acacia pharma

Acacia Pharma Limited
Annual Report and
Financial Statements
for the year ended 31 December 2017

Registered number 05934843

Contents

Directors and advisers

Directors

Julian Gilbert
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

Stephenson Harwood
1 Finsbury Circus
London EC2M 7SH

Independent auditors

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

Directors' report for the year ended 31 December 2017

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

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.

During the year, the Company completed the fourth and final Phase 3 study for BAREMSIS™ (formerly APD421) in post-operative nausea & vomiting ("PONV") and filed the NDA with the US Food and Drug Administration.

The results for the Company show a loss on ordinary activities before taxation of £3.4 million (2016: £14.9 million loss).

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

Future outlook
In 2018 the Company will continue to invest in the research and development of pharmaceuticals and support Acacia Pharma, Inc. in preparing for the product's expected launch in the US market, in 2019.

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, the uncertainty over the success of clinical trials and the ability to build a sales and marketing organisation and successfully launch and commercialise a hospital product in the US market.

Financial risk management
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 15 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 (2016: £nil).

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

Going concern
On 2 March 2018 Acacia Pharma Group plc completed its Initial Global Offering raising EUR 40 million and trading of its shares commenced on Euronext Brussels on 6 March 2018. Acacia Pharma Group plc subsequently provided Acacia Pharma Limited with a letter of financial support for at least 12 months from the date of signing the financial statements. On this basis, the directors consider the Company a going concern and accordingly the financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future.

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	Resigned 13 March 2018
Martin Edwards	Resigned 13 March 2018
Julian Gilbert	
Johan Kördel	Resigned 13 March 2018
Pieter van der Meer	Resigned 13 March 2018
Alexander Pasteur	Resigned 13 March 2018
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.

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.

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

Statement of directors' responsibilities (continued)
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
30 April, 2018

Independent auditors' report to the members of Acacia Pharma Limited

Report on the audit of the financial statements

Opinion

In our opinion, Acacia Pharma Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, 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 company 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability 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 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.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the 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 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, 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.

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.

Simon Ormiston

Simon Ormiston (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Cambridge
30 April 2018

Statement of Comprehensive Income

	Note	For the year ended 31 December 2017 £'000	2016 £'000
Continuing operations:			
Research and development expenditure		(1,479)	(13,605)
Administrative expenses		(1,047)	(761)
Operating loss		**(2,526)**	**(14,366)**
Finance income	2	2	7
Finance expense	3	(873)	(541)
Loss before income tax	4	**(3,397)**	**(14,900)**
Tax on loss	6	349	2,793
Loss and total comprehensive expense for the financial year		**(3,048)**	**(12,107)**

The accompanying notes on pages 10 to 21 are an integral part of these financial statements.

Statement of Financial Position

Registration number 05934843

	Note	As at 31 December 2017 £'000	2016 £'000
Assets			
Fixed Assets			
Fixed asset investments	7	-	-
Current Assets			
Other receivables	8	2,395	2,283
Current income tax assets		349	2,793
Cash and cash equivalents	9	3,013	6,850
Total Current Assets		**5,757**	**11,926**
Total Assets		**5,757**	**11,926**
Equity and Liabilities			
Equity attributable to equity holders			
Called up share capital	10	4	4
Share premium account		37,991	37,991
Other reserves		207	144
Accumulated losses		(46,555)	(43,507)
Total Equity		**(8,353)**	**(5,368)**
Liabilities			
Non-current liabilities			
Term bank loan, amounts payable after one year	11	-	4,972
		-	**4,972**
Current liabilities			
Trade and other payables	12	8,925	9,613
Term bank loan, amounts payable within one year	11	5,185	2,709
		14,110	**12,322**
Total Liabilities		**14,110**	**17,294**
Total Equity and Liabilities		**5,757**	**11,926**

The financial statements on pages 7 to 21 were approved and authorised for issue by the Board of Directors on 30 April 2018 and were signed on its behalf by:

C H Soden

Christine Soden
Director

The accompanying notes on pages 10 to 21 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2017

	Issued Share Capital £'000	Share Premium £'000	Accumulated Losses £'000	Other Reserves £'000	Total Equity £'000
Balance at 1 January 2017	4	37,991	(43,507)	144	(5,368)
Comprehensive expense					
Total comprehensive expense for the year	-	-	(3,048)	-	(3,048)
Transactions with Owners					
Share based payments	-	-	-	63	63
Balance at 31 December 2017	4	37,991	(46,555)	207	(8,353)

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)

The accompanying notes on pages 10 to 21 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 company limited by shares 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 2017 with comparatives for the year ended 31 December 2016.

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 Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101") and the Companies Act 2006. The financial statements have been prepared on a going concern basis and under the historical cost convention. The company adopted FRS101 as at 1 January 2017, and has availed itself of disclosure exemptions available under FRS101, as described below. There was no impact on the measurement or recognition of transactions or balances.

