes-Oxley Act. As the Group qualified as an 'emerging growth company' until December 31, 2022, as defined in the Jumpstart Our Business Start-Ups Act of 2012, Verona Pharma was exempt from the auditors' attestation requirements of Section 404(b) of the Sarbanes-Oxley Act and also because it qualifies as a Smaller Reporting Company. Verona Pharma will retain this exemption if it remains a Smaller Reporting Company. Otherwise, if it fails to qualify as a Smaller Reporting Company, it will lose the exemption.

The Group does not consider it necessary to have an internal audit function due to the small size of the administrative function. This need is evaluated on an annual basis.

A comprehensive budgeting process is completed once a year, shortly prior to the start of each new financial year, which is reviewed and approved by the Board. Detailed management accounts are produced on a monthly basis, with all significant variances investigated. The management accounts are reviewed and commented on by the Board at board meetings and are reviewed on a monthly basis by management and budget holders.

The Group maintains appropriate insurance cover, including in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed on an annual basis.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Our expectation is that Non-Executive Directors should be prepared to commit, on average, a minimum of two days per month to the Company's business, recognizing that particular events may from time to time require them to devote to the Company more time than this. Non-Executive Directors are expected to be available to serve on one or more Board committees which may require additional time commitment, particularly in the case of the Chairperson of the Board and the Chair of the Board committees.

The Directors attended the following Board and committee meetings during the year:

Director	Board meetings	Audit Committee	Remuneration Committee	Governance and Nomination Committee
David Zaccardelli	8/8	—	—	—
David Ebsworth	8/8	7/7	7/7	4/4
James Brady[1]	6/6	6/6	—	—
Lisa Deschamps	7/8	—	—	4/4
Ken Cunningham	8/8	—	7/7	—
Martin Edwards	8/8	—	—	—
Anders Ullman	7/8	—	—	—
Rishi Gupta	7/8	—	3/3	—
Mahendra Shah	8/8	—	4/4	2/3
Andrew Sinclair[2]	2/2	2/2	—	—
Vikas Sinha	8/8	7/7	—	1/1

[1]Appointed March 14, 2022

[2] Resigned April 27, 2022

The Board undertakes an annual performance evaluation process, based on clear and relevant objectives and seeking continuous improvement.

Generally, the performance evaluation is conducted in November each year and done in the form of a structured questionnaire circulated to all Directors, asking them to rate the performance of the Board and its committees in a number of strategic areas and provide a rationale for any low rating. Results are analyzed by the Chair and General Counsel and any key themes are reported and discussed with the Board. Any recommendations arising from such review which are designed to specifically address any issues identified are implemented by the Board.

The annual performance evaluation for 2022 resulted in recommendations, which are being implemented by the Board, to enhance the skills set on the Board with non-executive directors with recent U.S. commercial launch and marketing experience and to increase the number of in-person Board meetings.

Corporate Social Responsibility

The Board of Verona Pharma sets high standards for the Company's employees, officers and directors. Implicit in this philosophy is the importance of sound corporate governance. The Company operates a Code of Business Conduct and Ethics and provides mechanisms for whistleblowing and complaints, described in detail on the Company's website, under Corporate Governance.

Whistleblowing

The Company has formal arrangements in place to facilitate 'whistleblowing' by employees through a contract with a third party service provider. If a complaint is made to this third party, the content is sent anonymously by email to the Company's Compliance Officer, so that appropriate action can be taken.

Employment

The Company endeavors to appoint employees with appropriate skills, knowledge and experience for the roles they undertake and thereafter to develop, incentivize and retain staff. The Board maintains constructive dialogue with employees through the CEO. Appropriate remuneration and incentive schemes are maintained to align employees' objectives with those of the Company. The Board recognizes its legal responsibility to ensure the well-being, safety and welfare of the Company's employees and maintain a safe and healthy working environment for them and our visitors. If an employee has a concern about unsafe conditions or tasks, they are encouraged to report their concerns immediately to their manager or the Company's general counsel.

Diversity Policy

The Company is fully committed to the elimination of unlawful and unfair discrimination and values the differences that a diverse workforce brings to the organization. The Company endeavors to not discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes color, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. The Company will undertake an annual review of its policies and procedures to establish its position with regard to compliance and best practice, and monitor and promote a healthy corporate culture.

Relations with shareholders

The Board values good relations with the Company's shareholders and understands the importance of effectively communicating the Company's operational and financial performance as well as its future strategy. The Company's website provides financial information as well as historical news releases and matters relating to corporate governance.

The Chairperson of the Board and the CEO and CFO maintain ongoing dialogue with shareholders and communicate their views to the Board. The Board recognizes it is accountable to shareholders and ensures that their views are taken into account in agreeing the Company's strategy and other operational matters. The Board also recognizes the importance of treating all shareholders equally.

Annual and interim results are filed with the Securities and Exchange Commission and communicated by news services as are ad hoc operational and regulatory releases. Shareholders may also attend the Annual General Meeting where they can ask questions to the Board.

Relations with suppliers

The Company endeavors to maintain good relationships with its suppliers by contracting them on reasonable business terms and paying them promptly, within agreed terms. The Board reviews and approves the material contractual terms of significant suppliers engaged for the manufacturing and development of the Company's drug candidate and management report to the Board on the performance of the suppliers to ensure that our research and development program is planned and delivered effectively in a timely and cost-efficient manner. This ensures interests are aligned between the Company and our significant suppliers.

STRATEGIC REPORT

The Directors present their strategic report together with the audited consolidated financial statements, audited company financial statements and auditors' report for the year ended December 31, 2022.

Principal activity

The Company was incorporated on February 24, 2005. On September 18, 2006, the Company successfully acquired all the shares of Rhinopharma Limited, a private company incorporated in Canada, and changed its name from Isis Resources plc to Verona Pharma plc ("Verona Pharma", the "Company" or the "Parent"). On December 12, 2014, the Company established a U.S. subsidiary, Verona Pharma, Inc., in the state of Delaware. In June 2021, Rhinopharma Limited was dissolved. The Company, Rhinopharma Limited (until June 2021) and Verona Pharma, Inc. are collectively referred to as the "Group".

The principal activity of the Group is the development of innovative therapeutics for the treatment of chronic respiratory diseases with significant unmet medical need.

Section 172(1) Companies Act 2006

The Directors are required by law to act in good faith to promote success of the Company for the benefit of the shareholders as a whole and are also required to have regard to the following:

- the principal decisions made by the Board and the likely long-term consequences of any decision;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between shareholders of the Company.

A discussion on how the Board has regard to these matters can be found on pages 13 and 14 of the Corporate Governance Report. The impact of the Company's operations on the environment is discussed further within "Greenhouse Gas Emissions" on page 33 in this Strategic Report.

Outlook and Strategy in this Strategic Report describes the Group's activities, strategy and future prospects, including the considerations for long-term decision making.

OUTLOOK AND STRATEGY

We are a clinical-stage biopharmaceutical company focused on developing and commercializing innovative therapeutics for the treatment of respiratory diseases with significant unmet medical needs. Our product candidate, ensifentrine, is an investigational, first-in-class, inhaled, selective, small molecule and dual inhibitor of the enzymes phosphodiesterase 3 and 4 ("PDE3 and "PDE4"), combining bronchodilator and non-steroidal anti-inflammatory activities in one compound.

Initially, we are developing inhaled ensifentrine for the treatment of chronic obstructive pulmonary disease ("COPD"), a common, chronic, progressive, and life-threatening respiratory disease without a cure. If successfully developed, ensifentrine would be the first therapeutic with a novel mode of action for COPD in over a decade.

During 2022, we reported positive top-line results from both of our Phase 3 ENHANCE ("Ensifentrine as a Novel inHAled Nebulized COPD thErapy") trials evaluating nebulized ensifentrine for the maintenance treatment of chronic obstructive pulmonary disease ("COPD"). Ensifentrine met the primary endpoint in both the ENHANCE-1 and ENHANCE-2 trials demonstrating statistically significant and clinically meaningful improvements in measures of lung function. In addition, ensifentrine substantially reduced the rate and risk of COPD exacerbations in ENHANCE-1 and ENHANCE-2. Ensifentrine was well tolerated in both trials.

Based on the results from our ENHANCE program, we believe ensifentrine, if approved, has the potential to change the treatment paradigm for COPD. The totality of data from clinical trials, in particular top-line results from the ENHANCE program, support our belief. We plan to submit a New Drug Application ("NDA") to the U.S. Food and Drug Administration ("FDA") in the second quarter of 2023 for inhaled ensifentrine for the maintenance treatment of COPD.

In Phase 2 clinical trials, ensifentrine has demonstrated positive results in patients with COPD, asthma and cystic fibrosis ("CF"). Two additional formulations of ensifentrine have been evaluated in Phase 2 studies for the treatment of COPD: dry powder inhaler ("DPI") and pressurized metered-dose inhaler ("pMDI"). Ensifentrine has shown positive Phase 2 data in COPD trials when delivered by each of these formulations.

If approved, we intend to commercialize inhaled ensifentrine for the maintenance treatment of COPD in the United States ("U.S."). Although we believe ensifentrine will not be regulated as a drug device combination, patients use a readily available standard jet nebulizer to take ensifentrine. Outside the U.S., we intend to license ensifentrine to companies with expertise and experience in developing and commercializing products in those regions. To that end, we have entered into a strategic collaboration with Nuance Pharma Limited, a Shanghai-based specialty pharmaceutical company ("Nuance Pharma"), to develop and commercialize ensifentrine in Greater China.

Senior executives bring substantial human resources and medical affairs expertise

In September 2022, Ostra Jewell joined Verona Pharma as Senior Vice President, Human Resources, bringing more than 25 years of HR experience. Prior to joining Verona Pharma, she served as Vice President, Human Resources at G1 Therapeutics where she built the human resources infrastructure to successfully support the company's first commercial launch. Ms. Jewell held a similar position at Dova Pharmaceuticals, where she also served through the company's first commercial launch. In addition to her HR experience in small pharma, Ms. Jewell brings biopharmaceutical experience from her time working at Gilead Sciences.

Following the end of the year, in January 2023, Kavita Aggarwal joined Verona Pharma as Senior Vice President, Medical Affairs, bringing more than 20 years of experience spanning large pharma with multiple commercial products to small pharma with a single asset. Over her career, Dr. Aggarwal has led medical affairs support of clinical development, pre-launch and launch planning as well as life cycle management. Prior to Verona Pharma, Dr. Aggarwal built a new Medical Affairs organization at BioCryst Pharmaceuticals to launch the company's first commercialized product and most recently served as VP, Global Commercial Pipeline Strategy, where she led commercialization strategy for all pipeline assets. Previously, Dr. Aggarwal was Vice President, Medical Affairs at Dova Pharmaceuticals where she built and led the medical affairs function through two product launches. Dr. Aggarwal has also held roles of increasing responsibility in medical affairs at Stealth BioTherapeutics, Cempra Pharmaeuticals, BPL, Salix Pharmaceuticals and GlaxoSmithKine.

Overview of COPD and current treatments

COPD is a common, progressive, life-threatening respiratory disease without a cure. It causes loss of lung function, leading to debilitating breathlessness, hospitalizations, and death. COPD has a major impact on everyday life. Patients struggle with basic activities such as getting out of bed, showering, eating, and walking. Worldwide, COPD affects approximately 384 million people and is the third leading cause of death, according to the Global Initiative for Chronic Obstructive Lung Disease.

The goal of COPD pharmacological therapy is to improve patients' quality of life by reducing symptoms, decreasing the quantity and severity of exacerbations (often an escalation of symptoms) and to improve patients' ability to function (GOLD 202).

For approximately 40 years, the treatment of COPD has been dominated by three classes of inhaled therapies approved for use by the FDA and the European Commission based on the European Medicines Agency's ("EMA") opinion: anti-muscarinics, beta-agonists and inhaled corticosteroids ("ICSs"). COPD patients are frequently treated with bronchodilators, including long-acting anti-muscarinics ("LAMAs") and long-acting beta-agonists ("LABAs"), to relieve airway constriction and make it easier to breathe. In addition, patients at risk for exacerbations may be prescribed ICSs to prevent them.

Certain COPD patients are treated with the oral PDE4 inhibitor, roflumilast (Daliresp®), which has demonstrated a reduction in exacerbation risk in patients with severe chronic bronchitis. However, oral PDE4 therapy results in systemic exposure which has been associated with unfavorable gastrointestinal side-effects such as nausea, emesis, diarrhea, abdominal pain, loss of appetite and weight loss.

Approximately 8.5 million COPD patients in the U.S. receive LAMA, LABA or ICS treatments alone or in combination regardless of COPD severity. Despite these medication and the earlier use of dual (LAMA/LABA) and triple (LAMA/LABA/ICS) therapies, many patients continue to suffer debilitating symptoms. According to a December 2022 study by Phreesia, 45% of patients continue to have symptoms more than 24 days a month. This burden leaves a significant opportunity for new inhaled therapies that offer additional benefit added to the three main classes of treatment. New treatment options are urgently needed to help improve lung function and symptoms, reduce exacerbations and improve overall quality of life in these patients.

Ensifentrine

Ensifentrine is an investigational, first-in-class, inhaled small molecule and selective dual PDE3 and PDE4 inhibitor. This dual inhibition enables it to act as a bronchodilator and a non-steroidal anti-inflammatory agent in a single compound. Importantly, ensifentrine's therapeutic profile differentiates it from existing classes of bronchodilator and anti-inflammatory treatments. We are not aware of any other single compound in clinical development in the U.S. or Europe or approved by the FDA nor the European Commission for the treatment of respiratory diseases that acts both as a bronchodilator and anti-inflammatory agent. If successfully developed and approved, ensifentrine has the potential to be the first novel class of therapeutic in COPD in over 10 years and to become the only bronchodilator option that could be added to existing classes of therapies including LAMA, LABA and ICS.

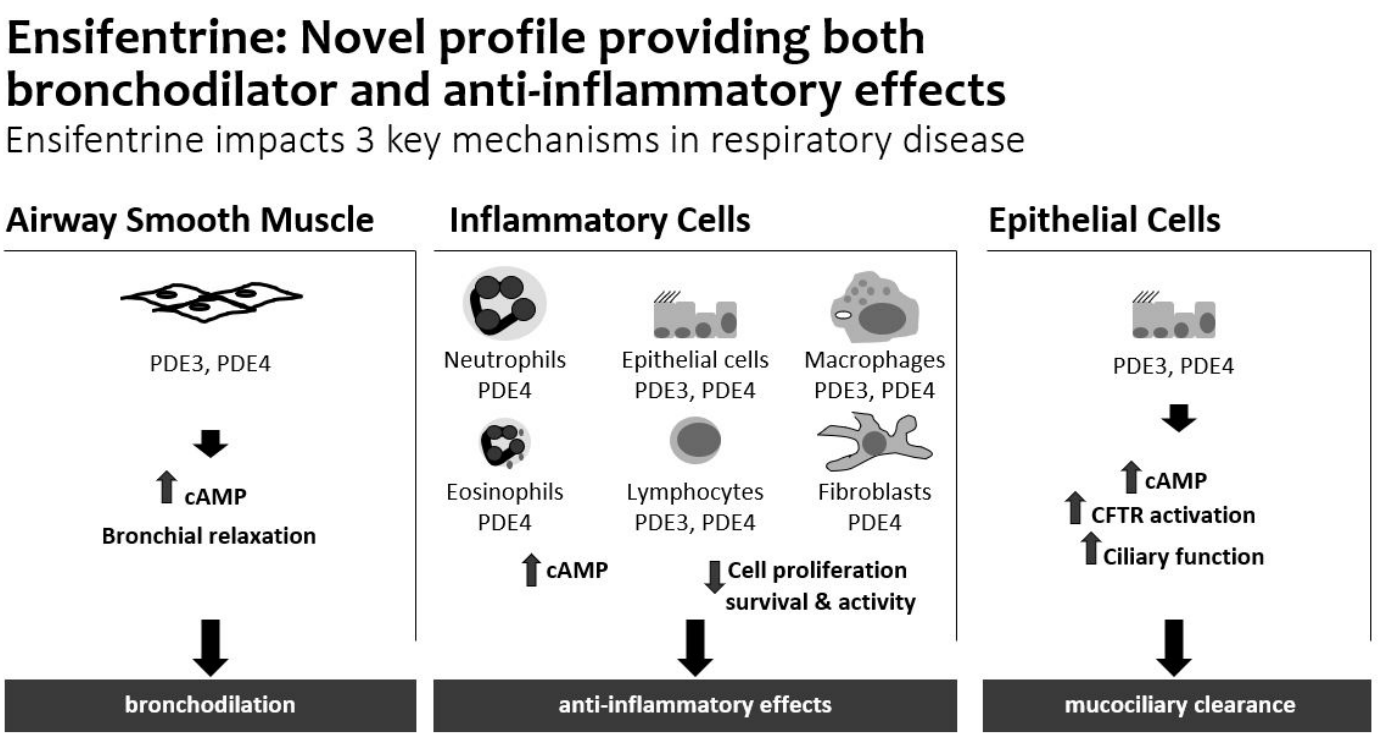
Safety profile

Ensifentrine has been well tolerated in clinical trials involving approximately 3,000 subjects to date. Additionally, ensifentrine did not prolong the QT interval or impact other cardiac conduction parameters in a thorough QT study in healthy volunteers. It is delivered directly to the lungs by inhalation to maximize pulmonary exposure to ensifentrine while minimizing systemic exposure. This feature minimizes any systemic side-effects such as the gastrointestinal disturbance associated with oral PDE4 inhibitors. In addition, in non-clinical trials ensifentrine has demonstrated high selectivity for PDE3 and PDE4 over other enzymes and receptors, which is believed to minimize off-target effects.

Differentiated profile

By selectively inhibiting PDE3 and PDE4, ensifentrine impacts three key mechanisms in respiratory disease: bronchodilation, inflammation and mucociliary clearance. Ensifentrine is designed to increase the levels of cellular cAMP and cGMP in smooth muscle cells and inflammatory cells, resulting in bronchodilator and anti-inflammatory effects. Ensifentrine has also be shown to stimulate the cystic fibrosis transmembrane conductance regulator (“CFTR”), which is an ion channel in the epithelial cells lining the airways. Mutations in the CFTR protein result in poorly or non-functioning ion channels, which cause CF. CFTR dysfunction is also potentially important in COPD. CFTR stimulation leads to improved electrolyte balance in the lung and thinning of the mucus, which facilitates mucociliary clearance and leads to improved lung function and potentially a reduction in lung infections.

Dual inhibition of PDE3 and PDE4 has shown enhanced or synergistic effects compared with inhibition of either PDE alone on contraction of airway smooth muscle and suppression of inflammatory mediator release in several preclinical studies. We believe these enhanced effects may increase the utility of ensifentrine in the treatment of respiratory diseases including COPD, asthma and CF.



We believe ensifentrine has the potential to address the large unmet need in treating COPD with its improvement in lung function, COPD symptoms and meaningful improvement in quality of life.

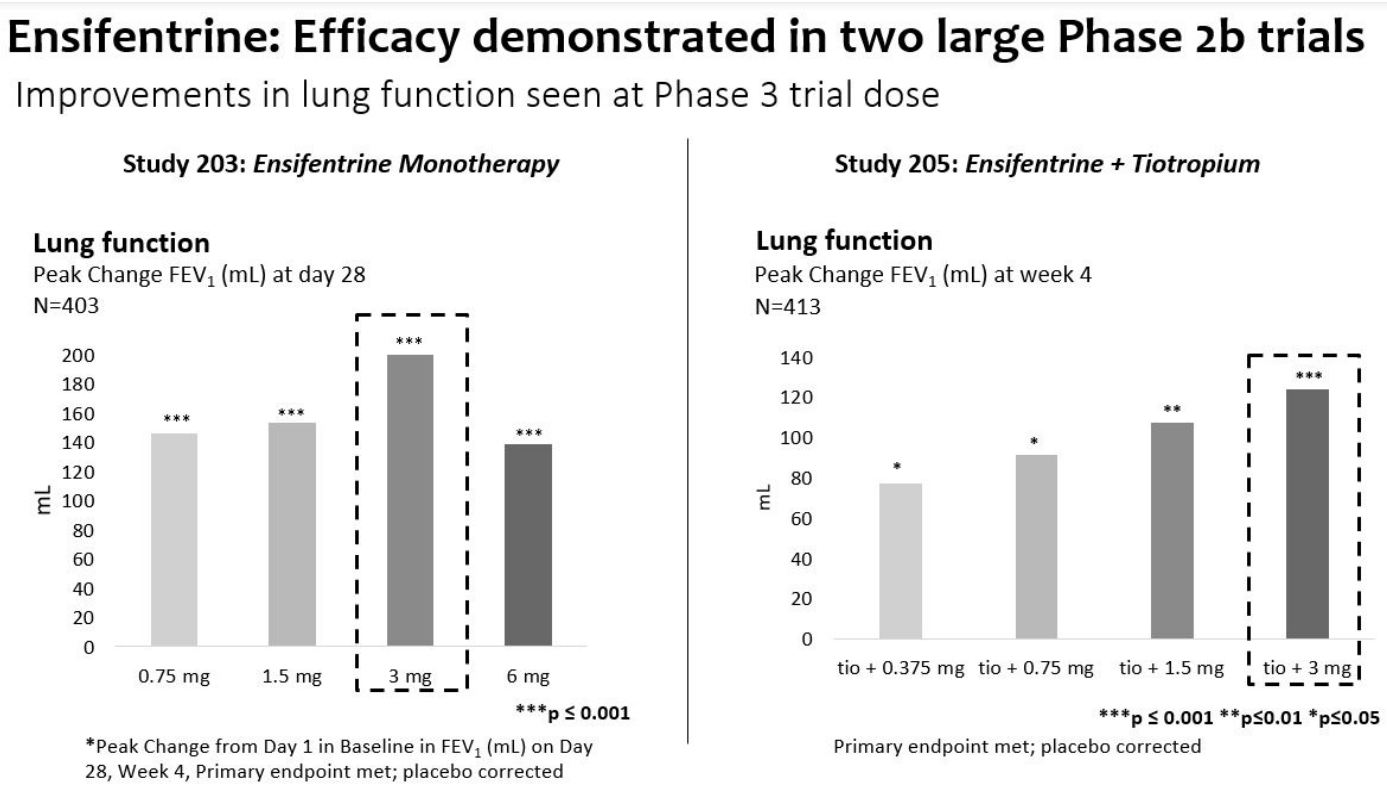
Development of ensifentrine

Clinical development of ensifentrine in COPD

Phase 2

Ensifentrine has demonstrated improvements in lung function, symptoms and quality of life with or without background therapy in two 4-week, Phase 2b dose-ranging clinical trials in moderate to severe COPD patients. In both studies ensifentrine was well tolerated at all doses with an adverse event profile similar to placebo:

- In March 2018, we reported positive top-line results with ensifentrine as monotherapy from our first Phase 2b trial in 403 patients. The trial evaluated four doses of nebulized ensifentrine (0.75 mg, 1.5 mg, 3 mg and 6 mg) or placebo twice daily over 4 weeks. Patients withheld use of regular long-acting bronchodilator therapy for the duration of the study. The trial met its primary endpoint of improved lung function with ensifentrine demonstrating a clinically and statistically significant increase in peak forced expiratory volume in 1 second ("FEV_1") at week 4 compared to placebo. In addition, clinically relevant secondary endpoints were met including significant progressive improvements in COPD symptoms.
- In January 2020, we reported positive top-line results with ensifentrine added on to background therapy from our second Phase 2b trial in 413 patients. This trial evaluated four doses of nebulized ensifentrine (0.375 mg, 0.75 mg, 1.5 mg and 3 mg) or placebo added on to treatment with once-daily tiotropium (Spiriva® Respimat®), a commonly used LAMA bronchodilator, in symptomatic patients with moderate to severe COPD who required additional treatment. The trial met its primary endpoint of improved lung function, with ensifentrine plus tiotropium demonstrating a clinically and statistically significant dose-dependent improvement in peak FEV_1 and FEV_1 over 12 hours with ensifentrine at week 4, compared to placebo plus tiotropium. Additionally, clinically meaningful and statistically significant improvements in health-related quality of life were observed with ensifentrine added on to tiotropium.

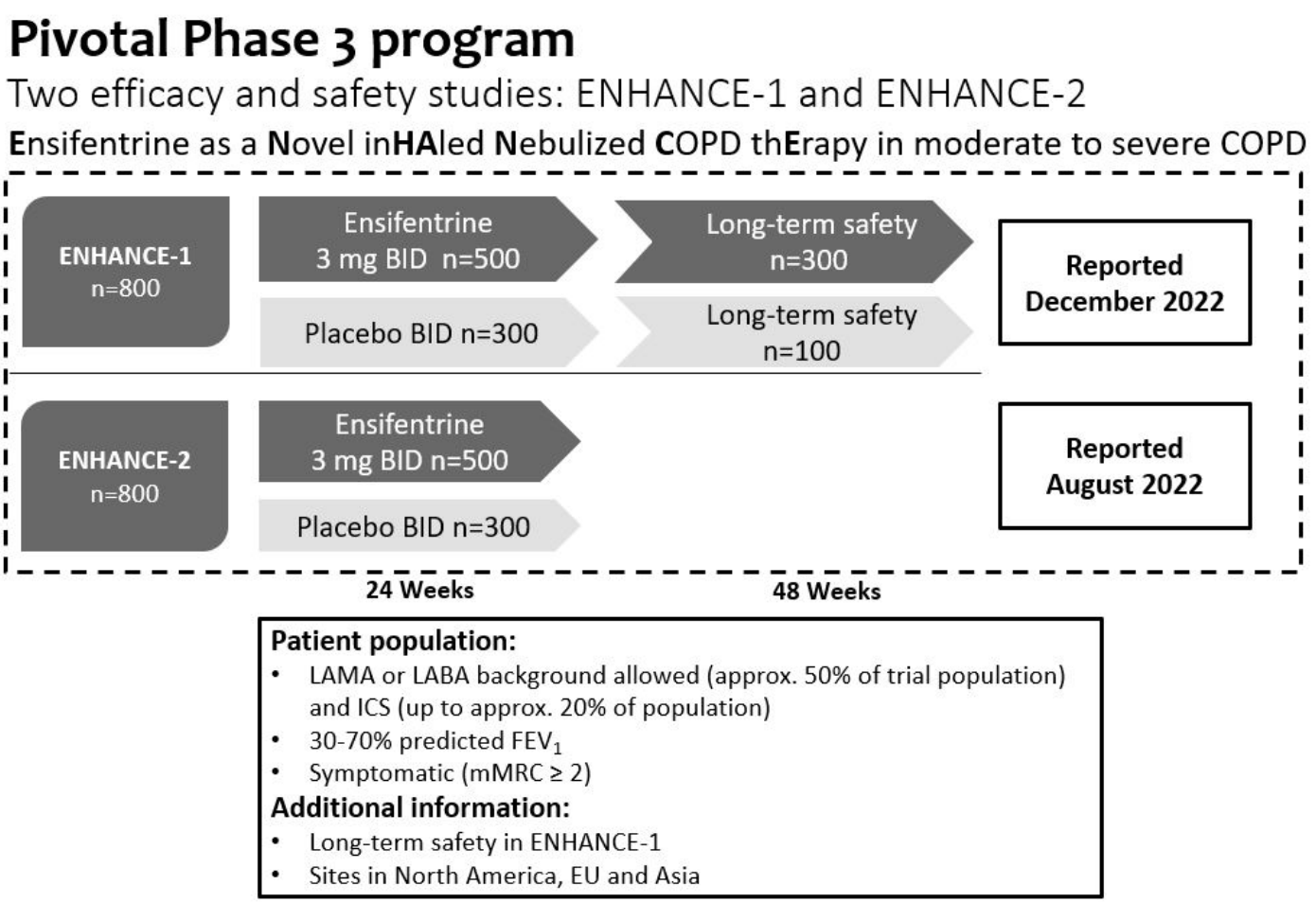


Phase 3 ENHANCE program

Ensifentrine has successfully met the primary endpoints in two randomized, double-blind, placebo-controlled Phase 3 trials, ENHANCE-1 and ENHANCE-2, demonstrating statistically significant and clinically meaningful improvements in measures of lung function in moderate to severe COPD patients. Improvements in symptoms and quality of life measures were shown in both trials, which reached statistical significance in ENHANCE-1. Ensifentrine substantially reduced the rate and risk of moderate to severe COPD exacerbations in both trials. Ensifentrine was well tolerated in both trials.

