acacia pharma

# Acacia Pharma Limited
# Annual Report and
# Financial Statements
# for the year ended 31 December 2016

Registered number 05934843

# Contents

## Directors and advisers

### Directors

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

### Company secretary and registered office

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

### Bankers

Barclays Bank
28 Chesterton Road
Cambridge CB4 3AZ

Silicon Valley Bank
Alphabeta
14-18 Finsbury Square
London EC2A 1BR

### Solicitors

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

### Independent auditors

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

## Directors' report for the year ended 31 December 2016

The directors present their report and the audited financial statements for the year ended 31 December 2016.

**Principal activities, strategic review and future prospects**
The principal activity of the Company during the year was as a pharmaceutical company which discovers develops and commercialises pharmaceutical product opportunities within its therapeutic areas of interest of supportive care.

In July 2015, Acacia Pharma Limited established a wholly owned subsidiary Acacia Pharma Inc. In September 2015, a new holding company, Acacia Pharma Group Limited, acquired the entire share capital of Acacia Pharma Limited via a share for share exchange.

On 23 February 2016 the Company and its parent and subsidiary (the "Acacia Group") entered into a £8.5 million loan agreement with Silicon Valley Bank secured by a fixed and floating charge on the Acacia Group's assets, £3.0 million of which was drawn on closing, £2.5 million on 31 March 2016 and the remainder on 31 August 2016. The loan is repayable in 34 monthly installments of £0.25 million commencing September 2016 and will be fully repaid by 30 June 2019. A final payment of £0.68 million will be payable on 30 June 2019 or upon early repayment of the loan if applicable.

During the year, the Company completed two Phase 3 studies for BAREMSIS™ (formerly APD421) in post-operative nausea & vomiting ("PONV") and neared completion of a fourth and final Phase 3 study. The Group raised £4.5 million in December 2016 from the issue of 1,125,000 'D' preferred shares.

The results for the Company show a loss on ordinary activities before taxation of £14.9 million, (2015: £11.2 million loss).

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

**Future outlook**
In 2017 the Company will continue to invest in the research and development of pharmaceuticals. Since the year end, the Company has successfully completed the final Phase 3 study for BAREMSIS and is progressing towards filing an NDA with the US Food and Drug Administration.

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

The key business risks and uncertainties affecting the Company 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 Company'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 18 of the financial statements.

**Key performance indicators ("KPIs")**
The on-going performance of the Company 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, (2015: £nil).

## Directors' report for the year ended 31 December 2016 (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.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. However, the Company intends to raise additional funds from the sale or licensing of its assets or from its parent, which is in turn dependent on obtaining additional funding from new and/or existing shareholders . These additional funds would enable the Company to continue its activities for the foreseeable future.

The directors believe that the Company's development programmes are progressing well and that the additional funding will be secured and hence it is appropriate that these financial statements are prepared on a going concern basis.

If the Company were unable to continue as a going concern, adjustments would have to be made to revise the Statement of Financial Position values of assets to their recoverable amounts and to provide for further liabilities that might arise.

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

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

**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 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and to
- 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.

## Directors' report for the year ended 31 December 2016 (continued)

**Statement of directors' responsibilities (continued)**

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.

**Independent 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 Company'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.

**Small company**
The directors' report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, and the directors have taken exemption from preparing a Strategic Report.

**Company number**
The registered number for Acacia Pharma Limited is 05934843.

On behalf of the board

Christine Soden
**Director**
22 February 2017

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

# Report on the financial statements

### Our opinion

In our opinion, Acacia Pharma 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 2016 and of its loss and cash flows for the year then ended; .
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Emphasis of matter - 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 currently does not have sufficient cash resources in hand to fund its anticipated level of activities for the next 12 months and therefore the company is dependent on obtaining additional funds from the sale or licensing of its assets or from its parent, which is in turn dependent on obtaining additional funding from its main shareholders. These conditions, 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.

### What we have audited

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

- the Statement of Financial Posistion as at 31 December 2016;
- the Comprehensive Income for the year then ended;
- the Cash Flow Statement 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 IFRSs as adopted by the European Union, and applicable law.

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.

# Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

# Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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, or 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.

### Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. 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 [3], 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Simon Ormiston

Simon Ormiston (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
22 February 2017

**Statement of Comprehensive Income**

| | Note | For the year ended 31 December<br>**2016**<br>£'000 | <br>**2015**<br>£'000 |
|---|---|---|---|
| **Continuing operations:** | | | |
| Research and development expenditure | | (13,605) | (10,079) |
| Administrative expenses | | (761) | (697) |
| **Operating loss** | | **(14,366)** | **(10,776)** |
| Finance income | 2 | 7 | 19 |
| Finance expense | 3 | (541) | (399) |
| **Loss before income tax** | 4 | **(14,900)** | **(11,156)** |
| Taxation | 7 | 2,793 | 2,222 |
| **Loss and total comprehensive loss for the year** | | **(12,107)** | **(8,934)** |

The accompanying notes are an integral part of these financial statements.

**Statement of Financial Position**

**Registration number 05934843**

| | Note | As at 31 December 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non–Current Assets** | | | |
| Intangible assets | 8 | - | - |
| Property, plant and equipment | 8 | - | - |
| Investments | 9 | - | - |
| **Total Non–Current Assets** | | - | - |
| **Current Assets** | | | |
| Other receivables | 10 | 2,283 | 2,096 |
| Current income tax assets | | 2,793 | 2,166 |
| Cash and cash equivalents | 11 | 6,850 | 5,442 |
| **Total Current Assets** | | **11,926** | **9,704** |
| **Total Assets** | | **11,926** | **9,704** |
| **Equity and Liabilities** | | | |
| **Equity attributable to equity holders** | | | |
| Share capital | 12 | 4 | 4 |
| Share premium | | 37,991 | 37,991 |
| Other reserves | | 144 | 121 |
| Accumulated losses | | (43,507) | (31,400) |
| **Total Equity** | | **(5,368)** | **6,716** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Term bank loan, amounts payable after one year | 13 | 4,972 | - |
| | | **4,972** | **-** |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 9,613 | 2,988 |
| Term bank loan, amounts payable within one year | 13 | 2,709 | |
| | | **12,322** | **2,988** |
| **Total Liabilities** | | **17,294** | **2,988** |
| **Total Equity and Liabilities** | | **11,926** | **9,704** |

The financial statements on pages 7 to 27 were approved by the Board of Directors on 22 February 2017 and were signed on its behalf by:

Christine Soden
Director

The accompanying notes are an integral part of these financial statements.

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**Cash Flow Statement**

| | Note | For the year ended 31 December 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash used in operations | 15 | (7,850) | (10,859) |
| Income tax credit | | 2,166 | 1,106 |
| **Net cash used in operating activities** | | **(5,684)** | **(9,753)** |
| **Cash flows from investing activities:** | | | |
| Interest received | 2 | 7 | 19 |
| **Net cash generated from investing activities** | | **7** | **19** |
| **Cash flows from financing activities:** | | | |
| Proceeds of issuance of preference shares | 13 | 0 | 12,541 |
| Amounts borrowed under term loan | | 8,500 | - |
| Payment of transaction costs on term loan | | (85) | - |
| Amounts repaid under term loan | | (1,000) | |
| Interest paid | | (275) | - |
| **Net cash generated from financing activities** | | **7,140** | **12,541** |
| **Effect of exchange rate movements on cash held** | | **(55)** | **-** |
| **Net increase in cash and cash equivalents** | | **1,408** | **2,807** |
| Cash and cash equivalents at beginning of the year | | 5,442 | 2,635 |
| **Cash and cash equivalents at end of the year** | | **6,850** | **5,442** |

The accompanying notes are an integral part of these financial statements.

