

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015
FOR
AEROCRINE LIMITED**



AEROCRINE LIMITED

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for the Year Ended 31 December 2015**

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AEROCRINE LIMITED

COMPANY INFORMATION
for the Year Ended 31 December 2015

DIRECTORS:

S C A Harris
M Frankel
J F Cotta

SECRETARY:

M Frankel

REGISTERED OFFICE:

Magdalen Centre
Robert Robinson Avenue
Oxford
Oxfordshire
OX4 4GA

REGISTERED NUMBER:

04834316 (England and Wales)

AUDITORS:

Pricewaterhouse Coopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

AEROCRINE LIMITED

REPORT OF THE DIRECTORS for the Year Ended 31 December 2015

The directors present their report with the financial statements of the company for the year ended 31 December 2015.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2015 (2014: Nil).

DIRECTORS

The directors who have held office during the period from 1 January 2015 to the date of this report are as follows:

S D Myers - resigned 31 August 2015

S C A Harris - appointed 30 September 2015

M Frankel - appointed 30 September 2015

J F Cotta - appointed 30 September 2015

PRINCIPAL ACTIVITY

Aerocrine Limited ("the Company") is a private limited company incorporated and domiciled in England. The Company's principal activity during the year was the sale of pharmaceutical related products.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The performance of the Company is set out on pages 6 and 7 of the financial statements. The directors continue to investigate future commercial opportunities to generate revenue from the Company's products.

STRATEGIC REPORT

The Company has elected to take the exemption under Part 15 of the Companies Act 2006 in preparing a Strategic Report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

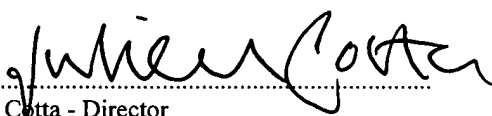
AEROCRINE LIMITED

**REPORT OF THE DIRECTORS
for the Year Ended 31 December 2015**

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

ON BEHALF OF THE BOARD:


.....
J F Cotta - Director

Date: 30 Sept 2016

Independent auditors' report to the members of Aerocrine Limited

Report on the financial statements

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for our qualified opinion paragraph below, Aerocrine Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for our qualified opinion

We have been unable to perform any procedures over the calculation of the share based payment charge of £36,392 in the year ended 31 December 2015 because the records supporting the financial information were not maintained. Consequently, we were unable to determine whether an adjustment to this amount was necessary.

What we have audited

The financial statements, included within the Report to the Directors and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Income Statement and Statement of Other Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

In respect solely of the limitation on our work relating to the share option charge, described in the Basis for our qualified opinion paragraph above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept.

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

- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

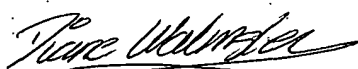
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Diane Walmsley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 September 2016

AEROCRINE LIMITED**INCOME STATEMENT****for the Year Ended 31 December 2015**

	Notes	31.12.15 £	31.12.14 £
TURNOVER		292,092	529,229
Administrative expenses		<u>(272,513)</u>	<u>(504,027)</u>
OPERATING PROFIT and PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	19,579	25,202
Tax on profit on ordinary activities	4	<u>(82)</u>	<u>(13,226)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>19,497</u>	<u>11,976</u>

The notes form part of these financial statements

AEROCRINE LIMITED

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the Year Ended 31 December 2015

	Notes	31.12.15 £	31.12.14 £
PROFIT FOR THE YEAR		19,497	11,976
OTHER COMPREHENSIVE INCOME		—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>19,497</u>	<u>11,976</u>


The notes form part of these financial statements

AEROCRINE LIMITED (REGISTERED NUMBER: 04834316)

**BALANCE SHEET
31 December 2015**

	Notes	31.12.15 £	31.12.14 £
CURRENT ASSETS			
Debtors	5	194,173	215,000
CREDITORS			
Amounts falling due within one year	6	<u>(6,723)</u>	<u>(83,439)</u>
NET CURRENT ASSETS		<u>187,450</u>	<u>131,561</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>187,450</u>	<u>131,561</u>
CAPITAL AND RESERVES			
Called up share capital	7	1	1
Other reserves	8	-	45,281
Retained earnings	8	<u>187,449</u>	<u>86,279</u>
SHAREHOLDERS' FUNDS		<u>187,450</u>	<u>131,561</u>

The financial statements were approved by the Board of Directors on 30 Sept 2016 and were signed on its behalf by:


.....
J F Cotta - Director
Company registration number: 04834316

The notes form part of these financial statements

AEROCRINE LIMITED**STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2015**

	Called up share capital £	Retained earnings £	Other reserves £	Total equity £
Balance at 1 January 2014	1	74,303	11,128	85,432
Changes in equity				
Total comprehensive income	-	11,976	-	11,976
Share option charge	-	-	34,153	34,153
Balance at 31 December 2014	<u>1</u>	<u>86,279</u>	<u>45,281</u>	<u>131,561</u>
Changes in equity				
Total comprehensive income	-	19,497	-	19,497
Share option charge	-	-	36,392	36,392
Release on share option forfeiture	-	81,673	(81,673)	-
Balance at 31 December 2015	<u>1</u>	<u>187,449</u>	<u>-</u>	<u>187,450</u>

The notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 December 2015**

1. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemption in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows.