The ENHANCE trials were designed to evaluate ensifentrine as monotherapy and added onto a single bronchodilator with approximately 50% of subjects receiving either a LAMA or a LABA. Additionally, approximately 20% of subjects received ICSs with their concomitant LAMA or LABA.

Each trial enrolled approximately 800 subjects, for a total of approximately 1,600 subjects, at sites primarily in the U.S. and Europe. The two trials provided replicate evidence of efficacy and safety data over 24 weeks and ENHANCE-1 also evaluated longer-term safety in approximately 400 patients over 48 weeks.



Subject demographics and disease characteristics were well balanced between treatment groups in both trials.

- In ENHANCE-1 approximately 69% of subjects received background COPD therapy, either LAMA or a LABA. Additionally, approximately 20% of all subjects received ICS with concomitant LAMA or LABA.
- In ENHANCE-2 approximately 55% of subjects received background COPD therapy, either a LAMA or a LABA. Additionally, approximately 15% of all subjects received ICS with concomitant LAMA or LABA.

ENHANCE Program baseline characteristics

Demographics and baseline characteristics well balanced between groups

	ENHANCE-1		ENHANCE-2	
Parameter	***Ensifentrine n=479***	***Placebo n=284***	***Ensifentrine n=499***	***Placebo n=291***
Age, mean (SD)	65.1 (7.1)	64.9 (7.7)	65.0 (7.4)	65.3 (7.3)
Gender, % Male, n (%)	275 (57.4)	167 (58.8)	245 (49.1)	138 (47.4)
Moderate / Severe COPD, n (%) Mild / Very Severe COPD, n (%)	295 (61.6) / 180 (37.6) 1 (0.2) / 3 (0.6)	164 (57.7) / 119 (41.9) 0 / 0	266 (53.3) / 231 (46.3) 1 (0.2) / 1 (0.2)	143 (49.1) / 148 (50.9) 0 / 0
% Predicted FEV_1 mean, (SD)	52.9 (10.3)	51.7 (10.6)	50.8 (10.7)	50.4 (10.7)
% with Chronic Bronchitis, n (%)	387 (80.8)	216 (76.1)	322 (64.5)	190 (65.3)
% Current Smokers, n (%)	269 (56.2)	164 (57.7)	276 (55.3)	160 (54.9)
Background Meds: Yes, n (%) LAMA LAMA / ICS LABA LABA / ICS	331 (69.1) 151 (31.5) 4 (0.8) 89 (18.6) 87 (18.2)	192 (67.6) 76 (26.8) 5 (1.8) 45 (15.8) 66 (23.2)	275 (55.1) 168 (33.7) 1 (0.2) 34 (6.8) 72 (14.4)	160 (55.0) 90 (30.9) 0 23 (7.9) 47 (16.2)
E-RS Baseline, mean (SD)	14.1 (6.8)	13.3 (6.1)	13.3 (6.7)	13.3 (6.2)
SGRQ Baseline, mean (SD)	48.1 (18.3)	46.9 (17.1)	50.6 (17.4)	51.2 (16.4)

We reported positive top-line results from ENHANCE-2 and ENHANCE-1, in August and December 2022, respectively. Ensifentrine successfully met the primary endpoints in both trials, demonstrating statistically significant and clinically meaningful improvements in measures of lung function in moderate to severe COPD patients. Improvements in symptoms and quality of life measures were shown in both trials, which reached statistical significance in ENHANCE-1. Ensifentrine substantially reduced the rate and risk of moderate to severe COPD exacerbations and was well tolerated in both trials.

Highlights

Primary endpoint met (FEV_1 AUC 0-12 hr)

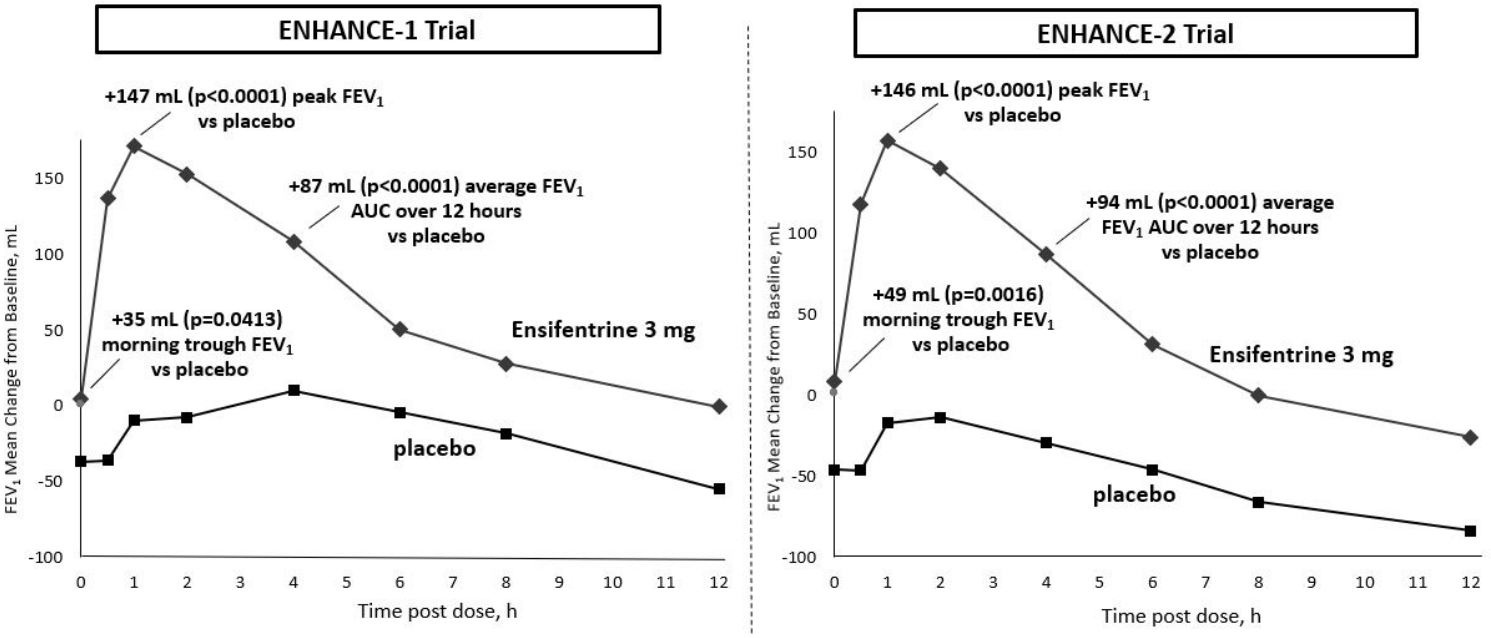
- Placebo corrected, change from baseline in average FEV_1 area under the curve 0-12 hours post dose at week 12 was 87 mL ($p<0.0001$) for ensifentrine in ENHANCE-1 and 94 mL ($p<0.0001$) for ensifentrine in ENHANCE-2.
- Demonstrated consistent improvements with ensifentrine in all subgroups including gender, age, smoking status, COPD severity, background medication, ICS use, chronic bronchitis, FEV_1 reversibility and geographic region.

Secondary endpoints evaluating lung function met:

- Placebo corrected, increase in peak FEV_1 of 147 mL ($p<0.0001$) 0-4 hours post dose at week 12 in ENHANCE-1 and 146 mL ($p<0.0001$) in ENHANCE-2.
- Placebo corrected, increase in morning trough FEV_1 of 35 mL ($p=0.0413$) at week 12 in ENHANCE-1 and 49 mL ($p=0.0016$) in ENHANCE-2, supporting twice daily dosing regimen.

Primary endpoint met in both ENHANCE trials

Statistically significant peak & morning trough FEV_1 measures



Exacerbation rate and risk reduced

- Subjects receiving ensifentrine demonstrated a 36% reduction in the rate of moderate to severe COPD exacerbations over 24 weeks (p=0.0503) compared to those receiving placebo in ENHANCE-1 and a 43% reduction (p=0.0090) in ENHANCE-2.

Exacerbation rate reduced in both ENHANCE trials

Consistent and clinically meaningful results

ENHANCE-1 Trial

Treatment	*Annualized Event Rate LS mean, (95% CI)*	*Rate Ratio (95% CI)*	*Exacerbation Rate Reduction*	*p-value*
Ensifentrine 3 mg (n = 477)	0.26 (0.17, 0.40)	0.64 (0.40, 1.00)	**36%**	0.0503
Placebo (n = 283)	0.41 (0.27, 0.63)	--	--	

ENHANCE-2 Trial

Treatment	*Annualized Event Rate LS mean, (95% CI)*	*Rate Ratio (95% CI)*	*Exacerbation Rate Reduction*	*p-value*
Ensifentrine 3 mg (n = 498)	0.24 (0.18, 0.32)	0.57 (0.38, 0.87)	**43%**	0.0090
Placebo (n = 291)	0.42 (0.30, 0.57)	--	--	

Exacerbation was defined as a ***worsening of symptoms*** requiring:

- Minimum of 3 days of treatment with oral/systemic steroids and/or antibiotics ***OR*** hospitalization

- In pooled exacerbation data from ENHANCE-1 and ENHANCE-2, ensifentrine demonstrated a 40% reduction in the rate of moderate to severe COPD exacerbations over 24 weeks (p=0.0012) compared to those receiving placebo.

Pooled data: significant 40% reduction in exacerbation rate

Protocol specified pooled analysis including ENHANCE-1 and ENHANCE-2

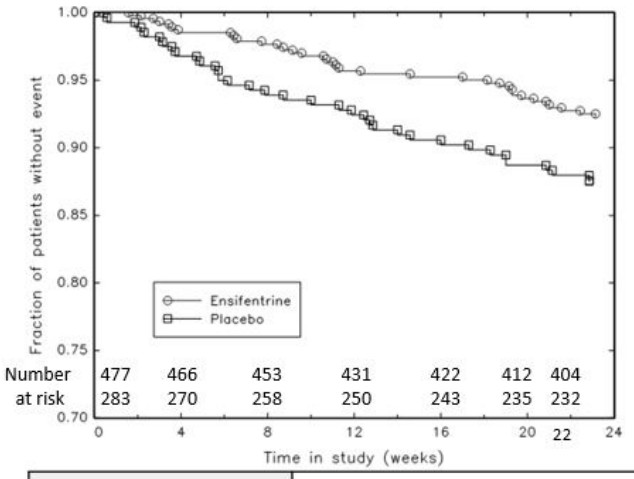
Treatment	*Annualized Event Rate LS mean, (95% CI)*	*Rate Ratio (95% CI)*	*Exacerbation Rate Reduction*	*P-value*
Ensifentrine 3 mg (n = 975)	0.27 (0.19, 0.39)	0.60 (0.44, 0.82)	**40%**	0. 0012
Placebo (n = 584)	0.45 (0.31, 0.65)	--	--	

- Treatment with ensifentrine significantly decreased the risk of a moderate/severe exacerbation as measured by time to first exacerbation when compared with placebo by 38% (p=0.0382) in ENHANCE-1 and by 42% (p=0.0089) in ENHANCE-2.

Time to first exacerbation significantly delayed across trials

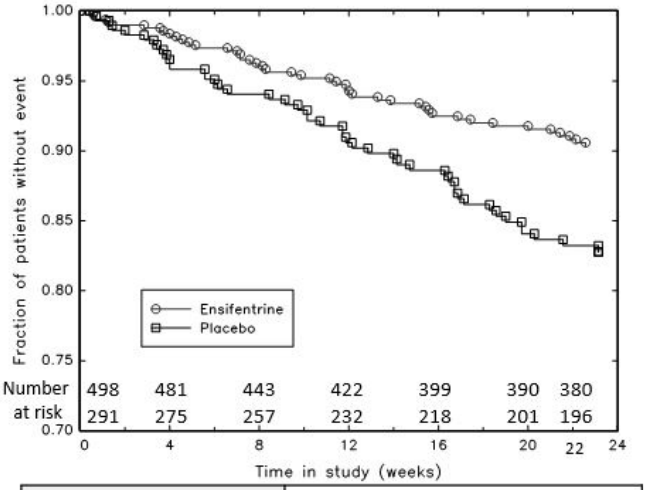
Consistent and clinically meaningful reduction in risk of a COPD exacerbation

ENHANCE-1 Trial



	Ensifentrine vs. Placebo (n = 760)
Hazard Ratio (95%, CI)	0.62 (0.39, 0.97)
Risk Reduction	**38%**
P-value	0.0382

ENHANCE-2 Trial

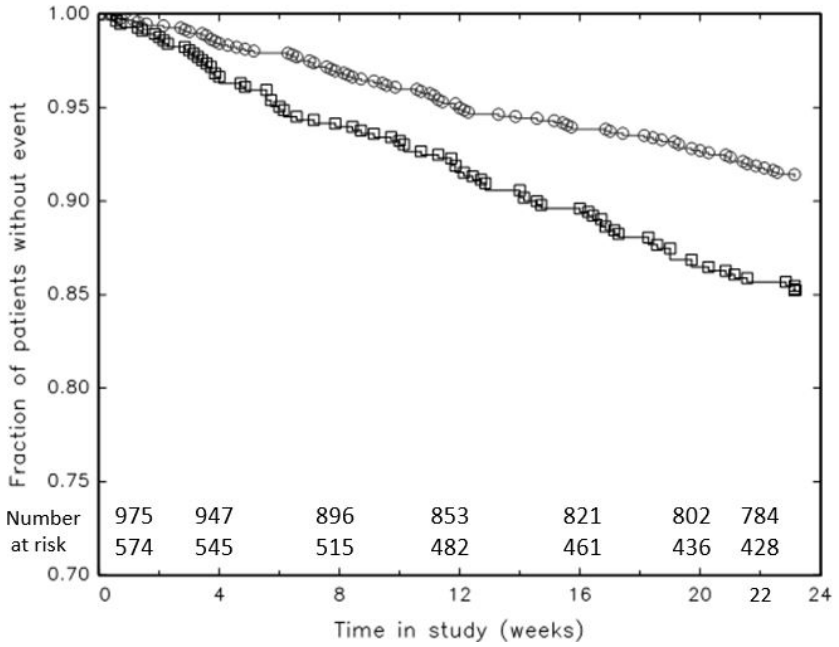


	Ensifentrine vs. Placebo (n = 789)
Hazard Ratio (95%, CI)	0.58 (0.38, 0.87)
Risk Reduction	**42%**
P-value	0.0089

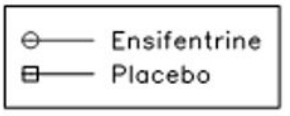
- In pooled exacerbation data from ENHANCE-1 and ENHANCE-2, ensifentrine significantly decreased the risk of a moderate/severe exacerbation as measured by time to first exacerbation when compared with placebo by 41% (p=0.0009).

Pooled data:
significant 41% risk reduction in time to first exacerbation

Protocol specified pooled analysis including ENHANCE-1 and ENHANCE-2



	Ensifentrine vs. Placebo (n = 1,549)
Hazard Ratio (95%, CI)	0.59 (0.44, 0.81)
Risk Reduction	**41%**
P-value	0.0009

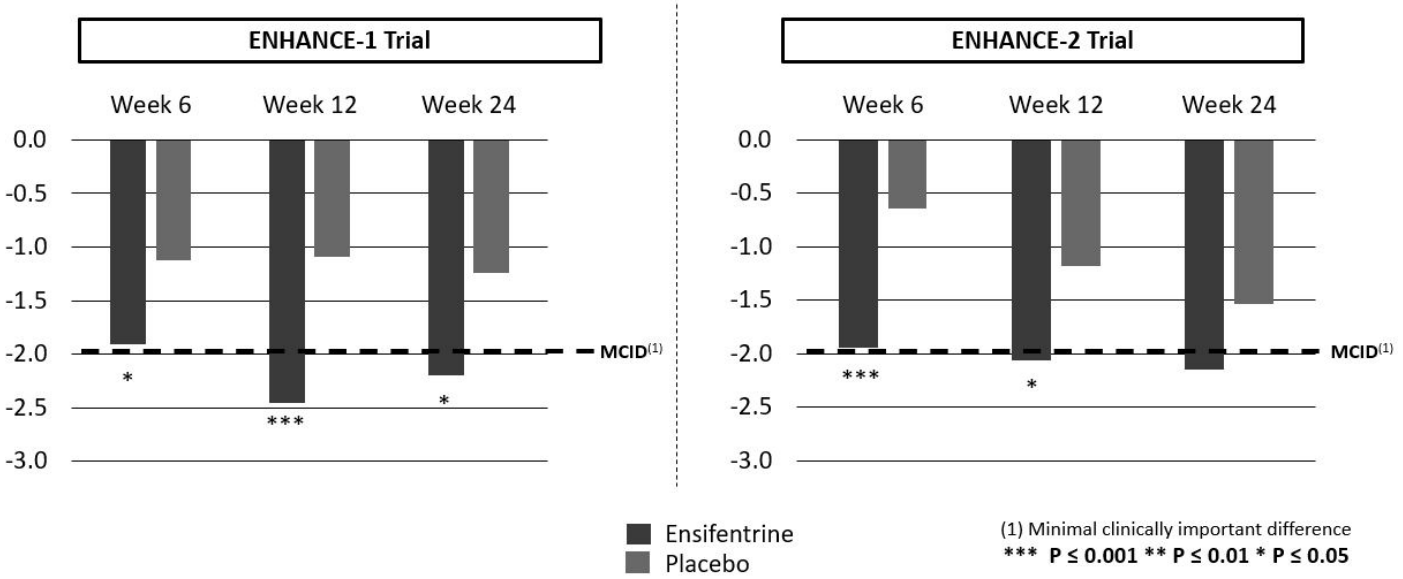


COPD symptoms and Quality of Life ("QOL")

- In ENHANCE-1, daily symptoms as measured by E-RS* Total Score in the ensifentrine group improved from baseline to greater than the minimal clinically important difference ("MCID") of -2 units with a statistically significant improvement compared to placebo at week 24. Improvements in symptoms were early and sustained with statistical significance versus placebo at weeks 6, 12 and 24. Similar improvements were demonstrated in ENHANCE-2 but statistical significance was not achieved due to improvements observed in the placebo group over time.

Ensifentrine improved symptoms across trials

Early and sustained improvement in E-RS total score



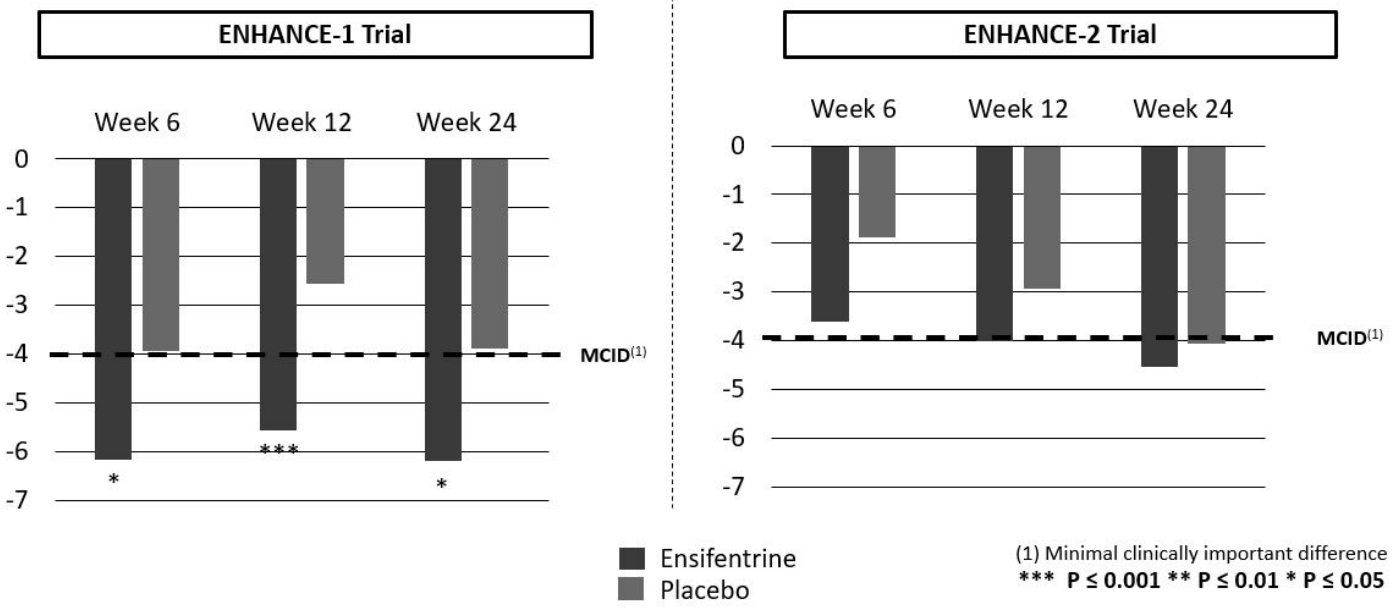
- In ENHANCE-1, QOL as measured by SGRQ* Total Score in the ensifentrine group improved from baseline to greater than the MCID of -4 units with a statistically significant improvement compared to placebo at week 24. Improvements

in QOL were early and sustained with statistical significance versus placebo at weeks 6, 12 and 24. In ENHANCE-2, QOL as measured by SGRQ* Total Score in the ensifentrine group also improved from baseline to greater than the MCID of -4 units at weeks 12 and 24, numerically exceeding placebo at each measurement, but statistical significance was not achieved due to improvements observed in the placebo group over time.

*E-RS, Evaluating Respiratory Symptoms, and SGRQ, St. George's Respiratory Questionnaire, are validated patient reported outcome tools

Ensifentrine improved quality of life across trials

Early and sustained improvement in SGRQ total score



Favorable safety profile

- Ensifentrine was well tolerated with very few adverse events occurring in more than 1% of subjects and greater than placebo over 24 and 48 weeks.

Adverse events reported at low rates over 24 and 48 weeks

Few events greater than 1% and greater than placebo

ENHANCE-1 Trial

	Event	Ensifentrine 3 mg (n = 477)	Placebo (n = 283)
Subjects with at least one TEAE, n (%)		**221 (46.3)**	**114 (40.3)**
Any TEAE >1% and greater than placebo	Hypertension, n (%)	14 (2.9)	4 (1.4)
	Back pain, n (%)	12 (2.5)	1 (0.4)
	URT*, n (%)	10 (2.1)	5 (1.8)
	Pneumonia, n (%)	7 (1.5)	1 (0.4)
	Toothache, n (%)	6 (1.3)	2 (0.7)
	Atrial fibrillation, n (%)	6 (1.3)	2 (0.7)

* Upper respiratory tract infection

ENHANCE-2 Trial

	Event	Ensifentrine 3 mg (n = 498)	Placebo (n = 291)
Subjects with at least one TEAE, n (%)		**176 (35.3)**	**103 (35.4)**
Any TEAE ≥1% and greater than placebo	Worsening of COPD, n (%)	11 (2.2)	5 (1.7)
	Nasopharyngitis, n (%)	9 (1.8)	3 (1.0)
	Diarrhea, n (%)	8 (1.6)	2 (0.7)
	Sinusitis, n (%)	6 (1.2)	0 (0)
	Hypertension, n (%)	5 (1.0)	1 (0.3)

We believe ensifentrine, if approved, has the potential to change the treatment paradigm for COPD. The totality of data from clinical trials, in particular the top-line results from the ENHANCE program, including improvements in measures of

lung function, symptoms, quality of life measures, and exacerbation reductions, coupled with the consistent safety results, support our belief. We plan to submit an NDA to the FDA in the second quarter of 2023.

