Acacia Pharma Group Limited

Annual Report and

Consolidated Financial Statements

for the year ended 31 December 2017

Registered number 09759376

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Directors and advisers

Directors

Scott Byrd
Martin Edwards
Julian Gilbert
Johan Kördel
Pieter van der Meer
Alexander Pasteur
Christine Soden
Patrick Vink

Company secretary and registered office

Christine Soden
Acacia Pharma Group Limited
Harston Mill
Harston
Cambridge CB22 7GG

Bankers

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28 Chesterton Road
Cambridge CB4 3AZ

Silicon Valley Bank
Alphabeta
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London EC2A 1BR

Solicitors

Stephenson Harwood LLP
1 Finsbury Circus
London EC2M 7SH

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Abacus House
Castle Park
Cambridge CB3 0AN

Strategic Report

Review of Business

The Group's activities are centred around the development of antiemetic products, in particular, BAREMSIS® for the management of PONV. During the year, the Group completed the last of 4 Phase 3 clinical studies and prepared and submitted the NDA for BAREMSIS® to the FDA. The FDA accepted the NDA filing and has given the company a PDUFA date of 5 October 2018, being the date by which the FDA aims to complete its review of the NDA dossier.

The Group intends to build a US hospital sales and marketing team to launch BAREMSIS® in the US market if approved. The Group's second candidate, APD403 for the management of CINV which has undergone one successful Phase 2 study, will be further developed through additional Phase 2 and Phase 3 studies when financing is available.

Risks & Uncertainties and Outlook

The major risks and uncertainties facing the business are the ability to raise sufficient capital to meet its business aims, the approval by the FDA of the BAREMSIS® NDA and its ability to build an effective sales force that can commercialise BAREMSIS®. The Group is seeking to raise new equity capital through a public offering of shares in early March 2018.

Financial Summary

The post-tax losses of the Group during the year reduced from £13.5m in 2016 to £6.2m in 2017 with operating losses falling from £14.4m in 20116 to £3.0m in 2017. This reflected a significant reduction in R&D expenditure upon completion of the phase 3 clinical trials on BAREMSIS®. Finance charges increased from £1.9m in 2016 to £3.5m in 2017. Charges on the term loan with Silicon Valley Bank increased from £0.5m to £0.9m, driven by an acceleration in the expected final repayment date. Finance charges on the A, B and C preferred shares also increased as a result of the cumulative nature of the charges and changes in the expected date of conversion into ordinary shares. The Group issued £3.4 m of convertible loan notes in November 2017 upon which £0.6m of finance expense arose in the year.

As at 31 December 2017 the Group had cash and cash equivalents of £3.1m and liabilities under the term loan of £5.2m.

Key Performance Indicators ("KPI's")

The group's business to date has been dominated by one-off activities and accordingly the Directors determined that the monitoring of financial KPI's was not yet relevant to the management of the Group's activities.

Environmental

As a small office-based company, Acacia Pharma believes its activities to have a negligible impact on the environment. However, where possible the Group minimises its impact on the environment by avoiding waste and single-use plastic bottles and using video-conferencing wherever feasible rather than physical meetings involving rail, air or road travel.

Employment

Acacia Pharma is an equal opportunities employer.

On behalf of the board

Christine Soden
Director
26 January 2018

Directors' report for the year ended 31 December 2017

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.

Principal activities, strategic review and future prospects
The principal activity of the Group during the year was the development and preparation for commercialisation of anti-emetic pharmaceutical product opportunities.

The Group has completed 4 Phase 3 studies on its lead product, BAREMSIS® for post-operative nausea and vomiting and submitted a new drug application (NDA) with the US Food and Drug Administration which has been accepted for filing with a target date for completion of review of 5 October 2018.

The Group raised £3.4 million in November 2017 from the issue of convertible loan notes.

The results for the Group show a loss on ordinary activities before taxation of £6.5 million (2016: £16.3 million, 2015: £15.1million).

Research and development
During the year the Group charged research and development costs of £1.5 million to the Consolidated Statement of Comprehensive Income (2016: £13.6 million, 2015: £10.1million).

Future outlook
In 2018 the Group will continue to invest in the research and development of pharmaceuticals and is seeking to raise additional equity capital in order to fund the establishment of a US-based specialty hospital sales and marketing organisation and prepare for the potential launch of BAREMSIS® in 2019

Principal risks and uncertainties
The management of the business and the execution of the Group's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Group are considered to relate to the early stage development of the business, the availability and terms of investment capital, the ability to receive regulatory approvals and the uncertainty over the success of clinical trials.

The Group's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate cash flow risk.

The disclosures concerning these risks are given in note 20 of the consolidated financial statements.

Key performance indicators ("KPIs")
The on-going performance of the Group is managed and monitored using a number of key performance indicators, both financial and qualitative. These key performance indicators include: forecasting and monitoring cash resources, progress against project milestones and the ability to secure additional finance.

Dividends
The directors do not recommend the payment of an ordinary share dividend, (2016: £Nil, 2015: £Nil). Dividends in respect of 'A' ordinary shares, 'B' preferred shares and 'C' preferred shares will be declared and paid only when the Group has sufficient distributable reserves.

Directors' report for the year ended 31 December 2017 (continued)

Going concern
At the date of the signing of these financial statements the Company does not have sufficient cash resources in hand to fund its current level of activities for the next 12 months.

The financial statements have been prepared on a going concern basis, which assumes that the Group and Company will be able to meet their liabilities as they fall due for the foreseeable future.

The directors believe that, based on their current forecasts and plans for raising new funding, primarily through an Initial Public Offering ('IPO') of shares in the Company on Euronext, as well as from the raising of other debt or equity financing, the Group and Company will have sufficient funds to meet their cash requirements for the foreseeable future. In the event that the planned IPO does not proceed, the directors believe they will be able to secure sufficient additional funding to meet the Group's cash requirements for at least the next 12 months from additional equity offerings to existing shareholders. However, there is no guarantee that attempts to raise additional financing will be successful.

Whilst there is a material uncertainty in relation to the outcome of the matters described above which, if not resolved, may give rise to significant doubts to the going concern basis, the directors have fully considered the relevant issues and are confident that it is appropriate to prepare these financial statements on the going concern basis under the historical cost convention and the accounting policies set out below and in accordance with Companies Act 2006 and applicable International Financial Reporting Standards as adopted by the EU. These financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Directors
The directors of Acacia Pharma Group Limited, who served during the year and up to the date of signing the financial statements except where noted, were:

Martin Edwards	(appointed 22 September 2015)
Julian Gilbert	(appointed 22 September 2015)
Johan Kördel	(appointed 22 September 2015)
Pieter van der Meer	(appointed 22 September 2015)
Alexander Pasteur	(appointed 22 September 2015)
Christine Soden	(appointed 2 September 2015)
Patrick Vink	(appointed 1 January 2016)
Scott Byrd	(appointed 18 December 2017)

Third party indemnity provision
The Company has arranged third party indemnity for all its directors. The qualifying third party indemnity was in force during the financial year and also at the date of approval of the financial statements.

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company 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 IFRSs as adopted by the European Union have been followed for

Directors' report for the year ended 31 December 2017 (continued)

the group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, 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 responsible for keeping adequate accounting records that are sufficient to show and explain the group 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 comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors
All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Company number
The registered number for Acacia Pharma Group Limited is 09759376.

On behalf of the board

Christine Soden
Director
26 January 2018

Independent auditors' report to the members of Acacia Pharma Group Limited

Report on the audit of the group financial statements

Opinion

In our opinion, Acacia Pharma Group Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 and Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated statement of financial position as at 31 December 2017; the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty relating to going concern - Group

In forming our opinion on the group financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's ability to continue as a going concern. In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group is seeking new funding through an initial public offering of shares in the Company. In the event that the initial public offering does not proceed, this will require the Group to raise additional funding through other debt or equity financing. This condition, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Acacia Pharma Group Limited (continued)

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 2017 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 its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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 set out on page 4, 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 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 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.

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 received all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the company financial statements of Acacia Pharma Group Limited for the year ended 31 December 2017. That report includes an emphasis of matter.

