Acacia Pharma Group plc
Annual Report and
Financial Statements
for the year ended 31 December 2020

Registered number 09759376

Directors and advisers

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ACACIA PHARMA AT A GLANCE

We are an integrated specialty pharma company developing and commercialising novel products to improve the care of patients undergoing serious medical treatments such as surgery, invasive procedures, or chemotherapy. As a result of considerable success this year, we are now entering a new stage in our journey.

Our strategic priorities

Focus area: how are we working to achieve our vision - to improve patient outcomes

- Deliver effective new treatments
- Be a great place to work
- Funding growth

Portfolio of products

Focus areas: improve the care of patients undergoing serious medical treatments such as surgery, invasive procedures, or chemotherapy, increase patient throughput

BARHEMSYS®

- Broad label for prevention and treatment of Post-Operative Nausea and Vomiting (PONV)
- Key target: estimated 16 million patients a year in US with PONV after failure of generic antiemetics
- • Estimated $2.6 billion annual total addressable market

BYFAVO™

- Indicated for procedural sedation in adults, supported by strong clinical data package
- Key target: 40 million procedures a year in US, including 25 million GI procedures
- Estimated >$1 billion annual total addressable market

R&D platform

Focus areas: post-marketing commitments; Phase IV PROMPT trial for BARHEMSYS; follow-on opportunity in Chemotherapy Induced Nausea and Vomiting (CINV)

Progressing paediatric studies for both BARHEMSYS and BYFAVO, together with other post-marketing requirements.

One further, positive, pivotal clinical trial will be required to support the approval of APD403 for CINV. Any further studies will be subject to raising sufficient additional finance to fund the trials.

Talented and diverse employees

Committed to attracting, retaining and developing a talented and diverse workforce who live our cultural hallmarks

Focus area: recruiting and retaining high-calibre individuals, ensuring our people have the right capabilities and that our practices are fit for purpose

- Highly experienced commercial team in hospital space
- Recruitment of experienced senior management
- Hiring of 30 Hospital Territory Managers as we launch our products

Our capital management priorities

The Directors intend to retain future earnings to finance the operations of the Group's business and do not anticipate paying any cash dividends in the foreseeable future.

Focus areas: raising funds to finance launch of BARHEMSYS and BYFAVO and growth through to cash-flow positivity

Proceeds from issue of shares:
$48.4 million

Loan drawdowns:
$30.8 million

R&D expenditure
$1.4 million

Sales and marketing expenditure
$19.4 million

Looking ahead, our priorities are to continue to fund the commercialisation of BARHEMSYS and BYFAVO and finance the company through to cash-flow positivity

Chairman's introduction

Our vision remains to become a leading US hospital pharmaceutical company

Strategic Progress

Our strategy is to continue to build and grow an effective specialised hospital-based sales and marketing business in the US focused on selling pharmaceutical products that can help healthcare providers reduce procedure and recovery times and help deliver the enhanced recovery after surgery that is seen to improve patient outcomes and reduce morbidity.

We are pleased by the progress made this year in advancing our strategic priorities – the in-licensing of BYFAVO with its concomitant debt and equity financing, the approval of both BARHEMSYS and BYFAVO by the US Food and Drug Administration ("FDA"), the successful equity financing which allowed us to recruit our salesforce, and the launch of BARHEMSYS in late Q3 2020 followed by the launch of BYFAVO in January 2021.

It is indeed remarkable for a company of our size and stage to have gained FDA approval for two products in the same year. With the launch of both BARHEMSYS and BYFAVO focused on anaesthesia providers, it enables important portfolio sales synergies and further leverages our commercial infrastructure.

While we continue to develop and embed a strong governance framework across the culture of our organisation, we also take a balanced approach to ensure that our processes are efficient and support our growth strategy.

Responding to a changing world

A year of disruption and resilience

On 11 March 2020, the World Health Organisation announced that the outbreak of coronavirus (commonly referred to as COVID-19) had been declared a global pandemic. The long-term impacts of the outbreak are unknown and continue to evolve rapidly. Like other healthcare businesses throughout the world, Acacia Pharma had to adjust its commercialisation plans for both BARHEMSYS and BYFAVO to accommodate for travel restrictions, reduced elective surgeries, the shift in priorities for healthcare institutions and restricted access to healthcare settings.

Whilst the situation has created certain challenges in accessing decision makers in hospitals and ambiguity around the timing of their formulary committee meetings, the COVID-19 situation has led to increased interest in our products BARHEMSYS and BYFAVO, which are designed to deliver better patient outcomes and enhance recovery post-surgery. This interest has been further elevated by the drug shortages of the most commonly used antiemetics like ondansetron and dexamethasone as well as procedural sedatives like midazolam and propofol, all of which currently remain on the FDA drug shortages list. The COVID-19 situation has also created procedural backlogs and pent-up demand for products that can help improve procedural throughput as hospitals and surgical centres now need to significantly increase their patient throughput, which we believe has further heightened the value proposition for both drugs as customers seek to rebuild revenues and regain lost profits.

Working with stakeholders

In the post-COVID-19 world, engaging with our key stakeholders – from employees to customers to suppliers to Shareholders - is more important than ever. At a time when hospitals are facing unimaginable burdens, ensuring we respond to and respect their needs is crucial in maintaining key customer relationships. We hold regular meetings with our now mostly virtual workforce, ensuring their safety as well as continuing to keep staff engaged. We have focussed this year on our values, welcoming feedback from employees on where they think we can improve. We have kept in regular contact with suppliers to ensure there is no disruption to our supply chain, and have provided regular updates to our Shareholders and debt lenders, updating them on progress made in relation to our commercial launch and overall business plans.

Management and Board changes

Strong corporate governance and leadership is an essential part of Acacia Pharma's strategy. Christine Soden, our CFO for the last 5 years, stepped down on 29 February 2020 with Gary Gemignani taking the role of CFO as our business becomes more heavily weighted to US operations. Patrick Vink, our Chairman, Pieter van der Meer and Johan Kördel all stepped down from the Board of Directors at the 2020 AGM. Scott Byrd, a non-executive director of Acacia Pharma, was elected as Chairman at the AGM. Alessandro Della Chá, CEO of Cosmo Pharmaceuticals N.V. was appointed to our Board as its representative in April 2020 as a non-executive director and we will continue to assess the effectiveness and make-up of the Board to support the changes in or needs of our business.

Appreciation

I would like to thank Christine, Patrick, Johan and Pieter for all they have done to bring us to this point in our strategic journey. I am looking forward to the coming years when we can use our commercial platform to make a difference to more lives and drive value for our Shareholders.

2020 Performance and Outlook

This past year has been transformative for Acacia Pharma and we remain highly encouraged by our continued progress, the interest shown by healthcare professionals in improving PONV management and patient outcomes, as well as their excitement for the first new procedural sedation product to come to market in decades. In the months ahead we look forward to seeing the early results of commercialisation for both BARHEMSYS and BYFAVO in the US market and expect to grow revenues after gaining formulary access in hospitals, as we believe both products address important unmet needs in the treatment and care of patients undergoing invasive medical procedures.

Your Board is extremely excited by Acacia Pharma's prospects. We believe we can deliver differentiated, effective products to our chosen markets. However, as we have previously stated we will still require additional capital in order to continue to finance the ongoing product launches and achieve our vision. With the continued efforts of our team, and adequate financial resources, I am confident our strategy will create long-term value for all our stakeholders and deliver a real difference to our future customers and to their patients' lives. This is a fundamental motivation for the entire Acacia Pharma team.

Finally, I would like to welcome our new employees and to thank all of our employees for their dedication and professionalism, and to thank our existing and new Shareholders for their continued support and belief in our business.

Scott Byrd
Chairman

26 March 2021

Chief Executive Officers Review

A year in review

I am very pleased with the performance of our team, as this was truly a transformative year for the Group. We in-licensed BYFAVO adding a second product to strengthen our product portfolio, we gained FDA approval for our first product, BARHEMSYS, in February and subsequently received FDA approval for BYFAVO in July. The Cosmo transaction as set out on page 12 brought with it an initial equity investment of €10 million, as well as up to €35 million of debt facility. We were able to further strengthen our strategic partnership with Cosmo by agreeing an amendment to our transaction, effectively swapping €10 million in loan facility for a further equity investment. We raised gross proceeds of €25 million in an equity raise in August, which enabled us to hire our sales reps and launch BARHEMSYS in the third quarter of 2020 and BYFAVO in January 2021. Finally, after year end we were able to raise gross proceeds of €27m, further extending our cash runway to support our commercialisation activities.

While COVID-19 has created many challenges for the global healthcare system and supply chains, we believe it has also created opportunity for our products and that we will see demand for both products grow given that they can improve procedural throughput to help address the current surgical backlogs in hospitals and surgical centres that exist as a result of the pandemic. We also believe that in making these new products available, we can help satisfy the demand for products addressing PONV and procedural sedation owing to shortages of supply that currently exist for the current standard-of-care drugs for these indications.

Our focus is now fully on continuing the successful launch of BARHEMSYS and BYFAVO in 2021, which will further accelerate our transition from an R&D-led company into a commercially-focused enterprise bringing much needed treatments to patients in the US. We look forward to an exciting time ahead and to providing further updates on our progress.

Being a great place to work

Underlying our strategy is our dedication to ensuring we are able to attract and retain great talent by remaining a great place to work. We believe our success requires ideas that can only come from people encouraged to be themselves at work, enabled to contribute to their full potential, and empowered to challenge conventional thinking. For us that means being an inclusive and diverse workplace, attracting and retaining the best people. We have sought to embed our cultural hallmarks in all our work. We have invested significant resources in building out our employee performance review processes, as well as welcoming feedback in a group-wide survey on our cultural hallmarks. The results of the survey emphasised that our cultural hallmarks are well embedded in our everyday behaviours. We performed a benchmarking exercise on employee remuneration to ensure we were aligned with the market and sought to ensure employees were included in our equity programs.

Working with customers to deliver solutions that meet their needs

Healthcare systems around the world are focusing on patient outcomes and enhancing recovery after surgery

Our products are well-placed to meet the needs of hospitals and healthcare professionals in achieving better patient outcomes and enhancing their recovery.

Mobilising patients as quickly as possible after surgery can help improve recovery, reducing the incidence of secondary complications and hospital readmission and improving healthcare economics.

We believe BARHEMSYS will prove an effective tool in the improved management of PONV which is a key factor in achieving these goals, since PONV can prevent patients from moving through the hospital or day-surgery centres to home and can impair the clinical progress post-surgery in certain procedures, including for example bariatric surgery, upper GI surgery or wired-jaw surgeries.

BYFAVO, an ultra-short-acting and reversible intravenous sedative benzodiazepine intentionally designed for rapid onset and offset for use during invasive medical procedures (such as bronchoscopies and colonoscopies) in order to offer clinicians a predictable level of sedation and procedural efficiency.