ENHANCE Program summary

ENHANCE-1 and ENHANCE-2 provide consistent efficacy and safety in COPD patients

Top-line Measurement	ENHANCE-1	ENHANCE-2
Average FEV_1 AUC (0-12 hours)	+87 mL (p<0.0001) vs placebo	+94 mL (p<0.0001) vs placebo
Peak FEV_1	+147 mL (p<0.0001) vs placebo	+146 mL (p<0.0001) vs placebo
Morning Trough FEV_1	+35 mL (p=0.0413) vs placebo	+49 mL (p=0.0016) vs placebo
Symptoms (E-RS Total Score)	-1.0 units (p=0.0111) vs placebo	-0.6 units (NS) vs placebo
Quality of Life (SGRQ Total Score)	-2.3 units (p=0.0253) vs placebo	-0.5 units (NS) vs placebo
Exacerbation rate	36% (p=0.0503) reduction in rate	43% (p=0.0090) reduction in rate
Time to first COPD exacerbation	38% (p=0.0382) reduction in risk	42% (p=0.0089) reduction in risk
Pooled exacerbation rate	40% (p=0.0012) reduction in rate	
Pooled time to first COPD exacerbation	41% (p=0.0009) reduction in risk	
Incidence of adverse events	Low incidence of adverse events at 24 and 48 weeks No safety signals associated with ensifentrine	

NS = not significant

Formulations

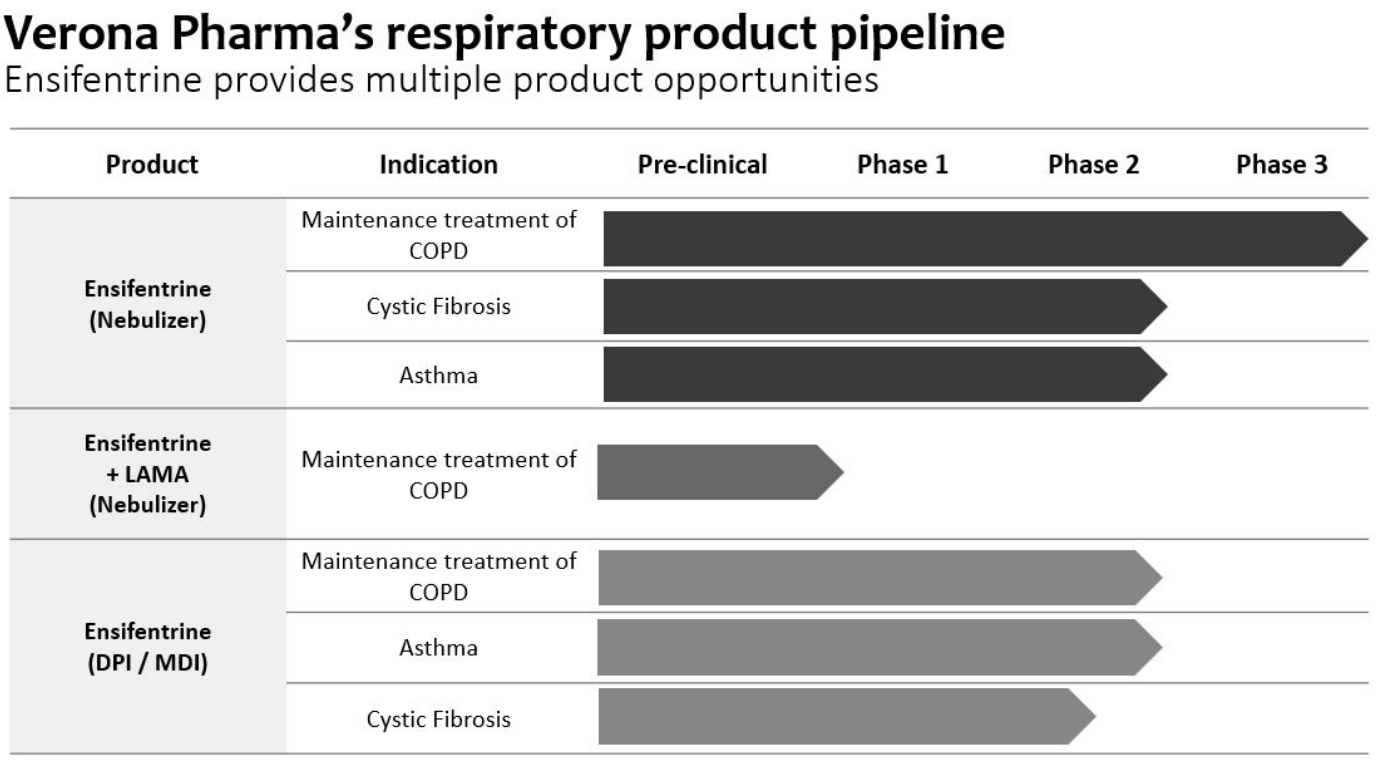
Verona Pharma has developed formulations of ensifentrine for the three most widely used inhalation devices: nebulizer, DPI and pMDI. The nebulized formulation of ensifentrine is designed to be suitable for use in a standard jet nebulizer, not a proprietary device. Delivery of COPD medications by nebulizer is important because such medications can be used by adults of almost any age and dexterity and regardless of peak inspiratory flow, offering advantages to patients who struggle to operate handheld inhaler devices or have low peak inspiratory flow. DPI and pMDI handheld inhaler formats are relatively portable and convenient and are also important delivery mechanisms.

While we continue to focus on development of the nebulized formulation of ensifentrine, we believe the development of pMDI and DPI formulations of ensifentrine provides additional lifecycle opportunities including new potential indications, formulation combinations and collaborations. In February 2021, we reported positive results from the second, multiple dose part of a Phase 2 trial with pMDI ensifentrine in patients with moderate to severe COPD. Ensifentrine delivered by pMDI met all of the primary and secondary lung function endpoints. The improvement in lung function was dose-ordered and statistically significant at peak and over the 12-hour dosing interval compared with placebo, and supports twice-daily dosing of ensifentrine via pMDI for the treatment of COPD. Data from the single dose part of the study were reported in March 2020.

Verona Pharma has successfully demonstrated proof of concept in Phase 2 COPD trials with all three formulations. In addition, the data from Phase 2 trials were consistent across the three formulations. All three dosage forms have demonstrated statistically significant and clinically meaningful improvements in lung function and duration of action, supporting twice-daily dosing and a safety profile similar to placebo.

Pipeline

The following table summarizes our development programs.



Potential additional indications for ensifentrine

Cystic fibrosis and asthma

In addition to COPD, we believe ensifentrine has potential applications in other respiratory diseases including CF and asthma.

CF is a progressive, fatal genetic disease without a cure and a median age of death of 46 years. The condition is characterized by thick, sticky mucus that damages many of the body's organs. It causes repeat and persistent lung infections that result in frequent exacerbations and hospitalizations. Other symptoms include malnutrition, constipation and diarrhea, and some adults develop diabetes, arthritis and liver problems.

CF is the most common fatal inherited disease in the U.S. and Europe. Approximately 40,000 people in the U.S. and an estimated 105,000 people worldwide have been diagnosed with CF across more than 90 countries and approximately 1,000 new cases are diagnosed each year, according to the Cystic Fibrosis Foundation. The U.S. and European regulatory authorities consider CF to be a rare, or orphan, disease and provide incentives to encourage development of effective new treatments.

CF patients endure multiple daily medications, frequent exacerbations and hospitalizations. Ultimately, selected patients have lung transplants.

In a Phase 2a clinical trial, a single dose of nebulized ensifentrine demonstrated an improvement in lung function in patients with CF. In addition, in preclinical studies, ensifentrine activated the cystic fibrosis transmembrane conductance regulator ("CFTR"), which is beneficial in reducing mucous viscosity and improving mucociliary clearance. We believe these data support the continued development of ensifentrine as a potential therapy for CF.

Asthma is a common chronic inflammatory lung condition that causes sporadic breathing difficulties. The disease causes narrowing and swelling of the airways leading to symptoms including difficulty breathing, wheezing, coughing and tightness in the chest. Exposure to triggers such as allergens or irritants can lead to asthma attacks.

Asthma attacks vary in severity and frequency. More than 260 million people worldwide suffer from asthma and it is the most common chronic disease among children, according to estimates from the World Health Organization. Approximately 60% of adult asthmatics in the U.S. have uncontrolled asthma despite taking regular medication.

Although there is no cure, symptoms may be prevented by avoiding triggers and through established maintenance therapies including bronchodilators, ICS, anti-IgE agents and leukotriene inhibitors.

Ensifentrine has shown potential in a Phase 2a clinical trial in asthma. The data from this trial, published in October 2019 in the journal *Pulmonary Pharmacology & Therapeutics*, demonstrated that ensifentrine produced dose-dependent improvements in lung function that were comparable to current rescue medication, high dose nebulized albuterol. Importantly, ensifentrine was well tolerated and patients experienced fewer systemic effects than those receiving albuterol.

Our team

Our expert team has decades of experience in developing and commercializing respiratory therapeutics including the following COPD therapeutics: Advair®; Anoro Ellipta®; Breo®; Flovent®; Flutiform®; Incruse Ellipta®; Serevent®; Symbicort®; Tudorza Pressair® and Ventolin®.

MANUFACTURING

We do not have manufacturing facilities and rely on, and expect to continue to rely on, third-party contract manufacturing organizations ("CMOs") for the supply of current good manufacturing practices ("cGMP") compliant clinical trial materials of ensifentrine, and any future product candidates, as well as for commercial quantities of ensifentrine and any future product candidates, if approved. We currently do not have any agreements for the long-term commercial production of ensifentrine.

While we may contract with other CMOs in the future, we currently have one CMO for the manufacture of ensifentrine drug substance and one CMO for each formulation of ensifentrine.

All of our current CMOs have commercial scale manufacturing capabilities. We believe that the ensifentrine drug substance and drug product manufacturing processes can be transferred to other CMOs to produce clinical and commercial supplies in the ordinary course of business.

COMMERCIALIZATION

United States

In the United States, we are preparing to commercialize nebulized ensifentrine ourselves, if approved. Current maintenance COPD treatments in the U.S. generate approximately $10 billion in sales. In the US, ~8.5 million patients receive chronic maintenance treatment for COPD. These patients receive LAMAs, LABAs, and ICS products alone or in combination across all COPD severities. Despite the use of these therapies, approximately 50% of patients report having symptoms for more than 24 days a month. This burden is significant and highlights the need for new and novel mechanisms of actions to treat COPD patients. These patients need therapies that can help improve their lung function and symptoms. In addition to the number of patients that remain symptomatic, COPD places a tremendous burden on the U.S. healthcare system with approximately $50 billion in direct and indirect costs.

Based on our market research, conducted with U.S. healthcare providers and payers, we believe ensifentrine would be widely adopted with use as an add on therapy across all symptomatic patients regardless of COPD severity and treatment. Most of ensifentrine's use would be as an add on therapy to current patients who are on LAMA LABA / ICS, LAMA/ LABA, or triple therapy. This is due to the urgent unmet need for new therapies to help improve lung function, symptoms and quality of life in these patients. Our market research also suggests the majority of ensifentrine usage would be initially commenced by pulmonologists. Due to this focused prescriber base, we anticipate a field sales force of approximately 100 representatives would be able to reach the potential ensifentrine opportunity.

International

COPD affects over 384 million people worldwide with many patients remaining undiagnosed. Our strategy outside of the U.S. including Asia, Europe and Latin America, is to establish partnerships with leading companies that can support the further development and commercialization of ensifentrine in those regions.

In June 2021, we executed on this strategy by entering into a strategic collaboration with Nuance Pharma, a Shanghai-based specialty pharmaceutical company, with a potential value of up to $219.0 million to develop and commercialize ensifentrine in Greater China. Under the terms of the agreement, we granted Nuance Pharma the exclusive rights to develop and commercialize ensifentrine in Greater China. In return, we received an aggregate $40.0 million upfront payment consisting of $25.0 million in cash and an equity interest valued at $15.0 million, as of June 9, 2021, in Nuance Biotech, the parent company of Nuance Pharma. We are eligible to receive further milestone payments of up to $179.0 million that are triggered upon achievement of certain clinical, regulatory and commercial milestones as well as tiered double-digit royalties on net sales in Greater China.

Nuance Pharma is responsible for all costs related to clinical development and commercialization in Greater China. A joint steering committee has been established to ensure ensifentrine's clinical development in the region aligns with our global development and commercialization strategy. Nuance Pharma plans to file an Investigational New Drug Application with the China Food and Drug Administration and afterwards to begin clinical studies for the treatment of COPD in Greater China. In August 2022, Nuance Pharma, received clearance from China's Center for Drug Evaluation to begin Phase 1 and Phase 3 studies of ensifentrine for COPD in mainland China.

COMPETITION

The pharmaceutical industry is characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary drugs. We face potential competition from many different sources, including major pharmaceutical, specialty pharmaceutical and biotechnology companies, academic institutions, governmental agencies and public and private research institutions. If successfully developed and commercialized, ensifentrine will compete with existing treatments and new treatments that may become available in the future.

Ensifentrine is a unique, first-in-class therapeutic candidate with both bronchodilator and non-steroidal anti-inflammatory properties in a single compound. As far as we are aware, no other dual PDE3 and PDE4 inhibitor is on the market nor in clinical development in the U.S. or Europe. Based on our market research, we expect ensifentrine to be used across the patient spectrum regardless of severity. We expect it will mainly be used as an add on therapy in symptomatic patients across all existing classes of therapies (LAMA, LABA, ICS). Some healthcare providers have indicated that they would use ensifentrine as a monotherapy based on ensifentrine's clinical profile.

Consequently, we believe that, if approved, nebulized ensifentrine's unique profile will enable it to compete with all approved COPD therapies including nebulized and handheld inhaler formulations, DPI and pMDI. Furthermore, because ensifentrine's mechanism of action is complementary to available therapies, we believe it could be used in addition to these treatments.

Within the currently approved nebulizers for the maintenance treatment of COPD, we consider ensifentrine's potential competitors in the U.S. market to be LABAs (Brovana® and Perforomist®) and LAMAs (Yupelri® and Lonhala®Magnair®).

In the DPI/pMDI maintenance treatment of COPD market, ensifentrine's current closest potential competitors are Symbicort®, a combination of a long-acting beta2-agonist bronchodilator and ICS marketed by AstraZeneca plc, Spiriva®, a long-acting anti-muscarinic bronchodilator marketed by Boehringer Ingelheim GmbH, Advair®, a combination of a long-acting beta2-agonist bronchodilator and ICS marketed by GlaxoSmithKline plc, Utibron Neohaler®, a combination of a long-acting beta2-agonist and long-acting anti-muscarinic bronchodilator marketed by Novartis International AG, Breo®, a combination of a long-acting beta2-agonist bronchodilator and ICS marketed by GlaxoSmithKline, and Anoro®, a combination of a long-acting beta2-agonist bronchodilator and long-acting anti-muscarinic bronchodilator marketed by GlaxoSmithKline. A triple-combination therapy of a LAMA, a LABA and ICS, developed by GlaxoSmithKline and Chiesi Farmaceutici S.p.A., Trelegy Ellipta®, has been approved in the U.S. and the European Union and AstraZeneca also has a triple-therapy combination product (LAMA / LABA / ICS), Breztri Aerosphere® that was approved in the U.S. in July 2020, in the European Union in December 2020 and in China in December 2019.

Other potential therapies in clinical development for the prevention of COPD exacerbations include injectable biologics. Sanofi's anti-IL4, Dupixent®, AstraZeneca's anti-IL5, Fasenra®, GlaxoSmithKline's anti-IL5, Nucala® and Chiesi's PDE4 inhibitor, Tanimilast, are in Phase 3 trials. We are also aware of several anti-inflammatories and bronchodilators that are in Phase 2 clinical trials for the treatment of COPD.

INTELLECTUAL PROPERTY

We strive to protect and enhance the proprietary technologies, inventions and improvements that we believe are important to our business, including seeking, maintaining and defending patent rights, whether developed internally or licensed from third parties. Our policy is to seek to protect our proprietary position by, among other methods, pursuing and obtaining patent protection in the U.S. and in jurisdictions outside of the U.S. related to our proprietary technology, inventions, improvements, platforms and our product candidates that are important to the development and implementation of our business.

As of December 31, 2022, our patent portfolio consisted of ten issued U.S. patents, eight pending U.S. patent applications (including four U.S. provisional patent applications), 70 issued foreign patents and 76 pending foreign applications. These patents and patent applications include claims directed to certain respirable formulations comprising ensifentrine, a crystalline form of ensifentrine, combinations of ensifentrine with certain respiratory drugs, certain salts of ensifentrine, ensifentrine for use in the treatment of cystic fibrosis and for use in the treatment of certain aspects of some other respiratory disorders, and a method of making ensifentrine, with expected expiry dates up to 2042.

Individual patents extend for varying periods depending on the date of filing of the patent application or the date of patent issuance and the legal term of patents in the countries in which they are obtained. Generally, patents issued for regularly filed applications in the United States are granted a term of 20 years from the earliest effective non-provisional filing date. In addition, in certain instances, a patent term can be extended to recapture a portion of the U.S. Patent and Trademark Office, or the USPTO, delay in issuing the patent as well as a portion of the term effectively lost as a result of the FDA regulatory review period. However, as to the FDA component, the restoration period cannot be longer than five years and the total patent term including the restoration period must not exceed 14 years following FDA approval. The duration of foreign patents varies in accordance with provisions of applicable local law, but typically is also 20 years from the earliest effective filing date. However, the actual protection afforded by a patent varies on a product-by-product basis, from country to country and depends upon many factors, including the type of patent, the scope of its coverage, the availability of regulatory-related extensions, the availability of legal remedies in a particular country and the validity and enforceability of the patent.

Furthermore, we rely upon trade secrets and know-how and continuing technological innovation to develop and maintain our competitive position. We seek to protect our proprietary information, in part, using confidentiality agreements with our collaborators, employees and consultants and invention assignment agreements with our employees. We also have confidentiality agreements or invention assignment agreements with our collaborators and selected consultants. These agreements are designed to protect our proprietary information and, in the case of the invention assignment agreements, to grant us ownership of technologies that are developed through a relationship with a third party. These agreements may be breached, and we may not have adequate remedies for any breach. In addition, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our collaborators, employees and consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

Our commercial success will also depend in part on not infringing upon the proprietary rights of third parties. It is uncertain whether the issuance of any third-party patent would require us to alter our development or commercial strategies, or our drugs or processes, obtain licenses or cease certain activities. Our breach of any license agreements or failure to obtain a license to proprietary rights that we may require to develop or commercialize our future drugs may have an adverse impact on us. If third parties have prepared and filed patent applications prior to March 16, 2013 in the United States that also claim technology to which we have rights, we may have to participate in interference proceedings in the USPTO, to determine priority of invention.

FINANCIALS

Comparison of Operations for the Years ended December 31, 2022 and 2021

The operating loss for the year ended December 31, 2022 was $78.1 million (2021: $73.2 million) and the loss after tax for the year ended December 31, 2022 was $75.4 million (2021: $59.3 million).

Research and Development Costs

Research and development costs were $50.3 million for the year ended December 31, 2022 compared to $79.3 million for the year ended December 31, 2021, a decrease of $29.0 million. This decrease was primarily due to a decrease in clinical trial and other development costs of $27.9 million due to nearing completion of the ENHANCE studies in 2022 and a $4.2 million decrease in share-based compensation charges.

Selling, General and Administrative Costs

Selling, general and administrative costs were $27.8 million for the year ended December 31, 2022 compared to $33.8 million for the year ended December 31, 2021, a decrease of $6.0 million. This decrease was driven primarily by a $7.1 million decrease in share-based compensation charges.

Finance Income and Expense

Finance income was $2.8 million for the year ended December 31, 2022 and $2.4 million for the year ended December 31, 2021. In the year ended December 31, 2022 there was $2.8 million of interest on cash received. In the year ended December 31, 2021, there was a $2.2 million gain on the fair value movement of the derivative financial liability

Finance expense was $9.5 million for the year ended December 31, 2022, compared to $4.2 million for the year ended December 31, 2021. In the year ended December 31, 2022, there was a $4.3 million expense relating to the unwind of the discount factor on the assumed contingent liability, and $3.8 million relating to foreign exchange loss. In the year ended December 31, 2021, there was a $3.8 million expense relating to the unwind of the discount factor on the assumed contingent liability, and $0.3 million interest charge on the term loan.

Cash and cash equivalents

As at December 31, 2022, the Group held $227.8 million in cash and cash equivalents (2021: $148.4 million).

Taxation

Taxation for the year ended December 31, 2022 amounted to a credit of $9.4 million compared to a credit of $15.6 million for the year ended December 31, 2021, a decrease of $6.2 million. The credits are obtained at a rate of 14.5% of 230% of our qualifying research and development expenditure, and the decrease in the credit amount was primarily attributable to our decreased qualifying expenditure on research and development.

Treasury shares

The Group holds shares in an employee benefit trust, to satisfy share based compensation awards and these share are accounted for as treasury shares. As at December 31, 2022, 25,037,192 shares were held in treasury, at a nominal value of $1.5 million (2021: 9,094,584 shares, nominal value $0.6 million).

Going concern

We have incurred recurring losses and negative cash flows from operations since inception and have accumulated loss of $342.8 million as of December 31, 2022. We expect that our cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements for at least the next 12 months from the date of approval of these finance statements.

Key Performance Indicators ("KPIs")

The Company is a development stage business and does not yet generate revenues or other operating cash inflows. The Company therefore uses a mix of Financial and Non-financial KPIs to monitor its activities. Financial KPIs can typically be compared over a period of years; Non-financial KPIs may change from year to year depending on the development stage of the Company's programs.

1. Research and development spend during the year

Strategic objective: Investment in R&D to generate future revenue for the Group.

Key Performance Indicator: R&D expenditure of $50.3 million (2021: $79.3 million).

Definition: Costs including labor, materials and other expenditure incurred by the Group on research and development.

	$'m				
Year ended December 31,	***2018***	***2019***	***2020***	***2021***	***2022***
Research and development	*25.7*	*42.4*	*44.6*	*79.3*	*50.3*

2. Cash and short-term investments held at year end

Strategic objective: Availability of financial resources to progress the development of the Group's research and development activities.

Key Performance Indicator: Year-end cash of $227.8 million (2021: $148.4 million).

Definition: Cash and cash equivalents.

	$'m				
As at December 31,	***2018***	***2019***	***2020***	***2021***	***2022***
Cash and equivalents	*82.6*	*40.8*	*188.0*	*148.4*	*227.8*

3. Study completion

Strategic objective: Timely conduct of the ENHANCE Phase 3 clinical program to ensure data is reported in line with Company and market expectation.

Key Performance Indicator: Timely completion of both Phase 3 trials, ENHANCE-1 and ENHANCE-2, with nebulized ensifentrine for the maintenance treatment of COPD by the end of 2022.

Definition: Reporting of top-line data in each of the ENHANCE-1 and ENHANCE-2 clinical trials.

Gender of Directors and employees

We recruit individuals who have the skills, experience and integrity needed to perform the roles to make Verona Pharma a successful company. We recruit without regard to sex or ethnic origin, appointing and thereafter promoting staff based upon merit.

The profile of the Group's employees at December 31, 2022, was as follows:

	Male	Female	Total
	December 31, 2022	December 31, 2022	December 31, 2022
Number of persons who were Directors of the Company	9	1	10
Number of persons who were executive officers of the Company	1	2	3
Number of persons who were other employees of the Company	11	21	32
Total employees at December 31, 2022	21	24	45

Environmental matters

We currently outsource our research, development, testing and manufacturing activities. These activities are subject to various environmental, health and safety laws and regulations, which govern, among other things, the controlled use, handling, release and disposal of and the maintenance of a registry for, hazardous materials and biological materials. If we or our partners fail to comply with such laws and regulations, we could be subject to fines or other sanctions.

As with other companies engaged in activities similar to ours, we face a risk of environmental liability inherent in our current and historical activities, including liability relating to releases of or exposure to hazardous or biological materials. Environmental, health and safety laws and regulations are becoming more stringent. We may be required to incur substantial expenses in connection with future environmental compliance or remediation activities, in which case, our production and development efforts may be interrupted or delayed.

Greenhouse Gas Emissions

We have used the Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard (revised edition) data gathered to fulfil our requirements under the CRC Energy Efficiency scheme, and emission. Our greenhouse gas emission estimates for 2022 and 2021 have been prepared in accordance with the U.K. government's Department for Environment, Food and Rural Affairs (DEFRA) guidance document Environmental Reporting Guidelines: Including Mandatory GHG emissions reporting guidance from June 2013.

	Tonnes carbon dioxide equivalent (tCO2-e)	
	2022	**2021**
Estimated greenhouse gas emissions from our own activities, including the combustion of fuel and the operation of our facilities	—	—
Estimated greenhouse gas emissions from purchased electricity, heat, steam or cooling for own use	—	—
Total estimated greenhouse gas emissions	—	—
Intensity ratio:	N/A	N/A

We are a company with a small number of employees. We have serviced offices and we currently outsource our research, development, testing and manufacturing activities. As a result, we do not emit greenhouse gases from our own activities, nor do we purchase electricity, heat or steam for our own use (Scope 1 and Scope 2 disclosures).

However, we are aware that our activities do have an impact on GHG emissions through the work of our partners and our activities such as business travel (Scope 3 disclosures). We have discussed with our partners the impact of our operations on emissions but they have not been able to provide the information for us to provide a meaningful analysis.

We have activities in the U.S. and Europe and we need to fly our employees, directors and consultants to effectively manage our business and operations.

Approach to Risk

Drug development is inherently risky. There is no certainty that ensifentrine will progress successfully through development, obtain regulatory approval and become a marketable product. All of the Group's activities involve an ongoing assessment of risks and the Group seeks to mitigate such risks where possible. The Board has undertaken an assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. In addition, the Board has considered the longer-term viability of the Group including factors such as the prospects of the Group and its ability to continue in operation for the foreseeable future.

Having carried out a review of the level of risks that the Group is taking in pursuit of its strategy, the Board is satisfied that the level of retained risk is appropriate and commensurate with the financial rewards that should result from achievement of its strategy. The principal risks and uncertainties have been identified as follows:

- We have a limited operating history and have never generated any product revenue;
- We may need additional funding to complete development of and commercialize ensifentrine and any future product candidates, if approved, or develop and commercialize other formulations or target indications of ensifentrine, if approved;
- The advances under the $150.0 million Oxford Term Loan are contingent upon achievement of certain clinical and regulatory milestones and other specified conditions. If we fail to meet those conditions, we will need to find alternative sources of funding;

- Changes in our tax rates, unavailability of certain tax credits or reliefs or exposure to additional tax liabilities or assessments could affect our profitability, and audits by tax authorities could result in additional tax payments for prior periods;
- We depend solely on the success of ensifentrine, our only product candidate under development;
- We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates;
- Ensifentrine may have serious adverse, undesirable or unacceptable side effects which may delay or prevent marketing approval;
- If we are unable to enroll patients in our clinical trials, or enrollment is slower than anticipated, our research and development efforts could be adversely affected;
- We may become exposed to costly and damaging liability claims, either when testing ensifentrine in the clinic or at the commercial stage, and our product liability insurance may not cover all damages from such claims;
- Regulatory approval processes are lengthy, time consuming and inherently unpredictable, and if we are ultimately unable to obtain regulatory approval for ensifentrine, our business will be substantially harmed;
- Enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize ensifentrine and may affect the prices we may set;
- Our business operations and current and future relationships with investigators, healthcare professionals, consultants, third-party payors and customers will be subject to applicable healthcare regulatory laws, which could expose us to penalties;
- We operate in a highly competitive and rapidly changing industry, which may result in others discovering, developing or commercializing competing products before or more successfully than we do;
- We rely, and expect to continue to rely, on third parties, including independent clinical investigators and clinical research organizations, to conduct our pre-clinical studies and clinical trials;
- The collaboration and license agreement with Nuance Pharma is important to our business. If Nuance Pharma is unable to develop and commercialize products containing ensifentrine in Greater China, if we or Nuance Pharma fail to adequately perform under the Nuance Agreement, or if we or Nuance Pharma terminate the Nuance Agreement, our business would be adversely affected.
- If we fail to enter into new strategic relationships for ensifentrine, our business, research and development and commercialization prospects could be adversely affected;
- We currently rely on third-party manufacturers and suppliers for production of the active pharmaceutical ingredient ensifentrine and its derived formulated products. Our dependence on these third parties may impair the advancement of our research and development programs and the development of ensifentrine;
- We rely on patents and other intellectual property rights to protect ensifentrine, the enforcement, defense and maintenance of which may be challenging and costly;
- We may not identify relevant third-party patents or may incorrectly interpret the relevance, scope or expiration of a third-party patent which might adversely affect our ability to develop, manufacture and market ensifentrine;
- We may be involved in lawsuits to protect or enforce patents covering ensifentrine, which could be expensive, time consuming and unsuccessful, and issued patents could be found invalid or unenforceable if challenged in court;
- Our future growth and ability to compete depends on our ability to retain our key personnel and recruit additional qualified personnel;
- We expect to expand our development, regulatory and sales and marketing capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations;
- The price of our American Depositary Shares may be volatile and may fluctuate due to factors beyond our control; and
- We will continue to incur increased costs as a result of operating as a public company in the United States, and our senior management are required to devote substantial time to new compliance initiatives and corporate governance practices.

