

## EMMAC LIFE SCIENCES LIMITED

Directors' report and financial statements

For the period ended 31 December 2018



# EMMAC LIFE SCIENCES LIMITED

## Company Information

**Directors**

Antonio Costanzo (appointed 20 September 2018)  
Edward McDermott (appointed 14 March 2018)  
Thomas Rooke (appointed 16 October 2018)  
Thomas Ellen (appointed 6 February 2019)  
Barbara Pacchetti (appointed 1 May 2019)  
Orr Yarkoni (appointed 12 July 2019)

**Registered number** 11253633

**Registered office**

Hill Dickinson LLP  
The Broadgate Tower  
20 Primrose Street  
London  
EC2A 2EW

**Auditors**

UHY Hacker Young LLP  
Quadrant House  
4 Thomas More Square  
London  
E1W 1YW

# **EMMAC LIFE SCIENCES LIMITED**

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# EMMAC LIFE SCIENCES LIMITED

## Directors' report

For the period ended 31 December 2018

The directors present their report and the financial statements for the period ended 31 December 2018.

### Business review

EMMAC was incorporated in March 2018 with a vision to establish the company as the leading European Medical and Wellness Cannabis operator.

Over the course of 2018 the business successfully raised £3.8m in 2 private funding rounds, the latter of which was ongoing at year end. These funds have been deployed to put in place the foundations of EMMAC's business strategy, with the primary objective of creating a vertically integrated company (controlling cultivation, manufacture, R&D, importation, distribution and branding) with direct presence in multiple jurisdictions and a science led approach to the development of Cannabis as a medical and wellness product.

In October 2018, EMMAC signed a strategic research collaboration with Imperial College London, establishing a pre-clinical and clinical research programme to investigate mechanisms of action of cannabis-based medicinal products related to several clinical applications including acute and chronic pain, as well as to characterise cannabis-based medicinal products using in vitro and in vivo disease models. In December 2018 EMMAC acquired a 97.5% share of MedaChem SL, a Spanish GMP certified laboratory devoted to research, development and manufacture of active pharmaceutical ingredients (API's). MedaChem brings to the group a strong scientific team with years of experience in the manufacturing products for the pharmaceutical industry and a platform from which to develop Cannabis operations. The directors believe that these agreements along with other commercial agreements put in place in 2018 have set the company on course to achieve its strategic goals.

In the period from 31 December 2018 to present, the business has continued to take significant steps forward in execution of its strategy. A further £15m has been raised in 2 private funding rounds. These funds have been deployed in building out EMMAC's capabilities as a vertically integrated cannabis operator. In April 2019 EMMAC acquired 100% of the share capital of Rokshaw Laboratories, a UK based, GMP certified, special laboratory through which the group has obtained the necessary licenses to import, manufacture and distribute medical cannabis in the United Kingdom. In July 2019, EMMAC acquired 100% of the share capital of Terra Verde LDA, a Portuguese cannabis genetics and cultivation company and the holder of a license to import, cultivate and distribute medical cannabis. Other notable transactions in the period include the acquisition of the Blossom and Hello Joya wellness brands in Switzerland and France respectively, establishing EMMAC in the fast-growing wellness segment. Further investment has been made in Research and development, with a number of new projects initiated in 2019 and the completion of initial stage of the feasibility study with Imperial College in March 2019 the results of which were published in the peer reviewed medical journal Cannabis and Cannabinoid Research in July 2019. The Directors are also pleased to report that the group has been successful in attracting talented and experienced employees to join at senior levels across the organization.

### Going Concern

The Directors are pleased to present the accounts of the company on a going concern basis. The business has been loss making in the early stages of its development, as it invests to establish itself as an integrated cannabis company. However based on the cash position at the time of signing these accounts, the success in raising funds to date and the group's cashflow forecast means that the Directors are confident that the company has sufficient cash to make the necessary investments to grow the Company in line with its strategic vision and to meet the liabilities of the business as they fall due.