While, as detailed above, the COVID-19 pandemic has led to drug shortages and procedural backlogs in the US hospital market, we believe our product portfolio offers a significant value proposition to hospitals and enables improved patient throughput. We are closely monitoring the return to normal operations at hospitals and surgical centres as we emerge from the crisis caused by the pandemic. The situation has caused the Group to adjust its commercialization strategy to accommodate more virtual engagements with clinical staff which has proved an effective means of communication during the pandemic. Fortunately, we were able to successfully recruit a team of very experienced sales representatives with longstanding key customer relationships to facilitate dialogue even with restricted physical access to medical facilities. Additionally, due to the increasing virtual engagement with hospital accounts, the field teams have been able to increase their customer reach beyond what had been previously planned.

Seizing the opportunities ahead

As we enter the commercial phase of the Group's lifecycle, the fundamentals of our strategy remain unchanged, with our focus continuing to be on improving patient outcomes and operational throughput driving revenues over the coming years. We will carry on building out our commercial infrastructure as demand warrants and continue to work closely with our various stakeholders.

Finally, I want to thank all my colleagues at Acacia Pharma. We have been on a remarkable journey and none of this would have been possible without the talented people we have in our organisation who have constantly risen to the challenges before us. I thank them all for everything they have done as, together, we embark on the next phase in this great Group's journey.

Mike Bolinder
Chief Executive Officer

26 March 2021

Business Model

Who we are

Our vision

Transforming medicine, advancing care

Our vision underlies everything that we do. It reminds us of our purpose as a Group. It helps us to deliver benefits to stakeholders and create value for Shareholders

Our cultural hallmarks

Acacia Pharma delivers by putting people FIRST

Functional expertise – We love what we do and we're good at it

Integrity – We are committed to doing the right thing

Respect – We value and empower each member of the team

Sincerity – We are genuine, honest and transparent

Tenacity – We are resolved to deliver results

What we do

How we create value

Focus on addressing significant unmet medical needs

Post-operative nausea and vomiting ("PONV")

Appropriate management of PONV is a key to improving patient satisfaction by reducing the side effects of surgery and also reducing the time patients spend in expensive recovery rooms and in-patient hospital beds. Moreover, US hospitals are financially incentivised to improve the quality of care, as well as reduce post-surgical patient recovery times and morbidity. BARHEMSYS has been specifically developed to meet the key unmet needs within the management of PONV and is currently the only FDA-approved product specifically indicated for PONV rescue.

Procedural sedation

The number of surgical procedures worldwide continues to grow driven by population growth and other factors such as obesity, low physical activity levels, dietary habits, smoking, and alcohol. Current estimates place the number of surgical procedures annually worldwide at greater than 230 million; the majority in the areas of general, orthopaedic/trauma and obstetric/gynaecological surgery. The market for sedation and anaesthesia has been short on pharmaceutical development during the last decade and there remains room for innovation and development in standard of care. BYFAVO is fast acting and has a favourable safety profile based on the clinical studies in 966 patients who underwent procedural sedation for colonoscopies and bronchoscopies and similar procedures. It is estimated there are approximately 25 million GI procedures and over 40 million total procedures that require moderate sedation performed annually in the US.

Chemotherapy-induced nausea and vomiting

APD403 is currently in late-stage development for the management of nausea and vomiting in cancer patients receiving emetogenic chemotherapy. The cancer population continues to grow, due both to the increasing incidence of the condition in an ageing population and to the increasing longevity of cancer patients, as a result of earlier diagnosis and advances in cancer treatment. It is estimated that there were 18 million cancer cases worldwide in 2018 and this is expected to increase to 27 million in 2035. The Directors believe there is an opportunity to provide hospital and clinic-based oncologists with a drug to better manage CINV which can enable optimal cancer treatment. APD403 is being specifically developed to meet what the Directors believe to be the key unmet need, late stage CINV, particularly late stage nausea.

What does our business model require to be successful?

A talented and diverse workforce

We need to acquire, retain and develop a talented and diverse workforce committed to our Vision and cultural hallmarks.

72 employees, up from 34 in 2019

Effective partnerships

We need business development, specifically partnering, which is an important element of our business model. It supplements and strengthens our pipeline.

In-licensing of BYFAVO

Added to our product portfolio through our strategic partnership with Cosmo and Paion

Commercialisation skills

We need a strong commercial presence and skilled people to ensure that we can successfully launch our medicines, that they are available when needed and that patients have access to them.

Salesforce hired during the year

Team has direct experience successfully launching products into the same market to the same key customers

Intellectual Property

We need to create and protect our IP rights. Developing a new medicine requires significant investment over many years, with no guarantee of success. For our investments to be viable, we seek to protect new medicines from being copied for a reasonable period of time through patent protection

IP Protection

BARHEMSYS® has patents listed in the Orange Book which conveys for a minimum of five years' market exclusivity granted by the FDA upon approval of a new drug, with the potential for further extensions. Initial patent terms run until 2031 and a patent term extension to February 2034 is currently being assessed by the US Patent and Trademark Office.

We have IP protection for BARHEMSYS in all major pharmaceutical markets and although we intend to directly commercialize in the US, we are exploring partnership opportunities in other geographies.

We have in-licensed the commercial rights for BYFAVO™ in the US (the largest pharmaceutical market)

BYFAVO is protected by a number of issued and pending US patents. There are a number of other patents protecting the product, including polymorphic forms, manufacturing process and dosing regimen, some of which last to 2031.

It is expected that a patent term extension request will be made with a view to extending coverage to 2034. The patents will be listed in the Orange Book soon, now that approval has been obtained.

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A robust supply chain

We need a robust supply of high-quality medicines, with flexibility to allow for additional growth

Agreements with suppliers

During the year, we qualified a second supplier of the active pharmaceutical ingredient for BARHEMSYS, produced necessary registration lots and put in place necessary supply agreements to ensure adequate commercial supply for the launch of the product. We have entered into a supply agreement with Paion our license partner for BYFAVO, and maintain levels of safety stock for both products.

Financial strength

We need to be financially strong, including having access to equity and debt financing, in order to continue to commercialize our products and drive the Group to profitability.

$55.99 million

Net cash flow generated from financing activities during the 2020 financial year

Market overview

A changed world

- The impact of COVID-19 on the US healthcare system has been severe and we have needed to adjust our commercialization strategy to accommodate more virtual engagements with clinical staff. It reinforced the need for the Group to recruit and retain experienced representatives with longstanding key customer relationships to facilitate dialogue even with restricted physical access to the facility.
- The COVID-19 situation, however has also created opportunities for the Group as it has led to drug shortages for the most commonly used procedural sedatives like midazolam and propofol as well as antiemetics like ondansetron and dexamethasone, all of which are currently on the FDA drug shortages list.
- It has also created procedural backlogs and demand for the Group's products as hospitals and surgical centres now need to significantly increase their patient throughput, which has further heightened the value proposition for both drugs as customers seek to regain lost profits.

Targeting the PONV rescue market

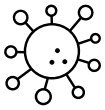
- BARHEMSYS is currently the only FDA-approved product for PONV rescue treatment
- Physicians have reported in market research that up to 31 per cent of surgical patients who receive antiemetic prophylaxis suffer breakthrough episodes of PONV and receive rescue treatment, most commonly ondansetron. We are marketing BARHEMSYS® for targeted patient populations, initially in patients requiring rescue treatment of PONV despite having received prior prophylaxis, and subsequently for higher risk patients requiring combination prophylaxis.
- Concentrated market, addressable by small direct salesforce. An estimated 80% of all surgeries are carried out in ~1,200 hospitals. Our 30 sales territories address accounts with the greatest immediate opportunity.
- Total estimated addressable market in PONV rescue of ~$2.7bn per year, with a secondary market in combination prophylaxis in highest-risk patients estimated to be worth $765m per year
- Enhanced recovery after surgery (ERAS) is a multimodal perioperative care pathway designed to achieve early recovery for patients undergoing major surgery. ERAS represents a paradigm shift in perioperative care in two ways. First, it re-examines traditional practices, replacing them with evidence-based best practices when necessary. Second, it is comprehensive in its scope, covering all areas of the patient's journey through the surgical process. The key factors that keep patients in the hospital after surgery include PONV, the need for parenteral analgesia, the need for intravenous fluids secondary to gut dysfunction, and bed rest caused by lack of mobility. The central elements of the ERAS pathway address these key factors, helping to clarify how they interact to affect patient recovery. In addition, the ERAS pathway provides guidance to all involved in perioperative care, helping them to work as a well-coordinated team to provide the best care.

Procedural sedation market opportunity

- The number of surgical procedures worldwide continues to grow driven by population growth and other factors such as obesity, low physical activity levels, dietary habits, smoking, and alcohol. Current estimates place the number of surgical procedures annually worldwide at greater than 230 million; the majority in the areas of general, orthopaedic/trauma and obstetric/gynaecological surgery. The market for procedural sedation and anaesthesia has been short on pharmaceutical development during the last decade and there remains room for innovation and development in standard of care.
- The New Drug Application ("NDA") for BYFAVO was based on use in procedural sedation for colonoscopies and bronchoscopies. It is estimated there are approximately 25 million such procedures annually in the US. The broad label granted for BYFAVO, covering all adult patient procedures lasting less than 30 minutes, makes it applicable for use in a range of other settings such as interventional radiology, ophthalmic and plastic surgery procedures, bringing the total number of procedures for which BYFAVO is suitable to approximately 40 million.
- BYFAVO is indicated for procedural sedation in adults in procedures lasting 30 mins or less. The substantial clinical data package shows compelling efficacy and safety in colonoscopies and bronchoscopies, including least fit patients
- Rapid onset/offset enables shorter procedure times and greater patient throughput for hospitals and surgical centres compared to other recommended treatments
- Helps post-COVID-19 pressure to alleviate procedural backlog as shorter procedure times allow increased procedural volumes. In addition, both midazolam and propofol are currently on the FDA drug shortages list

Strategy

Our strategic priorities



Deliver effective new treatments

Funding growth

Be a great place to work

How we report our progress

Key Performance Indicators (KPIs) The following pages present our KPIs for the year ending 31 December 2020. Our KPIs are aligned to our three strategic priorities and are the indicators against which we measure our productivity and success. We also monitor financial targets, which indicate whether we have delivered our strategy in a way that allows us to continue to operate as a successful business.

Strategic Report. Our strategic report includes two types of review while our Principal Risks are outlined in the Corporate Governance section::

- **Business review** provides information on key activities and progress within each of our strategic priorities. Within this section, we report on key outcomes against our goals and look ahead to our future strategic goals.
- **Financial review** provides information about our financial performance in the year.
- **Risks:** we review the risks that might challenge the delivery of our strategy (page 34).