Simon Ormiston (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
26 January 2018

Consolidated Statement of Comprehensive Income

	Note	For the year ended 31 December 2017 £'000	2016 £'000	2015 £'000
Continuing operations:				
Research and development expenditure		(1,479)	(13,605)	(10,079)
Administrative expenses		(1,534)	(837)	(2,388)
Operating loss		**(3,013)**	**(14,442)**	**(12,467)**
Finance income	3	2	7	19
Finance expense	4	(3,510)	(1,855)	(2,648)
Loss before income tax	5	**(6,521)**	**(16,290)**	**(15,096)**
Taxation credit	8	349	2,793	2,222
Loss and total comprehensive loss for the year		**(6,172)**	**(13,497)**	**(12,874)**
Basic and diluted losses per Ordinary Share	9	**(232)p**	**(506)p**	**(483)p**

Consolidated Statement of Financial Position

	Note	2017 £'000	2016 £'000	2015 £'000
Assets				
Current Assets				
Other receivables	10	154	539	336
Current income tax assets		349	2,793	2,166
Cash and cash equivalents	11	3,070	6,884	5,462
Total Current Assets		**3,573**	**10,216**	**7,964**
Total Assets		**3,573**	**10,216**	**7,964**
Equity and Liabilities				
Equity attributable to equity holders				
Share capital	12	701	701	678
Share premium		4,513	4,513	-
Profit and loss account		45,886	52,041	65,541
Share-based payments reserve		253	144	121
Merger reserve		(69,136)	(69,136)	(69,136)
Total Equity		**(17,783)**	**(11,737)**	**(2,796)**
Liabilities				
Non-current liabilities				
Term loans, amounts payable after one year	16	-	4,972	-
		-	**4,972**	**-**
Current liabilities				
Trade and other payables	14	1,000	5,138	2,942
Liability component of convertible shares	13	11,140	9,134	7,818
Term loans, amounts payable within one year	15	5,185	2,709	-
Convertible loan notes	15	4,031	-	-
		21,356	**16,981**	**10,760**
Total Liabilities		**21,356**	**21,953**	**10,758**
Total Equity and Liabilities		**3,573**	**10,216**	**7,964**

The notes on pages 12 to 35 form an integral part of these Consolidated Financial Statements

The Consolidated Financial Statements on pages 8 to 35 were approved and authorised for issue by the board of Directors on 26 January 2018 and were signed on its behalf by:

Christine Soden
Director

Consolidated Cash Flow Statement

	Note	For the year ended 31 December 2017	2016	2015
		£'000	£'000	£'000
Cash flows from operating activities:				
Cash used in operations	17	(6,542)	(12,368)	(10,839)
Income tax credit received		2,793	2,166	1,106
Net cash used in operating activities		**(3,749)**	**(10,202)**	**(9,733)**
Cash flows from investing activities:				
Interest received	3	2	7	19
Net cash generated from investing activities		**2**	**7**	**19**
Cash flows from financing activities:				
Proceeds of issuance of convertible loan	15	3,400	-	-
Proceeds of issuance of preference shares	12	-	4,585	12,541
Issue costs of preference shares		-	(49)	-
Amounts borrowed under term loan			8,500	-
Payment of transaction costs on term loan		-	(85)	-
Amounts repaid under term loan		(3,000)	(1,000)	-
Interest and fees paid on loan		(368)	(275)	-
Net cash generated from financing activities		**32**	**11,676**	**12,541**
Effect of exchange rate movements on cash held		(99)	(59)	-
Net (decrease)/increase in cash and cash equivalents		**(3,818)**	**1,422**	**2,827**
Cash and cash equivalents at beginning of the year		6,884	5,462	2,635
Cash and cash equivalents at end of the year	11	**3,070**	**6,884**	**5,462**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Issued Share Capital £'000	Share Premium £'000	Profit and loss account £'000	Merger reserve £'000	Share based payments reserve £'000	Total Equity £'000
Balance at 1 January 2017	701	4,513	52,041	(69,136)	144	(11,737)
Comprehensive expense						
Total comprehensive expense for the year	-	-	(6,172)	-	-	(6,172)
Exchange differences			17			17
Transactions with Owners						
Share based payments charge	-	-	-	-	109	109
Balance at 31 December 2017	701	4,513	45,886	(69,136)	253	(17,783)

For the year ended 31 December 2016

	Issued Share Capital £'000	Share Premium £'000	Profit and loss account £'000	Merger reserve £'000	Share based payments reserve £'000	Total Equity £'000
Balance at 1 January 2016	678	-	65,541	(69,136)	121	(2,796)
Comprehensive expense						
Total comprehensive expense for the year	-	-	(13,497)	-	-	(13,497)
Exchange differences			(3)			(3)
Transactions with Owners						
Share based payments charge	-	-	-	-	23	23
Issue of C preferred shares	-	85	-	-	-	85
Issue of D preferred shares	23	4,428	-	-	-	4,451
Balance at 31 December 2016	701	4,513	52,041	(69,136)	144	(11,737)

For the year ended 31 December 2015

	Issued Share Capital £'000	Share Premium £'000	Profit and loss account £'000	Merger reserve £'000	Share based payments reserve £'000	Total Equity £'000
Balance at 1 January 2015	101,570	-	(22,465)	(69,136)	99	10,068
Capital reduction	(100,892)	-	100,892			-
Comprehensive expense						
Total comprehensive expense for the year	-	-	(12,874)	-	-	(12,875)
Exchange differences			(12)			(12)
Transactions with Owners						
Share based payments charge	-	-	-	-	22	22
Balance at 31 December 2015	678	-	65,541	(69,136)	121	(2,796)

Notes to the Financial Statements

1. Summary of significant accounting policies

General information

Acacia Pharma Group Limited is a private limited company incorporated and domiciled in England and Wales with registered number 09759376. The Company's registered office is Harston Mill, Harston, Cambridge, CB22 7GG.

The principal activity of the Company and its subsidiaries (together "the Group") is that of a pharmaceutical group which discovers and develops lower risk pharmaceutical product opportunities within its therapeutic areas of interest.

The Group's Consolidated Financial Statements are presented as at and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015.

Basis of preparation

The Consolidated Financial Statements present the consolidated results of the Group for the three years ended 31 December 2017, 2016 and 2015 and have been prepared in accordance with the requirements of the International Financial Reporting Standards as endorsed by the EU (IFRSs), the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC)) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Following careful consideration by the directors, as set out in the Going Concern section of note 1 below, the Consolidated Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments that have been measured at fair value.

The Group's transition date to IFRS is 31 December 2014. The principles and requirements of first time adoption of IFRS are set out in IFRS1. The Company has previously prepared financial information under FRS 102. As the Group has not previously prepared consolidated financial information, no reconciliation between FRS 102 and IFRS is required or presented.

The Consolidated Financial Statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities including derivative financial instruments at fair value through profit or loss. The principal accounting policies set out below have been consistently applied to all periods presented. The preparation of the Consolidated Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are set out later in this note.

Basis of Consolidation

All of the subsidiaries of the Group are 100% owned within the Group and have been included in the consolidated financial information from the date of incorporation. The subsidiaries included are:

Acacia Pharma Limited (incorporated in England and Wales); and
Acacia Pharma Inc (incorporated in the United States of America)

The insertion of Acacia Pharma Group Limited as the holding company of Acacia Pharma Limited on 15 September 2015 did not meet the definition of a business combination in accordance with IFRS3 "Business Combinations" as Acacia Pharma Group Limited was a shell company and did not meet the definition of a business. Accordingly, upon consolidation, the transaction was accounted for as a reorganisation of Acacia Pharma Limited without any fair value uplift and a merger reserve of £69,136,000 was created. The consolidated financial statements are presented using the historical carrying values from the financial statements of the acquired entity, Acacia Pharma Limited, but reflecting the share capital of Acacia Pharma Group Limited. The Statements of Comprehensive Income and Cash flows assume the transaction was effected on 1 January 2015.

1. Summary of significant accounting policies (continued)

Subsidiary undertakings are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiary undertakings are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Going concern
The financial statements have been prepared on a going concern basis, which assumes that the Group and Company will be able to meet their liabilities as they fall due for the foreseeable future.

The directors believe that, based on their current forecasts and plans for raising new funding, primarily through an Initial Public Offering ('IPO') of shares in the Company on Euronext, as well as from the raising of other debt or equity financing, the Group and Company will have sufficient funds to meet their cash requirements for the foreseeable future. In the event that the planned IPO does not proceed, the directors believe they will be able to secure sufficient additional funding to meet the Group's cash requirements for at least the next 12 months from additional equity offerings to existing shareholders. However, there is no guarantee that attempts to raise additional financing will be successful.

Whilst there is a material uncertainty in relation to the outcome of the matters described above which, if not resolved, may give rise to significant doubts to the going concern basis, the directors have fully considered the relevant issues and are confident that it is appropriate to prepare these financial statements on the going concern basis under the historical cost convention and the accounting policies set out below and in accordance with Companies Act 2006 and applicable International Financial Reporting Standards as adopted by the EU. These financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Changes in accounting policy and disclosures
(a) New standards, amendments and interpretations adopted by the group
The Group has applied all relevant standards applicable for years beginning on or after 1 January 2015. No new standards, amendments or interpretations effective for the first time have had a material impact on the Group.

(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted
Below is a list of standards/interpretations that have been issued and are not effective for periods starting on 1 January 2017, but will be effective for later periods:

IFRS 9, 'Financial Instruments' (effective 1 January 2018)
IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2018)
IFRS 16, Leases" (effective 1 January 2019)
Amendments to IFRS2: Share based payments (effective 1 January 2018, not yet endorsed)

The Directors do not anticipate that the adoption of the Standards, Amendments and Interpretations where relevant, in future years will have a material impact on the Group's Financial Statements.

Foreign currency translation
The Financial Statements are presented in pounds sterling, which is the Group's functional and presentational currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within administrative expenses.

Group companies
The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities presented in foreign currencies are translated at the closing rate of exchange ruling at the end date of the financial year;
- income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held with banks, other short–term highly liquid investments with original maturities of less than three months and bank overdrafts.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. The Group's Ordinary, S ordinary, non-voting S ordinary, P and D preferred share classes of share capital are classified as equity.

The equity component of the Group's compound financial instruments is also included within share capital and share premium.

Financial instruments
Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities (including trade and other payables) are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, to the net carrying amount on initial recognition.

Compound Financial Instruments
Compound financial instruments issued by the Group comprise convertible shares that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The Group's A Ordinary shares and B Preferred shares and C Preferred shares are classified as compound financial instruments.

The liability component of the compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

1. Summary of significant accounting policies (continued)

Compound Financial Instruments (continued)
Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequently to initial recognition except on conversion or expiry.