Related party exemption

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

Turnover

Turnover is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Pension costs and other post-retirement benefits

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to profit or loss in the period to which they relate.

AEROCRINE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued for the Year Ended 31 December 2015

1. ACCOUNTING POLICIES - continued

Share based payments

The parent company (Aerocrine AB) before the acquisition by Circassia Pharmaceuticals Plc, operated a number of equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of the parent. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the estimates of the number of options that are expected to vest based on the non-market vesting conditions are revised. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The grant by the parent company of options over its own equity instruments to the employees of the Company is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense through the income statement.

The fair value of share options is measured using either the Black Scholes option pricing model or the Monte Carlo Simulation. This is dependent on the conditions attached to each of the issued options. Where conditions are non-market based the Black Scholes option pricing model is used, however where market based conditions are attached to options, the fair value is determined using the Monte Carlo Simulation.

2. STAFF COSTS

	31.12.15	31.12.14
	£	£
Wages and salaries	119,793	254,076
Social security costs	19,814	34,580
Other pension costs	15,863	19,466
Share options expense	<u>36,392</u>	<u>34,153</u>
	<u>191,862</u>	<u>342,275</u>

The average monthly number of employees during the year was as follows:

	31.12.15	31.12.14
Administration and sales	<u>1</u>	<u>2</u>

3. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	31.12.15	31.12.14
	£	£
Auditors' remuneration	5,100	5,100
Foreign exchange differences	<u>(230)</u>	<u>-</u>

AEROCRINE LIMITED
NOTES TO THE FINANCIAL STATEMENTS - continued
for the Year Ended 31 December 2015
3. OPERATING PROFIT - continued

Directors' remuneration -

None of the directors received any remuneration for their services as Directors of the Company during the year

4. TAXATION
Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows:

	31.12.15 £	31.12.14 £
Current tax:		
UK corporation tax	-	13,226
Under provision for prior year	<u>82</u>	<u>-</u>
Tax on profit on ordinary activities	<u>82</u>	<u>13,226</u>

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is lower (2014: higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	31.12.15 £	31.12.14 £
Profit on ordinary activities before tax	<u>19,579</u>	<u>25,202</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2014 - 21.500%)	3,916	5,418
Effects of:		
Expenses not deductible for tax purposes	892	1,161
Group relief claimed	(3,246)	-
Impact of share options	(1,562)	7,343
Impact of marginal relief and tax rate change	-	(696)
Tax underprovision in respect of prior year	<u>82</u>	<u>-</u>
Total tax charge	<u>82</u>	<u>13,226</u>

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.15 £	31.12.14 £
Due from group undertakings	191,433	207,451
VAT	2,740	2,609
Prepayments and accrued income	<u>-</u>	<u>4,940</u>
	<u>194,173</u>	<u>215,000</u>

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.15 £	31.12.14 £
Trade creditors	423	-
Other creditors including taxation and social security	-	19,549
Accruals and deferred income	<u>6,300</u>	<u>63,890</u>
	<u>6,723</u>	<u>83,439</u>

AEROCRINE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued for the Year Ended 31 December 2015

7. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		Nominal value:	31.12.15	31.12.14
Number:	Class:		£	£
1	Ordinary Shares	£1	<u>1</u>	<u>1</u>

8. RESERVES

	Retained earnings £	Other reserves £	Totals £
At 1 January 2015	86,279	45,281	131,560
Profit for the year	19,497		19,497
Share option charge	-	36,392	36,392
Release on share option forfeiture	<u>81,673</u>	<u>(81,673)</u>	<u>-</u>
At 31 December 2015	<u>187,449</u>	<u>-</u>	<u>187,449</u>

9. PENSION COMMITMENTS

The company operates a defined contribution pension scheme. The total contributions for the year ended 31 December 2015 were £15,863 (2014: £19,466) and there was an outstanding balance of £nil at the balance sheet date (2014: £nil).

10. ULTIMATE PARENT COMPANY

The immediate parent of the Company is Aerocrine AB, a Company incorporated in Sweden, by virtue of its 100% shareholding.

The ultimate parent company is Circassia Pharmaceuticals Plc, registered number 05827706, a company incorporated in England and Wales and listed on the London Stock Exchange by virtue of its 100% shareholding in Aerocrine AB.