Strategic Priority	Deliver effective new treatments	Funding growth	Be a great place to work
What this means	❖ Impacting and improving the whole patient experience ❖ Driving growth through successful innovation and commercial excellence and creating sustainable profitability by managing costs and scaling efficiently as we build. ❖ Collaborating with stakeholders to improve outcomes and throughput	❖ Seeking new sources of capital (equity and/or debt) and managing our capital to continue to commercialize our products and business plan ❖ Pursuing business development opportunities to widen our product portfolio and leverage our commercial infrastructure and salesforce ❖ Look to partner with other companies to commercialize BARHEMSYS in additional geographies	❖ Making a difference to patients and hospitals, focussing on outcomes. ❖ Performing as a team, building a culture of development and commercial success
How our current market strategy responds to market trends	❖ Engaging with stakeholders and key opinion leaders to successfully promote products ❖ Increasing virtual presence at conferences and congresses to educate healthcare professionals ❖ Identifying and responding to new formulary processes and procedures in the wake of COVID-19, with a number of hospitals delaying their formulary decision timing.	❖ We have looked to secure long-lasting investors in equity and other financings to improve our cash runway ❖ Additional financing, in the form or equity or debt, will be necessary to continue to fund the commercial launch of our products and execute on our business plan	❖ Aiming to be a great employer, trusted by all our stakeholders ❖ Our Code of Conduct is built on a refusal to tolerate bribery or any other form of corruption ❖ Engender a high-performing culture which embodies our Cultural Hallmarks ❖ Recruiting the best talent which underpins our innovation and growth.

Key performance indicators

Key performance indicators are established and agreed with the Board. For a company at our stage of development, these will change in response to our changing priorities as we grow.

Our most significant key performance indicator at present is formulary access. 'Formulary wins', that is, accounts where we have succeeded in having BARHEMSYS or BYFAVO placed on their formulary are reported on a regular basis to the Board and also to the market in update presentations.

Numerical targets are set around not only the number of formulary wins, but also the percentage win rates, and progress against these are discussed at Board level. The targets themselves are commercially sensitive.

Progress against objectives set for 2020

Recruit a 30-strong, highly skilled and experienced US hospital salesforce

We brought the sales representative team on board in Q3 2020 to support launch of the products. We will assess the need to supplement this team as we progress with the launches and as demand for our products and available resources dictate.

Secure additional debt or equity finance

The Cosmo transaction brought with it an initial equity investment of €10 million, as well as up to €35 million of debt facility. We were able to further strengthen our strategic partnership with Cosmo by agreeing an amendment to our transaction, effectively swapping €10 million in loan facility for a further equity investment. We successfully completed a gross equity raise of €25 million ($30 million) in August, despite the significant volatility of markets as a result of the COVID-19 crisis, allowing us to recruit and train our salesforce. An additional equity raise of €27 million in February 2021 has further extended our cash runway.

Gain FDA approval of the NDA for BYFAVO with the required prescribing label and launch in H2 2020

BYFAVO was approved on 2 July and scheduled by the Drug Enforcement Agency ("DEA") on 6 October.

Secure acceptance of BARHEMSYS and BYFAVO on as many hospital pharmacy formulary lists as possible and deliver product sales

We are pleased with the formulary progress on BARHEMSYS, after launching in a very challenging environment. BYFAVO was launched in January 2021 and there were no formulary access wins contemplated in our 2020 planned objectives, following the delay in approval date from April to July.

Business Review

Our strategy

We believe we can deliver our effective new treatments to improve the outcomes and recovery for surgical patients in the US through our targeted specialist sales and marketing organisation. Our initial focus has been on promoting BARHEMSYS for better management of PONV and we are now following that with BYFAVO, a product geared at improving procedural sedation that we in-licensed from Cosmo Pharmaceuticals N.V. ("Cosmo") in January 2020. .

PONV remains poorly managed in many patients. It is caused by the stimulation of one or more biological pathways. The prevention of PONV is, therefore, managed by prescribing one or more antiemetics from different mechanistic classes that can inhibit this stimulation. Current practice in the US is that most surgical patients are likely to receive PONV prophylaxis involving a backbone of a $5HT_3$ antagonist (e.g. ondansetron), often supplemented by a corticosteroid (e.g. dexamethasone). Despite the prophylaxis given to almost50 million surgical patients a year in the US, approximately one third still suffer PONV. Treating these patients is a major challenge. Currently, most are re-dosed with one of the drugs they they have already received as prohylaxis, a strategy that has repeatedly been shown to be ineffective. Other drugs used for rescue treatment of these patients have not been shown to be effective in prospective, randomized controlled trials and many have safety concerns.The Group therefore sees an opportunity to address a major unmet need by adding an important treatment to the armamentarium of anaestheologists and surgeons, delivering an effective dopamine antagonist, BARHEMSYS (intravenous amisulpride). BARHEMSYS is the first product to show a benefit in a well-controlled trial in treating patients suffering with PONV after failing standard prophylaxis and is the first product specifically approved by FDA for that indication.In an extensive and robust Phase 3 clinical trial program, BARHEMSYS was also shown to be safe and effective for prophylaxis, including when given in combination with other antiemetics of different classes.

The Group added to its pipeline of hospital products through the strategic in-licensing of exclusive US rights to BYFAVO (intravenous remimazolam). BYFAVO is a fast on / fast off, reversible IV sedative designed for use during invasive medical procedures, such as colonoscopy and bronchoscopy, which may help to improve patient recovery times after such procedures. Rapid onset and offset are seen as important attributes for products in this area, as is a good safety-profile and lack of post-sedation drowsiness, all of which are features of BYFAVO. Quick recovery and early mobilization after these procedures are likely to be beneficial to patients and can provide economic benefits for healthcare providers and institutions.

The Directors believe that having a second product that shares the same attractive commercial message as BARHEMSYS will allow for significant synergies in sales and marketing operations and allow for more efficient investment in commercial infrastructure. Moreover, the concomitant debt and equity funding provided by Cosmo under the terms of the US licensing deal for BYFAVO strengthened the Group's financial position in support of the ongoing product launches. In July, Acacia Pharma was assigned the US license to BYFAVO from PAION AG, the original developer of remimazolam, from whom Cosmo first licensed the drug.

Operational progress

Deliver effective new treatments

On 26 February 2020 the FDA approved the NDA for BARHEMSYS. The received label makes BARHEMSYS the first and only approved agent for "rescue" treatment in patients who have failed prior prophylaxis. It is also approved for combination prophylaxis with other antiemetics in higher risk patients, thus addressing the two key commercial unmet needs in the PONV setting. The Directors believe the label for BARHEMSYS provides it with a strong competitive position and provides compelling pharmacoeconomic benefits to hospitals. Initially, we will focus our commercial efforts on patients who have failed prior prophylaxis and are in need of "rescue" treatment.

The NDA for BYFAVO was approved on 2 July 2020 and the required DEA scheduling was received on 6 October 2020. BYFAVO is the first new sedative approved in the US in 20 years and is designed for use during invasive medical procedures, such as during colonoscopy and bronchoscopy. It is estimated there are approximately 25 million such procedures performed annually in the US. The broad label granted for BYFAVO, covering all adult patient procedures lasting less than 30 minutes, makes it applicable for use in a range of other settings such as interventional radiology, ophthalmic and plastic surgery procedures, bringing the total number of procedures for which BYFAVO is suitable to approximately 40 million. BYFAVO has demonstrated efficacy and safety in an extensive clinical trial program involving around 2,400 volunteers and patients. Data from clinical trials show that remimazolam (BYFAVO) has a rapid onset and offset of action combined with a good cardio-respiratory safety profile. BYFAVO is designed to act more quickly than the available alternatives of the same pharmaceutical class for the same indication (e.g. midazolam) and can be reversed with flumazenil to rapidly terminate sedation or anaesthesia if necessary, an important safety feature.

In preparing for the launches of BARHEMSYS and BYFAVO, the Group established strong sales, marketing, medical affairs, and commercial operations teams. Our priority is to gain acceptance for both products on hospital formularies, which in time is expected to drive sales through the volume of procedures undertaken rather than individual clinician decisions.

We are pleased with the progress on BARHEMSYS, especially considering how challenging the launch environment has been, Early market reception by healthcare professionals has been very positive. Our experienced sales team has been deployed against ~900 initial targeted hospital accounts in the US since mid-October 2020. We believe we have had an excellent start in terms of the commercial launch of the product.

BYFAVO was successfully launched in January 2021 and shares commercial synergy with BARHEMSYS, which is being recognized in our discussions with P&T Committee reviews.

Funding Growth

The Cosmo transaction brought with it an initial equity investment of €10 million ($11 million), as well as up to €35 million ($39 million) of debt facility. We were able to further strengthen our strategic partnership with Cosmo by agreeing an amendment to our transaction, effectively swapping €10 million ($11 million) in loan facility for a further equity investment. In addition, we raised gross proceeds of €25 million ($30 million) in an equity raise in August, which enabled us to hire our sales reps and launch BARHEMSYS in the third quarter of 2020 and BYFAVO in January 2021. Finally, after year end we raised gross proceeds of €27 million ($33 million), further extending our cash runway to support our commercialisation activities. See note 25 for further details.

Be a great place to work

Building our culture

As we grow, building and maintaining a strong, effective, commercial culture will be an essential component of our success. Regular Group-wide meetings, led by the CEO and featuring news, stories and major developments, help to keep employees informed and to reinforce our ways of working. Our cultural hallmarks define a set of behaviours that provide consistent ways of working as the Group grows. We put particular emphasis on encouraging communication, an appropriate appetite for risk, critical thinking, efficiency, and accountability.

Diversity

Our employees come from many different backgrounds and represent a diverse range of race, religion, gender, sexual orientation and age, although as we continue to deliver a highly effective launch with a relatively small commercial team, we have focused heavily on recruiting highly experienced staff. Importantly, our employees offer a diversity of opinions and perspective and have the confidence to express them. We foster an open and inclusive culture that allows employees to understand and trust each other, and to listen and learn from each other's experiences. We believe this leads us to better business decisions and more innovative solutions to problems. The Group has an Equal Treatment, Equal Opportunities and Diversity policy. This provides that the Group will take all reasonable steps to employ and promote employees on the basis of their abilities and qualifications without regard to age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (including colour, nationality and ethnic or national origins), religion or belief, sex and/or sexual orientation. The Group appoints, trains, develops and promotes on the basis of merit and ability alone.

The Group is also a supporter of diversity in the boardroom and is supportive of the Financial Reporting Council's aims to encourage such diversity, although the Group remains of the opinion that appointments to the Board should be made relative to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise.

The following table sets out a breakdown by gender as at 31 December 2020 of (i) the number of persons who were Directors of the Company; (ii) the number of senior managers; (iii) the number of direct reports to senior managers and (iv) the number of persons who were employees of the Group (excluding those persons included in (i), (ii) and (iii)):

Category	Female	Male
(i) Directors (including non-executive directors)	0	5
(ii) Senior managers	1	3
(iii) Direct reports to senior managers	3	10
(iv) Employees, in the Group as a whole, excluding those included above	28	26

Health and well-being and the environment

The physical and mental well-being of our employees is a high priority for Acacia Pharma. Typically we operate in a relatively low-risk, office-based environment, although as a result of COVID-19, the majority of our employees have been working from home for most of 2020. As our business expands, we will have more field-based employees. We will instigate policies and training to ensure employee safety. Our direct environmental impact is low, with only small office facilities. Wherever possible we will encourage reductions in the use of electricity, reductions in air and road travel through the use of video-conferencing and similar communications, and recycling.