### Directors

The directors who served during the period were:

Antonio Costanzo (appointed 20 September 2018)  
Edward McDermott (appointed 14 March 2018)  
Thomas Rooke (appointed 16 October 2018)

The directors who have been appointed since the end of the period were:

Thomas Ellen (appointed 6 February 2019)  
Barbara Pacchetti (appointed 1 May 2019)  
Orr Yarkoni (appointed 12 July 2019)

## EMMAC LIFE SCIENCES LIMITED

### Directors' report (continued)

For the period ended 31 December 2018

#### Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

#### Auditors

The auditors, UHY Hacker Young LLP were appointed as auditors to the group and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on Monday the 30th September and signed on its behalf.



Thomas Ellen  
Director

# EMMAC LIFE SCIENCES LIMITED

## **Directors' responsibilities statement For the period ended 31 December 2018**

The directors are responsible for preparing the Directors' report and the consolidated 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 elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards and its interpretations adopted by the International Accounting Standards Board (ISAB), as adopted by the European Union (IFRSs). 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 the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report to the members of EMMAC Life Sciences Limited**

### **Qualified Opinion on financial statements**

We have audited the financial statements of EMMAC Life Sciences Limited (the 'Company') and its subsidiaries (the 'Group') for the period ended 31 December 2018, which comprise the consolidated Statement of comprehensive income, the consolidated and Company Statements of financial position, the consolidated Statement of cash flows, the consolidated and Company Statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion except for the effects of the matter described in the Basis for Qualified Opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's loss for the period then ended;
- have been properly prepared in accordance with in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for qualified opinion on the financial statements**

With respect to stock having a carrying amount of £147,000 the audit evidence available to us was limited because we did not observe the counting of the physical stock as at 31 December 2018, since that date was prior to our appointment as auditors of the company. Owing to the nature of the stock, we were unable to obtain sufficient appropriate audit evidence regarding the stock quantities by using other audit procedures.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

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

- 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 Group's or the parent 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.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report, other than the financial statements and our Auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

## **Independent auditor's report to the members of EMMAC Life Sciences Limited (continued)**

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

### **Opinion 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 Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Group strategic report.

### **Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



#### Auditor's 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditors' report.

#### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

*Daniel Hutson*

Daniel Hutson (Senior statutory auditor)

for and on behalf of  
**UHY Hacker Young LLP**

Chartered Accountants  
Statutory Auditor

Quadrant House  
4 Thomas More Square  
London  
E1W 1YW

Date: 30 September 2019

# EMMAC LIFE SCIENCES LIMITED

## Consolidated statement of comprehensive income For the period ended 31 December 2018

	Note	2018 £000
Administrative expenses		(527)
Operating loss		<u>(527)</u>
Loss for the financial period		<u><u>(527)</u></u>
Loss for the year attributable to:		
Owners of the parent company		<u>(527)</u>
		<u><u>(527)</u></u>

There were no recognised gains and losses for 2018 other than those included in the consolidated statement of comprehensive income.

There was no other comprehensive income for 2018.

The notes on pages 14 to 30 form part of these financial statements.

**EMMAC LIFE SCIENCES LIMITED**

Registered number: 11253633

**Consolidated statement of financial position**

As at 31 December 2018

	Note	2018 £000	2018 £000
<b>Non-current assets</b>			
Intangible assets	6		3,179
Property, plant and equipment	7		185
			<u>3,364</u>
<b>Current assets</b>			
Inventories	9	147	
Receivables more than one year	10	3	
Trade and other receivables	10	1,206	
Cash and cash equivalents	11	1,718	
		<u>3,074</u>	
<b>Current liabilities</b>			
Trade and other payables	12	(2,810)	
		<u></u>	
<b>Net current assets</b>			263
<b>Total assets less current liabilities</b>			<u>3,627</u>
Payables falling due after more than one year	13		(260)
			<u></u>
<b>Net assets</b>			<u><u>3,368</u></u>
<b>Equity</b>			
Share capital	16		206
Share premium account	17		3,649
Other reserves	17		18
Retained losses	17		(527)
			<u>3,346</u>
<b>Equity attributable to owners of the parent Company</b>			
Non-controlling Interests			22
			<u><u>3,368</u></u>

The financial statements were approved and authorised for issue by the Board of Directors on 30<sup>th</sup> September 2019.