Where the terms of financial instruments are amended such that there is a substantial change in expected future cash flows, the financial instrument is treated as extinguished and re-issued giving rise to a gain or loss on extinguishment. The gain or loss on extinguishment is calculated as the difference between the fair value of the instrument immediately prior to the extinguishment and the fair value of the replaced instrument. The gain or loss is allocated to equity in the year of extinguishment.

Term Loans and Convertible Loan Notes
The Group has entered into a term loan and issued convertible loan notes. These are measured at amortised cost using the effective interest rate method.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Research and development
Research costs are expensed in the Statement of Comprehensive Income in the year in which they are incurred. All research costs are included within research and development expenditure on the face of the Statement of Comprehensive Income.

All ongoing development expenditure is currently expensed in the year in which it is incurred. Due to the regulatory and other uncertainties inherent in the development of the Group's programmes, the criteria for development costs to be recognised as an asset, as prescribed by IAS 38, "Intangible assets", are not met until the product has been submitted for regulatory approval, such approval has been received and it is probable that future economic benefits will flow to the Group. The Group does not currently have any such internal development costs that qualify for capitalisation as intangible assets.

Pensions
The Group makes payments to defined contribution personal pension schemes. The assets of the schemes are held separately from the Group in independently administered funds. Contributions made by the Group are charged to the Statement of Comprehensive Income in the year to which they relate.

Share–based payments
Employees (including Directors) receive remuneration in the form of equity-settled share-based payments, whereby employees render services in exchange for shares or for rights over shares (e.g. share options). The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense. The total amount to be expensed on a straight-line basis over the vesting period is determined by reference to the fair value of the options or shares granted: excluding the impact of any non-market performance vesting conditions (for example, continuation of employment and performance targets).

The share options are valued using a Black Scholes option pricing model. Non-market based vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each Balance Sheet date to allow for forecast leaving employees and the difference is charged or credited to the Statement of Comprehensive Income, with a corresponding adjustment to the share-based payments reserve.

1. Summary of significant accounting policies (continued)

Current and deferred income tax
Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Tax receivable arises from the UK legislation regarding the treatment of certain qualifying research and development costs, allowing for the surrender of tax losses attributable to such costs in return for a tax rebate.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the period of the lease.

Critical Accounting Estimates and Judgements
The preparation of the Financial Statements in conformity with IFRS as endorsed by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements related to convertible instruments are as follows:

Compound Financial Instruments
The Group has in issue three compound financial instruments, the A Ordinary, B Preferred and C Preferred Shares. The A Ordinary Shares, B Preferred Shares and C Preferred Shares each accrue dividends at a rate of 8% compounded annually to a ceiling of 50% of the amount subscribed in the instrument. The accrued dividends on the A shares reached that 50% ceiling in 2016. The liability component of each compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Thus the Group is required to estimate the fair value at inception of the liability portion of compound financial instruments. It does this by estimating the net present value of the expected future cash flows. Because the term of each of the instruments is not contractually specified, it is necessary to estimate the term. This element is a judgmental element of the fair value calculation, as it determines the cash flows used in the net present value calculation. The directors have made judgements in relation to the expected term of these instruments, taking into account the Group's future strategy and anticipated capital raising activities

1. Summary of significant accounting policies (continued)

Critical Accounting Estimates and Judgements (continued)
In addition, the determination of an appropriate discount rate to be applied to the expected cash flows for each of the instruments is a significant estimate. The directors have estimated that rate to be 15%. If different estimates of future cash flows and / or different discount rates were applied, then the allocation to the debt component and the associated finance charge would differ from the amounts recorded. The sensitivity of the liability component as at 31 December 2017 to changes in the discount rate and term assumptions are:

	Assumption	Increase in assumption	Decrease in assumption
Discount rate	15%	20%	10%
Term	6 March 2018	6 March 2018	6 March 2018
Net present value	11,140	11,081	11,201

Discount rate	15%	15%	15%
Term	6 March 2018	6 April 2018	6 February 2018
Cashflow at exit	11,547	11,547	11,125
Net present value	11,140	11,346	10,881

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the liability component the same method (present value calculated with the discounted cash flow method) has been applied as when calculating the liability component recognised within the statement of financial position.

Convertible Loan Notes
The Company issued Convertible Loan Notes in November 2017. The Convertible Loan Notes bear interest at 8% pa and can convert into ordinary shares valued at 150% of the face value of the notes upon an IPO, sale or liquidation or into ordinary shares valued at 100% of the face value in certain private fundraising rounds. The Notes are accounted for as a liability since they convert into a variable number of ordinary shares. The Directors have made judgements around the likelihood of the IPO driving the 150% uplift in value (assumed as certain) and the likely timing of the IPO (assumed to be 6 March 2018) each of which is a significant estimate. The sensitivity of the liability as at 31 December 2017 to changes in term assumptions are

	Assumption	Increase in assumption	Decrease in assumption
	£'000	£'000	£'000
Term	6 March 2018	6 April 2018	6 February 2018
Liability at 31 December 2017	4,031	3,895	4,285
Liability at term	5,222	5,226	5,187

2. Segmental reporting

The Group has adopted IFRS 8, “Operating Segments”. IFRS 8 defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. The Chief Operating Decision Maker has been identified as the Board of Directors.

The Directors are of the opinion that under IFRS 8 the Group has only one operating segment, being the development and commercialisation of intellectual property through direct sale of the protected products in the US and long-term licensing income elsewhere. The Board of Directors assess the performance of the operating segment using financial information which is measured and presented in a manner consistent with that in the financial information. The Group has no reportable operating segments separate from the Income Statement presented in this Financial Information.

3. Finance income

	For the year ended 31 December		
	2017 £’000	2016 £’000	2015 £’000
Deposit account interest	2	7	19

4. Finance expense

	For the year ended 31 December		
	2017 £’000	2016 £’000	2015 £’000
Finance charge/(credit) on the A ordinary shares	-	58	(17)
Finance charge on the B preferred shares	1,329	764	1,629
Finance charge on the C preferred shares	677	492	1,036
Finance charges on term loan	873	541	
Finance charge on convertible loan	631	–	-
	3,510	1,855	2,648

5. Loss before income tax

Loss before income tax is stated after charging/(crediting):

	For the year ended 31 December		
	2017 £’000	2016 £’000	2015 £’000
Operating lease costs (land and buildings)	55	56	59
Auditors’ remuneration:			
Fees payable to the Group's auditors for the audit of the financial statements	51	30	30
Fees payable to the Group's auditors for other services – other assurance services	50	-	320
Losses on foreign exchange	99	55	-

6. Employees and Directors

Analysis of payroll costs by category:

	For the year ended 31 December		
	2017	2016	2015
	£'000	£'000	£'000
Wages and salaries	1,200	1,240	1,005
Social security costs	116	97	107
Pension costs (Note 18)	77	78	59
Share-based payments	109	24	22
Total	1,502	1,439	1,193

Average monthly number of persons (including Executive Directors) employed:

	For the year ended 31 December		
	2017	2016	2015
	Number	Number	Number
Research and development	4	4	4
Sales, marketing & administration	3	3	2
Total	7	7	6

Key Management Compensation

	For the year ended 31 December		
	2017	2016	2015
	£'000	£'000	£'000
Salaries and short–term employee benefits	857	850	635
Post-employment benefits	23	23	21
Share-based payments	103	60	19
Total	983	933	675

The Group considers all members of the Board (including Non-Executive Directors) to be key management, as well as the Chief Medical Officer.

Directors' emoluments are as follows:

	For the year ended 31 December		
	2017	2016	2015
	£'000	£'000	£'000
Aggregate emoluments	719	713	450

No director received any contributions to pension schemes. No directors exercised any share options during the three year period.

6. Employees and Directors (continued)

Highest paid director

The highest paid director's emoluments were as follows:

	For the year ended 31 December 2017 £'000	2016 £'000	2015 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	239	241	216

For the year ended 31 December 2017

	Fees/Basic Salary £'000	Share-based payments £'000	Benefits £'000	Total £'000
Executive Directors				
Julian Gilbert	237	2	2	241
Christine Soden	212	54	-	267
Scott Byrd	195	2	20	217
Non-Executive Directors				
Patrick Vink	48	45	-	93
Total	697	105	22	822

Directors' remuneration continued
For the year ended 31 December 2016

	Fees/Basic Salary £'000	Share-based payments £'000	Benefits £'000	Total £'000
Executive Directors				
Julian Gilbert	218	10	2	230
Christine Soden	204	1	-	205
Scott Byrd	225	1	16	242
Non-Executive Directors				
Patrick Vink	48	39	–	87
Total	695	51	18	764

6. Employees and Directors (continued)

For the year ended 31 December 2015

	Fees/Basic Salary £'000	Share-based payments £'000	Benefits £'000	Total £'000
Executive Directors				
Julian Gilbert	214	10	2	226
Christine Soden	116	1	-	117
Scott Byrd	75	1	3	79
Non-Executive Directors				
Ian Kent	40	1	–	41
Total	445	13	5	463

The benefits relate to the provision of private healthcare insurance

Directors' Share options held As at 31 December 2017	Scheme	Granted	Number Held	Exercise Price	Expiry date
Executive Directors					
Julian Gilbert	EMI	05–Nov–08	139,370	38p	04–Nov–18
Julian Gilbert	EMI	01–Oct–09	135,190	15p	30–Sep–19
Julian Gilbert	EMI	04–Jul–11	251,714	10p	03–Jul–21
Julian Gilbert	EMI	07–Mar–12	26,000	10p	06–Mar–22
Julian Gilbert	EMI	22–Oct–13	444,400	10p	21–Oct–23
Julian Gilbert	EMI	04-Apr-14	214,238	2p	03-Apr–23
Julian Gilbert	EMI	30-Dec-16	6,000	2p	30-Dec-26
Christine Soden	EMI	28-Aug-15	111,000	2p	20-Aug-25
Christine Soden	Unapproved	28-Aug-15	116,000	200p	20-Aug-25
Christine Soden	EMI	14-Dec-16	123,000	2p	13-Dec-26
Christine Soden	EMI	30-Dec-16	3,000	2p	30-Dec-26
Scott Byrd	Unapproved	28-Aug-15	111,000	2p	20-Aug-25
Scott Byrd	Unapproved	28-Aug-15	139,000	200p	20-Aug-25
Non-Executive Directors					
Patrick Vink	Unapproved	24-Feb-16	200,000	200p	23-Feb-26

No share options were exercised during the year. The vesting conditions for Directors' share options are included in Note 7.