On behalf of the Board

Dr. David Zaccardelli

Chief Executive Officer

March 14, 2023

Letter from the Chair of the Remuneration Committee

Dear Shareholders,

As Chair of the Remuneration Committee (the "Committee"), I am pleased to present, on behalf of the board of directors (the "Board") of Verona Pharma, the Directors' Remuneration Report for the year ended December 31, 2022 (the "Remuneration Report"). Shareholders will be invited to approve the Remuneration Report, which will be subject to a non-binding advisory vote, at the Annual General Meeting of shareholders ("AGM") to be held on April 27, 2023 ("2023 AGM"). The Directors' Remuneration Policy (the "Remuneration Policy") was approved by shareholders at the 2021 AGM.

The notice and accompanying materials for the 2023 AGM will be sent out in due course.

The Remuneration Committee

The Committee is responsible for reviewing and establishing our executive and non-executive remuneration policy and philosophy, including making recommendations to the Board for its approval with respect to the remuneration of our President and CEO, who is our sole Executive Director, and our Non-Executive Directors. The Committee is also responsible for determining and approving the remuneration of senior executive officers. The composition and terms of reference of the Committee can be found on our website at www.veronapharma.com.

Remuneration philosophy

The aim of the Remuneration Policy is to enable the Company to offer remuneration packages that are designed to promote the long-term success of the Company by:

- being sufficiently competitive to enable the Company to attract, incentivize and retain the Executive Directors and management it needs to operate its business;
- supporting and rewarding the delivery of the Company's strategy and corporate objectives and ultimately creating value for shareholders;
- aligning Executive Directors and management with the long-term interests of shareholders and helping to retain them by delivering a significant element of remuneration in shares;
- effectively managing the Company's cash resources; and
- being flexible enough to cope with the Company's changing needs as it grows and the strategy evolves.

It is the belief of the Committee that these objectives are best achieved through a greater emphasis on variable rather than fixed remuneration, comprised of a mix of base salary and benefits, along with the flexibility to appropriately reward and incentivize with variable pay and longer term incentives, as described within the Remuneration Policy.

Whilst the Company is headquartered in the U.K, given that a number of the Company's senior executives are based in the U.S., where the market for experienced directors and biopharmaceutical executive talent is very competitive, and given that the Company is listed on a U.S. stock exchange and that its shareholder base is primarily U.S. based, the Committee references U.S. benchmarks and practices in designing its remuneration programs and policies. Notwithstanding, the Committee exercises its discretion in determining the various elements of cash and equity compensation and is mindful of the general U.K. compensation framework, including investor bodies guidance, and has considered these when determining the remuneration programs and policies where it believes they best serve the long-term interests of shareholders.

Currently the Company has only one Executive Director, but the Remuneration Policy will apply equally to any additional Executive Directors who may be appointed in the future.

The Committee annually reviews the operation of the remuneration programs and policies to ensure they are operating within an acceptable risk profile and that they do not inadvertently encourage any economic, social or governance issues.

Key activities and decisions in the year ended December 31, 2022

During 2022, Verona Pharma made significant progress in its Phase 3 ENHANCE clinical program evaluating nebulized ensifentrine for the maintenance treatment of COPD. Ensifentrine met the primary endpoint in both the ENHANCE-1 and ENHANCE-2 trials, demonstrating statistically significant and clinically meaningful improvements in measures of lung function. In addition, ensifentrine substantially reduced the rate and risk of COPD exacerbations and was well tolerated in both trials.

The success of the ENHANCE trials enabled the Company to significantly strengthen its financial position in 2022 through an upsized $150 million equity offering in August and $150 million debt financing facility in October.

Alongside the progress of the ENHANCE program, Nuance Pharma received clearance from China's Center for Drug Evaluation to begin Phase 1 and Phase 3 studies with ensifentrine for COPD in mainland China.

During 2022, the Committee's activities included monitoring and assessing performance against the annual bonus objectives for the senior executives, including the Executive Director. In December 2022, the Committee determined the level of bonus awards payable in respect of the 2022 performance period. The awards recognized that 125% of the Company's corporate objectives for 2022 were achieved. The Board accepted the Committee's recommendation and such amounts have been included in this 2022 annual report and accounts.

In February 2023, the Committee approved the annual bonus objectives to be achieved by the senior executives, including the Executive Director, for the year ended December 31, 2023. These objectives, which were approved by the Board, are considered to be commercially sensitive and will not be disclosed in detail, but are designed to support achievement of our strategic objectives to develop and commercialize innovative therapies for the treatment of respiratory diseases with significant unmet medical needs.

The Committee's other activities during 2022 included a review of the equity incentives for employees, including the Executive Director and senior executives, noting that equity incentives have not been awarded to existing employees since mid 2020. Recognizing the importance of employee retention and incentivization as the Company completes the ENHANCE program and prepares for the commercial launch of ensifentrine in the US, in September 2022 the Committee approved the grant of Restricted Stock Units ("RSUs") to all employees, including the Executive Director and the senior executives, under the Company's 2017 Long Term Incentive Plan.

The Committee has determined that the independent benchmarking review performed by AoN Consulting, Inc. in late 2021 remains current to guide the Committee in its determination of the compensation of the Non-Executive Directors and the senior executive officers, including the Executive Director, into 2023. In line with such review, there will be no change to the fees paid to the Non-Executive Directors in 2023, however the Committee plans to make equity grants to the Non-Executive Directors immediately after the 2023 AGM. The Committee also approved a 5.5% base salary increase for the CEO, with effect from January 1, 2023.

The Company has made significant progress during 2022 with the near completion and reporting of positive results from the Phase 3 ENHANCE clinical program and the strengthening of the Company's financial position. The compensation approved by the Committee for 2023, including the bonus objectives for the Executive Director and other senior executive officers, is designed to support achievement of the Company's strategic objectives and core focus during 2023 to submit a New Drug Application ("NDA") to the U.S. Food and Drug Administration and prepare for the planned commercial launch of ensifentrine in the U.S. in 2024.

We hope that you remain supportive of our remuneration approach and will vote in favor of the Directors' Remuneration Report.

Yours faithfully,

Dr Ken Cunningham

Chair of the Remuneration Committee

March 14, 2023

Annual Report on Remuneration

Single total figure of remuneration of each Director (audited)

The Directors received the following remuneration for the years ended December 31, 2022 and December 31, 2021:

	Financial Year	Base Salary / Cash Fees	Bonus	Employer's Pension	Share-based payment [i]	Benefits	Other	Total fixed	Total variable	Total
		$	$	$	$	$	$	$	$	$
Executive										
David Zaccardelli [1]	2022	524,842	497,297	12,200	4,133,500	27,978	—	815,020	4,380,797	5,195,817
	2021	272,488	328,313	11,600	500,000	27,394	—	811,482	328,313	1,139,795
Non-Executive										
David Ebsworth	2022	140,846	—	—	64,375	—	—	140,846	64,375	205,221
	2021	158,369	—	—	—	—	—	158,369	—	158,369
Ken Cunningham	2022	48,152	—	—	64,375	—	—	48,152	64,375	112,527
	2021	54,143	—	—	—	—	—	54,143	—	54,143
Anders Ullman	2022	36,114	—	—	64,375	—	—	36,114	64,375	100,489
	2021	40,607	—	—	—	—	—	40,607	—	40,607
Rishi Gupta	2022	37,681	—	—	64,375	—	—	37,681	64,375	102,056
	2021	46,022	—	—	14,906	—	—	46,022	—	46,022
Mahendra Shah	2022	40,538	—	—	64,375	—	—	40,538	64,375	104,913
	2021	44,668	—	—	—	—	—	44,668	—	44,668
Andrew Sinclair [2]	2022	13,612	—	—	—	—	—	13,612	—	13,612
	2021	47,375	—	—	14,906	—	—	47,375	—	47,375
Vikas Sinha	2022	52,996	—	—	64,375	—	—	52,996	64,375	117,371
	2021	56,850	—	—	—	—	—	56,850	—	56,850
Martin Edwards	2022	36,114	—	—	64,375	—	—	36,114	64,375	100,489
	2021	40,607	—	—	—	—	—	40,607	—	40,607
Lisa Deschamps	2022	39,726	—	—	64,375	—	—	39,726	64,375	104,101
	2021	37,702	—	—	134,705	—	—	37,702	134,705	172,407
James Brady [3]	2022	33,869	—	—	82,620	—	—	33,869	82,620	116,489
	2021	—	—	—	—	—	—	—	—	—

[1] Dr. Zaccardelli was entitled to a base salary of $772,500 per year in 2021, made up of approximately $272,500 in cash and $500,000 in restricted stock units. In 2022 this increased to $795,675 made up of approximately $545,675 in cash and $250,000 in restricted stock units. $524,842 was the actual cash figure paid to Dr. Zaccardelli in 2022 due to the change in his cash/share split in February 2022.

[2] Resigned April 27, 2022

[3] Appointed March 14, 2022

[i] Share based payments represent the intrinsic value of share options that vested during the years ended December 31, 2021 and December 31, 2022 and the intrinsic value of RSUs granted in the years ended December 31, 2021 and December 31, 2022. The intrinsic value of the share options is the difference between the share price on the date of vesting and the exercise price of the option. In the case of RSUs it is the share price on the day of grant. No amount of this award was attributable to share price appreciation.

Dr. Zaccardelli's compensation package is denominated in U.S. dollars; all other directors' compensation is denominated in U.K. pounds, except for share based payments, which are calculated on the price of ADSs. For the purposes of this table, all amounts are translated into U.S. dollars using exchange rates on December 31, 2022 (1.203810) and December 31, 2021 (1.353583) for each year respectively.

Annual performance bonus

The Company operates a discretionary bonus scheme for all employees including the CEO. Bonus awards are granted as a percentage of base salary and based on objectives signed off by the Remuneration Committee each year. For 2022, the CEO's maximum bonus opportunity was 50% of base salary. The Remuneration Committee assessed performance against the objectives determining that 125% of the objectives were achieved. This resulted in a 2022 bonus award equating to 62.5% of base salary for the CEO.

The performance objectives achieved by the Executive Director included the following:

- completed enrollment of the ENHANCE-1 clinical trial in the third quarter of 2022 and reported results in December 2022;
- reported results of the ENHANCE-2 clinical trial in the third quarter of 2022;
- completed submissions to and obtained responses from the FDA on the CMC and other aspects of the Company's planned NDA filing for nebulized ensifentrine for the maintenance treatment of COPD;
- completed $150 million equity financing in August 2022 and $150 million debt financing in October 2022; and
- operated within approved budget.

Long term incentive awards

The Executive Director was granted 3,600,000 restricted share units ("RSUs") with respect to ordinary shares during the 2022 performance period in addition to the RSUs granted as part of his fixed remuneration. See below "Percentage Change of Directors' Remuneration".

Payments to past Directors (audited)

There were no payments to past Directors during the financial year ended December 31, 2022 or the financial year ended December 31, 2021.

Payments for loss of office (audited)

There were no payments to directors for loss of office in the financial year ending December 31, 2022.

Statement of Directors' Shareholding and Share Interests (audited)

The table below details the total number of ordinary shares owned (including their beneficial interests), the total number of ordinary share options held, the number of ordinary share options vested but not yet exercised and the total number of restricted share units ("RSUs") with respect to ordinary shares held as at December 31, 2022:

December 31, 2022	Shares	Options - not vested	Options vested, not exercised	RSUs not vested	Total (shares and options)
Executives					
David Zaccardelli	8,312,600	—	—	9,463,200	17,775,800
Non Executives					
Vikas Sinha	74,440	100,000	284,384	—	458,824
Anders Ullman	334,856	100,000	164,000	—	598,856
David Ebsworth	684,643	100,000	164,000	—	948,643
Ken Cunningham	66,584	100,000	164,000	—	330,584
Mahendra Shah	73,080	100,000	164,000	—	337,080
Martin Edwards	111,064	100,000	164,000	—	375,064
Rishi Gupta	—	100,000	349,600	—	449,600
Lisa Deschamps	70,320	100,000	164,000	—	334,320
James Brady	—	144,000	144,000	—	288,000
	9,727,587	944,000	1,761,984	9,463,200	21,896,771

The interests of the Directors in the Company's ordinary share options and RSUs with respect to ordinary shares as at December 31, 2022 were as follows:

Director	Date of Grant	Exercise price per share ($)	Type	January 1, 2022	Granted during the year	Exercised / vested during the year	December 31, 2022	Date from which exercisable	Expiry date
Vikas Sinha	April 26, 2017	1.70	Options	120,384	—	—	120,384	i)	April 26, 2027
David Zaccardelli	May 7, 2020	—	RSU	2,369,840	—	(1,053,264)	1,316,576	ii)	N/A
David Zaccardelli	August 20, 2020	—	RSU	8,033,416	—	(3,570,400)	4,463,016	iii)	N/A
Rishi Gupta	September 24, 2020	0.79	Options	185,600	—	—	185,600	iv)	September 24, 2030
David Zaccardelli	January 28, 2021	—	RSU	132,272	—	(132,272)	—	v)	N/A
Lisa Deschamps	March 1, 2021	—	RSU	29,000	—	(29,000)	—	vi)	N/A
Ken Cunningham	August 9, 2021	0.78	Options	64,000	—	—	64,000	vii)	August 8, 2031
Lisa Deschamps	August 9, 2021	0.78	Options	64,000	—	—	64,000	vii)	August 8, 2031
David Ebsworth	August 9, 2021	0.78	Options	64,000	—	—	64,000	vii)	August 8, 2031
Martin Edwards	August 9, 2021	0.78	Options	64,000	—	—	64,000	vii)	August 8, 2031
Rishi Gupta	August 9, 2021	0.78	Options	64,000	—	—	64,000	vii)	August 8, 2031
Mahendra Shah	August 9, 2021	0.78	Options	64,000	—	—	64,000	vii)	August 8, 2031
Vikas Sinha	August 9, 2021	0.78	Options	64,000	—	—	64,000	vii)	August 8, 2031
Anders Ullman	August 9, 2021	0.78	Options	64,000	—	—	64,000	vii)	August 8, 2031
David Zaccardelli	February 1, 2022	—	RSU	—	334,448	(250,840)	83,608	viii)	N/A
James Brady	March 14, 2022	0.60	Options	—	288,000	—	288,000	ix)	March 13, 2032
Ken Cunningham	April 28, 2022	0.50	Options	—	200,000	—	200,000	x)	April 27, 2032
Lisa Deschamps	April 28, 2022	0.50	Options	—	200,000	—	200,000	x)	April 27, 2032
Martin Edwards	April 28, 2022	0.50	Options	—	200,000	—	200,000	x)	April 27, 2032
David Ebsworth	April 28, 2022	0.50	Options	—	200,000	—	200,000	x)	April 27, 2032
Rishi Gupta	April 28, 2022	0.50	Options	—	200,000	—	200,000	x)	April 27, 2032
Mahendra Shah	April 28, 2022	0.50	Options	—	200,000	—	200,000	x)	April 27, 2032
Vikas Sinha	April 28, 2022	0.50	Options	—	200,000	—	200,000	x)	April 27, 2032
Anders Ullman	April 28, 2022	0.50	Options	—	200,000	—	200,000	x)	April 27, 2032
David Zaccardelli	September 26, 2022	—	RSU	—	3,600,000	—	3,600,000	xi)	N/A

All options are subject to service conditions.

i) 50% of these options vested in three annual tranches and 50% in four. The first vesting date was April 26, 2018.

ii) 25% of these RSUs vested on February 1, 2021, with the remaining vesting in twelve equal quarterly tranches thereafter. The face value of this award was $2,211,174.

iii) 25% of these RSUs vested on February 1, 2021, with the remaining vesting in twelve equal quarterly tranches thereafter. The face value of this award was $14,909,288.

iv) 50% of these RSUs or options vested on November 1, 2020, with the remainder in two equal quarterly installments. The face value of each award was $121,075.

v) These RSUs vest in four equal quarterly tranches. The first vesting date was May 1, 2021. The face value of this award was $500,000.

vi) These RSUs vest in four equal quarterly tranches. The first vesting date was May 1, 2021. The face value of this award was $134,705.

vii) These options vest in four equal installments. The first vesting date was August 9, 2021, with the remaining quarterly from November 1, 2021. The face value of each award was $49,600.

viii) These RSUs vest in four equal quarterly tranches. The first vesting date was May, 1 2022. The face value of this award was $250,000.

ix) These options vest in four equal quarterly installments. The first vesting date was August 1, 2022. The face value of the award was $173,520.

x) These options vest in four equal quarterly installments. The first vesting date was July 28, 2022. The face value of each award was $100,750.

xi) 25% of these RSUs vest on November 1, 2023, with the remaining vesting in twelve equal quarterly tranches thereafter. The face value of this award was $3,883,500.

Directors' interests (audited)

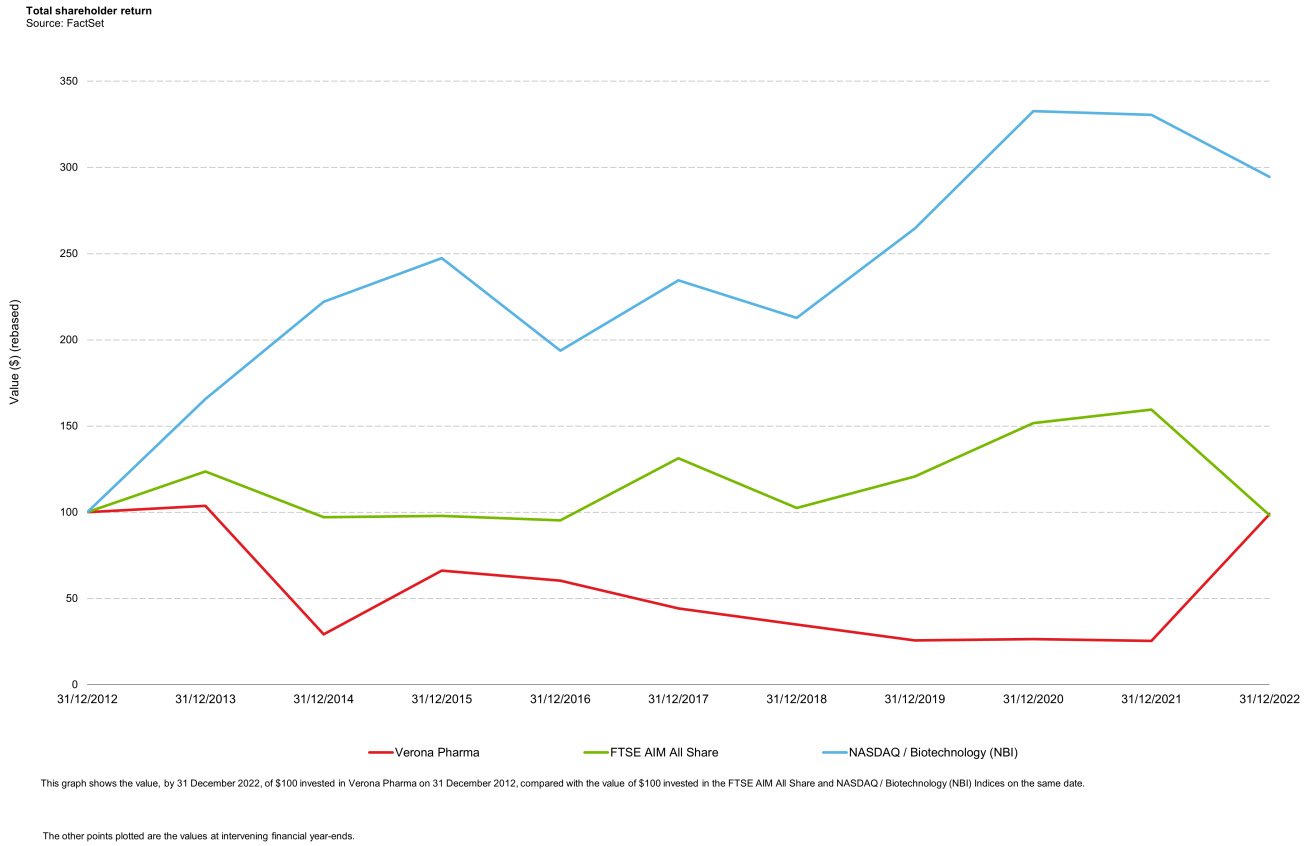
The beneficial and non-beneficial interests of the Directors in the Company's ordinary shares as at December 31, 2022, were as follows:

Name	Held at December 31, 2022	Held at December 31, 2021
David Zaccardelli	8,312,600	5,996,824
David Ebsworth	684,643	684,643
Vikas Sinha	74,440	74,440
Anders Ullman	334,856	334,856
Ken Cunningham	66,584	66,584
Mahendra Shah	73,080	73,080
Martin Edwards	111,064	111,064
Rishi Gupta	—	—
Lisa Deschamps	70,320	52,984
James Brady	—	—

Between December 31, 2022 and February 28, 2023, the only change in the interests of the Directors was the vesting of Dr. Zaccardelli's 806,592 ordinary shares of RSUs.

Total shareholder return

The graph below shows the Company's performance, measured by total shareholder return, compared with the value if the same investment had been made in the FTSE AIM All Share and NASDAQ / Biotechnology (NBI) indices on the same date.



CHIEF EXECUTIVE OFFICER TOTAL REMUNERATION HISTORY

2017 was the first year that Verona Pharma prepared a Directors' Remuneration Report, and took the exemption not to disclose 5 years of history of remuneration. The Company has chosen to disclose remuneration history from 2017 onwards.

	2022	2021	2020 [1]	2019	2018	2017
Total CEO remuneration ($'000s)	5,196	1,140	18,390	901	1,073	1,452
Annual variable element award rates against maximum opportunity	125%	85%	110 %	40 %	57%	66%
Long-term incentive vesting rates against maximum opportunity	100%	100%	100%	100%	100%	100%

[1)] this includes one month of the remuneration of Dr. Karlsson and eleven months of Dr. Zaccardelli.

All pound sterling amounts have been translated into U.S. dollars using exchange rates on December 31, 2020 (1.366312), December 31, 2019 (1.326752), December 31, 2018 (1.276021) and December 31, 2017 (1.350291) for each year respectively.

PERCENTAGE CHANGE OF DIRECTORS' REMUNERATION

The table below shows the percentage change in remuneration of the directors and the Group's employees as a whole for the period January 01 to December 31 for the following years:

		Percentage increase/(decrease) for 2022 compared to 2021		Percentage increase/(decrease) for 2021 compared to 2020		Percentage increase/(decrease) for 2020 compared to 2019	
		Director	Average Employee	Director	Average Employee	Director	Average Employee
Base salary	David Zaccardelli	3%	10%	3%	11%	71%	9%
Short-term incentives	David Zaccardelli	51%	53%	(20)%	(2)%	78%	28%
Taxable benefits	David Zaccardelli	2%	16%	(33)%	1%	10%	4%
Base salary	David Ebsworth	—	10%	4%	11%	4%	9%
Base salary	Ken Cunningham	—	10%	—	11%	—	9%
Base salary	Anders Ullman	(9)%	10%	5%	11%	4%	9%
Base salary	Rishi Gupta	(8)%	10%	7%	11%	6%	9%
Base salary	Mahendra Shah	2%	10%	5%	11%	4%	9%
Base salary	Andrew Sinclair [1]	(68)%	10%	9%	11%	7%	9%
Base salary	Vikas Sinha	5%	10%	—	11%	—	9%
Base salary	Martin Edwards	—	10%	—	11%	33%	9%
Base salary	Lisa Deschamps [2]	20%	10%	N/A	11%	N/A	9%
Base salary	James Brady [3]	N/A	10%	N/A	11%	N/A	9%

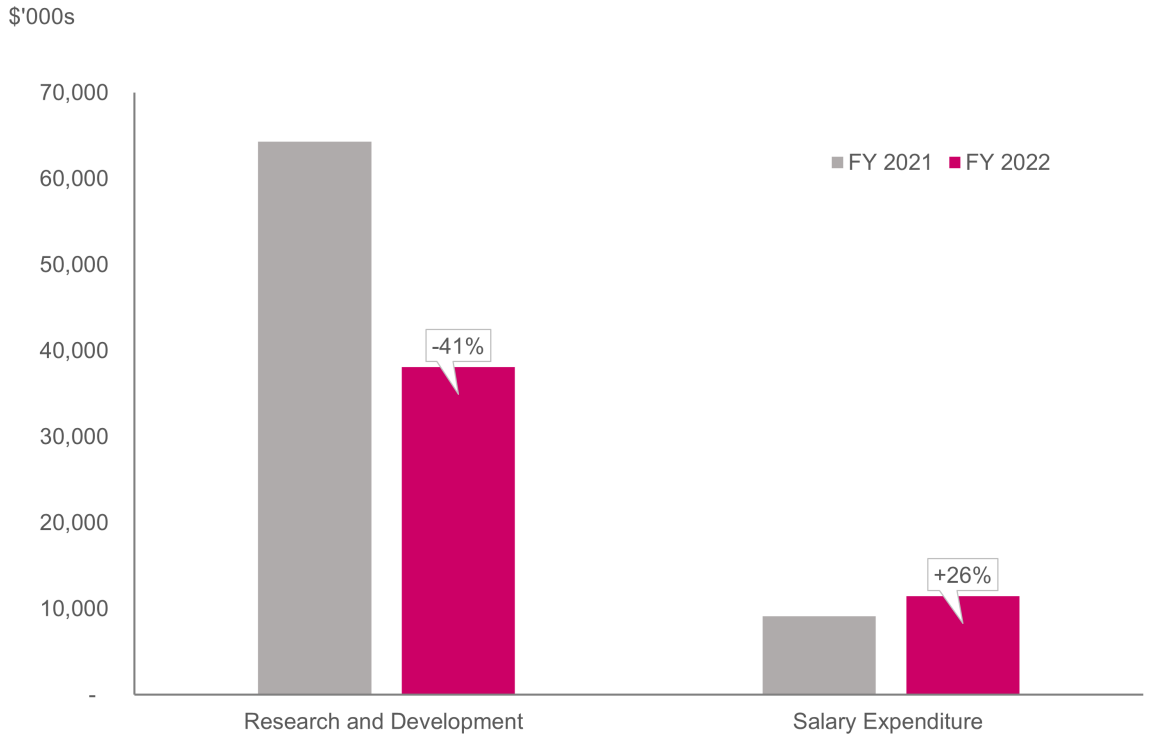
[1] Resigned in April 27, 2022

[2] Appointed March 1, 2021

[3] Appointed March 14, 2022

Relative importance of spend on pay

The Committee considers the Company's research and development expenditure relative to salary expenditure for all employees to be the most appropriate metric for assessing overall spend on pay due to the nature and stage of the Company's business. Dividend distribution and share buy-back comparators have not been included as the Company has no history of such transactions. The graph below illustrates the gross pay to all employees compared to research and development expenditure, excluding share based payment, and illustrates the year-on-year change. The Committee notes that research and development expenditure decreased in 2022 from 2021 due to the near completion of the Phase 3 ENHANCE program. Salary expenditure increased due to new commercial hires and increased bonuses resulting from the Company's 2022 performance.