The company is a wholly-owned subsidiary of Acacia Pharma Group plc and is included in the consolidated financial statements of Acacia Pharma Group plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

FRS101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS101 which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities which otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards ("IFRS").

The Company is a qualifying entity for the purposes of FRS101. Note 17 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

In accordance with FRS101, the Company has availed itself of an exemption from the following paragraphs of IFRS:

- The requirements of IFRS 7 'Financial Instruments: Disclosures'.
- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based Payment*
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraphs 38 of International Accounting Standards ("IAS") 1 'Presentation of financial statements' comparative information requirements in respect of:
    - o *paragraph 79(a)(iv) of IAS 1;*
    - o paragraph 73(e) of IAS 16 'Property, plant and equipment'.
- The following paragraphs of IAS 1 'Presentation of financial statements':
    - o 10(d), (statement of cash flows)
    - o 16 (statement of compliance with all IFRS)
    - o 38 B-D (additional comparative information)
    - o 111 (cash flow statement information), and
    - o 134-136 (capital management disclosures).
- The requirements of IAS 7 'Statement of Cash Flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation).
- The requirements of IAS 24 to disclose related party transactions entered into between two or more members of a group where both parties to the transaction are wholly owned within the group.

1. Summary of significant accounting policies (continued)

Critical accounting estimates and judgements
The preparation of the financial statements in conformity with FRS101 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:

Financial instruments
The Company has entered into a term loan which is measured at amortised cost using the effective interest rate method. The directors have assumed the term loan will fall due for payment at or shortly after the completion of the Initial Global Offering of the parent company which completed on 6 March 2018.

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

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 plc, the ultimate parent undertaking, which is reliant upon funding from external sources for financial support.

On 2 March 2018 Acacia Pharma Group plc priced its Initial Global Offering raising EUR 40 million and trading of its shares commenced on Euronext Brussels on 6 March 2018. Acacia Pharma Group plc subsequently provided Acacia Pharma Limited with a letter of financial support. On this basis, the directors consider the Company a going concern and accordingly the financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future.

Changes in accounting policy and disclosures
New standards, interpretations and amendments to published standards effective in the financial statements

The Company has applied all relevant standards applicable for years beginning on or after 1 January 2017. No new standards, amendments or interpretations applied for the first time have had a material impact on the Group.

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.

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.

1. Summary of significant accounting policies (continued)

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.

Financial Instruments and Bank Loans
In February 2016 the Company, together with its parent company Acacia Pharma Group plc 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.

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.

Subsequent to initial recognition, the liability component of a financial instrument is measured at amortised cost using the effective interest 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 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.

1. Summary of significant accounting policies (continued)

Share–based payments
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).

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.

Disclosure of the Company's *share-based payment arrangements can be found in the Consolidated Financial* Statements of Acacia Pharma Group Limited.

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.

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	
	2017	2016
	£'000	£'000
Deposit account interest	2	7

3. Finance expense

	For the year ended 31 December	
	2017	2016
	£'000	£'000
Finance charges on term loan	873	541
	873	541

4. Loss before income tax

Loss before income tax is stated after charging:

	For the year ended 31 December	
	2017	2016
	£'000	£'000
Operating lease costs (land and buildings)	55	56
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the financial statements	22	30
Foreign exchange losses	111	55

5. Employees and Directors

Analysis of payroll costs by category:

	For the year ended 31 December	
	2017	2016
	£'000	£'000
Wages and salaries	828	777
Social security costs	97	97
Other pension costs (Note 13)	77	78
Share-based payments	63	23
Total	1,065	975

5. Employees and Directors (continued)

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

	For the year ended 31 December	
	2017	**2016**
	Number	Number
Research and development	4	4
Administration	1	2
Total	5	6

Key Management Compensation

	For the year ended 31 December	
	2017	**2016**
	£'000	£'000
Salaries and short–term employee benefits	658	609
Post-employment benefits	23	23
Share-based payments	59	20
Total	740	652

The Company considers the Chief Executive Officer, Chief Financial Officer and Chief Medical Officer to be key management.

Directors' emoluments are as follows:

	For the year ended 31 December	
	2017	**2016**
	£'000	£'000
Aggregate emoluments	505	424
Total	505	424

In addition, the Chief Commercial Officer received aggregate emoluments of £195,000 (2016: £241,000) from the Company's subsidiary undertaking, Acacia Pharma Inc, for services rendered in respect of his duties for that entity and £5,000 for the Company's parent, Acacia Pharma Group Limited for services rendered in respect of his duties for that entity. No directors exercised any share options during the year (2016: nil).

The Company contributes to defined contribution money purchase pension schemes for its employees.

Highest paid director

The highest paid director's emoluments were as follows:

	For the year ended 31 December	
	2017	**2016**
	£'000	£'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	267	220
Total	267	220

6. 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 2017 amounts have not yet been agreed with the relevant tax authorities.