As at 31 December 2016	Scheme	Granted	Number Held	Exercise Price	Expiry date
Executive Directors					
Julian Gilbert	EMI	05–Nov–08	139,370	38p	04–Nov–18
Julian Gilbert	EMI	01–Oct–09	135,190	15p	30–Sep–19
Julian Gilbert	EMI	04–Jul–11	251,714	10p	03–Jul–21
Julian Gilbert	EMI	07–Mar–12	26,000	10p	06–Mar–22
Julian Gilbert	EMI	22–Oct–13	444,400	10p	21–Oct–23
Julian Gilbert	EMI	04-Apr-14	214,238	2p	03-Apr–23
Julian Gilbert	EMI	30-Dec-2016	6,000	2p	30-Dec-26
Christine Soden	EMI	28-Aug-15	111,000	2p	20-Aug-25
Christine Soden	Unapproved	28-Aug-15	116,000	200p	20-Aug-25
Christine Soden	EMI	14-Dec-16	123,000	2p	13-Dec-26
Christine Soden	EMI	30-Dec-16	3,000	2p	30-Dec-26
Scott Byrd	Unapproved	28-Aug-15	111,000	2p	20-Aug-25
Scott Byrd	Unapproved	28-Aug-15	239,000	200p	20-Aug-25
Scott Byrd	Unapproved	30-Dec-16	3,000	2p	30-Dec-26
Non-Executive Directors					
Patrick Vink	Unapproved	24-Feb-16	200,000	200p	23-Feb-26

No share options were exercised during the year.

6. Employees and Directors (continued)

As at 31 December 2015	Scheme	Granted	Number Held	Exercise Price	Expiry date
Executive Directors					
Julian Gilbert	EMI	05–Nov–08	139,370	38p	04–Nov–18
Julian Gilbert	EMI	01–Oct–09	135,190	15p	30–Sep–19
Julian Gilbert	EMI	04–Jul–11	251,714	10p	03–Jul–21
Julian Gilbert	EMI	07–Mar–12	26,000	10p	06–Mar–22
Julian Gilbert	EMI	22–Oct–13	444,400	10p	21–Oct–23
Julian Gilbert	EMI	04-Apr-14	214,238	2p	03-Apr–23
Christine Soden	EMI	28-Aug-2015	111,000	2p	20-Aug-2025
Christine Soden	Unapproved	28-Aug-2015	239,000	200p	20-Aug-2025
Scott Byrd	Unapproved	28-Aug-2015	111,000	2p	20-Aug-2025
Scott Byrd	Unapproved	28-Aug-2015	239,000	200p	20-Aug-2025
Non-Executive Directors					
Ian Kent	Unapproved	01–Oct–09	32,032	15p	30–Sep–19
Ian Kent	Unapproved	04–Jul–11	28,000	10p	03–Jul–21
Ian Kent	Unapproved	07–Mar–12	3,000	10p	06–Mar–22
Ian Kent	Unapproved	22–Oct–13	31,965	10p	21–Oct–23
Ian Kent	Unapproved	04-Apr-14	115,000	2p	03-Apr–23

No share options were exercised during the year.

7. Share–based payments

Awards made under long–term incentive and other arrangements

Prior to the restructure of the Group, employees of subsidiary companies of the Company were awarded options, over ordinary shares in Acacia Pharma Limited. Following the restructure, such options were exchanged for equivalent options over ordinary shares in Acacia Pharma Group Limited. Options are awarded under the Acacia Pharma EMI Share Option Scheme (the EMI Scheme) and the Acacia Pharma Unapproved Share Option Scheme (the Unapproved Scheme). Subsequent grants of share options under the EMI and Unapproved Schemes have been made over shares in Acacia Pharma Group Limited

Options granted under the Unapproved Scheme and the EMI Scheme have a fixed exercise price based on the market value at the date of grant. The contractual life of the options is 10 years. Options cannot normally be exercised before the option holder has completed three years of service with the Group. All charges relating to share-based payments have been recorded in the entity employing the option holder. Options are valued using the Black–Scholes option pricing model. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. The range of assumptions in the calculation of share based payments used is as follows:

- The nature of all arrangements is the grant of share options and these have an expected option life at grant date of 10 years.
- Expected dividend yield in all cases is nil.
- All option exercises are expected to be equity settled.
- The expected volatility in all cases is 50% based upon the historical share price volatility of listed, comparable businesses over a period of time equal to the expected option life ending on the date of grant.
- The risk free rate applied to a given option ranges from 2.0% to 5.3% depending upon the grant date and is based upon the yield on zero–coupon UK government bonds of a term consistent with the expected option life.
- It has been assumed that the staff attrition rate will remain at nil throughout the period.

7. Share–based payments (continued)

The inputs into the Black-Scholes model are as follows:

	Year ended 31st December 2017	2016	2015
Weighted average share price	23p	14p	10p
Weighted average exercise price	42p	29p	36p
Expected volatility	50%	50%	50%
Expected life	10 years	10 years	10 years
Risk free rate (weighted average)	2.0%	2.0%	2.0%
Expected dividends	nil	nil	nil

Options over ordinary shares outstanding
As at 31 December 2017

Granted or cancelled	EMI	Unapproved	Exercise price (p)	Risk–free Rate	Fair value per Option (p)	Expected forfeiture
01-Jul - 08	200,000	–	19	5.3%	13	nil
05–Nov–08	210,144	–	38	4.6%	25	nil
01–Oct–09	373,339	32,032	15	3.5%	10	nil
04–Jul - 11	682,543	28,000	10	3.2%	6	nil
07–Mar–12	101,000	3,000	10	2.1%	6	nil
22- Oct- 13	931,685	31,965	10	2.6%	6	nil
04-Sep-14	496,315	115,000	2	2.5%	1	nil
28-Aug-15	116,900	161,000	2	2.0%	1	nil
28-Aug-15	-	305,000	200	2.0%	0	nil
24 Feb-16	-	200,000	200	2.0%	71	nil
21 Dec 16	123,000		2	2.0%	133	nil
30 Dec 16	12,690	1,500	2	2.0%	133	nil
31 Oct 17		100,000	200	2.0%	69	nil
	3,247,616					

As at 31 December 2016

Granted or cancelled	EMI	Unapproved	Exercise price (p)	Risk–free Rate	Fair value per Option (p)	Expected forfeiture
01-Jul - 08	200,000	–	19	5.3%	13	nil
05–Nov–08	210,144	–	38	4.6%	25	nil
01–Oct–09	373,339	32,032	15	3.5%	10	nil
04–Jul - 11	682,543	28,000	10	3.2%	6	nil
07–Mar–12	101,000	3,000	10	2.1%	6	nil
22- Oct- 13	931,685	31,965	10	2.6%	6	nil
04-Sep-14	496,315	115,000	2	2.5%	1	nil
28-Aug-15	116,900	161,000	2	2.0%	1	nil
28-Aug-15	-	405,000	200	2.0%	0	nil
24 Feb-16	-	200,000	200	2.0%	71	nil
21 Dec 16	123,000		2	2.0%	133	nil
30 Dec 16	12,690	4,500	2	2.0%	133	nil
	3,247,616	980,497				

7. Share–based payments (continued)

As at 31 December 2015

Granted or cancelled	EMI	Unapproved	Exercise price (p)	Risk–free Rate	Fair value per Option (p)	Expected forfeiture
01-Jul - 08	200,000	–	19	5.3%	13	nil
05–Nov–08	210,144	–	38	4.6%	25	nil
01–Oct–09	373,339	32,032	15	3.5%	10	nil
04–Jul - 11	682,543	28,000	10	3.2%	6	nil
07–Mar–12	101,000	3,000	10	2.1%	6	nil
22- Oct- 13	931,685	31,965	10	2.6%	6	nil
04-Sep-14	496,315	115,000	2	2.5%	1	nil
28-Aug-15	116,900	161,000	2	2.0%	1	nil
28-Aug-15	123,000	405,000	200	2.0%	0	nil
	3,234,926	775,997				

Of the options granted on 28 August 2015 (a) the 116,000 EMI options and 161,000 Unapproved options each at 2p per share vest and become exercisable on a sale or liquidation or IPO of the Company or 1/3rd of the number otherwise vest on each anniversary of the date of grant, and (b) the 123,000 EMI options at 200p (as replaced by the same number of options at 2p per share in December 2016) and 405,000 Unapproved options at 200p vest and become exercisable on a sale or liquidation of the Company or on the 3rd anniversary of the date of the original grant if earlier.