External advice

During the 2022 financial year, the Company engaged AoN Consulting, Inc. (the "Remuneration Advisors") to support the Committee and management with advice on remuneration matters and the Committee is satisfied that they provide independent and objective advice. During 2022, the Company paid fees of $2,000 to the Remuneration Advisors. No other fees were paid to them in the year.

Proposed Application of the Remuneration Policy for the Year Ended December 31, 2023

i) Fixed elements of remuneration

With effect from January 1, 2023, the base salary of Dr. David Zaccardelli in his role as President, CEO, and Executive Director of the Company is $839,437 per annum, all of which is paid in cash. In accordance with the Remuneration Policy, the Remuneration Committee has considered Dr. Zaccardelli's base salary in the context of a number of factors, including the market benchmarking exercise carried out by the Remuneration Advisors, the skills and experience of Dr. Zaccardelli, and the location, responsibilities and scale and complexity of the role.

ii) Variable elements of remuneration

Short-term incentives

The target bonus for Dr. Zaccardelli for the 2023 performance period will be 50% of base salary. The performance objectives for Dr. Zaccardelli against which the Committee will determine the annual bonus were approved by the Board in February 2023. The detail behind the performance objectives is currently considered to be commercially sensitive as it relates to the Company's strategy for the advancement of the ensifentrine clinical development program and its financial and commercial goals. To the extent that the objectives do not comprise commercially sensitive information, the Company

expects to disclose both the objectives and performance against those objectives in next year's Directors' Remuneration Report.

Long-term incentive awards

The Company anticipates awarding a long term incentive grant to the Executive Director in 2023 under the Company's 2017 Incentive Plan, subject to Board approval.

iii) Chairperson and Non-Executive Director fees (audited)

Chairperson fees

The Chairperson is paid a basic fee and a fee for chairing or membership of Board Committees. The fee for membership of Board Committees was last reviewed in 2020 following a benchmarking exercise undertaken by the Company's external Remuneration Advisors. The Chairperson is also awarded equity incentives under the 2017 Incentive Plan.

Non-Executive Director cash fees

Non-Executive Directors are paid a basic fee and a fee for chairing or membership of Board committees. The fee for membership of Board Committees was last reviewed in 2020 following a benchmarking exercise undertaken by the Company's Remuneration Advisors. Non-Executive Directors are also awarded equity incentives under the 2017 Incentive Plan.

The table below shows the annual fees currently payable to our Chairman and Non-Executive Directors.

Name	Annual Fees (£)
David Ebsworth	117,000
Ken Cunningham	40,000
Anders Ullman	30,000
Rishi Gupta	30,000
Mahendra Shah	34,000
Vikas Sinha	45,000
Martin Edwards	30,000
Lisa Deschamps	33,000
James Brady	35,000

The Remuneration Policy provides that Executive Directors may have contracts with an indefinite term provided the contracts have a notice period which does not exceed twelve months.

Mr. Jim Brady, Dr. Ken Cunningham, Ms. Lisa Deschamps, Dr. Martin Edwards, Mr. Vikas Sinha and Dr. Anders Ullman have letters of appointment which are subject to a three-month notice period. Dr. Mahendra Shah and Mr. Rishi Gupta were designated as Non-Executive Directors of our Board under relationship agreements we entered into in June 2016 with entities affiliated with each of Vivo Capital and OrbiMed, respectively. The appointment rights under these relationship agreements automatically terminated on the Company delisting from AIM in October 2020. Notwithstanding, the Board resolved that Dr. Shah and Mr. Gupta continue to be appointed to the Board pursuant to letters of appointment, which are also subject to a three-month notice period.

The Non-Executive Directors' remuneration is reviewed by the Board annually. In accordance with the Company's Articles of Association, one third of Directors are subject to retirement by rotation at each AGM. Dr. David Ebsworth, Dr. Mahendra Shah and Dr. David Zaccardelli will be retiring by rotation at the 2023 AGM and, being eligible, will seek re-election. Pursuant to our Articles of Association, if no other director is elected to fill their respective positions and the directors are willing, they shall be re-elected by default.

Details of Directors' service contracts or letters of appointment for the year ended December 31, 2022 are as follows:

Director	Date of Contract
Executive	
David Zaccardelli	February 1, 2020
Non-Executive	
David Ebsworth	December 1, 2014
Ken Cunningham	September 10, 2015
Anders Ullman	September 10, 2015
Rishi Gupta	July 29, 2016
Mahendra Shah	July 29, 2016
Andrew Sinclair	July 29, 2016
Vikas Sinha	September 12, 2016
Martin Edwards	April 1, 2019
Lisa Deschamps	March 1, 2021
James Brady	March 14, 2022

Directors' service contracts are available for inspection at the Group's offices in 3 More London Riverside, London, SE1 2RE.

The information in this part of the Directors' Remuneration Report is not subject to audit.

Directors' Remuneration Policy

The current Remuneration Policy was approved by the Company's shareholders at the 2021 AGM and will remain in force for three years from that date (until the AGM in 2024), or until a revised Remuneration Policy is approved by shareholders.

Statement of voting on the Remuneration Policy at the 2021 Annual General Meeting

At the Annual General Meeting held on April 27, 2021, votes cast by proxy at the meeting in respect of the Directors' Remuneration Policy were as follows:

	In favor votes	Against votes	Total votes cast	Votes withheld
To approve the Remuneration Policy	437,393,559	658,754	438,052,313	25,320
% of votes cast	99.85 %	0.15 %	100 %	—

Statement of voting on the Remuneration Report at the 2022 Annual General Meeting

At the Annual General Meeting held on April 27, 2022, votes cast by proxy at the meeting in respect of the Directors' Remuneration Report were as follows:

	In favor votes	Against votes	Total votes cast	Votes withheld
To approve the Remuneration Report	444,784,340	64,993	444,849,333	23,048
% of votes cast	99.99 %	0.01 %	100 %	—

Directors' Remuneration Policy

The Policy was approved by a binding Shareholder vote at the 2021 AGM and is effective from April 27, 2021 until the AGM in 2024 with no requirement to vote again on the Policy in the intervening years provided that no changes are proposed.

The Remuneration Committee of the Board of Directors of the Company (the "Committee") followed a robust process when reviewing and considering amendments to the Policy, considering both the strategic objectives of the business and evolving market practices. Input was also sought from management, while ensuring that conflicts of interest were suitably mitigated.

Remuneration philosophy

The aim of the Policy is to enable the Group to offer remuneration packages that are designed to promote the long-term success of the Group by:

- being sufficiently competitive to enable the Group to attract, incentivize and retain the Executive Directors and management it needs to operate its business;
- supporting and rewarding the delivery of the Group's strategy and corporate objectives and ultimately creating value for shareholders;
- aligning Executive Directors and management with the long-term interests of shareholders and helping to retain them by delivering a significant element of remuneration in shares;
- effectively managing the Group's cash resources; and
- being flexible enough to cope with the Group's changing needs as it grows and the strategy evolves.

Currently the Group has only one Executive Director, but the Policy will apply equally to any additional Executive Directors who may be appointed in future.

The Committee annually reviews the operation of the remuneration packages to ensure they are operating within an acceptable risk profile and that they do not inadvertently encourage any economic, social or governance issues.

Remuneration Policy

Remuneration Policy for Executive Directors

The total remuneration for the Executive Director is made up of the following elements:

- Salary;
- Benefits;
- Annual bonus;
- Long-term incentive awards; and
- Pension.

The Company adopted the 2017 Incentive Plan on completion of the Nasdaq IPO in April 2017, and since January 1, 2017 the Company has only granted equity incentives under the 2017 Incentive Plan.

A copy of the employment agreement for the Executive Director and the letters of appointment for the non-Executive Directors are available in the Company's SEC filings at https://www.veronapharma.com/investors/news-sec-filings.

Element of remuneration	Purpose and link to strategy	Operation	Maximum and minimum potential value	Performance metrics	Change to 2018 Policy
Base salary	Provides market competitive fixed remuneration that reflects the responsibilities of the role undertaken, the experience of the individual and performance in the role over time.	Reviewed annually taking into account individual responsibilities, experience, performance, inflation and market rates. The Committee will also consider the pay and employment conditions in the wider workforce when determining Executive Directors' salaries. Salary increases are normally effective from 1 January each year. Salaries are periodically benchmarked against a relevant peer group of life sciences companies, many of which are listed on Nasdaq, with a similar stage of clinical development, and similar market capitalization or net assets. Salaries are typically aligned with the 50th percentile of peer group comparator data but the Committee may vary from this general rule where it considers that special circumstances apply or where recruitment or retention of a particular role is required. Salaries may be paid in a combination of cash and equity.	The current base salary of the Executive Director is set out in the application of policy section of the Directors' Remuneration Report. There is no formal maximum level of base salary. Larger increases may be permitted to reflect a change in responsibilities or a significant increase in the scale or complexity of the role, or increases in line with the remuneration of the Group's wider workforce.	The overall performance of the individual and Group is a key determinant for salary increases.	(i) Salaries no longer benchmarked to companies listed on AIM or other European stock as Company delisted from AIM on 30 October 2020. (ii) The base salary may be paid in a combination of cash and equity

Benefits	Provides market competitive, yet cost-effective employment benefits.	For Executive Directors this includes private medical insurance and life insurance. Other employment benefits may be provided from time to time on similar terms as those of other employees. If an Executive Director is based outside the U.K. additional benefits and assistance with relocation may be provided which reflect local market norms or legislation.	There is no formal maximum level of benefits as the value of insured benefits will vary from year to year based on the cost from third-party providers.	None.	
Annual bonus	To incentivize and award delivery of the Company's strategy and corporate objectives on an annual basis.	Annual bonus performance targets are set at the start of the year by the Board and performance against objectives is assessed by the Remuneration Committee after the end of the relevant financial year. Bonuses will be paid in cash.	The maximum annual bonus payable to an Executive Director is 150% of base salary. In exceptional circumstances, the Committee may determine that the maximum bonus opportunity will be 200% of base salary There is no formal minimum annual bonus as the bonus payable depends on performance against objectives.	Research and development, business development, financial and commercial targets are set at the start of the year by the Board. Details of the performance measures for the current year are provided in the Directors' Remuneration Report, subject to any non-disclosure on the basis of commercially-sensitive information.	

Equity incentives	To align the interests of Executive Directors and management with long-term shareholder interests and to attract, incentivize and retain staff. To incentivize and recognize achievement of longer-term corporate objectives and sustained shareholder value creation. To effectively manage the Group's cash resources.	Conditional awards are granted annually under the 2017 Incentive Plan. The awards vest over a period of at least three years and may include a mix of share options, restricted share units, performance shares and other awards available for issuance under the 2017 Incentive Plan. Awards may be subject to clawback under the terms of any policy adopted by the Company or required by any applicable laws.	The total number of awards made under the 2017 Incentive Plan is subject to the overall limits set out in the 2017 Incentive Plan. There is no formal minimum level of equity incentives as the grant of equity incentives to the Executive Director is in the discretion of the Board.	Vesting may be on a time-phased basis or subject to performance conditions, as determined in the discretion of the Committee.	
Pension	To provide a competitive and tax-efficient pension savings plan which complies with at least the minimum contributions requirements of the applicable jurisdiction.	Executive Directors are eligible to join a defined contribution pension scheme.	The maximum contribution, cash supplement (or combination thereof) payable by the Company is 4% of salary, or such statutory minimum as may be required.		

The Committee operates the annual bonus and 2017 Incentive Plan, in accordance with their rules, and where relevant, the SEC Rules. To maintain an efficient administrative process, the Committee retains the following discretion relating to remuneration:

- the eligibility to participate in the plans;
- the timing of grant of awards and any payments;
- the size of awards and payments (subject to the maximum limits set out in the Policy table above and the respective plan rules);
- the determination of whether any performance conditions have been met;
- determining a good or bad leaver under the terms of the plans;
- adjustments required in certain capital events such as rights issues, corporate restructuring, events and special dividends; and
- the annual review of performance objectives for the annual bonus plan and, if applicable, the 2017 Incentive Plan.

In certain exceptional circumstances, such as a material acquisition/divestment of a Group business or a change in the broader business environment, which mean the original performance conditions are no longer appropriate, the Committee may adjust the objectives, alter weightings or set different measures as necessary, to ensure the conditions achieve their original purpose and are not materially less difficult to satisfy.

Historical equity incentive awards

Awards which were granted to directors prior to January 1, 2017 are fully vested and none remain outstanding.

Annual bonus

The annual bonus is designed to drive the achievement of the Company's strategic and corporate objectives. These targets are agreed by the Board and selected because of their importance in value creation for shareholders.

Remuneration on recruitment

The remuneration package for any new Executive Director will be determined by the Remuneration Committee in accordance with the terms of the Policy at the time of appointment (including salary, benefits, annual bonus, long-term incentive awards and pension). It is recognised that in order to attract and recruit talented individuals the Policy needs to allow sufficient flexibility with respect to remuneration on recruitment. The following policies apply to the remuneration on recruitment of new Executive Directors:

Salary: Base salary will be determined based on the responsibilities of the role, experience of the individual and current market rates. It may be considered necessary to appoint a new Executive Director on or below market rates (e.g. to reflect limited board experience). In such circumstances, phased increases above those of the wider workforce may be required over an appropriate time period, to bring the salary to the desired market level, subject to the continued development in the role.

Annual bonus: The ongoing annual bonus maximum will be in line with that outlined in the Policy table for existing Executive Directors, pro-rated to reflect the period of service. Depending on the timing or nature of an appointment it may be necessary to set different initial performance measures and targets for the first year of appointment.

Long-term incentive awards: 2017 Incentive Plan awards are granted in line with the policy outlined for existing Executive Directors. An award may be made shortly following an appointment (provided the Company is not in a closed period under its Insider Trading Compliance Policy). For internal appointments, existing awards will continue on their original terms.

Benefits: Benefits provided should be in line with those of existing Executive Directors. For external and internal appointments, where required to meet business needs, reasonable relocation support will be provided. In addition, if it becomes necessary to appoint a new Executive Director from outside the U.K., additional benefits may be provided to reflect local market norms or legislation.

Pension: A company contribution or cash supplement up to the maximum as outlined for existing Executive Directors.

Sign-on payments and buy-out awards: To enable the recruitment of exceptional talent, the Committee may offer additional cash and/or share-based remuneration to take account of and compensate for remuneration that the Director is required to relinquish when leaving a former employer. The Committee will seek to structure any such replacement awards to be no more generous overall in terms of quantum or vesting than the award to be forfeited from the previous employer and will take into account the timing, form and performance requirements of the awards forgone. Where appropriate, any long-term incentive awards will be granted under the 2017 Incentive Plan, however, the Remuneration Committee will have discretion to make use of the flexibility to make awards under any relevant exemptions in the SEC Rules.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms. In addition, any other contractual remuneration obligations existing prior to appointment may continue.

The fees for any new Chairperson and non-Executive Director appointments will be set in accordance with the prevailing policy and at a level that is consistent with those of the existing Chairperson and non-Executive Directors.

Policy for payments on loss of office

The Company does not have a policy of fixed term employment contracts, however, in accordance with the Company's Articles of Association, one third of Directors put themselves forward for re-election at each Annual General Meeting. The existing Executive Director's employment contract may be terminated by either party at any time and for any reason. The existing Chairperson's and non-Executive Directors' letters of appointment may be terminated by either party at any time and for any reason upon three months' notice from either party.

The Committee's approach to payments in the event that an Executive Director's employment is terminated is to take account of the individual circumstances including the reason for termination, individual performance, contractual obligations and the terms of the equity incentive plans in which the Executive Director participates.

Termination of the Executive Director's employment agreement by the Company "without cause" or by the Executive Director for "good reason" (as those terms are defined in the Executive Director's employment agreement): payment of up to 150% of annual base salary, maximum annual bonus and health insurance for 18 months.

Long-term incentives: whether any long-term incentive awards would vest and be exercisable upon loss of office would be subject to the contractual agreement with the Executive Director and the relevant plan rules under which such award was granted, which allow vesting and exercise of awards in the event of death, retirement, ill-health, injury, redundancy and any other reason at the discretion of the Remuneration Committee. Subject to any contractual agreement, the Committee retains discretion to determine the extent to which the award will vest, taking into consideration the circumstances. Unvested awards normally lapse, although the Committee retains the power to determine, in accordance with the "good leaver" provisions of the relevant plan rules, what proportion of unvested awards will be retained and what proportion will lapse. In determining this, the Committee will give consideration to the reason for leaving, the extent of achievement of performance objectives at the date of leaving and may decide to time pro-rate awards. On a change of control, all unvested awards vest on the date of change of control.

Additional payments: The Committee reserves the right to make payments it considers reasonable under a compromise or settlement agreement, including payment or reimbursement of reasonable legal and professional fees, untaken holiday and any payment in respect of statutory rights under employment law in the U.K. or other jurisdictions. Payment or reimbursement of reasonable outplacement fees may also be provided.

Remuneration Policy for Non-Executive Directors

The Remuneration Committee is responsible for evaluating and making recommendations to the Board on fees payable to the Chairperson. The Chairperson does not participate in discussions in respect of fees. The Chairperson and Chief Executive Officer are responsible for evaluating and making recommendations to the Board on the fees payable to the Company's non-Executive Directors.

Element of Remuneration	Purpose and link to strategy	Operation and Maximum	Change to 2018 Policy
Chairperson's fee	To attract and retain a high caliber individual with the requisite experience and knowledge.	The current fee is set out in the implementation of policy section of the Directors' Remuneration Report. There is no formal maximum. Fees are reviewed on a periodic basis against those in similar sized companies to ensure they remain competitive and adequately reflect the time commitments and scope of the role. Any increase in fee levels may be above that of the wider workforce in a particular year to reflect the periodic nature of any review and/or any change in responsibilities/time commitments. The Chairperson may also receive limited travel and/or hospitality related benefits in connection with the role. The Chairperson may not receive any consultancy or other payments outside his fee. The Chairperson may be paid in a combination of cash and equity.	(i) The Chairperson may be paid in a combination of cash and equity.
Non-Executive Director fee	To attract and retain high caliber individuals with the requisite experience and knowledge.	The current fee levels are set out in the implementation of policy section of the Directors' Remuneration Report. There is no formal maximum. Fees are reviewed on a periodic basis against those in similar sized companies to ensure they remain competitive and adequately reflect the time commitments and scope of the role. A Board fee is paid to each non-Executive Director. Supplemental fees may be paid to the Senior Independent Director and for chairpersonship and membership of Committees to recognize the additional time commitments and responsibilities of these roles. Any increase in fee levels may be above that of the wider workforce in a particular year to reflect the periodic nature of any review and/or any change in responsibilities/time commitments. If business needs arise, non-Executive Directors may also be engaged to provide limited consulting services outside their director responsibilities and receive fees for those services. Non-Executive Directors may also receive limited travel and/or hospitality related benefits in connection with the role. Non-Directors may be paid in a combination of cash and equity.	(i) Non-Executive Directors may be paid in a combination of cash and equity.

Illustrations of Minimum, Expected, and Maximum remuneration for the Executive Director

Scenarios

The charts set out for illustrative purposes only, what annual remuneration the Company expects the Executive Director, Dr. David Zaccardelli, to obtain at minimum, expected and maximum achievement of performance targets with respect to the financial year ending December 31, 2023.

The assumptions used in the calculations are set out below:

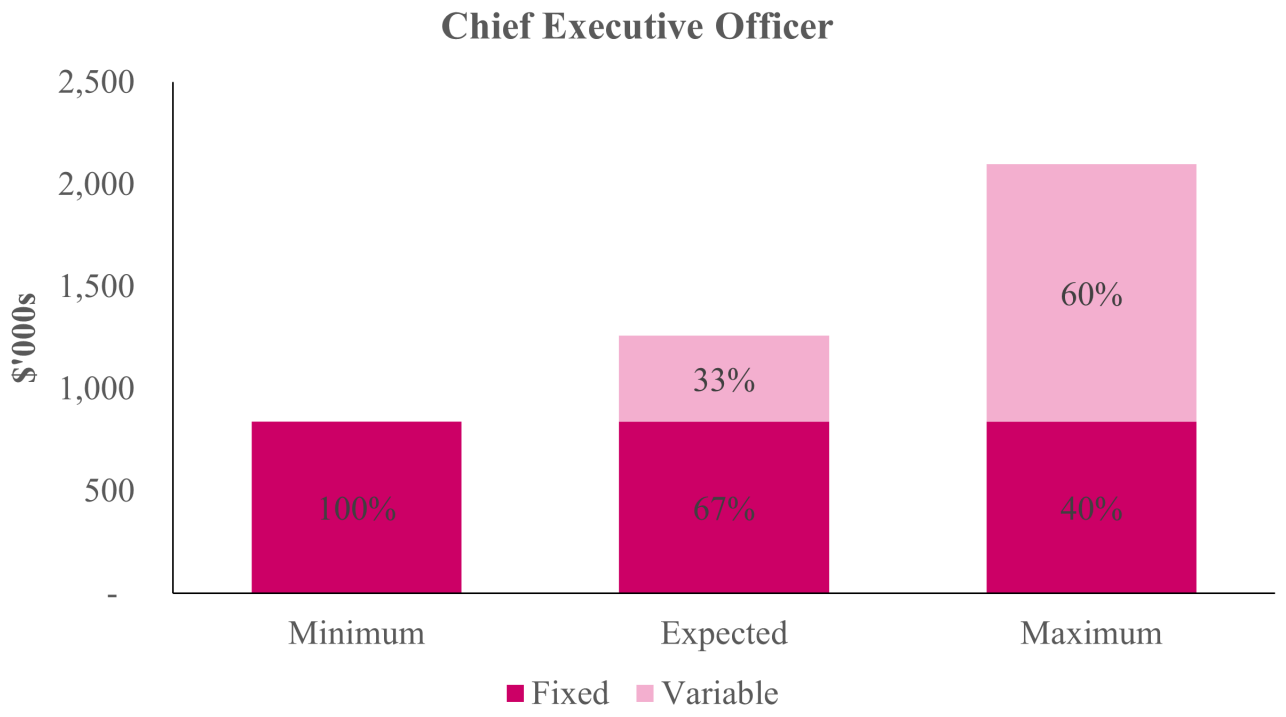
Fixed base salary includes:

- base salary of $839,437 per annum, all of which is paid in cash; and
- benefits.

Minimum: this illustration assumes fixed base salary, as set out above, and as the annual bonus is discretionary, no annual bonus.

Expected: this illustration assumes the fixed base salary, as set out above, plus achievement of the full discretionary annual bonus of 50% of base salary, being $419,718.56 for the financial year ending December 31, 2023. This illustration assumes no additional grant is made under the 2017 Incentive Plan.

Maximum: this illustration assumes the fixed base salary, as set out above, and as the annual bonus is discretionary, we make the assumption that the Executive Director receives the maximum bonus permitted under the Remuneration Policy of 150% of base salary, being $1,259,155.69 for the financial year ending December 31, 2023. This illustration assumes no additional grant is made under the 2017 Incentive Plan.



Statement of consideration of employees' pay and remuneration conditions elsewhere in the Group

The Company does not formally consult with employees when drawing up the Remuneration Policy. However, the Remuneration Committee is made aware of employment conditions in the wider Group. The same broad principles apply to the remuneration policy for both the Executive Director and the wider employee population. However, the remuneration for the Executive Director has a stronger emphasis on variable pay than for other employees. In particular, the following approach is used for the wider employee population in the Group:

- Salaries, benefits and pensions are compared to appropriate market rates and set at approximately mid-market level with allowance for role, responsibilities and experience; and
- an annual bonus plan is available to all employees and is based on business and individual performance.

Statement of consideration of Shareholders' views

The Remuneration Committee will consider any shareholder feedback received at the AGM and ongoing shareholder feedback throughout the year, when reviewing and applying the Remuneration Policy each year. The guidance from shareholder representative bodies is also considered on an ongoing basis. More specifically the Committee will consult with major shareholders when proposing any significant changes to the Policy in the future.

On behalf of the Board

Dr. Ken Cunningham
Chair of the Remuneration Committee

Independent auditors' report to the members of Verona Pharma Plc.