## Statement of Changes in Equity

**For the year ended 31 December 2016**

| | Issued Share Capital £'000 | Share Premium £'000 | Accumulated Losses £'000 | Other Reserves £'000 | Total Equity £'000 |
|---|---|---|---|---|---|
| **Balance at 1 January 2016** | 4 | 37,991 | (31,400) | 121 | 6,716 |
| **Comprehensive expense** | | | | | |
| Total comprehensive expense for the year | - | - | (12,107) | - | (12,107) |
| **Transactions with Owners** | | | | | |
| Share based payments | - | - | - | 23 | 23 |
| **Balance at 31 December 2016** | 4 | 37,991 | (43,507) | 144 | (5,368) |

**For the year ended 31 December 2015**

| | Issued Share Capital £'000 | Share Premium £'000 | Accumulated Losses £'000 | Other Reserves £'000 | Total Equity £'000 |
|---|---|---|---|---|---|
| **Balance at 1 January 2015** | 1 | 2,231 | (22,466) | 18,060 | (2,174) |
| **Comprehensive expense** | | | | | |
| Total comprehensive expense for the year | – | – | (8,934) | – | (8,934) |
| **Transactions with Owners** | | | | | |
| Share based payments | – | – | – | 22 | 22 |
| Issue of B preferred shares | – | – | – | 12,541 | 12,541 |
| Conversion of A ordinary, S ordinary, B preferred and C preferred shares into ordinary shares | 3 | 35,760 | - | (30,502) | 5,261 |
| **Balance at 31 December 2015** | 4 | 37,991 | (31,400) | 121 | 6,716 |

The accompanying notes are an integral part of these financial statements.

## Notes to the Financial Statements

### 1. Summary of significant accounting policies

**General information**
Acacia Pharma Limited is a private limited company incorporated and domiciled in England and Wales with registered number 05934843. The Company's registered office is Harston Mill, Harston, Cambridge, CB22 7GG.

The principal activity of the Company is that of a pharmaceutical company which discovers and develops lower risk pharmaceutical product opportunities within its therapeutic areas of interest.

The Company's financial statements are presented as at and for the year ended 31 December 2016 with comparatives for the year ended 31 December 2015.

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

**Basis of preparation**
The financial statements have been prepared in accordance with European Union Endorsed International Financial Reporting Standards (IFRSs), the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC)) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis and under the historical cost convention.

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 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 are as follows:

**Compound financial instruments**

The liability component of compound financial instruments 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 Company 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 the instrument is not contractually specified, it is necessary to estimate the term. This element is a judgemental 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 Company'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 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.

## 1. Summary of significant accounting policies (continued)

### 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 its assets or sales of its own products, it will be reliant upon funding from Acacia Pharma Group Limited, the ultimate parent undertaking, which is reliant upon funding from external sources for financial support.

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.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. However, the Company intends to raise additional funds from the sale or licensing of its assets or from its parent, which is in turn dependent on obtaining additional funding from new and/or existing shareholders. These additional funds would enable the Company to continue its activities for the foreseeable future.

The directors are confident that the Company's development programmes are progressing well and that consequently the additional funding will be available and hence it is appropriate that the financial statements are prepared on a going concern basis.

If the Company was unable to continue as a going concern, adjustments would have to be made to revise the Statement of Financial Position values of assets to their recoverable amounts and to provide for further liabilities that might arise.

### Exemption from consolidation

The financial statements contain information about Acacia Pharma Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has elected not to prepare consolidated accounts as permitted by s398 of the Companies Act 2006..

### Changes in accounting policy and disclosures

***New standards, interpretations and amendments to published standards effective in the financial statements***

For the purposes of the preparation of these financial statements, the Company has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 January 2016.

The following new standards and amendments to published standards have been adopted during the current period:

- Annual improvements 2012-2014 cycle
- Disclosure initiative – amendments to IAS 1.

***Standards, amendments and interpretations that are not yet effective and have not been early adopted***

Below is a list of Standards or Interpretations that are not yet effective for periods starting on 1 January 2016, but will be effective for later periods:

- IFRS9: Financial Instruments (effective 1 January 2018)
- IFRS15: Revenue from contracts with customers (effective 1 January 2018)
- IFRS16: Leases (effective 1 January 2019)
- Annual improvements 2014-2016 cycle (effective 1 January 2018, not yet endorsed)
- Amendments to IFRS2: Share based payments (effective 1 January 2018, not yet endorsed)
- Amendments to IAS 7: Statement of cash flows (effective 1 January 2018, not yet endorsed)
- Amendments to IAS12: Income taxes (effective 1 January 2017, not yet endorsed)

## 1. Summary of significant accounting policies (continued)

The Directors do not anticipate that the adoption of the other Standards, Amendments and Interpretations, where relevant in future periods will have a material impact on the financial statements.