Signed on behalf of the board of directors

Thomas Ellen  
Director

The notes on pages 14 to 30 form part of these financial statements.

**EMMAC LIFE SCIENCES LIMITED**

Registered number: 11253633

**Company statement of financial position  
As at 31 December 2018**

	Note	2018 £000	2018 £000
<b>Non-current assets</b>			
Property, plant and equipment	7		3
Investments	8		4,087
			<u>4,090</u>
<b>Current assets</b>			
Trade and other receivables	10	460	
Cash and cash equivalents	11	1,394	
		<u>1,854</u>	
<b>Current liabilities</b>			
Trade and other payables	12	(2,598)	
		<u>(2,598)</u>	
<b>Net liabilities</b>			<u>(744)</u>
<b>Total assets less current liabilities</b>			<u>3,346</u>
<b>Net assets</b>			<u><u>3,346</u></u>
<b>Equity</b>			
Share capital	16		206
Share premium account	17		3,649
Other reserve	17		18
Retained losses	17		(527)
			<u><u>3,346</u></u>

The financial statements of Emmac Life Sciences Limited, registered number 11253633 were approved by the Board of Directors and authorised for issue on 30<sup>th</sup> September 2019.

Signed on behalf of the board of directors

  
Thomas Ellen  
Director

# EMMAC LIFE SCIENCES LIMITED

## Consolidated statement of changes in equity For the period ended 31 December 2018

	Share capital	Share premium account	Share based payment reserve	Retained losses	Equity attributable to owners of parent Company	Non-controlling interests
	£000	£000	£000	£000	£000	£000
<b>Comprehensive income for the period</b>						
Loss for the period	-	-	-	(527)	(527)	-
On consolidation	-	-	-	-	-	22
Shares issued during the period	206	3,649	-	-	3,855	-
Share based payments	-	-	18	-	18	-
<b>At 31 December 2018</b>	<b>206</b>	<b>3,649</b>	<b>18</b>	<b>(527)</b>	<b>3,346</b>	<b>22</b>

# EMMAC LIFE SCIENCES LIMITED

## Company statement of changes in equity For the period ended 31 December 2018

	Share capital	Share premium account	Share based payment reserve	Retained losses	Total equity
	£000	£000	£000	£000	£000
<b>Comprehensive income for the period</b>					
Loss for the period	-	-	-	(527)	(527)
Shares issued during the period	206	3,649	-	-	3,855
Share based payments	-	-	18	-	18
<b>At 31 December 2018</b>	<b>206</b>	<b>3,649</b>	<b>18</b>	<b>(527)</b>	<b>3,346</b>

# EMMAC LIFE SCIENCES LIMITED

## Consolidated statement of cash flows For the period ended 31 December 2018

2018  
£000

### Cash flows from operating activities

Loss for the financial period (527)

#### Adjustments for:

Increase in debtors (130)

Increase in creditors 578

Share based payments 18

**Net cash used in operating activities (61)**

### Cash flows from investing activities

Purchase of tangible fixed assets (3)

Purchase of subsidiaries, net of cash acquired (1,743)

**Net cash used in investing activities (1,746)**

### Cash flows from financing activities

Issue of ordinary shares 3,525

**Net cash from financing activities 3,525**

**Net increase in cash and cash equivalents 1,718**

**Cash and cash equivalents at the end of period 1,718**

#### Cash and cash equivalents at the end of period comprise:

Cash at bank and in hand 1,718

**1,718**

# EMMAC LIFE SCIENCES LIMITED

## Company statement of cash flows For the period ended 31 December 2018

	2018 £000
<b>Cash flows from operating activities</b>	
Loss for the financial period	(527)
<b>Adjustments for:</b>	
Increase in debtors	(130)
Increase in creditors	578
Share based payments	18
<b>Net cash used in operating activities</b>	<u>(61)</u>
<b>Cash flows from investing activities</b>	
Purchase of tangible fixed assets	(3)
Purchase of subsidiaries, net of cash acquired	(2,067)
<b>Net cash used in investing activities</b>	<u>(2,070)</u>
<b>Cash flows from financing activities</b>	
Issue of ordinary shares	3,525
<b>Net cash from financing activities</b>	<u>3,525</u>
<b>Net increase in cash and cash equivalents</b>	<u>1,394</u>
<b>Cash and cash equivalents at the end of period</b>	<u><u>1,394</u></u>
<b>Cash and cash equivalents at the end of period comprise:</b>	
Cash at bank and in hand	1,394
	<u><u>1,394</u></u>
<b>Cash and cash equivalents at the end of the period comprise:</b>	
Cash at bank and in hand	1,394
	<u><u>1,394</u></u>



# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 1. General information and basis of preparation of the financial statements

EMMAC Life Sciences Limited is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales. The address of the registered office is given in the company information of these financial statements. The nature of the company's operations and principal activities are that of the production and supply of medical cannabis and derivative products.

The financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the International Accounting Standards Board (IASB) as adopted by the European Union (IFRSs). They have been prepared using the historical cost convention except that as disclosed in the accounting policies below.

The financial statements are presented in sterling which is the functional currency of the company and rounded to the nearest £000.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

### 2. Accounting policies

#### 2.1 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

#### 2.2 Foreign currency translation

##### Functional and presentation currency

The Company's functional and presentational currency is GBP.

##### Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity.

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 2. Accounting policies (continued)

#### 2.3 Operating leases: the Group as lessee

Rentals paid under operating leases are charged to the Consolidated statement of comprehensive income on a straight line basis over the lease term.

#### 2.4 Pensions

##### Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Group in independently administered funds.

#### 2.5 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where equity instruments are granted to persons other than employees, the Consolidated statement of comprehensive income is charged with fair value of goods and services received.

#### 2.6 Current and deferred taxation

Income taxes include all taxes based upon the taxable profits of the company. Other taxes not based on income, such as property and capital taxes, are included within operating expenses or financial expenses according to their nature.

Deferred income tax is provided, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts, in the financial statements. Deferred income tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 2. Accounting policies (continued)

#### 2.7 Intangible assets

##### Goodwill

Goodwill is recorded as an intangible asset and is the surplus of the cost of acquisition over the fair value of identifiable net assets acquired. Goodwill is reviewed annually for impairment. Any impairment identified as a result of the review is charged in the statement of profit or loss and other comprehensive income.

##### Other

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired on business combinations are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition.

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Intangible assets are amortised on a straight line basis over their useful lives.

#### 2.8 Property, plant and equipment

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Plant and machinery	- 20%
Office equipment	- 20%
Computer equipment	- 20%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated statement of comprehensive income.

#### 2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

#### 2.10 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 2. Accounting policies (continued)

#### 2.11 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

#### 2.12 Cash and cash equivalents

Cash is represented by cash in hand, deposits with financial institutions repayable without penalty on notice of not more than 24 hours and cash equivalents

In the Consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

#### 2.13 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

#### 2.14 Provisions

Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account the time value of money. A contingent liability is disclosed where the existence of the obligations will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability.

#### 2.15 Financial instruments

The Group during 2018 had limited exposure to main financial risks such as market risk, credit risk and liquidity risk due to the main activities of the Group during 2018 focus being on raising required funds and setting up the company structure to facilitate future vision of the group.

Any risk is currently co-ordinated at its headquarters in close cooperation with the board of directors. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

The market risk exposure for 2018 would be low. The acquisition of subsidiary with EUR functional currency was not completed until the 21 December. The company has funded activities and acquisitions by investments from private investors and there is no exposure to interest rate risk, and no exposure to price risk as the Group has not sold anything during 2018.

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The group during 2018 has not been exposed to credit risk from trade debtors as no sales made. The group has raised significant funds during 2018, and has these on deposit with credible bank with established history.

The group during 2018 was not exposed to liquidity risk, as the successful funding rounds have been sufficient during 2018 to cover the planned expenditure of the company.

The company's Financial assets and financial liabilities are recognised when the company becomes party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable (other than financial assets or liabilities at fair value through profit or loss) are added to or deducted from the fair value as appropriate, on initial recognition.

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 2. Accounting policies (continued)

#### Financial assets

Financial assets are subsequently classified into the following specified categories:

- financial assets at fair value through profit or loss, including held for trading;
- fair value through other comprehensive income; or
- amortised cost.