The impact of the COVID-19 pandemic on the global economy and on our business continues to be a fluid situation. We responded quickly across our organization to guard the health and safety of our team and participants in our clinical trials, support our partners and vendors and mitigate risk. After careful review of our operations, while the ongoing and developing circumstances related to the COVID-19 pandemic remain uncertain, we believe that we are well positioned to address challenges related to the COVID-19 pandemic and to continue to advance our clinical programs. Thus far, our employees have rapidly adapted to working remotely and we are monitoring the COVID-19 pandemic on a daily basis to ensure we have all necessary plans in place for mitigating disruptions in our operations, including our clinical programs. Like other companies, our clinical trials have experienced some degree of disruption due to access limitations to institutions currently impacted, and we may need to make further adjustments to clinical trials in the future to comply with evolving FDA guidance or otherwise.

We continue to proactively assess, monitor and respond to domestic and international developments related to the COVID-19 pandemic, and we will implement risk-mitigation plans as needed to minimize the impact on our clinical trials and business operations. In addition, we have taken steps to protect the health and welfare of our employees by temporarily closing our offices and suspending business-related travel.

Our code of conduct

We operate in a highly regulated industry, and accordingly our employees are trained and regularly reminded of the ethical behaviours expected of them. We are amalgamating our policies on ways of working into a Code of Conduct and intend to train every employee annually, and contractors and other third parties we work with are expected to adhere to the same standards. The principles and procedures described in the Code of Conduct, along with supporting policies, are intended to ensure that we operate in line with applicable industry codes of practice (e.g. ABPI, PhRMA), and the specific laws and regulations of the countries in which we do business. We encourage employee incident reporting and are committed to investigating and dealing with all concerns in an open and honest manner, and in protecting those raising concerns. Employees can report concerns in a variety of ways, including via a confidential whistleblowing helpline.

Anti-bribery and corruption

Bribery is considered illegal in all countries in which Acacia Pharma conducts business. Our anti-bribery and corruption policy prohibits employees, and those acting on their behalf, from offering anything of value as a bribe or inducement to others to make decisions that favour Acacia Pharma's interests. These policies are designed to promote compliance with the UK Bribery Act, the US Foreign Corrupt Practices Act (FCPA), and other local law equivalents.

We are committed to respecting international standards such as the United Nations Universal Declaration of Human Rights. All appropriate staff will be provided with information, instruction and training to raise awareness of the responsibilities under the Modern Slavery Act (the Act), and those directly responsible for the selection of new suppliers and on-going management of existing supplier relations are required to act in accordance with the Act's requirements.

Transparency

Acacia Pharma will be subject to the data collection and reporting requirements of the US Physician Payment Sunshine Act. Systems have been installed to collect, track, and report payments to healthcare professionals and organisations.

Risk management

Our risk management systems and processes enable us to identify, assess, manage and mitigate the key existing and newly emerging risks facing the business. Acacia Pharma's Board of Directors is responsible for the Group's risk management and internal control systems, and for regularly and robustly assessing these systems.

We believe the most significant risks that could materially affect the Group's ability to achieve its financial goals and its operating and strategic objectives are: maintaining and obtaining product regulatory approvals; obtaining sufficient capital; gaining acceptance on hospital formularies at the major surgery centres; ensuring continuity of product supplies; healthcare law compliance; and the availability of additional financing to take the Group through to cash-flow positivity.

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What next?

Priorities for 2021

Our key objectives for 2021 are:

Successfully commercialise BARHEMSYS and BYFAVO in the US by gaining extensive formulary access to facilitate and grow product use within hospital accounts

The first step to a successful hospital launch involves gaining approval by the Pharmacy and Therapeutics (P&T) committee to add the product to their formulary. We will closely monitor formulary "wins" for the products and the number of accounts where we have gained access for the drugs to be used, as this is the key leading indicator for sales in this environment.

Raise sufficient capital to fund the product launches and support the current business plan

It is necessary for the Group to raise additional capital in order to fully fund the product launches through to cash-flow positivity.

Deliver revenues and manage OPEX to plan/budget for 2021

It is imperative that we deliver on our operational plans with regard to revenues and operating expense in order to continue to successfully operate in this environment, grow and provide returns for our Shareholders.

Meet all FDA timelines for post-marketing requirement/commitment studies for both products

We need to perform all required post-marketing commitments for both products, which include further investigational studies in order to maintain the marketing authorization granted by the FDA for commercialization of the products in the US.

Financial review

Operating loss

The operating loss increased by $8.5m to $30.9m (2019: $22.4m), reflecting the investment in our US commercial infrastructure and product launch preparations.

R&D expenditure was $0.1m (2019: $3.9m), down $3.8m, reflecting a reduction in activities surrounding the management of the NDA submission and product development, together with the reversal of $1.4m of inventory provisions on BARHEMSYS, following FDA approval.

Sales and marketing expenses were $19.4m (2019: $14.0m) in the year, driven by the costs of recruiting and running our commercial team and significant pre-launch marketing, education, training, distribution, regulatory and other activities.

General and administrative costs increased $7.2m to $11.6m (2019: $4.4m), largely as a result of the costs incurred by amortisation of the Byfavo license ($3.1m), increased payroll costs ($2.5m including the IFRS2 charge) and financing transactions ($0.5m).

Finance income and expense

Finance income fell to $0.04m (2019: $0.43m), reflecting the lower cash balances at the beginning of the year together with the reduction in interest rates implemented by banks in response to the financial volatility cause by the pandemic.

Finance expense increased $1.7m in the year to $3.2m (2019: $1.5m) primarily as a result of the interest incurred on the Cosmo loans which were drawn down in the year.

Taxation

The tax credit for 2020 was $0.6m (2019: $0.7m) relating to R&D credits to be claimed on certain R&D activities.

Loss for the financial year and loss per share

The post-tax loss for 2020 was $33.5m (2019: $22.8m) largely as a result of the increase of $8.5m in the operating loss, together with the increase in finance costs incurred in relation to the Cosmo loan. The loss per share was $0.46 (2019: $0.43) mainly as a result of the increase in losses in the year, offset by the increase in the number of Ordinary shares as a result of the Cosmo transaction and the August equity financing.

Balance sheet

Current assets

Current assets increased by $32.1m to $50.4m, dominated by the increase in cash and cash equivalents to $46.7m (2019: $17.0m) as a result of the August equity financing and the Cosmo transaction.

In February 2021, after year end, the Group raised gross proceeds of €27 million ($33 million), further extending its cash runway to support its commercialization activities.

Liabilities

Non-current liabilities of $31.3m represent the long-term proportion of the debt facility entered into with Hercules Technology Growth Capital of which $10m was drawn down on 30 June 2018; the long-term proportion of the loans entered into with Cosmo, of which €15m was drawn down on 27 July 2020 and a further €10m was drawn down on 27 September 2020; and $0.3m in respect of the long-term lease liability now held on balance sheet under IFRS16.

Current liabilities increased to $11.1m (2019: $9.6m), primarily amounts due under the Hercules loan facility in 2020, together with an increase in trade and other payables of $1.5m to $5.7m.

Share capital and total equity

Total equity at 31 December 2020 was $60.5m compared to $4.3m at the previous year end, reflecting the financing transactions undertaken in the year ($83.7m), offset by the loss in the year ($33.5m).

Viability statement

The Directors have assessed the prospects of the Group. The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, and continue its planned activities through to Q2 of 2022.

The activities of the Group, together with factors likely to affect its future development and performance, its financial position, its cash flows, liquidity position and borrowing facilities are described in this Strategic Report on pages 3 to 17. The Directors have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These risks and the manner in which they are mitigated are summarised in the risk management and principal risks section on pages 34 to 35.

Taking account of the Group's financial position and principal risks, the Directors assess the prospects of the Group by reviewing at least annually the annual budget, quarterly reforecasts, the three-year strategic plan and the Group's risk framework. The Directors review the potential impact of each principal risk as well as the risk impact of any major events or transactions.

The major risks facing Acacia Pharma are those surrounding the successful launch of BARHEMSYS and BYFAVO, the impact of the ongoing COVID-19 pandemic and obtaining sufficient additional debt or equity capital to continue to meet the Group's obligations as they fall due. The ability to continue to raise capital to fund commercialisation will depend on wider financial market influences, and cannot be certain, and could adversely influence the ability to fully commercialise BARHEMSYS and BYFAVO in the time frame and in the manner anticipated. The Group has sufficient cash reserves as at the date of this report for the next twelve months, and the Directors believe they can continue to manage resources such that value can be delivered from BARHEMSYS and BYFAVO through its planned commercialisation strategy, thus ensuring the Group's viability. However, under the strategic plan, there is a need for additional financing to continue commercialisation.

Summary and outlook for 2021

The Directors of Acacia Pharma are pleased with the excellent progress made since the beginning of 2020 in bringing two products forward to approval and now launch in the important US market. BARHEMSYS and BYFAVO are highly complementary products that together can efficiently utilize the commercial infrastructure that the Company has now built in the US.

The addition of the rights to BYFAVO along with the accompanying equity investment and debt facility from Cosmo as well as the recent equity raises have enhanced the Group's ability to facilitate a successful launch and roll out of these products.

The early success with hospital formulary access for BARHEMSYS has confirmed the Directors' belief in the strong product profile and compelling health economic arguments in favour of its adoption and use. This is an important first step to building a solid and growing sales platform for the product.

While it remains early days in the launch of BYFAVO, the Directors believe that it too offers significant medical and commercial value that will be viewed favourably by formulary committees and payors, as well as doctors and patients.

Gary Gemignani
Chief Financial Officer
26 March 2021

Directors' duties in relation to s172 Companies Act 2006

The Directors consider, both individually and together, that they have acted in the way they believe, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have regard (amongst other matters) to:

- the likely consequences of any decisions in the long-term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between the Shareholders and stakeholders of the company.

As part of their induction, a Director is briefed on their duties, and they can access professional advice on these, either from the Company Secretary, or, if they judge it necessary, from an independent provider.

Risk management
As we grow, our business and our risk environment each become more complex. It is therefore critical that we effectively identify, evaluate, manage and mitigate the risks we face, and that we continue to evolve our approach to risk management. For details of our principal and emerging risks, and how we manage our risk environment, please see pages 34 to 35 and our Audit Committee report on pages 28 to 33.

Our people
Being a relatively small group with some 90 employees operating in only two locations, there is a high level of visibility of the Board by employees and vice versa. For further details, please see pages 13 to 14 and 24 to 25.