**Foreign currency translation**
The financial statements are presented in pounds sterling, which is the Company's functional and presentational currency. Transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at rates ruling at the Balance Sheet date. Exchange differences are included in the Statement of Comprehensive Income within administrative expenses.

**Intangible assets**
*Intellectual property*
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Property, plant and equipment**
All property, plant and equipment are stated at historical cost less accumulated depreciation, together with any incidental costs of acquisition. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value on a straight line basis over its expected useful life, as follows:

Equipment – 33% straight line

The assets' residual values and useful lives are reviewed annually and adjusted if appropriate.

**Trade receivables**
Trade receivables and other 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.

**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 Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Financial assets and liabilities**
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) plus transaction costs directly attributable to the issue of any financial liability are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

## 1. Summary of significant accounting policies (continued)

### Financial instruments

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.

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.

**Bank Loans**
In February 2016 the Company, together with its parent company Acacia Pharma Group Limited and subsidiary company 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. The loan was recognised initially at fair value and subsequently 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.

## 1. Summary of significant accounting policies (continued)

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 Company'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 Company. The Company does not currently have any such internal development costs that qualify for capitalisation as intangible assets.

**Pensions**
The Company makes payments to a defined contribution scheme. The assets of the scheme are held separately from the Company in independently administered funds. Contributions made by the Company 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 reserves.

**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 Company 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.

**Investments in subsidiary undertakings**
Investments in subsidiary undertakings are stated at cost less provisions for impairment, if any.

## 1. Summary of significant accounting policies (continued)

**Exceptional items**
Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

## 2. Finance income

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Deposit account interest | 7 | 19 |

## 3. Finance expense

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Finance (credit)/charge on the A ordinary shares | - | (39) |
| Finance charge on the B preferred shares | - | 307 |
| Finance charge on the C preferred shares | - | 131 |
| Finance charges on term loan | 541 | - |
| | 541 | 399 |

## 4. Loss before income tax

Loss before income tax is stated after charging:

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Operating lease costs (land and buildings) | 56 | 59 |
| Auditors' remuneration: | | |
| Fees payable to the Company's auditors for the audit of the financial statements | 30 | 30 |
| Foreign exchange losses / gains | 55 | (25) |

## 5. Employees and Directors

**Analysis of payroll costs by category:**

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Wages and salaries | 777 | 841 |
| Social security costs | 97 | 107 |
| Other pension costs (Note 16) | 78 | 59 |
| Share-based payments | 23 | 22 |
| Total | 975 | 1,029 |

**5. Employees and Directors (continued)**

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

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | Number | Number |
| Research and development | 4 | 4 |
| Administration | 2 | 1 |
| Total | 6 | 5 |

**Key Management Compensation**

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Salaries and short–term employee benefits | 609 | 573 |
| Post-employment benefits | 23 | 21 |
| Share-based payments | 20 | 19 |
| Total | 652 | 613 |

The Company considers the Chief Executive Officer, Chief Financial Officer and Chief Medical Officer to be key management. In 2015 the Chairman was also considered key management.

**Directors' emoluments are as follows:**

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Aggregate emoluments | 424 | 349 |
| Company contributions to defined contribution pension schemes | - | - |
| Total | 424 | 349 |

In addition, the Chief Commercial Officer received aggregate emoluments of £241,000 (2015: £62,000) from the Company's subsidiary undertaking, Acacia Pharma Inc, for services rendered in respect of his duties for that entity. No directors exercised any share options during the year (2015: nil).

The Company contributes to defined contribution money purchase pension schemes for its directors and employees. No contributions payable to pension funds for the benefit of directors were outstanding at the year-end (2015: nil).

**Highest paid director**

The highest paid director's emoluments were as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes | 220 | 216 |
| Total | 220 | 216 |

## 6. Share–based payments

### Awards made under long–term incentive and other arrangements

All employees of the Company have been eligible for options over ordinary shares in the parent company, Acacia Pharma Group Limited. Options have been awarded under the Acacia Pharma Group's EMI Share Option Schemes (the EMI Schemes) and Unapproved Share Option Scheme (the Unapproved Scheme).

Options granted under the EMI Schemes have a fixed exercise price based on the price at the date of grant which has been agreed with HMRC as being the appropriate market value for the purposes of granting options over ordinary shares. 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 Company. Options were 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 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.