The classification depends on the nature and purpose of the financial asset (ie. the company's business model for managing the financial assets and the contractual terms of the cash flows) and is determined at the time of initial recognition.

Financial assets are classified as at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. They are measured at amortised cost if they are held within a business mode whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets not held at amortised cost or fair value through other comprehensive income are held at fair value through profit or loss.

#### Financial liabilities

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognised at proceeds received net of issue costs.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or financial liabilities at amortised cost, which are measured using the effective interest method. At present the company does not have any financial liabilities at FVTPL.

#### Fair values

#### Fair value

Fair value is the amounts for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques. The fair values at the end of the reporting period are approximately in line with their reported carrying values unless specifically mentioned in the notes to the financial statements.

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 3. Auditors' remuneration

2018  
£000

Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements

16

Fees payable to the Group's auditor and its associates in respect of:

Audit-related assurance services

3

3

### 4. Employees

The average monthly number of employees, including the directors, during the period was as follows:

	Group	Company
	2018	2018
	No.	No.
Directors	<u>3</u>	<u>3</u>

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 5. Directors' remuneration

	2018 £000
Directors' emoluments	165
Amounts receivable under long-term incentive schemes	18
	<u>183</u>

### 6. Intangible assets

#### Group and Company

	Goodwill on consolidation £000
<b>Cost</b>	
On acquisition of subsidiary	3,179
At 31 December 2018	<u>3,179</u>
<b>Net book value</b>	
At 31 December 2018	<u>3,179</u>

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 6. Intangible assets (continued)

On 21 December 2019, the Group acquired 97.5% of the share capital of Medalchemistry SA, a Spanish Good Manufacturing Practices (GMP) certified laboratory, engaged in the manufacture, research and development of Active Pharmaceutical Ingredients. The Group expects to be able to leverage the existing GMP status, the capabilities of the Medalchemistry team, and their experience in developing pharmaceutical products to create a platform from which to develop medical cannabis manufacturing operations for their European business.

	£000
<b>Fair value of consideration transferred</b>	
Amount settled in cash	2,045
Fair value of contingent consideration	2,045
<b>Total</b>	<u>4,090</u>
<b>Recognised amounts of identifiable net assets</b>	
Property, plant and equipment	187
Deferred tax asset	448
<b>Total non-current assets</b>	<u>635</u>
Inventories	149
Trade and other receivables	307
Cash and cash equivalents	279
<b>Total current assets</b>	<u>753</u>
Borrowings	(264)
Deferred tax liabilities	(1)
<b>Total non-current liabilities</b>	<u>(265)</u>
Borrowings	(13)
Trade and other payables	(199)
<b>Total non-current liabilities</b>	<u>(212)</u>
<b>Identifiable net assets</b>	911
<b>Goodwill on acquisition</b>	<u>3,179</u>

Goodwill of £3,179k is related to the future growth and profitability expectations associated to the development of cannabis manufacturing operations at Medalchemistry. The value of Medalchemistry's existing GMP accreditation and the expertise of the staff have not been quantified and separately identified as intangible assets. The quantification of these assets is subject to ongoing review. As such goodwill has been calculated as the different between the fair value of the purchase consideration and the fair value of the identifiable assets at the time of acquisition.



# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 7. Property, plant and equipment

#### Group

	Freehold Property £000	Plant and machinery £000	Office equipment £000	Total £000
<b>Cost or valuation</b>				
Additions	-	-	3	3
On acquisition of subsidiary	12	379	22	413
At 31 December 2018	<u>12</u>	<u>379</u>	<u>25</u>	<u>416</u>
<b>Depreciation</b>				
Acquisition of subsidiary	1	229	1	231
At 31 December 2018	<u>1</u>	<u>229</u>	<u>1</u>	<u>231</u>
<b>Net book value</b>				
At 31 December 2018	<u>11</u>	<u>150</u>	<u>24</u>	<u>185</u>

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 7. Property, plant and equipment (continued)

#### Company

		Office equipment £000
Cost or valuation		
Additions		3
At 31 December 2018		<u>3</u>
At 31 December 2018		<u>-</u>
At 31 December 2018		<u><u>3</u></u>