Business relationships
The Board is aware of the need to maintain good working relationships with key suppliers whilst safeguarding the Group's resources and receives regular updates from the Executive Directors on key supply agreements. For further details, please see pages 24 to 25.

Shareholders

One of our major Shareholders is represented on our Board, providing regular feedback on Shareholder views on events and decisions.

The Board ensures Shareholder communications, be they through press releases or the interim and annual reports, are timely, comprehensive, fair and comprehensible. For further details, please see pages 24 to 25.

Community and Environment
The Board seeks to support as many interactions with the medical community as possible through medical meetings, meetings with group purchasing organisations and integrated delivery networks and others to better understand the needs of patients and healthcare providers, and to deliver education and solutions to help healthcare providers deliver better patient care. Our overall environmental impact is considered to be low, with only small office facilities. Wherever possible we encourage reductions in the use of electricity, reductions in air and road travel through the use of video-conferencing and similar communications, and recycling. For further details, please see pages 24 to 25.

Approval of the strategic report

This strategic report is approved by the Board and signed on its behalf by:

Mike Bolinder
Chief Executive Officer
26 March 2021

Letter from the Chairman

Dear Shareholder,

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2020 which outlines the leadership of the Group, the governance arrangements that are in place and explains how we have reviewed their effectiveness.

The Directors recognise the importance of sound corporate governance. As a company incorporated in the United Kingdom, the shares of which are admitted to trading on the regulated market of Euronext Brussels, the Directors are aware that the Company should at least apply the corporate governance code applicable in the state of its registered office, or of its listing, and that it has the freedom to choose which of the two potentially applicable codes it wishes to apply if the codes are different. The Company has chosen to apply the 2018 UK Corporate Governance Code.

High standards of corporate governance are fundamental to our business and are implemented and supported through appropriate internal policies and procedures. The responsibility for ensuring this framework is effective lies with the Board, and we are constantly striving to improve standards whilst building a successful company.

Our Corporate Governance Report herein, which includes reports from the Nomination and Audit Committees and the Directors' Remuneration Report, is structured to report against these key areas and sets out how we have applied the Code's main principles and whether we complied with its provisions.

We recognise the benefits of diversity in the workforce and, whilst we will continue to make all appointments based on the best candidate for the role, we acknowledge that it is not just gender diversity that supports the strength and future success of the business, and we remain focused on achieving the right level of diversity whether related to ethnicity, gender, creed or culture.

Each year, I lead an internal review and evaluation of the Board's performance, and that of its Committees, and also the performance of individual Directors. John Brown, as Senior Independent Director, leads the process for the evaluation of my performance. The review conducted in early 2021 concluded that the performance of the Board, its Committees, the individual directors and myself, as Chairman, was found to be effective. Further details of this most recent review are set out on pages 27, 33, 36 and 40.

Maintaining good communication with our Shareholders is extremely important to us. During the year, the Executive Directors have held regular meetings with investors and attended relevant investor conferences. We aim to disseminate information on a regular basis in order to keep Shareholders abreast with progress. Depending on relevant Covid-19 regulations in place at the time, I, together with other members of the Board, plan to be present at our Annual General Meeting and I would encourage all Shareholders to participate.

Scott Byrd
Chairman
26 March 2021

Board of Directors

With effect from 7 April 2020, the Board comprises five members, being one Executive and four Non-Executive Directors. Together, the Directors bring highly valuable experience across a variety of relevant disciplines to the running of the Group.

Scott Byrd
Chairman

Scott joined the Board of Acacia Pharma Group plc in December 2017 and is a member of the Remuneration Committee. Scott was appointed Chairman of Acacia Pharma Group plc following the 2020 AGM.

Other directorships: Scott is the CEO and director of Outpost Medicine LLC, and director of Algo Therapeutix.

Expertise and experience: Scott has more than 25 years of experience in the pharmaceutical industry. Scott was formerly the Chief Operating Officer of Acacia Pharma. He was the Chief Commercial Officer & Senior Vice President of Cadence Pharmaceuticals, Inc. from June 2009 until its acquisition by Mallinckrodt Pharmaceuticals plc in March 2014. In this role, Scott was responsible for all of Cadence's commercial activities, in particular building and leading the group's US sales and marketing infrastructure for Ofirmev®, a post-operative pain control product promoted to anaesthetists and surgical teams. Previously, Scott served in a variety of US and global roles in sales, marketing, finance, manufacturing and strategic planning at Eli Lilly and Company starting in January 1992. Scott holds a BS in mechanical engineering from Bradley University and an MBA from Harvard Business School.

Mike Bolinder
Chief Executive Officer

Mike Bolinder was appointed as Chief Executive Officer of the Group on 1 August 2019. Mike joined Acacia Pharma in August 2015 as Vice President of Marketing and was subsequently promoted to Chief Commercial Officer.

Other directorships: None.

Expertise and experience: Mike has more than 18 years of experience in the pharmaceutical industry. Prior to Acacia Pharma, Mike served as the Head of Marketing and Commercial Strategy for the Hospital Division at Mallinckrodt Pharmaceuticals (via the Cadence Pharmaceuticals, Inc. acquisition) which commercialised Ofirmev®. Prior to joining Cadence Pharmaceuticals, Inc., he worked at Eli Lilly and Company for 11 years in various sales and marketing roles of increasing responsibility across multiple therapeutic areas and successful product launches. Mike graduated from Florida State University with double majors of International Business and Spanish.

Dr John Brown CBE FRSE
Senior Independent Director

John joined the Board of Acacia Pharma Group plc in March 2018. He is Chairman of the Remuneration Committee and is also a member of the Audit and Nomination Committees.

Other directorships: John is Chairman of the Cell and Gene Therapy Catapult, and is Senior Independent Director of BioCity Group Limited and a non-executive director of Yourgene Health plc.

Expertise and experience: John has extensive experience in the life sciences sector. Previously he was Chairman of Kyowa Kirin International plc, BTG plc, Axis-Shield plc, Touch Bionics Ltd and CXR Biosciences Ltd and a Non-Executive Director of Quantum Pharma plc. In the public sector, he is Chairman of the Roslin Foundation, a Fellow, Trustee and Treasurer of the Royal Society of Edinburgh, a Member of MRC Council and an Honorary Professor of the University of Edinburgh. He was made CBE in 2011.

Edward Borkowski
Non-Executive Director

Ed joined the Board of Acacia Pharma Group plc in March 2018. He is Chairman of the Audit Committee and is also a member of the Remuneration Committee.

Other directorships: He is currently Lead Independent Director of AzurRx BioPharma Inc., non- executive Director of Acacia Pharma Group plc and a Trustee of Allegheny College.

Expertise and experience: Ed is a Certified Public Accountant with significant experience in senior financial, operating and strategic roles in a number of healthcare companies. He has previously served as the Executive Vice President and Chief Financial Officer of Aceto Corp, Concordia International, CareFusion Corporation and Mylan and started his career with Arthur Andersen. Most recently, he was Executive Vice President, interim Chief Financial Officer, head of strategy, legal and compliance, and investor and public relations for MiMedx Group Inc, between April 2018 and December 2019. Ed is currently Executive Vice President of TherapeuticsMD since January 2020. Ed holds a Bachelor of Science in Economics and Political Science from Allegheny College and a Master's in business administration in Finance and Accounting from Rutgers University.

Alessandro Della Chà
Non-Executive Director

Alessandro joined the Board of Acacia Pharma Group plc in April 2020. He is a member of the Nomination Committee.

Other directorships: He is currently Chief Executive Officer of Cosmo Pharmaceuticals N.V.

Expertise and experience: Alessandro has been a board member of Cosmo Pharmaceuticals N.V. since 2006 and its Chief Executive Officer since March 2014. Previously, he was senior partner at Studio Legale Edoardo Ricci e Associati, Milan, where he specialized in company law, mergers and acquisitions. He has also worked as assistant of the central director for corporate matters at Fininvest Group and from 1994 to 1998 he was director of II.PP.A.B. Milan (formerly ECA), a charitable institution owning hospitals and specialized in elderly care. Alessandro has a degree in law from the University of Milan, Italy, and an LL.M. in European Union commercial law from the University of Leicester, UK. He is a lecturer on commercial and company law issues.

Statement of Compliance with the 2018 UK Corporate Governance Code (the "Code")

The Directors support high standards of corporate governance. The Group has applied, and complied with, the Code throughout 2020, with the exception that the constitution of the Board, Remuneration Committee and Audit Committee was not in compliance with the Code for the entire period, as explained below.

Until 7 April 2020, the Board comprised eight directors, of whom three were independent, excluding the Chair. As a result, the Group did not comply with the provision that at least half the Board, excluding the chair, should be independent non-executive directors (Provision 11). Following the AGM on 7 April 2020, the Group was compliant with Provision 11, although recruitment of additional non-executive directors has been delayed as a result of the impact of COVID-19.

The membership of the Committees now includes at least two independent Non-Executive Directors, and the Committees are chaired by independent Non-Executive Directors, who carry a casting vote if there is deadlock. However, Pieter van der Meer served on the Remuneration Committee until he stepped down as a director on 7 April 2020, and Patrick Vink served on the Audit Committee during the year, until he stepped down as a director on 7 April 2020. As a result, the Group did not comply with the provisions that the Remuneration Committee should be composed of independent non-executive directors (Provision 32), and that the Chairman should not be a member of the Audit Committee (Provision 24) for the entire year.

The role of the Board and its Committees

The Board is responsible for the leadership and long-term success of the business. It has a schedule of matters which are specifically reserved for its decision, a copy of which schedule can be found on the Company's website, www.acaciapharma.com. These matters include:

- setting the Company's values and standards;
- approval of long-term objectives and strategy;
- approval of revenue, expense and capital budgets and plans;
- oversight of operations ensuring adequate systems of internal controls and risk management are in place, ensuring maintenance of accounting and other records and compliance with statutory and regulatory obligations;
- review of performance in light of strategy and budgets, ensuring any necessary corrective actions are taken;
- approval of the annual report and financial statements, material contracts and major projects;
- approval of interim financial results;
- changes to structure, size and composition of the Board;
- determining remuneration policy for the Directors and approval of the remuneration of the Non-Executive Directors;
- appointment and removal of the Company Secretary; and
- approval of communications with Shareholders and the market.

At each of its meetings, the Board assesses the progress of the Group when measured against its objectives, and reviews financial performance against the budget.

The Board holds approximately six scheduled meetings per year, with additional meetings and Board calls arranged when circumstances and urgent business dictate. In the year ended 31 December 2020 there were six scheduled meetings and a further ten ad-hoc meetings.