The 200,000 options granted on 24 February 2016 vest as to 5,556 per month from 24 March 2016. The 12,690 options granted on 30 December 2016 vest and become exercisable on a sale or liquidation or IPO of the Company or on the 3rd anniversary of the date of grant if earlier. The 100,000 options granted on 31 October 2017 vest and become exercisable on a sale or liquidation of the Company or on the 3rd anniversary of the date of grant if earlier. The weighted average exercise price for options outstanding at 31 December 2017 was 42p (2016: 38p 2015: 36p). A reconciliation of movements in all options outstanding over the years to 31 December 2017, 31 December 2016, and 31 December 2015, and an analysis of outstanding options is given below.

Based on the calculations described in this note, in the year ended 31 December 2017 £109,000 (2016: £23,000, 2015: £22,000) has been charged and included in the Statement of Comprehensive Income. A corresponding entry has been made in share based payment reserve (equity).

Reconciliation of outstanding options

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at 1 January	4,228,113	38p	4,010,923	36p	3,205,023	12p
Granted	100,000	200p	340,190	118p	805,900	127p
Forfeited / Lapsed	(103,000)	194p	(123,000)	200p	_	-
Exercised	–	–	–	–	-	-
Outstanding at 31 December	4,225,113	38p	4,228,113	38p	4,010,923	36p
Exercisable at 31 December	3,205,023	12p	2,593,708	14p	1,706,573	16p
Weighted average life remaining		5.3 years		6.1 years		6.9 years

8. Taxation

Analysis of taxation credit in the year

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial information represents the credit receivable by the Group for the period. The 2017 amounts have not yet been agreed with the relevant tax authorities.

	For the year ended 31 December		
	2017	2016	2015
	£'000	£'000	£'000
Analysis of credit in the year:			
United Kingdom corporation tax	349	2,793	2,166
Adjustment relating to prior period	-	-	56
	349	**2,793**	**2,222**

There is no current tax charge in the period as the Group has losses brought forward and is entitled to a cash tax credit in the United Kingdom for certain research and development expenditure. The repayable tax credit for each year is lower than the credit that would be repayable at the standard rate of corporation tax in the UK applicable of 19.25% (2016: 20%, 2015: 20.25%). The differences are explained in the following table:

Tax reconciliation

	For the year ended 31 December		
	2017	2016	2015
	£'000	£'000	£'000
Loss before income tax	(6,521)	(16,290)	(15,097)
Loss before income tax multiplied by the standard rate of corporation tax in the UK, 2017 19.25% (2016: 20%, 2015: 20.25%)	(1,255)	(3,258)	(3,057)
Adjustment relating to prior period	-	-	-
Tax effect of:			
Expenses not deductible for tax purposes	582	278	883
Additional deduction for R&D expenditure	(262)	(2,177)	(1,705)
Surrendered losses for R&D tax credit	201	1,673	858
Items for which no deferred tax asset was recognised	385	691	855
Prior year adjustments	-	-	(56)
Total tax credit	**(349)**	**(2,793)**	**(2,222)**

The standard rate of Corporation Tax in the United Kingdom changed from 21% to 20% with effect from 1 April 2015. Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

As at 31 December 2017, the unrecognised deferred tax assets relating to operating losses amounted to £2,940,000 (2016: £2,690,000, 2015: £1,998,000). These have not been recognised due to the uncertainty over the utilisation of the losses.

9. Losses per share

Basic and diluted losses per share is calculated by dividing the loss for the financial year/period by the weighted average number of Ordinary Shares in issue during the year. The losses and weighted average number of shares used in the calculations are set out below:

	For the year ended 31 December		
	2017	2016	2015
Losses per Ordinary Share			
Loss for the financial year (£000)	(6,172)	(13,497)	(12,874)
Weighted average number of Ordinary Shares (basic) (thousands)	2,665	2,665	2,665
Losses per Ordinary Share basic (pence)	**(232)p**	**(506)p**	**(483)p**

Share option and convertible instruments are anti-dilutive in each of 2017, 2016 and 2015 for the purposes of the losses per share calculation and their effect is therefore not considered.

For the avoidance of doubt, this calculation is based on ordinary shares only. Other classes of shares, along with preference shares have been excluded in this calculation.

10. Other receivables

	2017 £'000	2016 £'000	2015 £'000
Other receivables	150	535	331
Prepayments and accrued income	4	4	5
Total	**154**	**539**	**336**

11. Cash and cash equivalents

The Group retains all cash on instant access accounts in Sterling, Euros and US dollars.

	As at 31 December		
	2017 £'000	2016 £'000	2015 £'000
Sterling accounts	2,819	4,350	4,922
Euro accounts	3	110	520
Dollar accounts	248	2,424	20
	3,070	6,884	5,462

12. Share capital

Prior to 15 September 2015 Acacia Pharma Limited was the parent company of the group. On 15 September 2015 Acacia Pharma Group Limited acquired Acacia Pharma Limited through a share-for-share exchange with each holder of shares in Acacia Pharma Limited receiving the same number of Ordinary, S Ordinary, P, A Ordinary, B Preferred and C Preferred shares in the Company with the same rights and accumulated dividend rights as they held in shares in Acacia Pharma Limited.

12. Share capital (continued)

Issued shares	2017 Number	2016 Number	2015 Number
Ordinary shares of £0.02 each*	2,664,662	2,664,662	2,664,662
S Ordinary shares of £0.02 each*	3,910,732	3,910,732	3,910,732
P shares of £0.0001 each	8,611,065	8,611,065	8,611,065
D preferred shares of £0.02 each	1,125,000	1,125,000	-
Total equity shares	16,311,459	16,311,459	15,186,459
A ordinary shares of £0.02 each*	9,692,856	9,692,856	9,692,856
B preferred shares of £0.02 each*	15,078,061	15,078,061	15,078,061
C preferred shares of £0.02 each*	2,531,250	2,531,250	2,510,000
Total non-equity shares	27,280,917	27,302,167	27,280,917
Total equity and non-equity shares	43,613,626	43,613,626	42,467,376

Issued equity shares	£'000	£'000	£'000
Ordinary shares of £0.02 each*	53	53	53
S Ordinary shares of £0.02 each*	78	78	78
P shares of £0.0001 each	1	1	1
D preferred shares of £0.02*	23	23	-
Total equity shares	155	155	132
A ordinary shares of £0.02 each	194	194	194
B preferred shares of £0.02 each	302	302	302
C preferred shares of £0.02 each	50	50	50
Total non-equity shares	546	546	546
Total equity and non-equity shares	701	701	678

*As at 31 December 2014 and prior to 14 September 2015 shares of £0.0001 each in Acacia Pharma Limited

A ordinary shares, B preferred shares, and C preferred shares are compound financial instruments as described in note 13. The equity element of these compound financial instruments is included in other reserves. The liability component of the P shares is immaterial and therefore the P shares are classified as equity in their entirety.

12. Share capital (continued)
Reconciliation of movements in issued equity and non-equity share capital

	2017 Number	2016 Number	2015 Number
At the beginning of the year			
Ordinary shares of £0.02 each*	2,664,662	2,664,662	2,664,662
S Ordinary shares of £0.02 each*	3,910,732	3,910,732	3,910,732
P shares of £0.0001 each	8,611,065	8,611,065	7,119,357
A ordinary shares of £0.02 each*	9,692,856	9,692,856	9,692,856
B preferred shares of £0.02 each*	15,078,061	15,078,061	12,577,228
C preferred shares of £0.02 each*	2,531,250	2,510,000	-
D preferred shares of £0.02 each*	1,125,000	-	-
Total issued share capital at 1 January	43,613,626	42,467,376	35,964,835
Issue of P shares for cash	-	-	1,491,708
Issue of B preferred shares	-	-	2,500,833
Issue of C preferred shares	-	21,250	2,510,000
Issue of D preferred shares		1,125,000	-
At the end of the year	43,613,626	43,613,626	42,467,376

	£'000	£'000	£'000
At the beginning of the year			
Ordinary shares of £0.02 each*	53	53	53
S Ordinary shares of £0.02 each*	78	78	78
P shares of £0.0001 each	1	1	1
A ordinary shares of £0.02 each*	194	194	194
B preferred shares of £0.02 each*	302	302	251
C preferred shares of £0.02 each*	50	50	-
D preferred shares of £0.02 each*	23	-	-
Total issued share capital at 1 January	701	678	577
Issue of P shares for cash	-	-	-
Issue of B preferred shares	-	-	51
Issue of C preferred shares	-	-	50
Issue of D preferred shares	-	23	-
At the end of the year	701	701	678

*As at 31 December 2014 and prior to 14 September 2015 shares of £0.0001 each in Acacia Pharma Limited

All shares have a par value of £0.02 other than the P shares which have a par value of £0.0001 and carry equal voting rights (except where described as non-voting) but also carry a liquidation preference on a liquidation or exit as defined in the articles The rights attached to each class of share capital are as follows:

- The holders of A ordinary shares are entitled to a cumulative dividend at a rate of 8% per annum. If the dividend remains unpaid at the next dividend instalment date, subject to a cap of 50% of the subscription price, interest will accrue at 8% per annum on the outstanding balance. Holders of A ordinary shares receive priority payment over S ordinary shareholders and ordinary shareholders in the event of a return of capital or liquidation. Holders are entitled to convert their shares into ordinary shares of the Company at any time from the date of issue on a one-for-one basis. The fair values of the liability component and the equity conversion component were determined at issuance of the shares. The fair value of the liability component, included in liabilities, was calculated using a market interest rate for an equivalent non-compound financial instrument. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity.