Report on the audit of the financial statements

Opinion

In our opinion, Verona Pharma Plc.'s group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company statements of financial position as at 31 December 2022; the consolidated statement of comprehensive income, the consolidated and company statements of cash flows and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- We identified one significant component; Verona Pharma Plc., and one non-significant component; Verona Pharma Inc. Verona Pharma Plc. required a full scope audit based on its size. We performed specific procedures on Verona Pharma Inc to obtain coverage for the group audit on payroll related costs. The group audit team conducted all necessary audit procedures with no component auditors supporting the group audit team. Verona Pharma Plc. and Verona Pharma Inc together represent 100% of the group loss before tax and 100% of the group's total assets

Key audit matters

- Valuation of the assumed contingent liability (group and parent)
- Accuracy, cut off and rights and obligations of R&D expenses (group and parent)

Materiality

- Overall group materiality: $4.0 million (2021: $3.9 million) based on 5% of loss before tax excluding the impact of discount unwind on the assumed contingent liability.
- Overall company materiality: $3.7 million (2021: $2.5 million) based on 5% of loss before tax excluding the impact of discount unwind on the assumed contingent liability.
- Performance materiality: $3.0 million (2021: $2.9 million) (group) and $2.8 million (2021: $1.9 million) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Accuracy, cut off and rights and obligations of R&D expenses is a new key audit matter this year. Revenue recognition, which was a key audit matter last year, is no longer included because revenue is not material in the year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of the assumed contingent liability (group and parent) On 19 September 2006, Verona Pharma Plc. acquired RhinoPharma Ltd which held contingent liabilities relating to future potential milestone and royalty payments now due to Ligand relating to the acquisition of rights to certain patents and patent applications for ensifentrine and related compounds. Per IFRS 3, the existing contingent payments of the acquiree are an assumed liability of the buyer. Consequently, Verona Pharma Plc. fair valued the contingent liability on the date of acquisition and recorded it on the balance sheet. At each subsequent period end the liability is required to be re-measured when there is a change in the estimated future payments such as an improved probability of success due to positive trial results. The successful Phase 3 clinical trial results in the year and approval for Nuance to perform clinical trials in China, are deemed to represent a change in the probability of success. Management have also updated their revenue forecasts, which combined with the above events have resulted in a remeasurement of the contingent liability leading to an increase to the liability of $97.8 million, with a corresponding increase to the associated IP R&D Intangible asset. Subsequent to this, management assessed that there had been no further triggers to re-measure the liability in the period. The process involved in the valuation of the contingent liability is complex and subject to estimation uncertainty. The value of the contingent consideration was $138.3 million at 31 December 2022 (31 December 2021: $36.5m) following discount unwind and foreign currency movements. Refer also to the Audit and Risk Committee report and note 24 to the consolidated financial statements (page 12 and page 101).	We obtained management's model calculating the estimated liability and performed the following procedures: - Assessed the appropriateness of the model used in estimating the projected cash flows - Verified the mathematical accuracy of the model - Tested the completeness and accuracy of the model as well as the underlying data used, including agreeing key inputs to market research performed by management's expert - Substantiated the probability of success applied within the calculation back to publicly available industry data regarding the average success of drugs moving from successful phase 3 clinical trials to obtaining final approval - Understood and assessed management assumptions for different potential scenarios and the likelihood of each occurring. - Assessed the reliability, objectivity and competence of management's experts utilised in developing the model and agreed the inputs used in the model to the reports from these experts. We further utilised our in-house valuation experts to assess the valuation techniques used and to assist with the evaluation of key assumptions made and the sources of data used. Subsequent to the remeasurement triggered in the year, we obtained management's assessment that there were no further changes to the expected cash flows at year end and verified the reasonableness of this by performing the below procedures: - Inquired of management whether there were any further changes to the market or probability of success - Reviewed the minutes of meetings of the Board of Directors for any indication of changes in the expected cashflows and probabilities of success - Conducted independent research into whether there were any material changes to the underlying COPD market including new competitor drugs - Tested the mathematical accuracy of the finance charge arising from the unwinding of the discount rate. - We considered the disclosures in Note 24 of the Group Financial Statements, including sensitivity analyses based on reasonably possible changes. We are satisfied that these disclosures are appropriate. Based on the work performed, we have concluded that management's assumptions are reasonable.
Accuracy, cut off and rights and obligations of R&D expenses (group and parent) As described in Note 2 to the consolidated financial statements, the company carries out research and development activities including contracts with clinical research organizations and contract manufacturers. Research and Development expenditure for the year ended 31 December, 2022 was $50.3 million (31 December 2021: $79.3 million), of which a significant portion is made up of research and development costs from contracts with clinical research organizations and contract manufacturers. Management estimates expenses resulting from obligations under contracts with vendors and consultants and clinical site agreements by matching expenses with the period in which services and efforts are expended. The Company accounts for these expenses according to the progress of the trials and other development activities which requires management to apply significant judgment and estimates in developing assumptions related to patient progression and the timing of various aspects of the trial.	We obtained management's calculations and performed the following procedures: - Tested management's process for developing estimated expenses related to clinical trial activities. - Evaluated the appropriateness of the method used by management to develop the estimates. - Tested the completeness and accuracy of the underlying data used by management. - Evaluated the reasonableness of significant assumptions related to patient progression and the timing of various aspects of the trial. - Inspected supplier contracts to validate the nature of inputs included in management's estimate - Inspected meeting minutes from progress update meetings held between the R&D team and external suppliers to confirm that all relevant costs had appropriately been included in management's estimate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we have gained sufficient audit evidence to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

No component auditors supported the group audit team, which conducted all necessary audit procedures. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $0.20 million (group audit) (2021: $0.19 million) and $0.18 million (company audit) (2021: $0.21 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

The Impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	$4.0 million (2021: $3.9 million).	$3.7 million (2021: $2.5 million).
How we determined it	5% of loss before tax excluding the impact of discount unwind on the assumed contingent liability	5% of loss before tax excluding the impact of discount unwind on the assumed contingent liability
Rationale for benchmark applied	Based on the benchmarks used in the annual report, loss before tax is the primary measure used by the shareholders in assessing the financial performance of the group and is a generally accepted auditing benchmark. We have adjusted this to exclude the impact of the annual discount unwind on the Assumed contingent liability as this is non-cash and can vary significantly each period. As a result of this, it can cause significant movements in the loss before tax. Although large in size, this is a non-cash item which we assess has limited impact on a user of the financial statements.	Based on the benchmarks used in the annual report, loss before tax is the primary measure used by the shareholders in assessing the financial performance of the group and is a generally accepted auditing benchmark. We have adjusted this to exclude the impact of the annual discount unwind on the Assumed contingent liability as this is non-cash and can vary significantly each period. As a result of this, it can cause significant movements in the loss before tax. Although large in size, this is a non-cash item which we assess has limited impact on a user of the financial statements.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was $2.9 million to $3.7 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to $3.0 million (2021: $2.9 million) for the group financial statements and $2.8 million (2021: $1.9 million) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above $0.20 million (group audit) (2021: $0.19 million) and $0.18 million (company audit) (2021: $0.12 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecast and model and reconciled these to the Board approved budget;
- Understanding and assessing the completeness of committed costs and the timing of uncommitted costs over the going concern assessment period;
- Assessing management's ability to forecast by comparing the budget for the year ended 31 December 2022 against the actuals and understanding the cause of key variances.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.
With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

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 year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to The Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to misappropriation of cash and potential misrepresentation of clinical trials to present a more favourable outcome (which would also be reflected in the amounts recorded in the financial statements) and scientific press releases. Audit procedures performed by the engagement team included:

- Inquiries with management and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Inspecting meeting minutes of the; Board of Directors, Audit and Risk, Disclosure, Remuneration, Nominations and Corporate Governance committees.
- Identifying and testing journal entries based on our risk assessment and evaluating whether there was evidence of management bias that represents a risk of material misstatement due to fraud.
- Consideration of assumptions and judgements made by management in their significant accounting estimates and judgements, particularly in relation to the key audit matters.
- Incorporating elements of unpredictability into the audit procedures performed.
- Verifying the consistency of how clinical trial progress has been reported in the Annual Report as compared to press releases.
- Verifying for for a sample of press release disclosures of clinical trial data that they have been approved in line with Verona's standard processes and controls

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.
Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.
A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

David Farmer (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Reading

16 March 2023

VERONA PHARMA PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	Year ended December 31, 2022	Year ended December 31, 2021
		$'000s	$'000s
Revenue	7	458	40,000
Costs of sales		(346)	—
Gross profit		112	40,000
Operating expenses			
Research and development costs	8	(50,339)	(79,333)
Selling, general and administrative costs	8	(27,840)	(33,824)
Operating loss		(78,067)	(73,157)
Finance income	10	2,821	2,436
Finance expense	10	(9,516)	(4,194)
Loss before taxation		(84,762)	(74,915)
Taxation — credit	11	9,381	15,648
Loss for the year		(75,381)	(59,267)
Total comprehensive loss attributable to owners of the Company		(75,381)	(59,267)
Loss per ordinary share — basic and diluted (cents)	5	(14.2)	(12.5)

The accompanying notes form an integral part of these consolidated financial statements.

VERONA PHARMA PLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

	Note	As of December 31, 2022	As of December 31, 2021
		$'000s	$'000s
ASSETS			
Non-current assets:			
Goodwill	12	545	545
Intangible assets	13	130,798	32,846
Property, plant and equipment		73	80
Right-of-use assets		854	899
Equity interest	14	15,000	15,000
Total non-current assets		147,270	49,370
Current assets:			
Prepayments and other receivables	16	5,887	6,117
Current tax receivable		9,282	15,583
Cash and cash equivalents		227,827	148,380
Total current assets		242,996	170,080
Total assets		390,266	219,450
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders:			
Share capital	17	40,526	31,855
Share premium		465,370	330,779
Share-based payment reserve		63,817	54,291
Cumulative translation adjustment		(5,796)	(5,796)
Accumulated loss		(342,793)	(266,732)
Treasury shares		(1,549)	(603)
Total equity		219,575	143,794
Current liabilities:			
Lease liability		675	648
Trade and other payables	21	21,502	33,194
Tax payable - U.S. operations		283	147
Total current liabilities		22,460	33,989
Non-current liabilities:			
Assumed contingent liability	22	138,258	36,490
Term loan	23	9,768	4,874
Non-current lease liability		205	303
Total non-current liabilities		148,231	41,667
Total equity and liabilities		390,266	219,450

The accompanying notes form an integral part of these consolidated financial statements.

VERONA PHARMA PLC
COMPANY STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

	Note	As of December 31, 2022	As of December 31, 2021
		$'000s	$'000s
ASSETS			
Non-current assets:			
Goodwill	12	545	545
Intangible assets	13	130,798	32,846
Property, plant and equipment		7	17
Right-of-use asset		489	494
Equity interest	14	15,000	15,000
Total non-current assets		146,839	48,902
Current assets:			
Prepayments and other receivables	16	5,853	6,035
Current tax receivable		9,282	15,583
Cash and cash equivalents		227,362	147,807
Total current assets		242,497	169,425
Total assets		389,336	218,327
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders:			
Share capital	17	40,526	31,855
Share premium		465,370	330,779
Share-based payment reserve		63,817	54,291
Cumulative Translation Adjustment		(5,942)	(5,942)
Accumulated loss		(352,824)	(273,911)
Treasury shares		(1,549)	(603)
Total equity		209,398	136,469
Current liabilities:			
Lease Liability		401	460
Trade and other payables	21	31,448	40,013
Total current liabilities		31,849	40,473
Non-current liabilities:			
Assumed contingent liability	22	138,258	36,490
Term loan	23	9,768	4,874
Non-current lease liability		63	21
Total non-current liabilities		148,089	41,385
Total equity and liabilities		389,336	218,327

The accompanying notes form an integral part of these consolidated financial statements.

The Company has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 not to present an income statement for the year. The Company's loss for the year was $78.2 million (2021: loss of $64.1 million), which has been included in the Group's income statement.

The financial statements on pages 62 to 99 were approved by the Company's board of directors on March 14, 2023, and signed on its behalf by Dr. David Zaccardelli, Chief Executive Officer of the Company.

Dr. David Zaccardelli
Director and Chief Executive Officer of the Company
Company number: 05375156

VERONA PHARMA PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	Share capital	Share premium	Treasury shares	Share-based payment reserve	Cumulative translation adjustment	Total accumulated losses	Total equity
		$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Balance at January 1, 2021	17	31,794	330,107	(1,700)	36,304	(5,796)	(206,368)	184,341
Total comprehensive loss		—	—	—	—	—	(59,267)	(59,267)
Shares issued under at-the-market sales agreement		61	672	—	—	—	—	733
Restricted share units vested		—	—	1,097	—	—	(1,097)	—
Common shares withheld for taxes on vested stock awards		—	—	—	(6,850)	—	—	(6,850)
Equity settled share-based compensation reclassified as cash-settled		—	—	—	(588)	—	—	(588)
Share-based payments		—	—	—	25,425	—	—	25,425
Balance at December 31, 2021	17	**31,855**	**330,779**	**(603)**	**54,291**	**(5,796)**	**(266,732)**	**143,794**
Balance at January 1, 2022	17	**31,855**	**330,779**	**(603)**	**54,291**	**(5,796)**	**(266,732)**	**143,794**
Total comprehensive loss		—	—	—	—	—	(75,381)	(75,381)
New share capital issued		6,918	142,812	—	—	—	—	149,730
Transaction costs on share capital issued		—	(9,533)	—	—	—	—	(9,533)
Shares issued under at-the-market sales agreement		5	62	—	—	—	—	67
Shares issued to treasury		1,748	—	(1,748)	—	—	—	—
Restricted share units vested		—	—	680	—	—	(680)	—
Common shares withheld for taxes on vested stock awards		—	—	—	(4,723)	—	—	(4,723)
Equity settled share-based compensation reclassified as cash-settled		—	—	—	128	—	—	128
Share options exercised		—	1,250	122	—	—	—	1,372
Share-based payments		—	—	—	14,121	—	—	14,121
Balance at December 31, 2022	17	**40,526**	**465,370**	**(1,549)**	**63,817**	**(5,796)**	**(342,793)**	**219,575**

VERONA PHARMA PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	Share capital	Share premium	Treasury shares	Share-based payment reserve	Cumulative translation adjustment	Total accumulated losses	Total equity
		$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Balance at January 1, 2021	17	**31,794**	**330,107**	**(1,700)**	**36,304**	**(5,942)**	**(208,677)**	**181,886**
Total comprehensive loss		—	—	—	—	—	(64,137)	(64,137)
Shares issued under at-the-market sales agreement		61	672	—	—	—	—	733
Restricted share units vested		—	—	1,097	—	—	(1,097)	—
Common shares withheld for taxes on vested stock awards		—	—	—	(6,850)	—	—	(6,850)
Equity settled share-based compensation reclassified as cash-settled		—	—	—	(588)	—	—	(588)
Share-based payments		—	—	—	25,425	—	—	25,425
Balance at December 31, 2021	17	**31,855**	**330,779**	**(603)**	**54,291**	**(5,942)**	**(273,911)**	**136,469**
Balance at January 1, 2022	17	**31,855**	**330,779**	**(603)**	**54,291**	**(5,942)**	**(273,911)**	**136,469**
Total comprehensive loss		—	—	—	—	—	(78,233)	(78,233)
New share capital issued		6,918	142,812	—	—	—	—	149,730
Transaction costs on share capital issued		—	(9,533)	—	—	—	—	(9,533)
Shares issued under at-the-market sales agreement		5	62	—	—	—	—	67
Shares issued to treasury		1,748	—	(1,748)	—	—	—	—
Restricted share units vested		—	—	680	—	—	(680)	—
Common shares withheld for taxes on vested stock awards		—	—	—	(4,723)	—	—	(4,723)
Equity settled share-based compensation reclassified as cash-settled		—	—	—	128	—	—	128
Share options exercised		—	1,250	122	—	—	—	1,372
Share-based payments		—	—	—	14,121	—	—	14,121
Balance at December 31, 2022	17	**40,526**	**465,370**	**(1,549)**	**63,817**	**(5,942)**	**(352,824)**	**209,398**

VERONA PHARMA PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	Year ended December 31, 2022	Year ended December 31, 2021
		$'000s	$'000s
Cash used in operating activities:			
Loss before taxation		(84,762)	(74,915)
Finance income	10	(2,821)	(2,436)
Finance expense	10	9,516	4,194
Share-based payment charge		14,121	25,425
Amortization of debt issue costs		80	114
Accretion of redemption premium on debt		108	—
Interest paid		(348)	—
Equity interest recognized as revenue	14	—	(15,000)
Decrease in prepayments and other receivables		230	145
(Decrease)/increase in trade and other payables		(11,748)	20,999
Depreciation of property, plant, equipment and right of use asset		636	629
Unrealized foreign exchange gain		(426)	(9)
Amortization of intangible assets		217	187
Cash used in operating activities before taxation		(75,197)	(40,667)
Cash inflow from taxation		13,478	8,873
Net cash used in operating activities		(61,719)	(31,794)
Cash flows from investing activities:			
Interest received		2,821	14
Purchase of plant and equipment		(29)	(12)
Payment for patents and computer software		(336)	(373)
Net cash generated from/(used in) from investing activities		2,456	(371)
Cash flow used in financing activities:			
Gross proceeds from issue of shares		149,797	733
Transactions costs on issue of shares		(9,533)	—
Interest paid	23	—	(215)
Gross proceeds from term loan		10,000	—
Term Loan issue costs		(245)	—
Repayment of term loan		(5,000)	—
Term loan repayment costs		(850)	—
Payment of finance lease liabilities		(628)	(886)
Payments of withholding taxes from share-based award		(4,723)	(6,850)
Proceeds from exercise of share options		1,372	—
Net cash generated from/(used in) from financing activities		140,190	(7,218)
Net increase/(decrease) in cash and cash equivalents		80,927	(39,383)
Cash and cash equivalents at the beginning of the year		148,380	187,986
Effect of exchange rates on cash and cash equivalents		(1,480)	(223)
Cash and cash equivalents at the end of the year		227,827	148,380

VERONA PHARMA PLC
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	Year ended December 31, 2022	Year ended December 31, 2021
		$'000s	$'000s
Cash used in operating activities:			
Loss before taxation		(87,866)	(79,767)
Finance income	10	(2,821)	(2,436)
Finance expense	10	9,501	4,167
Share-based payment charge		14,121	25,426
Amortization of debt issue costs		80	114
Accretion of redemption premium on debt		108	—
Interest paid		(348)	—
Equity interest recognized as revenue	14	—	(15,000)
Decrease in prepayments and other receivables		182	1,387
(Decrease)/increase in trade and other payables		(8,625)	24,914
Depreciation of property, plant and equipment		451	450
Unrealized foreign exchange gains/ losses		(426)	(29)
Amortization of intangible assets		217	187
Cash used in operating activities before taxation		(75,426)	(40,587)
Cash inflow from taxation		13,598	8,649
Net cash used in operating activities		(61,828)	(31,938)
Cash flows from investing activities:			
Interest received		2,821	14
Purchase of plant and equipment		(5)	(5)
Payment for patents and computer software		(336)	(373)
Net cash generated/(used in) from investing activities		2,480	(364)
Cash flows from financing activities:			
Gross proceeds from issue of shares		149,797	733
Transactions costs on issue of shares		(9,533)	—
Interest paid	23	—	(215)
Gross proceeds from term loan		10,000	—
Term Loan issue costs		(245)	—
Repayment of term loan		(5,000)	—
Term loan repayment costs		(850)	—
Payment of finance lease liabilities		(435)	(534)
Payments of withholding taxes from share-based award		(4,723)	(6,852)
Proceeds from exercise of share options		1,372	—
Net cash generated/(used in) from financing activities		140,383	(6,868)
Net increase/(decrease) in cash and cash equivalents		81,035	(39,170)
Cash and cash equivalents at the beginning of the year		147,807	187,200
Effect of exchange rates on cash and cash equivalents		(1,480)	(223)
Cash and cash equivalents at the end of the year		227,362	147,807

1. General information

Verona Pharma plc (the "Company") and its subsidiaries (together the "Group") are a clinical-stage biopharmaceutical group focused on developing and commercializing innovative therapeutics for the treatment of respiratory diseases with significant unmet medical needs.

The Company is a public limited company, which is listed on the Nasdaq Global Market ("Nasdaq"). The company is incorporated and domiciled in the United Kingdom. The address of the registered office is One Central Square, Cardiff, CF10 1FS, United Kingdom.

The Company has one subsidiary, Verona Pharma, Inc. which is wholly-owned. Rhinopharma Limited ("Rhinopharma"), a Canadian company that was previously a non-operating, wholly-owned subsidiary, was dissolved in June 2021.

The Company listed its American Depositary Shares ("ADS") on Nasdaq in April 2017 ("the 2017 Global Offering") and they trade on the Nasdaq symbol "VRNA".

2. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

2.1 Basis of preparation

The consolidated UK adopted financial statements of the Group and the financial statements of the Company have been prepared in accordance with international accounting standards ("IFRS") in conformity with the requirements of the Companies Act 2006.

The consolidated financial statements of the Group and the financial statements of the Company have been prepared under the historical cost convention, with the exception of the derivative financial liability and the equity interest, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Going concern

The Group has incurred recurring losses since inception, including net losses of $75.4 million, $59.3 million and $67.7 million for the years ended December 31, 2022, 2021, and 2020, respectively. In addition, as of December 31, 2022, the Group had an accumulated loss of $342.8 million. The Group expects to continue to generate operating losses for the foreseeable future. As of the issuance date of the annual consolidated financial statements, the Group expects that its cash and cash equivalents will be sufficient to fund its operating expenses and capital expenditure requirements for at least the next 12 months from the date of approval of these finance statements. Accordingly, the consolidated financial statements have been prepared on the going concern basis.

Additionally, between January 1, 2023 and March 3, 2023, the Group sold 20,321,384 ordinary shares (equivalent to 2,540,173 ADSs) under the ATM Program, at an average price of approximately $2.88 per share (equivalent to $23.08 per ADS), raising aggregate net proceeds of $56.9 million after deducting issuance costs. As of March 3, 2023, there remained $40.6 million of ordinary shares, in the form of ADSs, available for sale under the ATM Program.

2.1 Basis of preparation (continued)

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalized and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Basis of consolidation

These consolidated financial statements include the financial statements of Verona Pharma plc and its wholly owned subsidiaries Verona Pharma, Inc. and Rhinopharma until its dissolution in June 2021, as well as the Verona Employee Benefit Trust ("EBT"). The EBT is accounted for under IFRS 10 and is consolidated on the basis that the Company has control, and the assets and liabilities of the EBT are included on the Company balance sheet and shares held by the EBT in the Company are presented as a deduction from equity. The acquisition method of accounting was used to account for the acquisition of Rhinopharma.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Verona Pharma, Inc. and Rhinopharma adopt the same accounting policies as the Company.

2.2 Foreign currency translation

Items included in the Group's consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States Dollar, which became the functional currency of the Company in the year ended December 31, 2020.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and the gains or losses on translation are included in the Consolidated Statement of Comprehensive Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the original transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.3 Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks, and money market funds. Money market funds have been classified as cash and cash equivalents as they are low risk instruments, readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Management's intention is to manage these funds as cash and to use them to meet short-term cash requirements.

2.4 Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and expected to apply when the related deferred tax is realized or the deferred liability is settled.

Deferred tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilized.

2.5 Research and development costs

Capitalization of expenditure on product development commences from the point at which technical feasibility and commercial viability of the product can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product once completed. No such costs have been capitalized to date.

Expenditure on research and development activities that do not meet the above criteria is charged to the Consolidated Statement of Comprehensive Income as incurred.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated to write off the cost less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. Computer hardware is depreciated over three years and office equipment over the term of the lease.

2.7 Intangible assets and goodwill

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

(b) Patents

Patent costs associated with the preparation, filing, and obtaining of patents are capitalized and amortized on a straight-line basis over the estimated useful lives of ten years. Amortization of patents is included in research and development costs.

(c) Computer software

Amortization is calculated so as to write off the cost less estimated residual values, on a straight-line basis over the expected useful economic life of two years. Amortization is included in selling, general and administrative costs.

(d) In-process research & development ("IP R&D")

The IP R&D asset, acquired through a business combination, which had not reached technical feasibility, was initially recognized at fair value. Subsequent movements in the assumed contingent liability (see 2.13) that relate to changes in estimated cashflows or probabilities of success are recognized as additions to the IP R&D asset that it relates to.

The asset is subject to impairment testing until completion, abandonment of the project or when the research findings are commercialized through a revenue generating project.

2.8 Impairment of intangible assets, goodwill and non-financial assets

The Group holds intangible assets relating to acquired IP R&D, patent costs and goodwill. Goodwill and intangible assets are tested annually for impairment or if there is an indication of impairment. The Group is a single cash generating unit ("CGU") so all intangibles are allocated to the Group as one CGU.

The Group initially compares the market capitalization of the Group to the book value of its assets. If the value of the market capitalization does not support the valuation of the assets, the Group reviews estimates of the cash flows over the remaining lives of its other intangible assets, or related group of assets where applicable, in measuring whether the assets to be held and used will be realizable. In the event of impairment, the Group would discount the future cash flows using its estimated weighted average cost of capital to estimate the amount of the impairment.

As at 31 December 2022 and 2021 the Company carried out impairment reviews with reference to its market capitalization.

No impairment was identified for any of the assets in the years ended December 31, 2022 and 2021.

2.9 Equity interest

As part of the Nuance Agreement, the Group received an equity interest in Nuance Biotech, the parent company of Nuance Pharma (see note 7). The equity interest was recognized at fair value and is subsequently measured at fair value through profit and loss. Management applies judgement in determining the change in fair value.

2.10 Employee Benefits

(a) Pension

The Group operates defined contribution pension plans for its employees. Contributions payable for the year are charged to the Consolidated Statement of Comprehensive Income. The Group has no further liability once the contributions have been paid.

(b) Bonus plans

The Company recognizes a liability and an expense for bonus plans if contractually obligated or if there is a past practice that has created a constructive liability.

2.11 Share-based payments

The Company operates a number of equity-settled, share-based compensation schemes. The fair value of share based payments is determined using the Black-Scholes model and requires several assumptions and estimates, disclosed in note 19.

The fair value of share-based payments under these schemes is expensed on a straight-line basis over the share based payments' vesting periods, based on the Company's estimate of shares that will eventually vest.

2.12 Provisions

Provisions are recognized when the Company has a present legal or constructive liability as a result of past events, it is probable that an outflow of resources will be required to settle the liability, and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.13 Assumed contingent liability related to the business combination

In 2006 the Company acquired Rhinopharma and assumed contingent liabilities owed to Vernalis Pharmaceuticals Limited, which was subsequently acquired by Ligand Pharmaceuticals, Inc. (“Ligand”). The Company refers to the assignment and license agreement as the Ligand Agreement.

Ligand assigned to the Company all of its rights to certain patents and patent applications relating to ensifentrine and related compounds (the "Ligand Patents") and an exclusive, worldwide, royalty-bearing license under certain Ligand know-how to develop, manufacture and commercialize products (the "Licensed Products") developed using Ligand Patents, Ligand know-how and the physical stock of certain compounds.

The assumed contingent liability comprises a milestone payment on obtaining the first approval of any regulatory authority for the commercialization of a Licensed Product, low single digit royalties based on the future sales performance of all Licensed Products and a portion equal to a mid-twenty percent of any consideration received from any sub-licensees for the Ligand Patents and for Ligand know-how.

The liability was initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. The assumed contingent liability is estimated as the expected value of the milestone payment and royalty payments, including royalties from the Nuance Agreement (see note 7). This expected value is based on estimated future royalties payable, derived from sales forecasts, and an assessment of the probability of success using standard market probabilities for respiratory drug development. The risk-weighted value of the assumed contingent arrangement is discounted back to its net present value applying an effective interest rate of 12%.

Royalties payable are based on the future sales performance so the amount payable is unlimited. Sales that may be achieved are difficult to predict and subject to estimate, which is inherently uncertain.

The assumed contingent liability is re-measured for changes in estimated cash flows or when the probability of success changes. Remeasurements relating to changes in estimated cash flows and probabilities of success are recognized in the IP R&D asset it relates to (see 2.7). The unwind of the discount is recognized in finance expense.