Consolidated financial statements can be obtained from Circassia Plc, The Magdalen Centre, Robert Robinson Avenue, Oxford Science Park, Oxfordshire, England, OX4 4GA.

11. ULTIMATE CONTROLLING PARTY

The directors are of the opinion that there is no ultimate controlling party.

AEROCRINE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued for the Year Ended 31 December 2015

12. SHARE OPTIONS

The immediate parent company, Aerocrine AB had reserved shares of stock for issuance as stock options. On 18 June 2015 they were taken over by Circassia Pharmaceuticals Plc and as a result of that acquisition the options were forfeited.

A summary of Aerocrine Limited's employee option activity under the Aerocrine AB's equity incentive plans as of 1 January 2015 and changes during the year ended 31 December 2015 are as follows:

	Number of options	Average Exercise price SEK	Weighted average remaining contractual term (years)
Outstanding at 1 January 2015	376,875	4.95	7.00
Split	0		
Granted	0		
Exercised	0		
Forfeited	376,875	4.95	7.00
Expired	0		
Outstanding at 31 December 2015	0		

13. RECONCILIATION OF EQUITY

This is the first year of transition and the date of transition to FRS 102 is 1 January 2014 and the amended FRS 102 is applied before 1 January 2016

	Notes	UK GAAP £	Effect of transition to FRS 102 £	FRS 102 £
CURRENT ASSETS				
Debtors		<u>140,493</u>	-	<u>140,493</u>
CREDITORS				
Amounts falling due within one year		<u>(55,061)</u>	-	<u>(55,061)</u>
NET CURRENT ASSETS		<u>85,432</u>	-	<u>85,432</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>85,432</u>	-	<u>85,432</u>
NET ASSETS		<u>85,432</u>	-	<u>85,432</u>
CAPITAL AND RESERVES				
Called up share capital		1	-	1
Other reserves		11,128	-	11,128
Retained earnings		<u>74,303</u>	-	<u>74,303</u>
SHAREHOLDERS' FUNDS		<u>85,432</u>	-	<u>85,432</u>

The notes form part of these financial statements

AEROCRINE LIMITED
13. RECONCILIATION OF EQUITY (continued)
31 December 2014

	Notes	UK GAAP £	Effect of transition to FRS 102 £	FRS 102 £
CURRENT ASSETS				
Debtors		<u>215,000</u>	-	<u>215,000</u>
CREDITORS				
Amounts falling due within one year		<u>(83,439)</u>	-	<u>(83,439)</u>
NET CURRENT ASSETS		<u>131,561</u>	-	<u>131,561</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>131,561</u>	-	<u>131,561</u>
NET ASSETS		<u>131,561</u>	-	<u>131,561</u>
CAPITAL AND RESERVES				
Called up share capital		1	-	1
Other reserves		45,281	-	45,281
Retained earnings		<u>86,279</u>	-	<u>86,279</u>
SHAREHOLDERS' FUNDS		<u>131,561</u>	-	<u>131,561</u>

RECONCILIATION OF PROFIT
for the Year Ended 31 December 2014

	UK GAAP £	Effect of transition to FRS 102 £	FRS 102 £
TURNOVER	529,229	-	529,229
Administrative expenses	<u>(504,027)</u>	-	<u>(504,027)</u>
OPERATING PROFIT	25,202	-	25,202
and			
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	25,202	-	25,202
Tax on profit on ordinary activities	<u>(13,226)</u>	-	<u>(13,226)</u>
PROFIT FOR THE FINANCIAL YEAR	<u>11,976</u>	-	<u>11,976</u>

The notes form part of these financial statements

AEROCRINE LIMITED**PROFIT AND LOSS ACCOUNT DETAIL (UNAUDITED)**
for the Year Ended 31 December 2015

	31.12.15	31.12.14
	£	£
Sales	292,092	529,229
Expenditure		
Rent	10,144	8,867
Wages	119,793	254,076
Share option expense	36,392	34,153
Social security	19,814	34,580
Pensions	15,863	19,466
Other staff expenses	-	2,364
Telephone	2,981	5,151
Post and stationery	254	3,410
Travelling	12,618	44,656
Motor expenses	-	10,597
Computer communication	894	673
Subscriptions	2,500	2,500
Sundry expenses	161	701
Accountancy	5,789	5,228
Legal and professional fees	-	600
Auditors' remuneration	5,100	5,100
Foreign exchange (gain)/loss	(230)	-
Entertainment	5,457	5,400
Medical data and exhibitions	34,969	66,505
	<u>272,499</u>	<u>504,027</u>
	19,593	25,202
Finance costs		
Bank charges	<u>14</u>	<u>-</u>
NET PROFIT	<u>19,579</u>	<u>25,202</u>

This page does not form part of the statutory financial statements