12. Share capital (continued)

- The holders of B preferred shares are entitled to a cumulative dividend at a rate of 8% per annum. If the dividend remains unpaid at the next dividend instalment date, subject to a cap of 50% of the subscription price, interest will accrue at 8% per annum on the outstanding balance. Holders of B preferred shares receive priority payment over A ordinary shareholders, S ordinary shareholders and ordinary shareholders in the event of a return of capital or liquidation. Holders are entitled to convert their shares into ordinary shares of the Company at any time from the date of issue on a one-for-one basis. The fair values of the liability component and the equity conversion component were determined at issuance of the shares. The fair value of the liability component, included in creditors was calculated using a market interest rate for an equivalent non-compound financial instrument. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity.

- The holders of C preferred shares are entitled to a cumulative dividend at a rate of 8% per annum. If the dividend remains unpaid at the next dividend instalment date, subject to a cap of 50% of the subscription price, interest will accrue at 8% per annum on the outstanding balance. Holders of C preferred shares receive priority payment over B preferred shareholders, A ordinary shareholders, S ordinary shareholders and ordinary shareholders in the event of a return of capital or liquidation. Holders are entitled to convert their shares into ordinary shares of the Company at any time from the date of issue on a one-for-one basis. The fair values of the liability component and the equity conversion component were determined at issuance of the shares. The fair value of the liability component, included in creditors was calculated using a market interest rate for an equivalent non-compound financial instrument. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity.

- The holders of D preferred shares. Holders of D preferred shares receive priority payment over C and B preferred shareholders, A ordinary shareholders, S ordinary shareholders and ordinary shareholders in the event of a return of capital or liquidation and receive 1.5 times the amount subscribed in a liquidation on this priority basis. Holders are entitled to convert their shares into ordinary shares of the Company at any time from the date of issue on a 1.5-for-one basis.

- The P shareholders are entitled to a preferred dividend at the rate of one month sterling LIBOR calculated on a monthly basis on the nominal value of the shares. Holders of P shares receive priority payment amounting to the nominal value of the shares over C preferred shareholders, B preferred shareholders, A ordinary shareholders, S ordinary shareholders and ordinary shareholders in the event of a return of capital or liquidation.

- The S ordinary shares have a sale and liquidation preference over the ordinary shares. Holders are entitled to convert their shares into ordinary shares of the Company at any time on a one-for-one basis.

- After the preferred dividends, additional dividends are allocated evenly across all classes of share capital.

In the event of an IPO all S ordinary shares, A ordinary shares, B preferred shares, C preferred shares and D preferred shares automatically convert into ordinary shares immediately prior to listing on a one-for-one basis other than the D preferred shares which convert on 1.5 to 1 basis and the P shares convert into ordinary shares on the basis of the value of the amount subscribed. However, this arrangement can be adjusted in accordance with the articles of association.

Issue of shares

Acacia Pharma Limited

In February 2015, Acacia Pharma Limited issued 2,500,833 B preferred shares. The consideration for the B preferred shares was £2,500,833 and this was divided between the equity component of £2,199,342 recognised in share capital/premium, and the liability component of £301,491.

In July 2015 the group issued 2,500,000 C preferred shares for gross consideration of £10,400,000 all of which was recognised in equity,

12. Share capital (continued)

Issue of shares (continued)
In February 2015 Acacia Pharma Limited issued 696,000 P shares of £0.0001 each; the consideration was £104. The liability portion calculated at inception was immaterial. In February 2015, Acacia Pharma Limited issued 2,500,833 B preferred shares. The consideration for the B preferred shares was £2,501,000 and this was divided between an equity component and a liability component. In July 2015 Acacia Pharma Limited issued 795,708 P shares of £0.0001 each, the consideration was £119. The liability portion calculated at inception was immaterial.

Between July and September 2015, Acacia Pharma Limited issued 2,510,000 C preferred shares. The consideration for the C preferred shares was £10,040,000 all of which was allocated to equity. The total consideration received in 2015 was £12,541,000.

<u>Acacia Pharma Group Limited</u>

Acacia Pharma Group Limited was incorporated with 1 issued Ordinary Share with a nominal value of £2.50. This share was subsequently divided into 5 shares of nominal value 50p each, a further share of 50p was issued and the 6 issued shares subsequently consolidated into 1 share with nominal value £3.

On 14 September 2015, in consideration for the acquisition of Acacia Pharma Limited, the Acacia Pharma Group Limited issued 2,664,661 Ordinary shares, 3,910,732 S Ordinary shares, 9,692,856 A Ordinary shares, 15,078,061 B Preferred shares, 2,510,000 C Preferred shares (all with nominal value £3 each) plus 8,611,065 P shares of nominal value £0.0001 each to the holders of equivalent shares in Acacia Pharma Limited.

On 23 February 2016 the Group issued 21,250 C preferred shares for a consideration of £85,000. On 21 December 2016 the Group issued 1,125,000 D preferred shares for a gross consideration of £4,500,000 with expenses of £49,500. The total consideration received in 2016 was £4,585,000.

In addition share options over 4,228,113 ordinary shares in the Group have been awarded as described in Note 7. On 23 February 2016 the Group issued warrants to acquire 127,500 C Preferred Shares in the Company as part of the bank loan arrangements. The warrants can be exercised at £4 per share within 10 years from issue.

13. Liability component of convertible shares

	2017	2016	2015
	£’000	£’000	£’000
Liability element of the A ordinary shares	3,590	3,590	3,532
Liability element of the B preferred shares	5,335	4,016	3,242
Liability element of the C preferred shares	2,215	1,528	1,044
Total	11,140	9,134	7,818

The liability element of the A ordinary shares and B and C preferred shares includes the accrued interest as below:

	2017	2016	2015
Accrued interest on the A ordinary shares	3,590	3,532	3,532
Accrued interest on the B preferred shares	5,201	3,700	2,067
Accrued interest on the C preferred shares	2,112	1,201	366

The rights associated with the various classes of share capital are disclosed in note 12.

14. Trade and other payables

	2017 £'000	2016 £'000	2015 £'000
Trade payables	647	653	313
Other tax and social security	33	30	-
Accruals and other creditors	320	4,455	2,609
Total	1,000	5,138	2,942

15. Term Loans and Convertible Loan Notes

	2017 £'000	2016 £'000	2015 £'000
Term bank loan, amounts repayable within 12 months	5,185	2,709	-
Convertible loan note	4,031	-	-
	9,216	2,709	-
Term bank loan, amounts repayable after 12 months	-	4,972	-
Finance charges expensed in the year	1,504	541	-

On 23 February 2016 the Company together with its subsidiaries, Acacia Pharma Group Limited and Acacia Pharma Inc., entered into an £8.5 million term loan facility with Silicon Valley Bank, secured by fixed and floating charges over all of the assets of the Acacia Group. The loan bears interest at the higher of 5.5% over the Bank of England's base rate and 6%, is repayable in 34 tranches of £250,000 from 1 September 2016, carries a 1% arrangement fee and 8% terminal payment.

On 21 November 2017 the Company entered into an unsecured convertible loan note ("CLN") facility with its major shareholders, Gilde Healthcare II Sub-Holding B.V., Lundbeckfond Ventures, Novo Ventures A/S and F-Prime Capital Partners. The total borrowed under the CLN was £3.4 million. The CLN bears interest at 8% and the principal and interest will convert into shares in the capital of the company as part of any future private funding round or upon the listing of the Company's shares on a recognised stock exchange, when for every £1 of principal and accrued interest will be converted at an equivalent value of £1.50 calculated by reference to the applicable Listing Price.

16. Reconciliation of movement in liabilities from financing activities

	Term Loan £'000	Convertible Loan Note £'000	Compound instruments £'000	Total £'000
As at 1 January 2017	7,680	-	9,134	16,814
Cashflows	(3,368)	3,400	-	32
Non-cash items- finance expense	873	631	2,006	3,510
As at 31 December 2017	5,185	4,031	11,140	20,356
As at 1 January 2016	-	-	7,818	7,818
Cashflows	7,141	-	-	7,141
Non-cash items- finance expense	539	-	1,316	1,855
As at 31 December 2016	7,680	-	9,134	16,814

16. Reconciliation of movement in liabilities from financing activities

	Term Loan £'000	Convertible Loan Note £'000	Compound instruments £'000	Total £'000
As at 1 January 2015	-	-	4,861	4,861
Cashflows	-	-	309	309
Non-cash items- finance expense	-	-	2,648	2,648
As at 31 December 2015	-	-	7,818	7,818

17. Cash used in operations

	As at 31 December 2017 £'000	2016 £'000	2015 £'000
Loss before income tax	(6,521)	(16,290)	(15,097)
Adjustments for:			
Share-based payments	109	23	22
Foreign exchange gain/loss	115	55	-
Finance expense	3,510	1,855	2,648
Finance income	(2)	(7)	(19)
Changes in working capital			
- Increase in other receivables	385	(187)	(95)
- (Decrease)/increase in trade and other payables	(4,138)	2,183	1,702
Cash used in operations	(6,542)	(12,368)	(10,839)

Significant non-cash movements

The finance expense includes £2,006,000 (2016: £2,740,000, 2015: £1,783,000) in respect of A ordinary, B preference shares and C preference shares in respect of a charge for the fixed dividends which have been accrued for in this historical financial information and £631,000 (2016 and 2015 Nil) in respect of the finance charges on the Convertible Loan Notes. No amounts have been paid in respect of these finance expenses.