2.14 Revenue recognition

The Group's revenue arises from the Group's agreement for the development and commercialization of ensifentrine in Greater China (the "Nuance Agreement"). The terms of the Nuance Agreement include non-refundable upfront fees, payments based upon achievement of developmental and regulatory milestones, commercial milestones, royalties payable on sales, and manufacturing and supply. These payments are viewed as both fixed and variable consideration. Non-refundable upfront fees are considered fixed, while milestone payments and revenue from the commercialized product are identified as variable consideration. The Group follows the five-step model in IFRS 15 "Revenue from Contracts with Customers":

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

All of the Group's revenue is derived from contracts with customers.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in IFRS 15. The Group's performance obligations include intellectual property rights, (which include the license, patents and developmental and regulatory data) and manufacturing and supply. Management are required to judge when performance obligations are satisfied and consequently when revenue is recognized.

If the right to the Group's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Group recognizes revenue from non-refundable, upfront fees allocated to the right when the right is transferred to the customer, and the customer can use and benefit from the right.

If an arrangement includes development and regulatory milestone payments, the Group evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the Group's or the licensee's control, such as regulatory approvals, are generally not considered probable of being achieved until those approvals are received.

For arrangements with licenses of intellectual property that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Group recognizes royalty revenue and sales-based milestones at the later of (i) when the related sales occur, or (ii) when the performance obligation to which the royalty has been allocated has been satisfied.

2.15 Financial instruments — initial recognition and subsequent measurement

The Group classifies a financial instrument, or its component parts, as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets, initial recognition and measurement and subsequent measurement

All assets are initially recognized at fair value plus transaction costs. The Group's equity interest in Nuance Biotech is subsequently measured at fair value through profit or loss ("FVPTL") and fair value gains and losses are recognized in profit or loss. All other assets are subsequently measured.at amortized cost using the effective interest method.

(b) Financial liabilities, initial recognition and measurement and subsequent measurement

Financial liabilities are classified as measured at amortized cost or FVTPL.

The Company's warrants are classified as FVTPL. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Group's financial liabilities include trade and other payables, the Company's warrants and the assumed contingent liability.

2.15 Financial instruments — initial recognition and subsequent measurement (continued)

(c) Derivative financial liability

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value at the end of each reporting date. The Group held one type of derivative financial liability, the warrants (see note 2.16) which expired in 2022.

The full fair value of the derivative is classified as a non-current liability when the warrants were exercisable in more than 12 months and as a current liability when the warrants were exercisable in less than 12 months.

Changes in fair value of a derivative financial liability when related to a financing arrangement are recognized in the Consolidated Statement of Comprehensive Income in Finance Income or Finance Expense.

2.16 Derivative financial liability

Warrants issued by the Company to investors as part of a share subscription were compound financial instruments where the warrant met the definition of a financial liability.

The financial liability component was initially measured at fair value in the Consolidated Statement of Financial Position. Equity was measured at the residual between the subscription price for the entire instrument and the liability component. The financial liability component was remeasured. Equity was not remeasured.

2.17 Transaction costs

Qualifying transaction costs might be incurred in anticipation of an issuance of equity instruments and may cross reporting periods. The entity defers these costs on the balance sheet until the equity instrument is recognized. Deferred costs are subsequently reclassified as a deduction from equity when the equity instruments are recognized, as the costs are directly attributable to the equity transaction. If the equity instruments are not subsequently issued, the transaction costs are expensed. Any costs not directly attributable to the equity transaction are expensed.

Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. Where the liability component is held at fair value through profit or loss, the transaction costs are expensed to the Consolidated Statement of Comprehensive Income. For liabilities held at amortized cost, transaction costs are deducted from the liability and subsequently amortized. The amount of transaction costs accounted for as a deduction from equity is disclosed separately in accordance with International Accounting Standard.

2.18 Employee benefit trust

In the year ended December 31, 2020, the Group incorporated a trust to facilitate the acquisition of shares, by or for the benefit of employees and former employees. The Group issued 28 million ordinary shares in the year ended December 31, 2022 to cover expected share awards to employees under the 2017 Incentive Plan.

Management have determined that the Group has the indirect ability to control the trust as trustees are required to act in accordance with the trust deed that the Group drew up and because the Group controls the issuance of shares to cover awards. As a consequence the trust is included within the Company's financial statements.

The shares that were issued to the trust that have not been transferred to employees to cover share awards are included in the Consolidated Statement of Financial Position as treasury shares.

2.19 Investments in subsidiaries

Investments in subsidiaries are shown at cost less any provision for impairment.

2.20 New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2022 and not early adopted

There are no IFRS standards or interpretations not yet effective that are expected to have a material impact on the Group.

3. Financial Instruments

3.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk, and liquidity risk. The Group's overall risk management program is focused on preservation of capital and has sought to minimize potential adverse effects on the Group's financial performance and position. The Group's and the Company's exposure to risk are not materially different.

(a) Market risk

Foreign currency risk reflects the risk that the Group's net assets will be negatively impacted due to fluctuations in exchange rates. The Group has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

The summary data about the Group's exposure to currency risk is as follows. Figures are the U.S. Dollar values of balances in each currency:

	December 31, 2022			December 31, 2021		
	USD	GBP	EUR	USD	GBP	EUR
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	201,886	25,914	27	133,061	15,201	118
Trade and other payables	15,868	4,533	1,101	30,447	2,358	389

Sensitivity analysis

A reasonably possible strengthening or weakening of the euro or pound sterling against U.S. dollar as of December 31, 2022 and 2021 would have affected the measurement of the financial instruments denominated in a foreign currency (excluding the assumed contingent liability as the impact of this is immaterial).

The following table shows how a movement in a currency would give rise to a profit or (loss) and a corresponding entry in equity.

	Profit or loss and equity	
	Strengthening	Weakening
December 31, 2022	$'000s	$'000s
EUR (10% movement)	(98)	98
GBP (10% Movement)	1,944	(1,944)

Foreign currency denominated trade payables are short-term in nature (generally 30 to 45 days).

The Group is also exposed to market risk on the value of the equity interest in Nuance Biotech (see note 7). The fair value of the equity interest is dependent on the success of Nuance Biotech's various clinical programs, as well as valuations of similar companies in the Chinese market. The following table shows the effect of a 10% change in the fair value of the equity interest:

	Equity interest
	$'000s
Fair value increase of 10%	16,500
Base case, reported fair value	15,000
Fair value decrease of 10%	13,500

3.1 Financial Risk Factors (continued)

(b) Credit risk

Financial instruments that potentially subject the Group to concentration of credit risk consist of principally cash and cash equivalents, bank deposits and certain receivables.

The Group holds cash and cash equivalents with highly rated financial institutions and in highly rated money market funds and the Group has not experienced any significant credit losses in these accounts and does not believe the Group is exposed to any significant credit risk on these instruments.

As of December 31, 2022, the Group held funds at bank and in money market funds backed by U.K. or U.S. government debt. As of December 31, 2022, and December 31, 2021, cash and cash equivalents were placed at the following banks and money market funds:

Cash and cash equivalents	As of December 31, 2022	As of December 31, 2021
	$'000	$'000
Government debt money market funds	224,181	145,432
Silicon Valley Bank	2,565	2,441
Lloyds Bank	1,081	507
Total	227,827	148,380

(c) Management of capital

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle, the Group's objective in managing its capital is to ensure funds raised meet the research and operating requirements until the next development stage of the Group's suite of projects.

The Group ensures it is meeting its objectives by reviewing its Key Performance Indicators to ensure the research activities are progressing in line with expectations, costs are controlled and unused funds are placed in low risk money market funds to conserve resources.

3.1 Financial Risk Factors (continued)

(d) Liquidity risk

The Group periodically prepares working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Group, to manage liquidity risk. The following table provides an analysis of the Group's financial liabilities. The carrying value of all balances approximates to their fair value, with the exception of the assumed contingent liability (see note 22.). The Group's maturity analysis for the derivative financial liability from the issue of warrants is given in note 20.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	$'000s	$'000s	$'000s	$'000s
At December 31, 2022				
Trade payables	2,910	—	—	—
Other payables	1,409	—	—	—
Accruals	17,183	—	—	—
Lease liability	675	196	9	—
Term loan[(1)]	866	866	11,655	—
Assumed contingent liability[(2)]	—	18,167	39,649	256,020
Total	23,043	19,229	51,313	256,020

[(1)] This is the undiscounted value of the loan plus undiscounted interest payments

[(2)] This is the undiscounted value of the liability

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	$'000s	$'000s	$'000s	$'000s
At December 31, 2021				
Trade payables	10,048	—	—	—
Other payables	307	—	—	—
Accruals	22,839	—	—	—
Lease liability	648	225	78	—
Term loan[(1)]	215	215	5,679	—
Assumed contingent liability[(2)]	—	—	10,348	89,195
Total	34,057	440	16,105	89,195

[(1)] This is the undiscounted value of the loan plus undiscounted interest payments

[(2)] This is the undiscounted value of the liability

3.2 Fair value estimation

Group and Company

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate to fair value due to their short-term nature. The carrying amount of the assumed contingent liability is $138.3 million compared to the approximate fair value $130.2 million. The underlying assumptions are similar, the primarily driver of the difference relates to the discount rate.

For financial instruments that are measured in the Consolidated Statement of Financial Position at fair value, IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- inputs for the asset or liability that are not based on observable market data (level 3).

For the year ended December 31, 2022, and 2021, fair value adjustments to financial instruments measured at fair value through profit and loss resulted in the recognition of no gain or loss in 2022 and a finance gain of $2.2 million in 2021.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to ascertain the fair value of an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. The derivative financial instrument is classified at level 3 in the fair value hierarchy.

Movements in Level 3 items during the years ended December 31, 2022, and 2021 are as follows:

	Derivative Financial Liability	Equity Interest
	$'000s	$'000s
At January 1, 2022	—	15,000
At December 31, 2022	—	15,000

	Derivative Financial Liability	Equity Interest
	$'000s	$'000s
At January 1, 2021	(2,246)	—
Initial recognition of financial instrument	—	15,000
Fair value adjustments recognized in profit or loss	2,246	—
At December 31, 2021	—	15,000

Further details relating to the derivative financial liability are set out in note 20 of these financial statements.

In determining the fair value of the derivative financial liability, the Group applied the Black-Scholes model; key inputs include the share price at reporting date, estimations on timelines, volatility and risk-free rates. These assumptions and the impact of changes in these assumptions, where material, are disclosed in note 20.

3.3 Change in liabilities arising from financing activities

The Group has provided a reconciliation so that changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes can be evaluated.

	Derivative financial liability	
	2022	2021
	$'000s	$'000s
At January 1	—	(2,246)
Fair value adjustments - non-cash	—	2,246
At December 31	—	—

See note 20 for information relating to the derivative financial liability.

	Lease liability	
	2022	2021
	$'000s	$'000s
At January 1	951	1,312
Capitalization of rental leases - non-cash	555	439
Payment of lease liability - cash	(628)	(886)
Interest - non-cash	31	61
Foreign exchange differences - non-cash	(29)	25
At December 31	880	951

	Term Loan	
	2022	2021
	$'000s	$'000s
At January 1	4,874	4,635
Extinguishment of debt	(5,035)	—
Issue of term loan	10,000	—
Debt issuance costs	(245)	—
Amortization of debt issuance costs (non-cash)	80	114
Accretion of final payment (non-cash)	94	125
At December 31	9,768	4,874

See note 23 for information relating to the Term Loan.

4. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. IFRS also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The areas involving significant estimates and judgements are as follows:

(a) Significant Estimate: Assumed contingent liability

The Group has a material liability for the future payment of royalties and milestones associated with contractual liabilities on ensifentrine, acquired as part of the acquisition of Rhinopharma. The estimation of the amounts and timing of future cash flows requires the forecast of royalties payable and the estimation of the likelihood that the regulatory approval milestone will be achieved (see notes 2.13 and 22). The estimates for the assumed contingent liability are based on a discounted cash flow model. Key estimates included the calculation of deferred consideration are:

4. Critical accounting estimates and judgments (continued)

- timing and amount of cash flow receipts from sales of product; and
- probabilities of success.

When there is a change in the expected cash flows or probabilities of success, the assumed contingent liability is re-measured with the change in value recognized in the IP R&D asset it relates to. The assumed contingent liability is measured at amortized cost with the discount unwinding in finance expense throughout the year. Actual outcomes could differ significantly from the estimates made. A sensitivity analysis is provided in note 22.

As at December 31, 2022, the Group determined that it was between Phase 3 of ensifentrine's clinical development and the filing of its NDA. As a consequence, the probability of success changed, reducing the risk-weighting adjustment applied to estimated cash flows. Furthermore, the Group had carried out market research and updated its forecasts for ensifentrine's revenue for the maintenance treatment of chronic obstructive pulmonary disorder using a nebulized formulation in the U.S. The Group therefore updated estimated cash flows in the fourth quarter of 2022.

On June 9, 2021 Verona signed an agreement granting Nuance Pharma the exclusive rights to develop and commercialize products containing ensifentrine in Greater China (the "Nuance Agreement") (see note 7). The assumed contingent liability was calculated using the same methodology as stated above. Management used judgment to determine that Nuance had also entered the Phase 3 stage of ensifentrine's clinical development plan.

(b) Significant Judgement: Nuance Agreement - revenue and equity interest

Under the Nuance Agreement the Group received an upfront payment of $40 million, consisting of $25 million cash and shares in Nuance Pharma's parent company, Nuance Biotech, valued at $15 million.

In 2021, the Group was required to use judgement to determine what the performance obligations were, and how the transaction price was allocated to them. See note 7 for further discussion.

(c) Significant Estimate: Research and development costs

Research and development (“R&D”) costs are expensed as incurred. Research and development expenses include salaries, share-based compensation and benefits of employees, and other costs related to the Group’s R&D activities, including contracts with clinical research organizations and contract manufacturers. As part of the process of preparing financial statements the Group is required to estimate its expenses resulting from its obligations under contracts with vendors and consultants and clinical site agreements in connection with its R&D efforts. The financial terms of these contracts are subject to negotiations which vary contract to contract and may result in payment flows that do not match the periods over which materials or services are provided to the Group under such contracts. The Group’s objective is to reflect the appropriate clinical trial expenses in its financial statements by matching those expenses with the period in which services and efforts are expended. The Group accounts for these expenses according to the progress of the trials and other development activities measured by patient progression and the timing of various aspects of the trial. The Group determines prepaid and accrual estimates through discussions with applicable personnel and outside service providers as to the progress of clinical trials, or other services completed. During the course of a clinical trial, the Group adjusts its rate of clinical trial expense recognition if actual results differ from its estimates. The Group makes estimates of its prepaid and accrued expenses as of each balance sheet date in its financial statements based on facts and circumstances known at that time. Although the Group does not expect its estimates to be materially different from amounts actually incurred, its understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in the Group reporting amounts that are too high or too low for any particular period. The Group’s clinical trial prepaid and accrual expense is dependent upon the timely and accurate reporting of study recruitment from contract research organizations and activities carried out by other third-party vendors as well as the timely processing of any change orders from the contract research organizations.

5. Loss per ordinary share - basic and diluted (cents)

Basic loss per ordinary share of 14.2 cents (2021: 12.5 cents) for the Group is calculated by dividing the loss for the year ended December 31, 2022 by the weighted average number of ordinary shares in issue of 529,071,526 as of December 31, 2022 (2021: 473,188,457). During the years ended December 31, 2022 and 2021, outstanding share options, RSUs and warrants of 53,818,840 and 63,443,814 respectively, were not included in the computation of diluted earnings per ordinary share, because to do so would be antidilutive.

6. Segmental reporting

The Group's activities are covered by one operating and reporting segment: Drug development. There have been no changes to management's assessment of the operating and reporting segment of the Group during the year.

All non-current assets are based in the United Kingdom apart from right-of-use assets relating to a property leases, and associated fixtures and fittings, in the United States. Total assets held by Verona Pharma, Inc. approximate $0.9 million.

7. Revenue and the Nuance Agreement

The Group's revenue in the year ended December 31, 2022 arises from its manufacture and supply agreement of ensifentrine for Nuance.

The Group's revenue in the year ended December 31, 2021 arises from its agreement for the development and commercialization of ensifentrine in Greater China.

Nuance Agreement

The Group entered into a collaboration and license agreement (the "Nuance Agreement") with Nuance Pharma Limited ("Nuance Pharma") effective June 9, 2021 (the "Effective Date"), under which the Group granted Nuance Pharma the exclusive rights to develop and commercialize ensifentrine in Greater China (China, Taiwan, Hong Kong and Macau). In return, the Group received an unconditional right to consideration aggregating $40.0 million consisting of $25.0 million in cash and an equity interest, valued at $15.0 million as of the Effective Date, in Nuance Biotech, the parent Group of Nuance Pharma. The Group is eligible to receive future milestone payments of up to $179.0 million triggered upon achievement of certain clinical, regulatory, and commercial milestones, as well as tiered double-digit royalties as a percentage of net sales of the products in Greater China. The Group will recognize these milestones when it is probable that a significant revenue reversal would not occur.

As of December 31, 2021, the $25.0 million cash payment and $15.0 million equity interest had been received and the holding in Nuance Biotech was recorded as Equity Interest on the Condensed Consolidated Balance Sheet. The Equity Interest is recorded at fair value. The Group has used the last observable transaction in Nuance Biotech's shares, which was a fundraising in November 2020, as the basis for the fair value measurement.

Under the terms of the Nuance Agreement, at any time until three months prior to the expected submission of the first New Drug Application in Greater China, if (i) a third party is interested in partnering with the Group, either globally or in territory covering at least the United States or Europe, for the development and/or commercialization of ensifentrine or (ii) the Group undergoes a change of control, the Group will have an exclusive option right to buy back the license granted to Nuance Pharma and all related assets. The price is agreed to be equal to the aggregate of (i) all prior amounts paid by Nuance Pharma to the Group in cash under the agreement and (ii) all development and regulatory costs incurred and paid by Nuance Pharma in connection with the development and commercialization of ensifentrine under the Nuance Agreement multiplied by a single-digit factor range dependent upon achievement of certain milestones, subject to a specified maximum amount.

The Nuance Agreement will continue on a jurisdiction-by-jurisdiction and product-by-product basis until the expiration of royalty payment obligations with respect to such product in such jurisdiction unless earlier terminated by the parties. Either party may terminate the Nuance Agreement for an uncured material breach or bankruptcy of the other party. Nuance Pharma may also terminate the Nuance Agreement at will upon 90 days' prior written notice.

The Group reviewed the buy-back option and determined that because it is conditional on a third party the Group does not have the practical ability to exercise it and, accordingly, the contract is accounted for under IFRS 15.

The transaction price at the Effective Date of the Nuance Agreement was $40.0 million consisting of the $25.0 million upfront cash payment and $15.0 million equity interest. Developmental and regulatory milestones were not included in the transaction price as management determined that it is not probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Commercial milestones and sales royalties were also excluded and will be recognized when the milestones are achieved or the sales occur in Greater China.

On April 13, 2022, the Group entered into an Agreement for the Manufacture and Supply of ensifentrine with Nuance Pharma. Revenue earned with the manufacture and supply of the licensed product will be recognized as supply is delivered to Nuance. The Group determined it is acting as principal in relation to the manufacture and supply under the Agreement. In its capacity as principal the Group will recognize associated revenue on a gross basis. In the year ended December 31, 2022, the Group has recognized $0.5 million in relation to the clinical supply to Nuance Pharma.

The performance obligations in the Nuance Agreement include the grant of the license (including the right to commercialize ensifentrine until the end of the term, the sharing of certain know how, and the sharing of certain clinical and regulatory data), and manufacture and supply of ensifentrine drug product. The Group have determined that the manufacturing and supply was not at a discount.

The Group has determined that Nuance does not simultaneously receive and consume the benefit of the performance obligation of the grant of the license and existing IP over time. Nor does the Group's performance enhance this asset as the know how has already been produced and the license granted. Consequently the performance obligation relating to the granting of licenses is not satisfied over time. Accordingly, the Group has determined that the license and IP transferred should be recognized at a point in time

The Group determined that it fulfilled its obligations to Nuance Pharma after it delivered the know how that will allow Nuance Pharma to file an investigational new drug application in Greater China. This know how was delivered in the year ended December 31, 2021, and the $40.0 million revenue was therefore recognized as revenue in this period. Revenue relating to the manufacture and supply obligations will be recognized when the drug product is delivered.

8. Operating costs

Group

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Operating costs:		
Research and development costs:		
Employee benefits (note 9)	6,804	5,267
Share-based payment	5,420	9,654
Legal, professional, consulting and listing fees	1,992	46
Amortization of patents (note 13)	217	186
Other research and development expenses	35,906	64,180
Total research and development costs	50,339	79,333
Selling, general and administrative costs:		
Employee benefits (note 9)	7,747	4,007
Share-based payment	8,701	15,771
Legal, professional consulting and listing fees	4,540	4,304
Transaction advisory fees for Nuance Agreement[1]	—	4,000
Amortization of computer software (note 13)	—	1
Depreciation of property, plant and equipment	38	38
Depreciation of right of use assets	602	590
Loss on variations in foreign exchange rate	42	142
Other selling, general and administrative expenses	6,170	4,971
Total selling, general and administrative costs	27,840	33,824

[1] This advisory fee incurred in arranging the Nuance Agreement. Management determined this did not relate to the satisfaction of performance obligations under the Nuance Agreement it therefore was classified in selling, general and administrative costs.

The Group obtained the services from and paid the fees of the Group's auditors and their associates as detailed below:

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Audit of Verona Pharma plc and consolidated financial statements	420	453
Audit related services	201	162
Other services	403	231
Total	1,024	846

Audit-Related Services

For the years ended December 31, 2022 and December 31, 2021, audit related services include fees for quarterly interim reviews.

Other Services

For the year ended December 31, 2022, other services related to advice regarding the fund raise, comfort over the at-the-market equity offering, and certain regulatory filings.

For the year ended December 31, 2021, other services related to comfort over the at-the-market equity offering, and certain regulatory filings.

9. Directors' emoluments and staff costs

Group

	Year ended December 31, 2022	Year ended December 31, 2021
The monthly average number of employees (excluding directors) of the Group during the year:		
Research and development	16	17
Selling, general and administrative	13	10
Total	29	27

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Employee benefits expenses		
Wages and salaries	10,258	8,010
Social security costs	4,113	1,079
Share-based payment expense	14,121	25,425
Other pension costs	178	185
Total employee benefits expense	28,670	34,699

Directors emoluments

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Aggregate emoluments of directors:		
Aggregate emoluments	1,541	1,157
Other pension costs	12	12
Directors' emoluments	1,553	1,169

Directors aggregate amounts receivable under long-term incentive schemes, made up of long-term RSU grants was $3.9 million at December 31, 2022 (2021: $nil). No share options were exercised by directors in the year ended December 31, 2022 and 2021.

Executive officers compensation

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Aggregate executive officers costs:		
Wages and salaries	1,962	1,650
Share-based payment expense	5,018	10,104
Other pension costs	22	19
Total executive officers costs	7,002	11,773

Executive officers aggregate amounts receivable under long-term incentive schemes, made up of long-term RSU grants was $5.6 million at December 31, 2022 (2021: $nil). No share options were exercised by executive officers in the year ended December 31, 2022 and 2021.

The Group considers key management personnel to be the aggregate of directors and executive officers. The executive officers are the chief financial officer, chief medical officer and legal counsel.

The Group operates defined contribution pension schemes for its employees and executive director. There were $75 thousand of accrued pension contributions to the scheme at December 31, 2022 (2021: $nil).

9. Directors' emoluments and staff costs (continued)

Company

	Year ended December 31, 2022	Year ended December 31, 2021
The average number of employees (excluding directors) of the Company during the year:		
Research and development	5	5
Selling, general and administrative	7	7
Total	12	12

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Employee benefits expenses		
Wages and salaries	2,779	2,916
Social security costs	2,841	575
Share-based payment expense	14,121	25,425
Other pension costs	70	81
Total employee benefits expense	19,811	28,997

Directors emoluments

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Aggregate emoluments of directors:		
Wages and salaries	528	575
Directors' emoluments	528	575

Directors aggregate amounts receivable under long-term incentive schemes, made up of long-term RSU grants was $nil at December 31, 2022 (2021: $nil). No share options were exercised by directors in the year ended December 31, 2022 and 2021.

Executive officers compensation

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Aggregate executive officers costs:		
Wages and salaries	456	456
Share-based payment expense	5,018	10,104
Other pension costs	10	11
Total executive officers costs	5,484	10,571

Executive officers aggregate amounts receivable under long-term incentive schemes, made up of long-term RSU grants was $0.9 million at December 31, 2022 (2021: $nil). No share options were exercised by executive officers in the year ended December 31, 2022 and 2021.

The Company considers key management personnel to be the aggregate of directors and executive officers. The executive officer employed by the Company is the Company's legal counsel.

The Company operates a defined contribution pension scheme for its employees. There were $73 thousand of accrued pension contributions to the scheme at December 31, 2022 (2021: $nil).

In respect of Directors' remuneration, the Company has taken advantage of the permission in Paragraph 6(2) of Statutory Instrument 2008/410 to omit aggregate information that is capable of being ascertained from the detailed disclosures in the audited sections of the Directors' Remuneration Report on pages 35 to 54, which form part of these Consolidated Financial Statements.

10. Finance income and expense

Group

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Finance income:		
Interest received on cash balances	2,821	14
Foreign exchange gain on translating foreign currency denominated balances	—	176
Fair value adjustment on derivative financial liability (note 20)	—	2,246
Total finance income	2,821	2,436

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Finance expense:		
Extinguishment of debt	815	—
Interest on term loan	521	340
Interest on discounted lease liability	31	61
Foreign exchange loss on translating foreign currency denominated balances	3,817	—
Unwinding of discount factor related to the assumed contingent arrangement (note 22)	4,332	3,793
Total finance expense	9,516	4,194

Company

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Finance income:		
Interest received on cash balances	2,821	14
Foreign exchange gain on translating foreign currency denominated balances	—	176
Fair value adjustment on derivative financial liability (note 20)	—	2,246
Total finance income	2,821	2,436

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Finance expense:		
Interest on term loan	815	340
Extinguishment of debt	521	—
Interest on discounted lease liability	16	34
Foreign exchange loss on translating foreign currency denominated balances	3,817	—
Unwinding of discount factor related to the assumed contingent arrangement (note 22)	4,332	3,793
Total finance expense	9,501	4,167

11. Taxation

	Year ended December 31, 2022	Year ended December 31, 2021
	$'000s	$'000s
Analysis of tax credit for the year:		
Current tax:		
U.K. tax credit	(9,634)	(15,819)
U.S. tax charge	253	207
Adjustment in respect of prior periods	(10)	(36)
Total tax credit	(9,391)	(15,648)

The difference between the total tax shown above and the amount calculated by applying the standard rate of tax to the loss before tax is as follows:

Factors affecting the tax credit for the year:		
Loss on ordinary activities before taxation	(84,762)	(74,915)
Multiplied by standard rate of corporation tax of 19% (2021: 19%)	(16,105)	(14,234)
Effects of:		
Non-deductible expenses	3,033	4,903
Research and development incentive	(4,145)	(6,807)
Temporary differences not recognized	1	111
Difference in overseas tax rates	42	189
Share options exercised	(1,404)	(1,434)
Tax losses carried forward not recognized	9,197	1,660
Adjustment in respect of prior periods	(10)	(36)
Total tax credit	(9,391)	(15,648)

U.K. corporation tax is charged at 19% (2021: 19%) and U.S. federal and state tax at 27.6% (2021: 27.6%).