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 8. Non-current asset investments

#### Company

	Investments in subsidiary companies £000
Cost or valuation	
Additions	4,087
At 31 December 2018	<u>4,087</u>

#### Direct subsidiary undertakings

The following were direct subsidiary undertakings of the Company:

Name	Registered office	Principal activity	Class of shares	Holding
EMMAC U.K. Limited	England	Research and Development	Ordinary	100%
EMMAC Malta Limited	Malta	Production licences for medical cannabis	Ordinary	100%
EMMAC Technology (Malta) Limited	Malta	Technology Holding Company	Ordinary	100%
EMMAC Life Sciences Espana, S.L.	Spain	Research and Development	Ordinary	100%
EMMAC Italia srl	Italy	Research and Development	Ordinary	100%
EMMAC Portugal	Portugal	Research and Development	Ordinary	100%
EMMAC Suiss SARL	Switzerland	Research and Development	Ordinary	100%

The aggregate of the share capital and reserves as at 31 December 2018 and the profit or loss for the period ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £000	Profit/(Loss) £000
EMMAC U.K. Limited	-	-
EMMAC Malta Limited	1	-
EMMAC Technology (Malta) Limited	1	-
EMMAC Life Sciences Espana, S.L.	3	-
EMMAC Italia srl	9	-
EMMAC Portugal	1	-
EMMAC Suiss SARL	16	-

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 8. Non-current asset investments (continued)

#### Indirect subsidiary undertaking

The following was an indirect subsidiary undertaking of the Company:

Name	Registered office	Principal activity	Class of shares	Holding
Medalchemistry S.L.	Spain	Research and development; Registration, Manufacture and Sale of Active Pharmaceutical Ingredients	Ordinary	97.5%

The aggregate of the share capital and reserves as at 31 December 2018 and the profit or loss for the period ended on that date for the subsidiary undertaking were as follows:

Name	Aggregate of share capital and reserves	Profit/(Loss)
Medalchemistry S.L.	900	331

The profit arising since acquisition on 21 December 2018 to the end of the period is £Nil.

### 9. Inventories

	Group 2018 £000	Company 2018 £000
Raw materials and consumables	83	-
Work in progress (goods to be sold)	7	-
Finished goods and goods for resale	57	-
	<u>147</u>	<u>-</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 10. Receivables

	Group 2018 £000	Company 2018 £000
Due after more than one year		
Other receivables	3	-
	<u>3</u>	<u>-</u>

	Group 2018 £000	Company 2018 £000
Trade and other receivables		
Trade receivables	302	-
Other receivables	92	91
Called up share capital not paid	330	330
Prepayments and accrued income	39	39
Deferred taxation	443	-
	<u>1,206</u>	<u>460</u>

### 11. Cash and cash equivalents

	Group 2018 £000	Company 2018 £000
Cash and bank balances	1,718	1,394
	<u>1,718</u>	<u>1,394</u>

### 12. Trade and other payables

	Group 2018 £000	Company 2018 £000
Payments received on account	45	-
Trade payables	277	159
Amounts owed for the purchase of subsidiary	2,020	2,020
Other taxation and social security	26	26
Obligations under finance lease and hire purchase contracts	26	-
Other creditors	322	309
Accruals and deferred income	94	84
	<u>2,810</u>	<u>2,598</u>

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 13. Payables falling due after more than one year

	Group 2018 £000	Company 2018 £000
Bank loans	251	-
Net obligations under finance leases and hire purchase contracts	9	-
	<u>260</u>	<u>-</u>

The loans relate to research projects in Spain where interest rates range from 0 to 3.5% with a weighted average of 0.57%. Maturity of these loans 2021 to 2028.

### 14. Loans

Included in amounts payable falling due in one year and in more than one year are:

	Group 2018 £000	Company 2018 £000
<b>Amounts falling due less than 1 year</b>		
Bank loans	5	-
	<u>5</u>	<u>-</u>
<b>Amounts falling due 1-2 years</b>		
Bank loans	101	-
	<u>104</u>	<u>-</u>
<b>Amounts falling due 2-5 years</b>		
Bank loans	144	-
	<u>144</u>	<u>-</u>
<b>Amounts falling due after more than 5 years</b>		
Bank loans	6	-
	<u>6</u>	<u>-</u>

The loans relate to research projects in Spain where interest rates range from 0% to 3.5% with a weighted average of 0.57%. Maturity of these loans 2021 to 2028.