18. Pensions

The Group contributes to a money purchase pension scheme for employees (including Directors). The assets of the scheme are held separately from those of the Group in an independently administered fund.

	For the year ended 31 December 2017 £'000	2016 £'000	2015 £'000
Amount paid during the year	77	78	59
Amount outstanding at the year end	–	–	–

19. Operating lease commitments

Lease payments represent amounts payable by the Group for its office property. The future aggregate minimum lease payments under non–cancellable operating leases at the balance sheet date were as follows:

Leases expiring after:

	For the year ended 31 December		
	2017	2016	2015
	£'000	£'000	£'000
One year or less	13	7	8
Total	13	7	8

20. Financial risk management

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the Historical financial information. The significant accounting policies regarding financial instruments are disclosed in note 1.

Principal financial instruments
The principal financial instruments used by the Group, from which financial risk arises, are as follows:

	As at 31 December		
	2017	2016	2015
	£'000	£'000	£'000
Other receivables (excluding prepayments)	150	539	331
Cash and cash equivalents	3,070	6,884	5,462
Trade and other payables	(1,000)	(5,138)	(2,942)
Liability component of convertible shares	(11,140)	(9,134)	(7,818)
Term loans	(5,185)	(7,681)	-
Convertible loan notes	(4,031)	-	-
Total	(18,136)	(14,530)	(4,965)

The Directors believe there is no material difference between the fair value and book value of these assets and liabilities.

General objectives, policies and processes

The Group's activities expose it to a variety of financial risks including market risk (including currency risk), credit risk, liquidity risk and interest rate cash flow risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

The overall objective of the Board is to set policies that seek to reduce ongoing risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

20. Financial risk management continued

Credit risk

	As at 31 December		
	2017	2016	2015
	£'000	£'000	£'000
Other receivables (excluding prepayments)	150	539	331
Cash and cash equivalents	3,070	6,884	5,462
Total	3,220	7,423	5,793

Credit risk arises primarily from cash and cash equivalents and deposits with banks and financial institutions, as the Group has not yet generated any revenue and so has no trade receivables. Credit risk is managed by ensuring all cash and cash equivalents are deposited with established UK banking institutions of high repute and at least an A credit rating.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the amount of funding required for the drug development programme. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The principal liabilities of the Group are the term loans, the convertible loan notes and trade and other payables in respect of the development programme and provision of research services including purchase of laboratory supplies, consumables and related scientific services, as well as sales and marketing costs and administrative costs associated with the Group's business. Trade and other payables are all payable within one month. The Board receives cash flow projections on a regular basis as well as information on cash balances.

Interest rate cash flow risk
The Group is exposed to interest rate cash flow risk in respect of surplus funds held on deposit. The directors do not consider this risk to be significant.

The Group is not exposed to interest rate cash flow in respect of the financial instrument liabilities nor the term loan as the interest rate is fixed and the maximum amount that can be accrued is capped.

Currency risk
The Group to date has conducted substantially all its business in pounds sterling and has not been exposed to material currency risk, other than with respect to the cash balances held in Euros and US dollars.

Capital risk management
The Group's objectives, when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure. Total capital, which is the Group's primary source of funding, is calculated as "Total equity" as shown in the Statement of Financial Position. In order to maintain or adjust the capital structure, the Group may issue new shares or in future adjust the amount of dividends paid to shareholders or return capital to shareholders.

The Group had no undrawn committed borrowing facilities available during any of the 2017, 2016 or 2015.

21. Related party disclosures

The Group's Chief Medical Officer, Gabriel Fox's spouse is a director of Comedica Ltd, which during year to 31 December 2017 provided consulting services to the Group. The cost of these services was £30,000 (2016: £52,000, 2015: £46,000). £1,000 was outstanding at the year end (2016: £3,000, 2015: £3,000).

A non-executive director of the Group Scott Byrd is an employee of SAB Strategic Advisors LLC, which during 2015 provided consulting services to the Group. The cost of these services was for the year ended 31 December 2017 was £nil (2016: Nil, 2015: £168,000, all of which was paid in the year).

22. Post balance sheet events

At the date of signing these financial statements there have been no events subsequent to 31 December 2017 that would impact the financial statements.

23. Ultimate controlling party

The Group has a number of different shareholders and the directors consider that the Group does not have a single controlling party.

Company Financial statements
Independent auditors' report to the members of Acacia Pharma Group Limited

Report on the audit of the company financial statements

Opinion

In our opinion, Acacia Pharma Group Limited's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 and Consolidated Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017 and the statement 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty relating to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company is seeking new funding through an initial public offering of shares in the Company. In the event that the initial public offering does not proceed, this will require the Company to raise additional funding from either existing or new investors. This condition, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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.

Independent auditors' report to the members of Acacia Pharma Group Limited (continued)

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2017 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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 set out on page 4, 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 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 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.

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 received 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the group financial statements of Acacia Pharma Group Limited for the year ended 31 December 2017. That report includes an emphasis of matter.

Simon Ormiston (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
26 January 2018

Company Financial Statements for the year ended 31 December 2017

Statement of Financial Position

	Note	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Assets			
Fixed assets			
Investment in subsidiary company	6	107,338	107,275
Total Fixed Assets		**107,338**	**107,275**
Current Assets			
Other receivables	7	7,910	4,510
Total Current Assets		**7,910**	**4,510**
Total Assets		**115,248**	**111,785**
Equity and Liabilities			
Equity attributable to equity holders			
Share capital	8	701	701
Share premium	8	4,513	4,513
Share based payment reserve		252	144
Profit and loss		92,581	95,654
Total Equity		**98,047**	**101,012**
Liabilities			
Current liabilities			
Trade and other payables	9	2,030	1,639
Liability component of convertible shares	10	11,140	9,134
Convertible loan notes	10	4,031	-
		17,201	**10,773**
Total Liabilities		**17,201**	**10,773**
Total Equity and Liabilities		**115,248**	**111,785**

The loss of the Company attributable to the equity shareholders for the year was £3.1 million (16 month period ended 31 December 2016: £5.2 million)

As permitted by Section 408 of the Companies Act 2006 no profit and loss account is presented for Acacia Pharma Group Limited.

The notes on pages 41 to 46 form an integral part of these Financial Statements.
The Financial Statements on pages 39 to 46 were approved by the Board of Directors on 26 January 2018 and were signed on its behalf by:

Christine Soden
Director

Company Financial Statements
Statement of Changes in Equity

For the year ended 31 December 2017

	Called up Share Capital £'000	Share Premium £'000	Share based payment reserve £'000	Profit and Loss account £'000	Total Equity £'000
Year ended 31 December 2017					
Balance at 1 January 2017	701	4,512	144	95,654	101,011
Comprehensive expense					
Total comprehensive expense for the period	–	–	-	(3,073)	(3,073)
Transactions with Owners					
Share based payments	–	-	108	-	108
Balance at 31 December 2017	701	4,512	252	92,581	98,046

	Called up Share Capital £'000	Share Premium £'000	Share based payment reserve £'000	Profit and Loss account £'000	Total Equity £'000
16 month period ended 31 December 2016					
Comprehensive expense					
Total comprehensive expense for the period	–	–	-	(5,238)	(5,238)
Transactions with Owners					
Share based payments	-	-	144	-	144
Issue of shares in share for shares exchange with Acacia Pharma Limited	101,570	-	-	-	101,570
Capital reduction	(100,892)	-	-	100,892	-
Issue of C preferred shares	–	85	-	-	85
Issue of D preferred shares	23	4,427	-		4,450
Balance at 31 December 2016	701	4,512	144	95,654	101,011

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

General information

Acacia Pharma Group Limited is a limited company incorporated and domiciled in England and Wales with registered number 09759376. The Company's registered office is Harston Mill, Harston, Cambridge, CB22 7GG. The Company was incorporated as Cityviva Limited on 2 September 2015 and changed its name to Acacia Pharma Group plc on 14 September 2015. On 19 December 2016 the Company reregistered as a private company as Acacia Pharma Group Limited.

The principal activity of the Company is that of a holding company of a group which through its subsidiaries discovers develops and commercialises anti-emetic pharmaceutical product opportunities. The Company's Financial Statements presented are as at and for the year to 31 December 2017.

Basis of preparation

The Financial Statements have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting standard applicable in the United Kingdom and Republic of Ireland" ("FRS102") and Companies Act 2006. These Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments that have been measured at fair value. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 from disclosing its individual profit and loss account.

In a share-for-share exchange, where the Company acquired greater than 90% of each class of share in Acacia Pharma Limited, the Company applied merger relief in accordance with s612 of the Companies Act 2006. As a result, the Company did not record any share premium. Under s615 of the Companies Act 2006, the Company recorded its investment in Acacia Pharma Limited at an amount equal to the nominal value of shares issued plus the value of the liability component of the convertible shares acquired.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company shareholders.

The Company has taken advantage of the following exemptions:

- from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company cash flows;
- from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A as the information is provided in the consolidated financial statements disclosures;
- from disclosing share based payment arrangements, required under FRS 102 paragraphs 26.18(c), 26.19 to 26.21 and 26.23, concerning its own equity instruments. The Company financial statements are presented with the consolidated financial statements and the relevant disclosures are included therein;
- from disclosing transactions with other wholly owned Group companies as stated in paragrapgh 33.1A of FRS102: Related party disclosures.

Financial instruments

Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities (including trade and other payables) are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, to the net carrying amount on initial recognition.

Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible shares that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The Group's A Ordinary shares and B Preferred shares and C Preferred shares are classified as compound financial instruments.

1. Summary of significant accounting policies (continued)

Compound Financial Instruments (continued)

The liability component of the compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequently to initial recognition except on conversion or expiry.

Where the terms of financial instruments are amended such that there is a substantial change in expected future cash flows, the financial instrument is treated as extinguished and re-issued giving rise to a gain or loss on extinguishment. The gain or loss on extinguishment is calculated as the difference between the fair value of the instrument immediately prior to the extinguishment and the fair value of the replaced instrument. The gain or loss is allocated to equity in the year of extinguishment.

Term Loans and Convertible Loan Notes
The Company has entered into a term loan and issued convertible loan notes. These are measured at amortised cost using the effective interest rate method.

Going concern
The Company is involved in research and development activities and, until it is able to convert this activity into a significant revenue stream, either through the licensing or sale of the Group's assets, or sales of the Group's products, it will be reliant upon funding from external sources for financial support. The Company incurred a loss of £3.1 million in the year to 31 December 2017(2016: £1.3 million).

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet their liabilities as they fall due for the foreseeable future.

The directors believe that, based on their current forecasts and plans for raising new funding, primarily through an Initial Public Offering ('IPO') of shares in the Company on Euronext, as well as from potential commercial arrangements or the raising of other debt or equity financing, the Company will have sufficient funds to meet its cash requirements for the foreseeable future. In the event that the planned IPO does not proceed, the directors believe they will be able to secure sufficient additional funding to meet the Company's cash requirements for at least the next 12 months from additional equity offerings to existing shareholders. However, there is no guarantee that attempts to raise additional financing will be successful.

Whilst there is a material uncertainty in relation to the outcome of the matters described above which, if not resolved, may give rise to significant doubts to the going concern basis, the directors have fully considered the relevant issues and are confident that it is appropriate to prepare these financial statements on the going concern basis under the historical cost convention and the accounting policies set out below and in accordance with Companies Act 2006 and applicable International Financial Reporting Standards as adopted by the EU. These financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Investment in Subsidiary Company
The investment in subsidiary company is held at cost (being the nominal value of the shares issued, plus the value of the liability component) less accumulated impairment losses.

Intercompany
Intercompany balances are shown gross unless a right of set off exists. Balances are valued at fair value at inception and are repayable on demand.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income within administrative expenses.

1. Summary of significant accounting policies (continued)

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Company's Ordinary, S ordinary, D preferred and P share classes of share capital are classified as equity.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Share–based payments
Employees (including Directors) receive remuneration in the form of equity–settled share–based payments, whereby employees render services in exchange for shares or for rights over shares (e.g. share options). The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense. The total amount to be expensed on a straight line basis over the vesting period is determined by reference to the fair value of the options or shares granted: excluding the impact of any non–market performance vesting conditions (for example, continuation of employment and performance targets).

The share options are valued using a Black Scholes option pricing model. Non–market based vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each Balance Sheet date to allow for forecast leaving employees and the difference is charged or credited to the Statement of Comprehensive Income, with a corresponding adjustment to reserves.

Capital contributions
In accordance with FRS 102 section 26: Share-based payment, as the Company has granted rights over its equity instruments to the employees of Acacia Pharma Limited, there is a corresponding increase recognised in the investment in the subsidiary.

Current and deferred income tax
Income tax on the result for the period comprises current and deferred tax. Income tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Bank Term Loans
In February 2016 the Company, together with its subsidiary companies Acacia Pharma Limited and Acacia Phama Inc. entered into an £8,500,000 loan arrangement with Silicon Valley Bank, secured upon all of the assets of the Acacia Group. The loan was drawn in three tranches being £3,000,000 on closing, £2,500,000 on 31 March 2016 and £3,000,000 on 31 August 2016. Since all the loan proceeds have been received by Acacia Pharma Limited, held in its bank accounts and used in support of that entity's operations, the Directors have accounted for the loan liabilities and costs with in Acacia Pharma Limited's financial statements.

Critical Accounting Estimates and Judgements
The preparation of the Financial Statements in conformity with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements related to convertible instruments are as follows:

Critical Accounting Estimates and Judgements (continued)

Compound Financial Instruments
The Company has in issue three compound financial instruments, the A Ordinary, B Preferred and C Preferred Shares. The A Ordinary Shares, B Preferred Shares and C Preferred Shares each accrue dividends at a rate of 8% compounded annually to a ceiling of 50% of the amount subscribed in the instrument. The accrued dividends on the A shares reached that 50% ceiling in 2016. The liability component of each compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Thus the Group is required to estimate the fair value at inception of the liability portion of compound financial instruments. It does this by estimating the net present value of the expected future cash flows. Because the term of each of the instruments is not contractually specified, it is necessary to estimate the term. This element is a judgmental element of the fair value calculation, as it determines the cash flows used in the net present value calculation. The directors have made judgements in relation to the expected term of these instruments, taking into account the Group's future strategy and anticipated capital raising activities

In addition, the determination of an appropriate discount rate to be applied to the expected cash flows for each of the instruments is a significant estimate. The directors have estimated that rate to be 15%. If different estimates of future cash flows and / or different discount rates were applied, then the allocation to the debt component and the associated finance charge would differ from the amounts recorded. The sensitivity of the liability component as at 31 December 2017 to changes in the discount rate and term assumptions are:

	Assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	15%	20%	10%
Term	6 March 2018	6 March 2018	6 March 2018
Net present value	11,140	11,081	11,201

Discount rate	15%	15%	15%
Term	6 March 2018	6 April 2018	6 February 2018
Cashflow at exit	11,547	11,547	11,125
Net present value	11,140	11,346	10,881

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the liability component the same method (present value calculated with the discounted cash flow method) has been applied as when calculating the liability component recognised within the statement of financial position.

Convertible Loan Notes
The Company issued Convertible Loan Notes in November 2017. The Convertible Loan Notes bear interest at 8% pa and can convert into ordinary shares valued at 150% of the face value of the notes upon an IPO, sale or liquidation or into ordinary shares valued at 100% of the face value in certain private fundraising rounds. The Notes are accounted for as a liability since they convert into a variable number of ordinary shares. The Directors have made judgements around the likelihood of the IPO driving the 150% uplift in value (assumed to be highly probable) and the likely timing of the IPO (assumed to be 6 March 2018) each of which is a significant estimate. The sensitivity of the liability as at 31 December 2017 to changes in term assumptions are

	Assumption	**Increase in assumption**	**Decrease in assumption**
	£'000	£'000	£'000
Term	6 March 2018	6 April 2018	6 February 2018
Liability at 31 December 2017	4,031	3,895	4,285
Liability at term	5,222	5,226	5,187

2. Auditors' Remuneration

The audit fee of Acacia Pharma Group Limited amounted to £5,000 (2016: £1,000).

3. Share Options and Share–based payments

For details of share-based payments please refer to note 7 to the consolidated financial statements on page 22.

4. Employee numbers
Average monthly number of persons (including Executive Directors) employed:

	Year ended 31 December 2017 Number	Period ended 31 December 2016 Number
Administration	4	4
	4	4

The Chairman received remuneration of £48,000 in the period and was the only employee or director receiving any remuneration from the Company in the period**.** Julian Gilbert and Christine Soden received remuneration for their services to Acacia Pharma Limited and their remuneration is reflected in the financial statements of that entity. No directors exercised any share options during the period.

5. Directors and Key management personnel
For details of directors' and key management personnel emoluments, please refer to note 6 to the consolidated financial statements on page 19.

6. Investments

Investment in Acacia Pharma Limited

	31 December 2017 £'000	31 December 2016 £'000
At beginning of year	107,275	107,275
Capital contribution	63	-
At end of year	107,338	107,275

Name of undertaking	Registered Office	Proportion ownership interest (%)	Principal activity
Acacia Pharma, Limited	Harston Mill, Harston, Cambridge CB22 7GG	100%	Development and commercialisation of pharmaceuticals
Acacia Pharma, Inc		100%	Sale and marketing of pharmaceuticals

On 14 September 2015 the Company acquired the whole of the issued share capital of Acacia Pharma Limited for a consideration of £107,241,000, settled by way of a share-for-share exchange and the adoption of the liability component of the convertible shares. Acacia Pharma Limited made losses of £3,048,000 (£12,107,000 for the year ended 31 December 2016 and £8,934,000 for the year ended 31 December 2015.
No provision for impairment has been made given the continued progress in developing the product pipeline made by Acacia Pharma Limited in the period and assessments of the expected value of the underlying products. During the period share-based payment charges of £63,000 arose in respect of the share options granted over shares in the Company to employees of Acacia Pharma Limited.

7. Other receivables

	31 December 2017 £'000	31 December 2016 £'000
Owed by Acacia Pharma Limited	7,910	4,510
At end of year	7,910	4,510

8. Share capital

Details of the Company's share capital and outstanding share options are shown in note 12 of the consolidated financial statements on page 26.

9. Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Owed by group undertakings	2,001	1,639
Accruals	29	-
Total	2,030	1,639

10. Financial instruments

Details of the Company's financial instruments are shown in note 20 of the consolidated financial statements on page 33.

11. Ultimate controlling party

Acacia Pharma Group Limited has a number of different shareholders and the directors consider that Acacia Pharma Group Limited does not have a single controlling party.

12. Related party transactions

The Company has elected to take the exemption available in FRS 102 to not disclose transactions with wholly-owned subsidiaries.