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

| | 2016 | 2015 |
|---|---|---|
| Weighted average share price | 14p | 10p |
| Weighted average exercise price | 29p | 36p |
| Expected volatility | 50% | 50% |
| Expected life | 10 years | 10 years |
| Risk free rate (weighted average) | 2.9% | 2.9% |
| Expected dividends | nil | nil |

### Options over ordinary shares outstanding as at 31 December 2016

| Granted or cancelled | Share Price (p) | EMI Granted | EMI Cancelled | Unapproved Granted | Unapproved Cancelled | Exercise price (p) | Risk–free Rate | Fair value per Option (p) |
|---|---|---|---|---|---|---|---|---|
| 01-Jul - 08 | 19 | 200,000 | - | - | - | 19 | 5.3% | 13 |
| 05–Nov–08 | 38 | 210,144 | - | - | - | 38 | 4.6% | 25 |
| 01–Oct–09 | 15 | 373,339 | - | 32,032 | - | 15 | 3.5% | 10 |
| 04–Jul - 11 | 10 | 682,543 | - | 28,000 | - | 10 | 3.2% | 6 |
| 07–Mar–12 | 10 | 101,000 | - | 79,515 | - | 10 | 2.1% | 6 |
| 22- Oct- 13 | 10 | 931,685 | - | 31,965 | (76,515) | 10 | 2.6% | 6 |
| 04-Sep-14 | 2 | 496,315 | - | 115,000 | - | 2 | 2.5% | 1 |
| 28-Aug-15 | 2 | 116,900 | - | 161,000 | - | 2 | 2.0% | 1 |
| 28-Aug-15 | 2 | 123,000 | - | 405,000 | - | 200 | 2.0% | 0 |
| 14 Dec 16 | 2 | - | (123,000) | - | - | 200 | 2.0% | 0 |
| 21 Dec 16 | 2 | 123,000 | - | - | - | 2 | 2.0% | 1 |
| 30-Dec-16 | 2 | 12,690 | - | 4,500 | - | 2 | 2.0% | 1 |
| | | 3,370,616 | (123,000) | 857,012 | (76,515) | | | |

## 6. Share–based payments (continued)

**Options over ordinary shares outstanding as at 31 December 2015**

| Granted or cancelled | Share Price (p) | EMI total | Unapproved Granted | Unapproved Cancelled | Exercise price (p) | Risk–free Rate | Fair value per Option (p) | Expected forfeiture |
|---|---|---|---|---|---|---|---|---|
| 01-Jul - 08 | 19 | 200,000 | – | – | 19 | 5.3% | 13 | nil |
| 05–Nov–08 | 38 | 210,144 | – | – | 38 | 4.6% | 25 | nil |
| 01–Oct–09 | 15 | 373,339 | 32,032 | – | 15 | 3.5% | 10 | nil |
| 04–Jul - 11 | 10 | 682,543 | 28,000 | – | 10 | 3.2% | 6 | nil |
| 07–Mar–12 | 10 | 101,000 | 79,515 | – | 10 | 2.1% | 6 | nil |
| 22- Oct- 13 | 10 | 931,685 | 31,965 | (76,515) | 10 | 2.6% | 6 | nil |
| 04-Sep-14 | 2 | 496,315 | 115,000 | – | 2 | 2.5% | 1 | nil |
| 28-Aug-15 | 2 | 116,900 | 161,000 | – | 2 | 2.0% | 1 | nil |
| 28-Aug-15 | 2 | 123,000 | 405,000 | – | 200 | 2.0% | 0 | nil |
| | | 3,234,926 | 852,512 | (76,515) | | | | |

The vesting criteria for the options are as follows:

All options vest and become exercisable on a sale, or liquidation or winding up of the Company. No options can be exercised during the first year of employment of any employee directly with the Company, and all lapse if an employee leaves within the first 36 months.

The weighted average exercise price for options outstanding at the year end was 29p (2015: 34p).

A reconciliation of movements in all options outstanding over the years to 31 December 2016 and 31 December 2015, and an analysis of outstanding options, is given below.