	For the year ended 31 December	
	2017	**2016**
	£'000	£'000
Analysis of credit in the year:		
United Kingdom corporation tax		
Current Year	349	2,793
Total tax credit	349	2,793

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 (2016: lower) than the credit that would be repayable at the standard rate of corporation tax in the UK applicable of 19.25% (2016: 20 %). The differences are explained in the following table:

Tax reconciliation

	For the year ended 31 December	
	2017	**2016**
	£'000	£'000
Loss before income tax	(3,397)	(14,900)
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	(654)	(2,980)
Tax effect of:		
Expenses not deductible for tax purposes	-	-
Additional deduction for R&D expenditure	(261)	(2,177)
Surrendered losses for R&D tax credit	201	1,673
Items for which no deferred tax asset was recognised	365	691
Total tax credit	(349)	(2,793)

Changes to the UK corporation tax rates were enacted as part of the Finance Act 2016. 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).

7. Investments

	As at 31 December	
	2017	**2016**
	£'000	£'000
Investment in Acacia Pharma Inc.	-	-

On 6 August 2015 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 £42,000 (2016: £51,000) and charged expenses of £381,000 (2016: £621,000) 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

8. Other receivables

	As at 31 December	
	2017	**2016**
	£'000	£'000
Other receivables	150	539
Amount owed by group undertakings	2,241	1,740
Prepayments and accrued income	4	4
Total	2,395	2,283

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

9. Cash and cash equivalents

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

	As at 31 December	
	2017	**2016**
	£'000	£'000
Sterling accounts	2,819	4,350
Euro accounts	3	110
US Dollar accounts	191	2,390
	3,013	6,850

10. Called up share capital

	As at 31 December	
	2017	**2016**
Issued equity shares	Number	Number
Ordinary shares of £0.0001 each		
At beginning of year	42,467,376	42,467,376
At end of year	42,467,376	42,467,376

	As at 31 December	
	2017	**2016**
Issued equity shares	£	£
Ordinary shares of £0.0001 each		
At beginning of year	4,247	4,247
At end of year	4,247	4,247

11. Term Bank Loan Facility

On 23 February 2016 the Company together with Acacia Pharma Group plc 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 monthly tranches of £250,000 from September 2016, carries a 1% arrangement fee and 8% terminal payment plus an early termination fee if repaid before its full term. 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.

	As at 31 December	
	2017	**2016**
	£'000	£'000
Liabilities payable within one year	5,185	2,709
Liabilities payable after one year	-	4,972
Total liabilities outstanding at end of year	5,185	7,681

Finance charges of £873,000 were expensed in the year (2016: £541,000)

12. Trade and other payables

	As at 31 December	
	2017	**2016**
	£'000	£'000
Trade payables	647	653
Amounts owed to group undertakings	7,968	4,568
Tax and social security	33	30
Accruals and other creditors	277	4,362
Total	8,925	9,613

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

13. 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.

	2017 £'000	2016 £'000
Amount paid during the year	77	78
Amount outstanding at the year end	-	-

14. 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:

	As at 31 December	
	2017 £'000	**2016** £'000
Leases expiring after one year or less	7	7
Total	7	7

15. 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	
	2017 £'000	**2016** £'000
Cash and cash equivalents	3,013	6,850
Other receivables	150	539
Amounts due to and from group undertakings (net)	(5,727)	(2,828)
Trade and other payables	(647)	(5,045)
Term loans	(5,185)	(7,681)
Total	(8,396)	(8,165)

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:

	2017 £'000	**2016** £'000
Within 12 months	14,109	10,594
Within 1-2 years	-	2,828
Within 2-5 years	-	2,131
Total	14,109	15,533

15. Financial risk management (continued)

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

	2017 £'000	2016 £'000
Cash and cash equivalents at year end	3,013	6,850
Total	3,013	6,850

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.

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 2017 the company held £191,000 of cash and cash equivalents in US $ denominated accounts to reduce the currency risk with respect to US $ denominated expenses.

16. 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 £31,000 (2016: £52,000). The amount outstanding at the year-end was £1,000 (2016: £3,000).

17. Ultimate controlling party

The Company is a wholly owned subsidiary of Acacia Pharma Group plc, a company incorporated in England and Wales, which is the largest and smallest group to consolidate these financial statements. The consolidated financial statements are publically available. Acacia Pharma Group plc has a number of different shareholders and the directors consider that Acacia Pharma Group Limited does not have a single controlling party.

18. Events occurring after the reporting date

On 2 March 2018 Acacia Pharma Group plc completed its Initial Global Offering raising EUR 40 million and trading of its shares commenced on Euronext Brussels on 6 March 2018. Acacia Pharma Group plc has provided Acacia Pharma Limited with a letter of financial support for at least 12 months from the date of signing the financial statements. On this basis, the directors consider the Company a going concern.