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 15. Deferred taxation

#### Group

2018  
£000

On acquisition of subsidiary 443

**At end of year** 443

The deferred tax asset is made up as follows:

Group  
2018  
£000

Tax losses carried forward 443

443

### 16. Share capital

2018  
£000

#### Allotted, called up and fully paid

173,183,334- Ordinary shares of £0.001 each 173

#### Allotted, called up and partly paid

33,000,000- Ordinary shares of £0.001 each 33

#### Total share capital

206,183,334- Ordinary shares of £0.001 each 206

During the period Emmac Life Sciences Limited raised £3,855,000 in equity capital from external investors and issued 206,183,334 shares, with a share premium of £3,648,819

As at 31 December 2018 £3,825,000 had been fully paid up, and the remaining £30,000 received by April 2019.

# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 17. Reserves

#### Share premium account

The share premium account represents the excess of the subscription price paid for each share above the share's nominal value.

#### Retained losses

Retained losses represents the accumulated profit and loss at the balance sheet date.

#### Other reserve

Represents the amount taken to the statement of comprehensive income in relation to share based payments.

### 18. Share based payments

As at 31 December 2018, the Group maintained a share-based payment scheme for employee remuneration. The programme will be settled in equity.

The programme is part of the remuneration package of the Group's founders and employees. Options under this programme will vest over a three year period. Participants in this programme have to be employed or engaged by the company until the end of the agreed vesting period. Upon vesting, each option allows the holder to purchase one ordinary share at the market price determined at grant date.

Share options and weighted average exercise prices are as follows for the reporting periods presented:

	Weighted average exercise price (pence) 2018	Number 2018
Granted during the year	5.3715	23,550,000
Outstanding at the end of the year	<u>5.3715</u>	<u>23,550,000</u>
	Options issued September 2018	Options issued December 2018
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price (pence)	1	30
Exercise price (pence)	1	30
Weighted average contractual life (days)	3,654	1,827
Expected volatility	63%	63%
Risk-free interest rate	0.66%	0.46%

The underlying expected volatility was determined by reference to a company that is considered similar in nature over a period of time, and the risk-free factor was calculated using Government bonds for the given option period.



# EMMAC LIFE SCIENCES LIMITED

## Notes to the financial statements For the period ended 31 December 2018

### 19. Post balance sheet events

The Company has successfully raised a further £15m through the issue of 50m 30p shares to investors in 2 separate funding rounds completed in January and March respectively.

Over the course of 2019 to date the Group has completed the following material acquisitions and investments:

23 January 2019: EMMAC Suisse, a 100% owned subsidiary of EMMAC Life Sciences Ltd, purchased the trade and assets of Blossom, a Swiss Wellness brand for £2.4m, of which £0.4m was settled on cash in closing, with the remaining balance deferred against future performance based milestones.

8 April 2019: EMMAC UK, a 100% owned subsidiary of EMMAC Life Sciences Ltd, purchased 100% of the share capital of Rokshaw, a UK specials company, for a total consideration of £6m, of which £3.4m was settled in cash and shares on acquisition, with the remaining £3.6m deferred against future performance milestones.

4 July 2019: EMMAC Italy, a 100% owned subsidiary of EMMAC Life Sciences Ltd, acquired a 50% stake in Italian company, Fontana Srl, a company set up with the objective of operating as a licenced distributor of medical cannabis and wellness products in Italy, for a total consideration of £0.5m.

12 July 2019: EMMAC Portugal, a 100% owned subsidiary of EMMAC Life Science Ltd, acquired 100% of the share capital of Terra Verde Lda, a company with an active licence for the cultivation and exportation of medical cannabis, for a total consideration of £25m, of which £17.5m was settled in cash and shares on acquisition and the remainder deferred against future performance milestones.

### 20. Related party transactions

During 2018 the company paid remuneration to the directors who are considered as key management £165,000 and awarded 16.25m share options.