Based on the calculations described in this note, £23,000 (2015: £22,000) has been charged and included in the Statement of Comprehensive Income. A corresponding entry has been made in other reserves (equity).

**Reconciliation of outstanding options**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Outstanding at 1 January | 4,010,923 | 34p | 3,205,023 | 12p |
| Cancelled | (123,000) | 200p | | |
| Granted | 140,190 | 2p | 805,900 | 127p |
| Outstanding at 31 December | 4,028,113 | 29p | 4,010,923 | 36p |
| Exercisable at 31 December | 2,593,708 | 14p | 1,706,573 | 16p |
| Weighted average life remaining | | 6.0 years | | 6.9 years |

## 7. Taxation

### Analysis of taxation credit in the year

The Company is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements represents the credit receivable by the Company for the year. The 2016 amounts have not yet been agreed with the relevant tax authorities.

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Analysis of credit in the year: | | |
| United Kingdom corporation tax | | |
| Current Year | 2,793 | 2,166 |
| Adjustment in respect of prior years | - | 56 |
| *Total tax credit* | 2,793 | 2,222 |

There is no current tax charge in the year as the Company 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 the year is lower (2015: lower) than the credit that would be repayable at the standard rate of corporation tax in the UK applicable of 20% (2015: 20.25%). The differences are explained in the following table:

### Tax reconciliation

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Loss before income tax | (14,900) | (11,156) |
| Loss before income tax multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%) | (2,980) | (2,259) |
| Tax effect of: | | |
| Expenses not deductible for tax purposes | - | 85 |
| Additional deduction for R&D expenditure | (2,177) | (1,705) |
| Surrendered losses for R&D tax credit | 1,673 | 858 |
| Items for which no deferred tax asset was recognised | 691 | 855 |
| Adjustment in respect of prior years | - | (56) |
| Total tax credit | (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 2016, the unrecognised deferred tax assets relating to operating losses amounted to £2,690,000 (2015: £1,998,000).

## 8. Intangible Assets and Property, plant and equipment

Prior to 1 January 2012, the Company acquired £81,000 of intellectual property. This was fully amortised prior to 1 January 2012 and therefore has nil carrying value at each of the balance sheet dates presented.

Prior to 1 January 2012, the Company acquired £4,000 of IT equipment. This was fully depreciated prior to 1 January 2012 and therefore has nil carrying value at each of the balance sheet dates presented.

## 9. Fixed asset investments

| | As at 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Investment in Acacia Pharma Inc. | - | - |

On 6 August 2016 Acacia Pharma, Inc. was incorporated with authorised share capital of 5,000 shares of common stock of $0.01 and on 25 September 2015 Acacia Pharma Limited subscribed for 100 shares of common stock at par. Acacia Pharma, Inc. incurred losses of £51,000 (2015: £52,000) and charged expenses of £621,000 (2015: £97,000) to the Company in respect of services rendered on its behalf in respect of the development of BAREMSIS.

| Name of undertaking | Registered Office | Proportion ownership interest (%) | Principal activity |
|---|---|---|---|
| Acacia Pharma, Inc. | 874 Walker Road, Suite C Dover, Delaware, DE 19904 USA | 100% | Sale and marketing of pharmaceuticals |

## 10. Other receivables

| | As at 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Other receivables | 539 | 331 |
| Amount owed by group undertakings | 1,740 | 1,760 |
| Prepayments and accrued income | 4 | 5 |
| Total | 2,283 | 2,096 |

Amounts owed by group undertakings are unsecured, interest-free and repayable on demand.

## 11. Cash and cash equivalents

The Company retains all cash on instant access accounts in Sterling, US Dollars and Euros.

| | As at 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Sterling accounts | 4,350 | 4,922 |
| Euro accounts | 110 | 520 |
| US Dollar accounts | 2,390 | - |
| | 6,850 | 5,442 |

## 12. Share capital

| Issued | As at 31 December 2016 Number | 2015 Number |
|---|---|---|
| Ordinary shares of £0.0001 (2015: £0.0001) each | 42,467,376 | 42,467,376 |
| Total equity shares | 42,467,376 | 42,467,376 |

### Issue of shares

In February 2015 the Company issued 696,000 P shares of £0.0001 each; the consideration was £104. The liability portion calculated at inception was immaterial. In July 2015 the Company issued 795,708 P shares of £0.0001 each, the consideration was £119. The liability portion calculated at inception was immaterial. In February 2015, the Company issued 2,500,833 B preferred shares. The consideration for the B preferred shares was £2,451,000 and this was divided between an equity component and a liability component. Between July and September 2015, the Company issued 2,510,000 C preferred shares. The consideration for the C preferred shares was £10,040,000 and this was divided between an equity component and a liability component.