Attendance by individual Directors at Board and Committee meetings during 2020 is set out in the following table:

	Committee memberships	Independent	Board meetings	Nomination Committee	Audit Committee	Remuneration Committee
Executive Directors						
Mike Bolinder	n/a	No	16/16	n/a	n/a	n/a
Christine Soden[1]	n/a	No	2/2	n/a	n/a	n/a
Non-Executive Directors						
Scott Byrd[3]	Rem, Nom[2]	Yes	16/16	2/2	n/a	3/3
John Brown	Aud, Rem[2], Nom	Yes	16/16	3/3	3/3	3/3
Ed Borkowski	Aud[2], Rem	Yes	15/16	n/a	3/3	3/3
Alessandro Della Chà	Nom	No	9/12	2/2	n/a	n/a
Patrick Vink[3]	Aud, Nom[2]	Yes	3/4	1/1	1/1	n/a
Pieter van der Meer[4]	Rem, Nom	No	3/3	1/1	n/a	1/1
Johan Kördel[4]	Aud[3]	No	3/3	n/a	n/a	n/a

1. Christine Soden resigned on 29 February 2020
2. Committee Chairman
3. Patrick Vink resigned n as a director and Chairman of the Board on 7 April 2020.
4. Pieter van der Meer and Johan Kördel resigned from the Board on 7 April 2020
5. Alessandro Della Chá was appointed as a director on 7 April 2020.

Attendance is expressed as the number of meetings attended/number eligible to attend. Directors' attendance by invitation at meetings of Committees of which they are not a member is not reflected in the above table.

Division of responsibilities

The Code states that there should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. The following table sets out how the Company complies with this provision so as to ensure that no one individual has unfettered powers of decision:

Chairman	• leadership of the Board and primarily responsible for the working and effectiveness of the Board • setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items • ensuring the Board plays a full and constructive role in shaping the strategy of the Group • facilitating an effective contribution from the Non-Executive Directors and a constructive relationship with the Executive Directors • ensuring the balance of membership of the Board is appropriate • ensuring that the Board is in full control of the Company's affairs and has an effective dialogue with its Shareholders • ensuring that the Board complies with the appropriate standards of corporate governance
Chief Executive Officer	• senior executive responsible for operational management of the Group • development, preparation and implementation of the Group's strategy as approved by the Board • communication of the Group's culture and values • communicating the Group's financial performance to investors in conjunction with the Chief Financial Officer • keeping the Board fully informed of all material issues
Senior Independent Director	• to be available to Shareholders when concerns have not been resolved through normal channels • to lead the annual appraisal of the Chairman • to develop a balanced understanding of the issues and concerns of major Shareholders • to provide a sounding board for the Chairman
Non-Executive Directors	• to bring an independent and objective judgement to bear on issues of strategy, performance and resources of the Group • to challenge constructively and scrutinise management performance
Board Committees	• The Board has three Committees: the Audit Committee; the Nomination Committee; and the Remuneration Committee, to which it delegates specific responsibilities. The reports of these Committees and details of their composition form part of the Corporate Governance Report. • Each Committee has full terms of reference which have been approved by the Board and can be found on the Company's website at www.acaciapharma.com.

Board activities during 2020

The Board's main activities during the course of the year included:

- Reviewing, assessing and approving the transaction with Cosmo Pharmaceuticals
- Reviewing and considering regular updates from management in relation to the work being undertaken towards launching BARHEMSYS and BYFAVO;
- Reviews of financing options;
- Reviewing, assessing and approving the equity financing in August 2020;
- Reviews of, and updates, to the Group's risk register;
- Reviews of the progress of business and corporate development activity and opportunities;
- Assessment of the financial performance against the budget for FY 2020; and
- Approval of the budget for FY 2021 and the three-year strategic plan.

Stakeholder engagement

The Board seeks to understand and consider the views of the Group's key stakeholders in Board discussions and decision-making.

Key Stakeholders and Concerns	Board Considerations	Key Actions/Outcomes
Employees **Our present and future employees are vital to the future success of the business**	We ensure that the Executive Directors hold monthly all-Group meetings to disseminate progress and hear any employee concerns. We consider this an effective means of engaging with the workforce, given the current size of the Group. The operating updates to the Board include details of employee changes and concerns, together with updates on recruitment prospects. We seek to provide an open and collaborative working environment and attractive remuneration packages aligning employees' goals with those of our Shareholders.	The Remuneration Committee and the Board performed a benchmarking exercise for all positions to ensure we attract and retain necessary talent. A more robust performance review process has also been implemented. We have recruited 30 hospital territory managers for the launch of BARHEMSYS and BYFAVO. Staff turnover has been extremely low. All our employees have share-based incentives.
Shareholders **Our Shareholders have been highly supportive and we seek to encourage existing Shareholders to retain their investment whilst attracting new Shareholders and finance**	One of our major Shareholders is represented on our Board, providing feedback on Shareholder views on events. The Board ensures Shareholder communications, be they through press releases or the interim and annual reports, are timely, comprehensive, fair and understandable.	Our share price has performed well in the year, increasing by 26%. Key achievements were the in-licensing of BYFAVO, approval of both BARHEMSYS and BYFAVO, a $30m capital raise and hiring our saleforce.
Business partners **We have worked closely with our contract manufacturers to ensure commercial supply of our products. We have worked closely with key business partners, such as Cosmo, Paion and Hercules.**	The Board is aware of the need to maintain good working relationships with key suppliers whilst safeguarding the Group's resources and receives regular updates from the Executive Directors on key supply and financing agreements.	Particular attention was paid to the supply of the API for BARHEMSYS. The Board closely monitored the quality improvement work of its original API supplier and ensured that the Group provided reasonable support with the aim of maintaining a secure supply chain and maximising the likelihood of the approval of BARHEMSYS. Working groups were formed with Paion to ensure regular supply and production of BYFAVO.
Medical community **Improving patient care and recovery is at the heart of our business**	The Board seeks to support as many interactions with the medical community as possible through medical meetings, meetings with group purchasing organisations and integrated delivery networks and others to better understand the needs of patients and healthcare providers, and to deliver education and solutions to help healthcare providers deliver better patient care.	Within the restrictions caused by COVID-19, the Board prioritised medical community interactions, both live and virtual, in order to meet these aims.

Key Stakeholders and Concerns	Board Considerations	Key Actions/Outcomes
Environment		
The Group is conscious of the need to protect the environment and minimise its harmful impact thereon	The Group's operations are relatively low in their impact on the environment, but the Board does review this area and seeks to minimise environmental damage.	As a response to COVID-19, the Board implemented a significant reduction in travel, using video conferencing wherever reasonably possible and practicable in running its business. This virtual presence appears likely to continue in 2021.
Reputation		
Maintaining a strong reputation for acting fairly and within all relevant laws and regulations impacts the Group's interactions with all its stakeholders	Policies and procedures approved by the Board focus on maintaining the reputation of the Group with employees, Shareholders, suppliers, regulators, healthcare providers and other key stakeholders.	In particular, the improved risk management procedures implemented in the year focus heavily on compliance with required regulations, reporting, practices and disclosures, together with an assessment of emerging risks and consideration of the longer-term impact of decisions.

Independence

The Code requires that at least half of the board, excluding the chairman, should be independent non-executive directors. Until 7 April 2020, a majority of the Board were not independent, and therefore the Company was not in compliance with the Code. From 7 April 2020 two out of the four Directors, excluding the Chairman, were considered to be independent in character and judgement and therefore the Group met the relevant requirements of the Code from this date.

As noted in the Directors' Remuneration Report, in 2019 certain Non-Executive Directors were awarded share options under the Company's Performance Share Plan ("PSP") in compensation for reducing their fees, following the decision to reduce cash expenditure. These share options vested on FDA approval of BARHEMSYS, and became exercisable on obtaining sufficient finance to recruit the planned salesforce. The value of the options at the date of grant was equivalent to around 50% of the Director fees which were foregone. Given the relatively low value of these awards (on averages $15k per Non-Executive Director), the Board does not consider these to have an impact on independence.

At the end of 2019, the Board, in consultation with the Nomination Committee, conducted a review of Director independence. With regard to Scott Byrd, the Board considered that sufficient time had now elapsed since Scott had ceased to be employed as Chief Operating Officer of Acacia Pharma Limited, and that he was now deemed by the Board to be independent, having not been involved in the Company's day-to-day operations since stepping down from that role in December 2017. In reaching this decision, the Board also took into account the fact that Scott held pre-Admission share options, concluding that this did not in any way impact upon his independence of character and judgement. The Board also acknowledged that Scott Byrd brought recent and relevant knowledge of sales and marketing businesses in the US.

The Chairman, Scott Byrd has participated in the Company's unapproved share scheme in the past. However, this scheme is unrelated to performance, such participation was historical, with all options vested at the time of the IPO, and no further share options will be granted under that scheme. Scott was also awarded share options under the PSP as explained above. The Board has, therefore, determined that it regards Scott Byrd as independent within the meaning of "independent" as defined in the Code for the year. The Chairman's other commitments are described on page 16.

The Board also carefully reviews any actual or potential conflicts of interest that may arise due to the commercial interests of Non-Executive Directors and they are required to make a declaration in respect of any such situations. The Board can confirm that no such conflicts of interest arose in the year. As is noted in his biography, Alessandro Della Chá is Chief Executive Officer of Cosmo Pharmaceuticals N.V, a significant shareholder. For this reason, Alessandro Della Chá is considered by the Board not to be independent.

Accordingly, at year-end the Board comprised of five Directors, being the Chairman, one Executive Director, two independent Non-Executive Directors and one non-independent Non-Executive Director.

The Code indicates that a tenure of more than nine years as a Non-Executive Director could be relevant to a determination of independence. It is confirmed that none of the independent Non-Executive Directors have served for more than nine years.

Appointments to the Board

The procedure for appointment of new Directors to the Board is formal, rigorous and transparent. The process is led by the Nomination Committee which comprises three members, being the Chairman, one independent Non-Executive Director and one non-independent Non-Executive Director. Shortlisted candidates are interviewed by members of the Nomination Committee before a recommendation is made to the Board.

On joining the Board, Non-Executive Directors receive a formal appointment letter, which identifies the terms and conditions of their appointment and, in particular, the time commitment expected of them. A potential Director candidate (whether an Executive Director or Non-Executive Director) is required to disclose all significant outside commitments prior to their appointment. The terms and conditions of the letters of appointment of Non-Executive Directors are available to Shareholders for inspection at the Company's registered office during normal business hours and at the Company's Annual General Meeting (for 15 minutes prior to the meeting and during the meeting).

Executive Directors are permitted to accept external board or committee appointments provided they do not interfere with the Executive Directors' obligations to the Company.

With regard to the re-election of Directors, the Company is governed by its Articles of Association (the "Articles"). Under the Articles, the Board has the power to appoint a Director during the year but any person so appointed must stand for election at the next Annual General Meeting. Any Director who has been a Director at each preceding two Annual General Meetings and has not been re-appointed since, must retire from office at the next Annual General Meeting. The Director is then eligible to stand for re-appointment by the Shareholders. However, in compliance with the 2018 Corporate Governance Code, all Directors stood for re-election at the 2019 Annual General Meeting and will do so at the 2020 Annual General Meeting.