Factors that may affect future tax charges

The Group has U.K. tax losses available for offset against future profits in the United Kingdom. However an additional deferred tax asset has not been recognized in respect of such items due to uncertainty of future profit streams. As of December 31, 2022, the unrecognized deferred tax asset at 25% is estimated to be $51.0 million (2021: $31.3 million at 25%). Unrecognized deferred tax assets related to tax losses and potential tax deductions on potential issuance of shares under employee share programs. These losses and deductions have an indefinite life.

12. Goodwill

Group and Company

The goodwill balance of December 31, 2022 and 2021 was $0.5 million.

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the acquisition of Rhinopharma in September 2006. Goodwill is not amortized, but is tested annually for impairment.

The Group has one CGU so goodwill is tested for impairment together with its intangible assets. It was tested with reference to the Group's market capitalization as of December 31, 2022, the date of testing of IP R&D and goodwill impairment. The market capitalization of the Group was approximately $2.0 billion as of December 31, 2022, (2021: $403.3 million) compared to the Group's net assets of $219.6 million (2021: $143.8 million). Consequently, no impairment was required.

13. Intangible assets

Group and Company

	IP R&D	Computer software	Patents	Total
	$'000s	$'000s	$'000s	$'000s
Cost				
At January 1, 2021	30,405	23	1,798	32,226
Additions	1,122	—	373	1,495
At December 31, 2021	31,527	23	2,171	33,721
Accumulated amortization				
At January 1, 2021	—	22	666	688
Charge for year	—	1	186	187
At December 31, 2021	—	23	852	875
Net book value				
At December 31, 2021	31,527	—	1,319	32,846

13. Intangible assets (continued)

	IP R&D	Computer software	Patents	Total
	$'000s	$'000s	$'000s	$'000s
Cost				
At January 1, 2022	31,527	23	2,171	33,721
Additions	—	—	336	336
Disposal	—	(14)	(75)	(89)
Re-measurement	97,833	—	—	97,833
At December 31, 2022	129,360	9	2,432	131,801
Accumulated amortization				
At January 1, 2022	—	23	852	875
Charge for year	—	—	217	217
Disposals	—	(14)	(75)	(89)
At December 31, 2022	—	9	994	1,003
Net book value				
At December 31, 2022	129,360	—	1,438	130,798

Intangible assets comprise patents, computer software and an IP R&D asset that arose on the acquisition of Rhinopharma and investment in patents to protect ensifentrine.

The IP R&D asset acquired through the business combination was initially recognized at fair value. Subsequent movements in the assumed contingent liability that relate to changes in estimated cash flows or probabilities of success are recognized as additions to the IP R&D asset that it relates to. The asset is not amortized and is tested annually for impairment.

Patents are amortized over a period of ten years and are tested annually for impairment.

Intangible assets are tested for impairment with goodwill, as the Group has only one cash generating unit. See note 12 for information about the impairment review.

14. Equity interest

As part of the Nuance Agreement, the Company received an equity interest in Nuance Biotech, the parent company of Nuance Pharma. The equity interest is held at fair value through profit and loss. In the year ending December 31, 2022 Nuance Biotech were not involved in any new transactions involving issuance of shares. As of December 31, 2022, there had been no transactions to indicate any change in the value of Nuance Biotech's stock, nor had there been any indication of impairment. The equity interest is therefore recorded at a value of $15.0 million as of December 31, 2022.

15. Investment in subsidiaries

Company

The Company has one wholly-owned subsidiary, Verona Pharma, Inc. Rhinopharma Limited, a Canadian company that was previously a non-operating, wholly-owned subsidiary, was dissolved in June 2021. Rhinopharma Limited was a drug discovery and development company focused on developing proprietary drugs to treat allergic rhinitis and other respiratory diseases prior to its acquisition by the Company on September 18, 2006.

The Company's investments comprise interests in Group undertakings, details of which are shown below:

	Verona Pharma Inc.
Country of incorporation	Delaware USA
Description of shares held	$0.001 Common stock
Proportion of shares held by the Company	100%

Verona Pharma Inc. was incorporated on the 12 December 2014 under the laws of the State of Delaware, USA and has its registered office at 2711 Centerville Road, Suite 400, City of Wilmington 19808, County of New Castle, Delaware, United States of America.

16. Prepayments and other receivables

Group

	December 31, 2022	**December 31, 2021**
	$'000s	**$'000s**
Prepayments	3,164	4,057
Other receivables	2,723	2,060
Total prepayments and other receivables	5,887	6,117

The prepayments balance includes prepayments for insurance and clinical activities.

Company

	December 31, 2022	**December 31, 2021**
	$'000s	**$'000s**
Prepayments	3,198	4,048
Other receivables	2,655	1,987
Total prepayments and other receivables	5,853	6,035

The prepayments balance includes prepayments for insurance and clinical activities.

17. Share Capital

The movements in the Company's share capital are summarized below:

Date	Description	Number of shares	Share Capital amounts in $'000s
As at January 1, 2021		**488,304,446**	**31,794**
June 14, 2021	Issuance of shares	12,712	1
June 15, 2021	Issuance of shares	185,336	13
June 16, 2021	Issuance of shares	2,400	0
June 17, 2021	Issuance of shares	125,680	9
June 18, 2021	Issuance of shares	23,200	2
June 21, 2021	Issuance of shares	84,576	6
June 22, 2021	Issuance of shares	800	0
August 26, 2021	Issuance of shares	438,400	30
As at December 31, 2021		**489,177,550**	**31,855**
January 10, 2022	Issuance of shares	12,928	1
January 11, 2022	Issuance of shares	21,160	1
January 12, 2022	Issuance of shares	15,776	1
January 21, 2022	Issuance of shares	17,152	1
January 26, 2022	Issuance of shares	6,520	1
January 27, 2022	Issuance of shares	7,160	1
January 31, 2022	Issuance of shares	4,800,000	322
August 15, 2022	Public offering	114,080,000	6,918
November 15, 2022	Issuance of shares	23,200,000	1,425
As at December 31, 2022		**631,338,246**	**40,526**

All 631,338,246 issued ordinary shares at December 31, 2022 are allotted, unrestricted, called up and fully paid. All issued shares rank pari passu except for 48,088,896 non-voting ordinary shares. All shares have a par value of £0.05.

At the Annual General Meeting held on April 27, 2022, shareholders approved the resolution to authorize the directors to allot shares in the Company, or grant rights to subscribe for, or to convert any security into shares in the Company, up to an aggregate nominal amount of £24,702,912, or 494,058,240 ordinary shares. As at December 31, 2022, £6,864,000 of this nominal amount, or 137,280,000 ordinary shares, had been issued.

Treasury shares

The Group and Company holds shares in an employee benefit trust, to satisfy share based compensation awards and these share are accounted for as treasury shares. As at December 31, 2022, 25,037,192 shares were held in treasure, at a nominal value of $1.5 million (2021: 9,094,584 shares, nominal value $0.6 million).

18. Public offering

In August 2022, Verona Pharma raised approximately $150 million in a public offering. The public offering comprised of 114,080,000 newly issued voting ordinary shares, represented by 14,260,000 new ADSs at a price of $10.50 per ADS.

19. Share-based payments charge

Group and Company

The Company operates various share based payment incentive schemes for its staff.

In accordance with IFRS 2 "Share Based Payments," the cost of equity-settled transactions is measured by reference to their fair value at the date at which they are granted. For transactions with employees fair value is determined using the Black-Scholes model. The cost of equity-settled transactions is recognized over the period until the award vests. No expense is recognized for awards that do not ultimately vest. At each reporting date, the cumulative expense recognized for equity-based transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors at that date, will ultimately vest.

The costs of equity-settled share-based payments to employees are recognized in the Statement of Comprehensive Income, together with a corresponding increase in equity during the vesting period. During the twelve months ended December 31, 2022, the Company recognized a share-based payment expense of $14.1 million (2021: $25.4 million). The charge is included in selling, general and administrative costs as well as in research and development costs and represents the current year's allocation of the share based payment expense.

The Company operates an Unapproved Share Option Scheme under which options were issued before 31 December 2016. The Company also operates a tax efficient EMI Option Scheme under which options were issued before 31 December 2016. In 2017 the Company commenced the 2017 Incentive Award Plan under which the Company grants share options and restricted stock units ("RSUs") to employees and directors. All options and RSUs vest over terms of between one and four years.

In the year ended December 31, 2019, the Company modified the terms of all the RSUs issued prior to January 1, 2019, to include a market condition that the Company's share price must be maintained above of £2 per ordinary share for thirty days, in addition to the service condition. As at December 31, 2022, this approximated to $21.90 per ADS. The RSUs vest after a five year term irrespective of whether the £2 market condition was met. This modification did not result in an increase in the fair value of the RSUs. The RSUs issued in the year ended December 31, 2019, also include the same market condition and five year term.

In the year ended December 31, 2022, under the 2017 Incentive Award Plan, the Company granted 9,024,000 (2021: 1,696,000) share options and 12,877,864 RSUs (2021: 3,030,928). The total fair values of the options and RSUs were estimated using the Black-Scholes option-pricing model for equity-settled transactions and amounted to $49.1 million (2021: $46.9 million). The cost is amortized over the vesting period of the options and RSUs on a straight-line basis. The following assumptions were used for the Black-Scholes valuation of share options and RSUs granted in 2021 and 2022:

Issued in 2021	Options	Restricted stock units
Number granted	1,696,000	3,030,928
Risk-free interest rate	0.79% - 1.32%	
Expected life of options	5 - 7 years	
Annualized volatility	85.35% - 87.68%	
Dividend rate	0.00 %	
Vesting period	0 - 4 years	0 - 4 years

Issued in 2022	Options	Restricted stock units
Number granted	9,024,000	12,877,864
Risk-free interest rate	2.09% - 4.20%	
Expected life of options	5 - 7 years	
Annualized volatility	82.50% - 84.27%	
Dividend rate	0.00 %	
Vesting period	0 - 4 years	0 - 4 years

19. Share-based payments charge (continued)

The Company had the following share options movements in the year ended December 31, 2022:

Year of issue	Exercise price ($)	At January 1, 2022	Options granted	Options exercised	Options forfeited	At December 31, 2022	Expiry date
2013	3.06	80,000	—	—	—	80,000	April 15, 2023
2013	3.07	160,000	—	—	—	160,000	July 29, 2023
2014	2.94	160,000	—	—	—	160,000	May 15, 2024
2015	1.88	342,000	—	—	—	342,000	January 29, 2025
2016	2.90	122,000	—	—	—	122,000	February 9, 2026
2016	2.40	610,000	—	—	—	610,000	August 3, 2026
2016	2.49	200,000	—	—	—	200,000	September 13, 2026
2016	2.65	300,000	—	—	—	300,000	September 26, 2026
2017	1.70	3,390,720	—	(40,200)	(20,000)	3,330,520	April 26, 2027
2017	1.95	20,000	—	—	(20,000)	—	May 26, 2027
2018	2.02	1,087,040	—	(27,328)	(103,848)	955,864	March 8, 2028
2019	0.75	2,488,240	—	(1,054,440)	—	1,433,800	March 29, 2029
2019	0.76	226,000	—	—	—	226,000	June 11, 2029
2019	0.56	100,000	—	—	—	100,000	August 22, 2029
2019	0.57	292,000	—	(292,000)	—	—	November 26, 2029
2020	0.71	1,330,000	—	(183,720)	(51,568)	1,094,712	March 3, 2030
2020	0.79	491,200	—	—	(185,600)	305,600	September 24, 2030
2021	0.62	320,000	—	—	—	320,000	October 4, 2031
2021	0.73	400,000	—	(225,000)	(175,000)	—	May 26, 2031
2021	0.78	576,000	—	—	(64,000)	512,000	August 8, 2031
2022	0.60	—	288,000	—	—	288,000	March 13, 2032
2022	0.64	—	320,000	—	—	320,000	March 29, 2032
2022	0.50	—	1,600,000	—	—	1,600,000	April 27, 2032
2022	0.57	—	160,000	—	—	160,000	May 31, 2032
2022	0.54	—	2,800,000	—	—	2,800,000	July 4, 2032
2022	1.30	—	1,000,000	—	—	1,000,000	September 7, 2032
2022	1.27	—	600,000	—	—	600,000	September 19, 2032
2022	1.19	—	120,000	—	—	120,000	September 28, 2032
2022	1.28	—	856,000	—	—	856,000	October 2, 2032
2022	1.45	—	600,000	—	—	600,000	October 26, 2032
2022	1.61	—	40,000	—	—	40,000	October 30, 2032
2022	1.74	—	400,000	—	—	400,000	December 4, 2032
2022	1.64	—	240,000	—	—	240,000	December 18, 2032
Total		12,695,200	9,024,000	(1,822,688)	(620,016)	19,276,496	

19. Share-based payments charge (continued)

The Company had the following RSU movements in the year ended December 31, 2022:

Year of issue	At January 1, 2022	Units granted	Units vested	Units forfeited	At December 31, 2022	Expiry date
2017	182,680	—	—	—	182,680	April 26, 2027
2018	47,264	—	—	—	47,264	March 8, 2028
2019	283,720	—	—	—	283,720	March 29, 2029
2020	4,147,224	—	(1,843,216)	—	2,304,008	May 7, 2030
2020	31,218,736	—	(12,654,488)	(906,264)	17,657,984	August 20, 2030
2021	158,728	—	(158,728)	—	—	January 28, 2031
2021	29,000	—	(29,000)	—	—	March 1, 2031
2021	2,200,000	—	(640,000)	—	1,560,000	November 14, 2031
2021	80,000	—	—	(40,000)	40,000	December 13, 2031
2022	—	468,224	(351,176)	—	117,048	January 31, 2032
2022	—	57,640	—	—	57,640	September 7, 2032
2022	—	12,352,000	—	(60,000)	12,292,000	September 25, 2032
Total	38,347,352	12,877,864	(15,676,608)	(1,006,264)	34,542,344	

Outstanding and exercisable share options by scheme as of December 31, 2022:

Plan	Share options outstanding	Share options exercisable	Weighted average exercise price in $ for Outstanding	Weighted average exercise price in $ for Exercisable
2017 Incentive Award Plan	17,302,496	8,408,256	1.07	1.24
EMI	114,000	114,000	2.54	2.54
Unapproved	1,860,000	1,860,000	2.51	2.51
Total	19,276,496	10,382,256	1.22	1.48

The options outstanding at December 31, 2022, had a weighted average remaining contractual life of 7.2 years (2021: 6.5 years). For 2021 and 2022, the number of options granted and expired and the weighted average exercise price of options were as follows:

	Number of options	Weighted average exercise price ($)
At January 1, 2021	13,125,672	1.41
Options granted in 2021:		
Employees	1,120,000	0.73
Directors	576,000	0.85
Options forfeited	(2,126,472)	1.06
At December 31, 2021	12,695,200	1.38
Exercisable at December 31, 2021	10,177,240	1.53

19. Share-based payments charge (continued)

	Number of options	Weighted average exercise price ($)
At January 1, 2022	12,695,200	1.38
Options granted in 2022:		
Employees	7,136,000	0.98
Directors	1,888,000	0.52
Options exercised	(1,822,688)	0.75
Options forfeited	(620,016)	1.04
At December 31, 2022	19,276,496	1.22
Exercisable at December 31, 2022	10,382,256	1.48

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2022 was $16.62 (2021: Not applicable).

The following table shows the number of RSUs issued, vested and forfeited in 2021.

	Number of RSUs
At January 1, 2021	61,992,360
Granted:	
Employees	2,385,824
Directors	645,104
RSUs vested in the year	(24,673,352)
RSUs forfeited in the year	(2,002,584)
At December 31, 2021	38,347,352

The following table shows the number of RSUs issued, vested and forfeited in 2022.

	Number of RSUs
At January 1, 2022	38,347,352
Granted:	
Employees	8,943,416
Directors	3,934,448
RSUs vested in the year	(15,676,608)
RSUs forfeited in the year	(1,006,264)
At December 31, 2022	34,542,344

20. Derivative financial liability

Group and Company

On May 2, 2022 all remaining warrants expired. No warrants were exercised or forfeited in the years ended December 31, 2022 and 2021.

On July 29, 2016, the Company issued 31,115,926 units to new and existing investors at the placing price of £1.4365 per unit. Each unit comprises one ordinary share and one warrant.

The warrant holders could subscribe for 0.4 of an ordinary share at a per share exercise price of £1.7238. The warrant holders could opt for a cashless exercise of their warrants, whereby the warrant holders can choose to exchange the warrants held for reduced number of warrants exercisable at nil consideration. The reduced number of warrants is calculated based on a formula considering the share price and the exercise price of the warrants. The warrants were therefore classified as a derivative financial liability, since their exercise could result in a variable number of shares to be issued.

The warrants entitled the investors to subscribe in aggregate, a maximum of 12,401,262 shares. The warrants could be exercised until May 2, 2022.

The table below presents the assumptions in applying the Black-Scholes model to determine the fair value of the warrants.

	As of December 31, 2021
Shares available to be issued under warrants	12,401,262
Exercise price	£ 1.7238
Risk-free interest rate	0.07 %
Expected term to exercise	0.33 years
Annualized volatility	51.6 %
Dividend rate	— %

In the year ended December 31, 2021, the Company updated the underlying assumptions and calculated a fair value of these warrants.

	Derivative financial liability
	2021
	$'000s
At January 1	2,246
Fair value adjustments recognized in profit or loss	(2,246)
At December 31	—

21. Trade and other payables

Group

	As of December 31, 2022	As of December 31, 2021
	$'000s	$'000s
Trade payables	2,910	10,048
Other payables	1,409	307
Accruals	17,183	22,839
Total trade and other payables	21,502	33,194

21. Trade and other payables (continued)

Company

	As of December 31, 2022	As of December 31, 2021
	$'000s	$'000s
Trade payables	2,909	10,048
Other payables	1,063	304
Amount due to group undertakings	11,319	6,939
Accruals	16,157	22,722
Total trade and other payables	31,448	40,013

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

22. Assumed contingent liability related to the business combination

The value of the assumed contingent liability as of December 31, 2022 is $138.3 million (2021: $36.5 million). The increase in value of the assumed contingent liability during 2022 amounted to $101.8 million (2021: $4.9 million).

As at December 31, 2022, the Group determined that it was between Phase 3 of ensifentrine's clinical development and the filing of its NDA. As a consequence, the probability of success changed, reducing the risk-weighting adjustment applied to estimated cash flows. Furthermore, the Group had carried out market research and updated its forecasts for ensifentrine's revenue for the maintenance treatment of chronic obstructive pulmonary disorder using a nebulized formulation in the U.S. The Group therefore updated estimated cash flows in the fourth quarter of 2022.

On June 9, 2021 Verona signed an agreement granting Nuance Pharma the exclusive rights to develop and commercialize products containing ensifentrine in Greater China (the "Nuance Agreement") (see note 7). The assumed contingent liability was calculated using the same methodology as stated above. Management used judgment to determine that Nuance had also entered the Phase 3 stage of ensifentrine's clinical development plan.

The expected cash flows are based on estimated future royalties payable, derived from sales forecasts, including expected timings of these sales, and an assessment of the probability of success using standard market probabilities for respiratory drug development. The risk-weighted value of the assumed contingent arrangement is discounted back to its net present value applying an effective interest rate of 12%.

	2022	2021
	$'000s	$'000s
January 1	36,490	31,609
Re-measurement of contingent obligation	97,833	1,122
Foreign exchange differences recognised in loss	(397)	(34)
Unwinding of discount factor	4,332	3,793
December 31	138,258	36,490

The fair value of the contingent obligation is approximately $130.2 million. This is calculated using a discount rate of 13%. Because of the unobservable inputs in the model, the fair value is classified under Level 3 of the fair value hierarchy.

For the amount recognized as at December 31, 2022, of $138.3 million, the effect if underlying assumptions were to deviate up or down is presented in the following table (assuming the probability of success does not change):

	Revenue (up / down 10 % pts)	Probability of success (up / down 5 % pt)
	$'000s	$'000s
Variable up	150,692	145,170
Base case	**138,258**	**138,258**
Variable down	125,824	131,345

23. Term loan

In November 2020, the Group entered into a term loan facility of up to $30.0 million (the "SVB Term Loan"), consisting of advances of $5.0 million funded at closing and $10.0 million and $15.0 million contingent upon achievement of certain clinical development milestones and other specified conditions.

The debt balance was categorized within Level 3 of the fair value hierarchy. The carrying amount of the debt approximated its fair value based on prevailing interest rates as of the balance sheet date.

On October 14, 2022 (the "Effective Date"), the Group entered into a loan and security agreement (the "Loan Agreement") with Oxford Finance Luxembourg S.À R.L. ("Oxford") for an aggregate amount of up to $150.0 million (the "Oxford Term Loan"). The Oxford Term Loan provides for an initial term loan advance in an aggregate amount of $10.0 million funded on the Effective Date (the "Oxford Term A Loan"), and up to four additional term loan advances in an aggregate amount of $140.0 million, which are available as described below and subject to terms of the Loan Agreement. The proceeds from the Oxford Term Loan will be used for general corporate and working capital purposes, and a portion of the proceeds of the Oxford Term A Loan were used to repay in full the existing outstanding indebtedness owed to SVB.

The four additional term loan advances under the Oxford Term Loan consists of: a $10.0 million term loan advance (the "Oxford Term B Loan") which is available at the option of the Group from the Effective Date up to and including March 31, 2023; a $20.0 million term loan advance (the "Oxford Term C Loan") available during the period commencing on the later of January 1, 2024 and the date on which the Group receives positive ENHANCE-1 data in the Phase 3 clinical trial for ensifentrine sufficient to support the submission of a New Drug Application ("NDA") with the United States Food and Drug Administration (the "FDA") for ensifentrine through and including March 29, 2024; a $60.0 million term loan advance (the "Oxford Term D Loan") available during the period commencing on the later of October 1, 2024 and the date on which the Group receives final approval from the FDA for the Group's NDA for ensifentrine up to and including December 31, 2024; and a $50.0 million term loan advance (the "Oxford Term E Loan") available during the interest-only period at the Group's request and at Oxford's sole discretion.

Each advance under the Oxford Term Loan accrues interest at a floating per annum rate equal to (a) the greater of (i) the 1-Month CME Term SOFR reference rate on the last business day of the month that immediately precedes the month in which the interest will accrue and (ii) 2.38%, plus (b) 5.50% (the "Basic Rate"). In no event shall the Basic Rate (x) for the Oxford Term A Loan be less than 7.88% and (y) for each other advance be less than the Basic Rate on the business day immediately prior to the funding date of such term advance. The Basic Rate for the Term A Loan for the period from the Effective Date through and including October 31, 2022 shall be 8.54205% and the Basic Rate for each Term Loan shall not increase by more than 2.00% above the applicable Basic Rate as of the funding date of each such term loan. The Oxford Term Loan provides for interest-only payments on a monthly basis until the payment date immediately preceding December 1, 2025, if the Oxford Term D Loan is not made, and December 1, 2026, if the Oxford Term D Loan is made. Thereafter, amortization payments will be payable monthly in equal installments of principal plus accrued interest.

Upon repayment, whether at maturity, upon acceleration or by prepayment or otherwise, the Group shall make a final payment to the lenders in an amount ranging from 1.30% to 3.00% of the aggregate principal balance, depending on the advances received under the Oxford Term Loan. The Group may prepay the Oxford Term Loan in full, or in part, in accordance with the terms of the Loan Agreement, which is subject to a prepayment fee of up to 2.00%, depending on the timing of the prepayment.

The Oxford Term Loan is secured by a lien on substantially all of the assets of the Group, other than intellectual property, but including any rights to payments and proceeds from the sale, licensing or disposition of intellectual property. The Group has also granted Oxford a negative pledge with respect to its intellectual property. The Loan Agreement contains customary covenants and representations, including but not limited to financial reporting obligations and limitations on dividends, dispositions, indebtedness, collateral, investments, distributions, transfers, mergers or acquisitions, taxes, corporate changes, deposit accounts, transactions with affiliates and subsidiaries. The Loan Agreement also contains other customary provisions, such as expense reimbursement, non-disclosure obligations as well as indemnification rights for the benefit of Oxford.

24. Commitments and contingencies

Management is currently negotiating a matter with a supplier that has an estimated exposure of approximately $1.5 million. Management does not currently consider it probable that a payment will be made and therefore no accrual is recorded at December 31, 2022. This matter is expected to be resolved within the next 12 months.

25. Related parties transactions and other shareholder matters

(i) Related party transactions

The Directors have authority and responsibility for planning, directing and controlling the activities of the Company and they therefore comprise key management personnel as defined by IAS 24, ("Related Party Disclosures").

Directors and key management personnel remuneration is disclosed in note 9.

(ii) Other shareholder matters

Year ended December 31, 2022

During the year ended December 31, 2022 41,806 and 16,722 ADS RSUs that were issued to Dr. Zaccardelli and Mr. Hahn, respectively, vested. These shares were paid in lieu of salary and were issued on February 1, 2022.

During the year ended December 31, 2022 , Dr. Zaccardelli and Mr. Hahn were granted an additional 450,000 ADS RSUs each.

During the year ended December 31, 2022 , each member of the board of directors was awarded share options. Mr. Brady was awarded 36,000 ADS share options. Dr. Ebsworth, Dr. Cunningham, Dr. Edwards, Dr. Shah, Mr. Sinha and Dr. Ullman, Mr. Gupta, and Ms. Deschamps were each awarded 25,000 ADS share options.

Year ended December 31, 2021

During the year ended December 31, 2021, 529,104 and 105,824 ADS RSUs that were issued to Dr. Zaccardelli and Mr. Hahn, respectively, vested. These shares were paid in lieu of salary and were issued on January 28, 2021.

During the year ended December 31, 2021 , each member of the board of directors was awarded ADS RSUs or share options. Ms. Deschamps was awarded 116,000 ADS RSUs. Dr. Ebsworth, Dr. Cunningham, Dr. Edwards, Dr. Shah, Mr. Sinha and Dr. Ullman, Mr. Gupta, Dr. Sinclair and Ms. Deschamps were each awarded 64,000 ADS share options.