In September 2015, a new holding company, Acacia Pharma Group Limited, acquired the entire share capital of Acacia Pharma Limited via a share for share exchange. Following the acquisition of the Company by Acacia Pharma Group Limited, the A ordinary shares, B preferred shares, C preferred shares and P shares were converted to Ordinary shares on a one-for-one basis.

| Issued equity shares | As at 31 December 2016 £ | 2015 £ |
|---|---|---|
| Ordinary shares of £0.0001 (2015: £0.0001) each | 4,247 | 4,247 |
| Total | 4,247 | 4,247 |

### Reconciliation of movements in issued equity share capital

| | Movement in the year ended 31 December 2016 Number | 2015 Number |
|---|---|---|
| **At the beginning of the year** | | |
| Ordinary shares of £0.0001 (2015: £0.0001) each | 42,467,376 | 2,664,662 |
| S Ordinary shares of £0.0001 (2015: £0.0001) each | - | 3,910,732 |
| P shares of £0.0001 (2015: £0.0001) each | - | 7,119,357 |
| Total issued share capital at 1 January | 42,467,376 | 13,694,751 |
| Issue of P shares for cash | - | 1,491,708 |
| Ordinary shares from conversion of S Ordinary shares | - | 3,910,732 |
| S Ordinary shares converted to Ordinary shares | - | (3,910,732) |
| Ordinary shares from conversion of P shares | - | 8,611,065 |
| P shares converted to Ordinary shares | - | (8,611,065) |
| Ordinary shares from conversion of A Ordinary shares | - | 9,692,856 |
| Ordinary shares from conversion of B preferred shares | - | 15,078,061 |
| Ordinary shares from conversion of C preferred shares | - | 2,510,000 |
| At the end of the year | 42,467,376 | 42,467,376 |

## 12. Share capital (continued)

| | Movement in the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | **£** | **£** |
| **At the beginning of the year** | | |
| Ordinary shares of £0.0001 (2014: £0.0001) each | 4,247 | 266 |
| S Ordinary shares of £0.0001 (2014: £0.0001) each | - | 391 |
| P shares of £0.0001 (2014: £0.0001) each | - | 712 |
| Total issued share capital at 1 January | 4,247 | 1,369 |
| Issue of P shares for cash | - | 149 |
| Ordinary shares from conversion of S Ordinary shares | - | 391 |
| S Ordinary shares converted to Ordinary shares | - | (391) |
| Ordinary shares from conversion of P shares | - | 861 |
| P shares converted to Ordinary shares | - | (861) |
| Ordinary shares from conversion of A Ordinary shares | - | 970 |
| Ordinary shares from conversion of B preferred shares | - | 1,508 |
| Ordinary shares from conversion of C preferred shares | - | 251 |
| At the end of the year | 4,247 | 4,247 |

## 13. Term Bank Loan Facility

On 23 February 2016 the Company together with 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 BOE and 6%, is repayable in 34 tranches of £250,000 from September 2016, carries a 1% arrangement fee and 8% terminal payment. The loan has been accounted for within Acacia Pharma Limited since the proceeds are directed to the operations of the Company and the cash balances held in accounts in the Company's name.

Liabilities outstanding at 31 December 2016 were £7,680,000 of which £2,709,000 is payable within 12 months. Finance charges of £541,000 were expensed in the period since February 2016.