Diversity

The Board recognises the value of diversity at all levels of the Group. The Group has an Equal Treatment, Equal Opportunities and Diversity policy which extends to the Board. This provides that the Group will take all reasonable steps to employ and promote employees on the basis of their abilities and qualifications without regard to age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (including colour, nationality and ethnic or national origins), religion or belief, sex and/or sexual orientation. The Group appoints, trains, develops and promotes on the basis of merit and ability alone.

Induction and training

Upon appointment, meetings are organised with other Board members and with members of the Company's management team. All Directors have direct access to the advice of the Company Secretary, who is responsible for ensuring that Board procedures are complied with. Whenever it is considered necessary, the Company Secretary can arrange the appointment of professional advisers at the Group's expense to assist Board members in their roles. Directors receive frequent updates on commercial developments affecting the business as well as regulatory and legislative changes. Directors are invited, during the annual evaluation procedure, to identify any training which they feel might benefit them.

Information

All Directors receive the agenda and Board papers in a timely manner in advance of Board meetings to enable them to make an effective contribution. Between Board meetings, the Executive Directors maintain regular informal contact with Non-Executive Directors. The Board meets on a regular basis in order to review progress and agree strategy. Senior employees of the business regularly attend Board meetings in order to enhance the Non-Executive Directors' understanding of current issues and give them the opportunity to ask detailed questions.

Board effectiveness

The Board is drawn from a range of backgrounds, with a cumulatively wide range of relevant skills and experiences. This helps the Board to take decisions in the interests of all Shareholders and which take into account the interests of a wide range of stakeholders. The Non-Executive Directors come from diverse business backgrounds and each has specific and relevant expertise, which, in the opinion of the Board as a whole, materially enhances the judgment and overall performance of the Board. The Board believes that good corporate governance depends principally on high-calibre individuals with deep experience of the Group and industry, who have a clear understanding of their roles and responsibilities and the tools necessary to discharge those responsibilities.

The Board has a majority of Non-Executive Directors, currently consisting of four Non-Executive Directors, two of whom are considered independent (excluding the Chairman) and one Executive Director. The Board's composition is geared towards its current stage of development and priorities. The skill set of the Board includes extensive knowledge of the pharmaceutical and biotechnology industries, strategic consultancy and corporate finance. Details of each of the Directors' experience and background are given in their biographies on pages 20 to 21.

Formal Board and Committee evaluations are carried out once a year, and informal evaluations are carried out on a continuing basis throughout the year. The formal evaluation commences with the circulation of a written questionnaire which has been prepared by the Company Secretary. This invites Directors to rate and comment on the performance of the Board in a number of areas, including the conduct of Board meetings; the standard and timeliness of information; the balance of skills of the members of the Board; the roles and responsibilities of individual Directors; and compliance with good corporate governance practices. A detailed, anonymised analysis of these responses is then prepared by the Company Secretary and reviewed and discussed by the Board. The Board will annually review the merits of subjecting itself to an external review.

In addition, on an annual basis, the Chairman is evaluated on his effective leadership of the Board; his management of relationships and communications with Shareholders; the identification of development needs of individual Directors with a view to enhancing the overall effectiveness of the Board as a team; the promotion of the highest standards of corporate governance; his management of Board meetings and ensuring effective implementation of Board decisions. The process for the evaluation of the Chairman's performance is led by the Senior Independent Director, taking into account the views of the Executive Directors.

Following the evaluation process conducted in early 2021, the Company considers that the Board, its Committees and its individual members continue to perform effectively, that the Chairman performs his role appropriately and that the process for evaluation of his performance has been conducted in a professional and rigorous manner.

Relations with Shareholders

The Board maintains regular communication with Shareholders. Meetings between existing and potential Shareholders and the Executive Directors take place throughout the year. The Chairman and Senior Independent Director and other Directors are available to meet with major Shareholders on request. All meetings with Shareholders are held in a manner which ensures price sensitive information which has not been made available to Shareholders generally, is protected from disclosure.

The Chief Executive Officer and the Chief Financial Officer give regular presentations to institutional investors, analysts, and the media and ad-hoc presentations around major transactions or news items. These presentations are available on the website www.acaciapharma.com. Annual and Interim reports and all press releases are also published on the website, as are the terms of reference of the three Board Committees. Paper copies of the report and financial statements are mailed to those Shareholders who have elected to receive them in hard copy.

The Directors receive a report from the Corporate Communications department at each Board Meeting giving information on material changes in shareholdings and collating feedback from the Company's brokers and investors.

Annual General Meeting

The Annual General Meeting provides an opportunity for all Shareholders to meet Board members and have the opportunity to ask about the proposed resolutions and the business in general. Notice of the Annual General Meeting is posted to Shareholders not less than 20 working days prior to the date of the Annual General Meeting and is also available to Shareholders on the website at www.acaciapharma.com. The letter accompanying the Notice includes details of the proposed resolutions and an explanation of their content. At the Annual General Meeting the number of proxy votes cast for, against, or abstaining from each resolution is disclosed. Results of voting are announced to the market and posted on the website as soon as possible after the Annual General Meeting. The Group does not currently consider it appropriate to introduce mandatory poll voting on all resolutions put to the Shareholders, but will keep this position under review.

Audit Committee Report

Dear Shareholder,

On behalf of the Board I am pleased to present the report of the Audit Committee for the year ended 31 December 2020.

Our core remit is assessing the integrity of the Group financial reporting, internal controls and risk management systems, and overseeing the work of the external audit function. The Committee has also continued to focus on our oversight of the Group's internal control and risk management processes. This is particularly important as we evolve from a small UK research and development company to a US-focused revenue-generating group.

During 2020, as part of the Committee's oversight of risk management processes, senior management met with us to present how they embed the Group's risk management approach and mitigating controls across functions. We asked for regular updates, and more detailed analysis on particular aspects, for example product supply, COVID-19, compliance risk and internal financial controls. The risk register was reviewed and discussed.

In 2021, the Committee will continue to focus on the Group's internal controls and risk management processes as we fully commercialise our products, as well as reviewing the implications of the ongoing COVID-19 pandemic.

We set out further details of our work in the following pages.

I am happy to answer any questions the Shareholders may have at any time and look forward to meeting those who attend the Annual General Meeting.

Edward Borkowski
Chair of the Audit Committee
26 March 2021

Responsibilities and membership

The Audit Committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and financial statements and the half-yearly reports remains with the Board. The Audit Committee normally meets at least three times a year at the appropriate times in the reporting and audit cycle.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with requirements of any quorum for, and the right to attend, meetings. The responsibilities of the Audit Committee covered in its terms of reference include the following: external audit, financial reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities. The full terms of reference of the Audit Committee can be found on the website www.acaciapharma.com.

The Code recommends that the Audit Committee comprises at least three members (or two, in the case of smaller companies) who are all independent non-executive directors and includes one member with recent and relevant financial experience. The Code also states that the Chairman should not be a member of the Audit Committee. At the date of this report, the Audit Committee is comprised of two Non-Executive Directors, both of whom are independent, namely Ed Borkowski and Dr John Brown. Patrick Vink, the former Chairman, was a member of the Audit Committee until he stepped down as a director on 7 April 2020. As noted on page 25, the Group therefore did not comply with the provision that the Chairman should not be a member of the Audit Committee for the entire year. The Audit Committee is chaired by Ed Borkowski who is considered to have recent and relevant financial experience.

The Company Secretary acts as the Secretary to the Audit Committee. The Audit Committee meets with the external auditor at least once a year in the absence of management. In order to address our remit effectively, I believe it is important to have those with the requisite business or technical knowledge in our meetings, and I am pleased that the Chief Executive Officer and the Chief Financial Officer both attend our meetings, as well as other members of the Board, and senior management at our request. Representatives of the external auditors, PricewaterhouseCoopers LLP ("PwC"), led by Matthew Mullins, also regularly attend our meetings.

In addition, outside of the formal meetings, I will meet regularly on a one-to-one basis with the Chief Executive Officer and Chief Financial Officer to gain an update on operational matters, develop the Committee's programme of work and review progress on actions agreed by the Committee.

A summary of the matters considered by the Audit Committee in the year to 31 December 2020 is shown in the table below and explained in further detail in the subsequent text.

Area of review	Activities undertaken
Financial reporting	• Review of the interim and full year results • Consideration of whether the annual report is fair, balanced and understandable • Review of the external auditor's report of the full year results • Review of operational updates • Review of significant accounting issues • Review of new accounting policies • Review of the going concern basis of preparation and viability statement • Update on new accounting standards • Fair, balanced and understandable statement • Challenge the management team on each of the above
External auditors	• Review and challenge of external auditors' independence • Review and challenge of auditors' compliance with ethical and professional guidance on audit partner rotation • Assessment of effectiveness of audit process • Recommendation of re-appointment of auditors • Approval of remuneration and non-audit services
Risk management and internal control	• Review and challenge of risk management systems, internal controls and anti-corruption and anti-bribery procedures • Deep-dive review of risk review • Review of internal compliance monitoring • Consideration of internal audit function
Governance	• Review of the Audit Committee's terms of reference • Audit Committee evaluation and actions arising.

Addressing our remit

Financial reporting and significant judgements

As part of their monitoring of the integrity of the financial statements, the Audit Committee assesses whether suitable accounting policies have been adopted and considers particular areas where management has had to exercise judgement or make estimates. The main areas which were reviewed in the year ended 31 December 2020, together with a summary of the Audit Committee's work, are set out below:

- *Carrying value of the Company's investment in and loans to its subsidiaries*

The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the Company. These investments are carried in the statement of financial position of the Company at cost. The carrying value of the investments at 31 December 2020 is £111,397,000 (2019: £109,494,000). The carrying value of the loan at 31 December 2020 is £97,847,000 (2019: £36,187,000). The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries relate to the continuing progress of the research and development programmes, in particular the marketing and sale of BARHEMSYS and BYFAVO. The Director's assessment of the value of the underlying programmes, supported by valuations by independent research analysts and the current valuation of the Group, indicate that no impairment provisions are required. As noted in the principal risks and uncertainties set out on pages 30 to 31, there are a number of risks and uncertainties around those assumptions and the crystallisation of any of those risks could have a significant impact on the assessment of the carrying value of the investment and receivables shown in the financial statements of the Company.

- *Accounting for the Cosmo transaction*

The licence to BYFAVO is shown at historical cost, and we have made an accounting policy choice to use the cost accumulation model, whereby contingent consideration, comprising development and sales milestones, is not considered upon initial recognition of the asset, but is added to the cost of the asset initially recorded when incurred. Under IAS38 we could choose to recognise the asset at the cost inclusive of the fair value of future contingent payments at acquisition, together with an equivalent liability. However, the cost accumulation model appears to be more appropriate for the Group and is the more common practice in the industry. The license has a finite useful life, and is subsequently carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the patent life, being 7 years from FDA approval.