## 14. Trade and other payables

| | As at 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Trade payables | 653 | 331 |
| Amounts owed to group undertakings | 4,568 | - |
| Tax and social security | 30 | - |
| Accruals and other creditors | 4,362 | 2,657 |
| Total | 9,613 | 2,988 |

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

**15. Cash used in operations**

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| Operating loss | (14,366) | (10,776) |
| Foreign exchange losses on cash | 55 | - |
| Share-based payments | 23 | 22 |
| Changes in working capital | | |
| - Increase in trade and other receivables | (187) | (1,735) |
| - Increase in trade and other payables | 6,625 | 1,630 |
| Cash used in operations | (7,850) | (10,859) |

**Significant non-cash movements**

The finance expense of £399,000 in 2015 in respect of A ordinary, B preference and C preference shares includes a charge for the fixed dividends which have been accrued for in the financial statements. No amounts have been paid in respect of this finance expense and these shares were converted into ordinary shares during the year as described in Note 12.

**16. Pensions**

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

| | **2016** | **2015** |
|---|---|---|
| | £'000 | £'000 |
| Amount paid during the year | 78 | 59 |
| Amount outstanding at the year end | - | - |

**17. Operating lease commitments**

Lease payments represent amounts payable by the Company 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:

| | As at 31 December | |
|---|---|---|
| | **2016** | **2015** |
| | £'000 | £'000 |
| One year or less | 7 | 8 |
| Total | 7 | 8 |

## 18. Financial risk management

In common with other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company'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 financial statements. The significant accounting policies regarding financial instruments are disclosed in note 1.

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

| | As at 31 December 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash and cash equivalents | 6,850 | 5,442 |
| Amounts due to and from group undertakings (net) | (2,828) | 1,760 |
| Trade and other payables | (5,045) | (2,988) |
| Term loans | (7,680) | - |
| Total | (8,704) | 4,214 |

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

**The financial liabilities mature as follows:**

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Within 12 months | 10,594 | 2,987 |
| Within 1-2 years | 2,828 | - |
| Within 2-5 years | 2,131 | - |
| | 15,533 | 2,987 |

**General objectives, policies and processes**
The Company'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 Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. The Company does not use derivative financial instruments to hedge risk exposures although some cash and cash equivalents are held in Euro or US dollars to meet expected liabilities arising in those currencies in the short term. The overall objective of the Board is to set policies that seek to reduce on-going risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

**Credit risk**

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash and cash equivalents at year end | 6,850 | 5,442 |
| Total | 6,850 | 5,442 |

Credit risk arises primarily from cash and cash equivalents and deposits with banks and financial institutions, as the Company 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 or US banking institutions of high repute and at least an A credit rating.

## 18. Financial risk management (continued)

**Liquidity risk**
Liquidity risk arises from the Company's management of working capital and the amount of funding required for the technology development programme. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due (see Directors' Report on Going Concern). The principal liabilities of the Company are trade and other payables in respect of the technology development programme and provision of research services including purchase of laboratory supplies, consumables and related scientific services, as well as administrative costs associated with the Company's business. Trade and other payables are generally 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 Company 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 Company is exposed to interest rate cash flow risk in respect of the term-loan liabilities with interest payable at the higher of BOE plus 5.5% and 6%.

**Currency risk**
The Company conducts the majority of its business in pounds sterling although certain expenses are incurred in US dollars or Euro. As at 31 December 2016 the company held £2,390,000 of cash and cash equivalents in US $ denominated accounts to reduce the currency risk with respect to US $ denominated expenses.

**Capital risk management**
The Company's objectives, when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain an optimal capital structure. The Company's primary source of funding is derived from the term-loan facilities described in Note 13 and amounts advanced by its parent company, Acacia Pharma Group Limited included in amounts due from group undertakings and amounts due to group undertakings as in Notes 10 and 14. The Company had no undrawn committed borrowing facilities available during the year (2015: None).

## 19. Related party disclosures

The Company's Chief Medical Officer, Gabriel Fox, is connected to a director of Comedica Ltd, which during the year provided consulting services to the Company. The cost of these services was £52,000 (2015: £46,000). The amount outstanding at the year-end was £3,000 (2015: £3,000).

A director of the Company, Scott Byrd, is connected to SAB Strategic Advisors LLC, which during 2015 provided consulting services to the Company. The cost of these services in 2015 was £168,000 (2016: £nil) and amount outstanding at the year ended 31 December 2015 was £nil (2016:£nil).

## 20. Ultimate controlling party

The Company is a wholly owned subsidiary of Acacia Pharma Group Limited, a company incorporated in England and Wales.

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.