- *New Accounting polices*

In 2020, accounting policies for intangible assets and revenue were adopted to reflect the Cosmo transaction and the start of revenue generation. For IFRS15, management engaged an external firm to assess existing contracts and provide an IFRS15 analysis, which was presented to the Committee for discussion and review. Management provided further analysis on intangibles, specifically the accounting for the contingent consideration included in the Cosmo transaction. The Committee reviewed and approved the proposed accounting policies, which can be found in note 1.

Fair, balanced and understandable

The work undertaken by management (and reviewed by the Committee) to support the Board's statement included:

- Establishing a working group of key individuals, who are appropriately qualified, within the Group to oversee the drafting of the Annual Report;
- The Chief Executive Officer and Chief Financial Officer confirming that in their opinion, the drafting of the Annual Report was 'fair, balanced and understandable';
- An audit trail was completed by the Group Financial Controller for material data underpinning the non-financial information in the Annual Report;
- Circulating drafts of the Annual Report to the Committee and the Board for review; and
- Discussing material disclosure items at a meeting of the Committee held on 19 March 2021.

The Committee discussed the 'fair, balanced and understandable' statement at a meeting on 19 March 2021 in light of the above, and, having done so, recommend that the Board provide it in the form set out on page 54.

Viability

The Board has chosen to consider the prospects of the Group over a 3 year period, consistent with the Strategic Plan of the Group, as they consider it to be a period over which the Group will be focussing on the launch, sales and marketing of existing products BARHEMSYS and BYFAVO.

Based on the Directors' current forecasts and plans, which assume the successful commercialisation of BARHEMSYS and BYFAVO) and, considering the existing cash and debt facilities, the Group and Company have sufficient funding to continue their operations until the end of Q2 of 2022, such that during the Q2 of 2022, the Group and Company will need to raise additional funding in order to continue commercialisation. The only facility with covenants attached, which the Group are forecast to remain in compliance with, is due to be repaid in Q1 of 2022. The Group has sufficient cash resources to repay the facility immediately if it is recalled.

The Committee's assessment of the principal risks facing the Group included a review of the potential impact of severe but plausible scenarios that could threaten the viability of the Group and the potential mitigations that management believe would be available. The Directors' base case forecast and plans assume the successful commercialisation of BARHEMSYS and BYFAVO. The downside scenario assumes that revenue remains consistent with that earned in Q1 of 2021. The Committee discussed the viability statement at a meeting on 19 March 2021 and, having done so, recommended that the Board provide it in the form set out on page 17.

External audit

The Group's external auditor, PricewaterhouseCoopers LLP (PwC), is engaged to express its opinion on the Group's financial statements. At its meetings in September 2020, and March 2021, the Audit Committee discussed the 2020 audit process, more specifically as set out below:

	Outcome/action taken by the Audit Committee
July 2020	
Review of PwC non-audit services	
PwC reporting accountant work, including review of half year	Non-audit services and fees approved
September 2020	
PwC audit plan	Challenged and agreed by the Audit Committee
PwC's audit risk assessment	Discussed with PwC (including the approach to identified risks)
Materiality level for the audit	Agreed with PwC for the consolidated financial statements (using the same basis as in 2019)
PwC's resources and staffing	Reviewed and discussed with PwC
Audit fee and terms of engagement	Reviewed, challenged and approved by the Audit Committee
March 2021 (post period)	
Confirmation of PwC's audit plan	PwC confirmed there were no changes to the audit plan presented to the Audit Committee, except to reduce the risk on the carrying value of the investment in Acacia Pharma Limited from significant to elevated.
Audit findings, significant issues and other accounting judgements	Discussed with PwC and management
Management representation letter	Reviewed and approved by the Audit Committee
PwC's independence and objectivity and quality control procedures	Independence and objectivity confirmed; quality control procedures reviewed.

Auditor objectivity and independence and non-audit services

The Audit Committee has a formal policy for approving the use of the auditor for non-audit work, detailing areas where the auditor may not be used and areas where they may be used subject to the agreement of the Audit Committee. The external auditor is precluded from engaging in non-audit services that would compromise their independence or violate any laws or regulations affecting their appointment as external auditor. During the year, no approval was granted for any non-audit services which were not in full accordance with these standards.

PwC undertook non-audit services of the Group in the course of the year to 31 December 2020 which are summarised in the table below. These services were provided in compliance with the policy outlined above and no conflicts of interest were considered to have arisen.

Audit Committee approval required?	Nature of work	Fees $'000
Yes	Other assurance services	230

The total fees paid to the external auditor are shown in note 5 of the financial statements. The other assurance services during the year related to procedures performed as reporting accountant on historical financial information as part of fundraising. The non-audit fees were above the level of audit fees in the year, and the Audit Committee considered whether this impaired independence. The Audit Committee believes that the use of PwC was appropriate in the circumstances and that independence was preserved as the nature of the non-audit services was such that the external auditor was best placed to perform this work due to their skills and experience, and the fees paid were insignificant in the context of the overall revenues earned by PwC. In addition, such services remain allowable under the new FRC ethical standard. In summary, the Audit Committee confirms that the Group has received an independent audit service in the year to 31 December 2020 and up to the date of this report.

Evaluation of the external audit

During the year, the Audit Committee evaluated the performance and effectiveness of the external auditor. During the year, the Audit Committee and senior members of the finance team evaluated the external auditor's performance, reviewing the strength of the audit team, its expertise and experience, the completion of the approved audit plan, communication and reporting. Feedback was obtained from staff members involved in the external audit and the Audit Committee also considered the Audit Quality Review findings for PwC.

Following its review, the Audit Committee deemed the performance of the external auditor satisfactory, the audit process was effective, and PwC remained independent and objective.

Tendering

PwC has been the Company's auditor since its incorporation in 2015, and the auditor of Acacia Pharma Limited since its incorporation in 2006. In view of the changes to the regulatory requirements relating to mandatory audit tendering, the Audit Committee expects to conduct an audit tender at the latest prior to contracting the 2028 year- end audit.

Re-appointment of the auditors

Having assessed the effectiveness of the external audit referred to above and the independence of PwC, the Audit Committee recommends the re-appointment of PwC at the 2021 Annual General Meeting.

Risk management and internal control committee considerations

The Board has overall responsibility for the review of the Group's risk management framework and the level of risk which is acceptable in order to achieve its strategic objectives. The Audit Committee, on behalf of the Board, undertakes the detailed monitoring of the risk management framework and system of internal controls and reports to the Board on their suitability and efficacy annually. In order to discharge its duties in this respect, the Audit Committee receives and reviews reports from the Group's management team. The Audit Committee continues to assess what is an acceptable level of risk in key areas, and the best strategy for mitigating those risks given the cost and time constraints which exist. The Audit Committee focused on those risks considered to be of the greatest significance to delivery of the Group's strategy, as well as the effect of external healthcare and macro-economic risk. Further explanation of the risk management process and work undertaken by the Audit Committee in this area during the year can be found on pages 34 to 35.

Whistleblowing

A confidential whistleblowing procedure has been put in place to enable employees to raise concerns regarding possible improprieties in relation to financial or other matters. This procedure has been communicated to all staff. The Audit Committee has reviewed these arrangements and is satisfied that the current procedure allows for proportionate and independent investigation of such disclosures, and for appropriate follow up actions to be taken. In accordance with the current policy, concerned employees may raise matters directly with the Chairman of the Audit Committee.

UK Bribery Act

The Group has an anti-corruption and anti-bribery policy which has been communicated to all staff. This policy ensures full compliance with the UK Bribery Act 2010. The policy extends to carrying out due diligence on new key business partners who are judged to be acting on behalf of the Group in high risk areas.

Internal audit

This year the Audit Committee considered whether there is a need for an internal audit function and concluded that, given the scale of operations at this time, it is not currently necessary. The Board accepted this recommendation. This decision will be kept under review.

Audit Committee performance evaluation and future focus

The Audit Committee addressed the areas of development for 2020 as planned and reviewed the risk appetite as part of a wider programme of risk reviews. In early 2021, the Audit Committee undertook an evaluation of its own performance using an internal questionnaire process, the outcome of which was reviewed by the Board. The feedback was positive about the Audit Committee's progress in overseeing and challenging the systems of risk management and supportive of continuing to develop this in 2021.

Edward Borkowski
Chairman of the Audit Committee

Risk management and principal risks

Accountability for oversight of risk

The goal of the Board is to ensure that the Company is able to identify, assess and effectively manage or mitigate existing, changing and newly-emerging risks. The Board also assesses the likelihood and potential impact of plausible risks and seeks to ensure that the overall risk profile of the Group is appropriate in light of its strategy.

With direct support from the Audit Committee, the Board believes it has taken all reasonable steps to satisfy itself that the risk management process and internal control systems are effective and fit for purpose. As with all risk management processes, there remains a degree of uncertainty, planned mitigations may not be effective and unpredicted risks may arise. Accordingly, it can only provide a reasonable, and not an absolute, assurance against material misstatement or loss.

Risk review process and output

The corporate goals as set out in the Strategic Report have been built into the risk management process, and form one of the bases on which business risks are measured. Senior management and the Board specifically consider risks that, in their opinion, could cause the Group's future results, financial condition and prospects to differ materially from current expectations, including the ability to meet the objectives outlined in the Strategic Report. The Executive Committee, comprising the Chief Executive Officer, the Chief Financial Officer and Chief Medical Officer, with the support of senior management, conduct a comprehensive assessment of the principal and emerging risks at Group level through a Quality and Risk Management Group (comprising of senior heads of function) and record them in a risk register. The Board reviews and approves the Group risk register.

Based on that analysis, the Board believes it has taken into account material and plausible risks and can confirm the viability of the Company as set out in the Viability Statement required by the UK Corporate Governance Code (see page 17).

Assessment of principal and emerging risks

The main risks relevant to the Group have been identified below, together with an explanation of how they are managed and controlled. Some risks are common across the pharmaceutical industry, while others reflect the Group's specific strategy. The Company considers all of these risks relevant to any decision to invest in it.

Area	Risk	Mitigating activities
Corporate *Impact of COVID-19*	**Widespread health crisis caused by COVID-19** The Group's business has been adversely affected by the COVID-19 outbreak and may experience further adverse effects. The COVID-19 pandemic may continue to materially affect the Group's operations as well as the business or operations of our manufacturers, CROs or other third parties such as healthcare settings with whom we conduct business.	• Adjustment of commercialisation strategy to allow for virtual marketing and sales activities. • Investment in virtual conferencing materials. • Additional analysis and reactive response as hospital settings emerge from lock-down - analysis of sales targets vs those that have reopened.
Regulatory *Maintaining FDA approval*	**Maintaining FDA approval of BARHEMSYS and BYFAVO** The Group's success is dependent upon maintaining regulatory approval for its products BARHEMSYS and BYFAVO. The Group could be subject to regulatory authority enforcement or action if it is non-compliant in investigational or post-marketing requirements.	• Manufacturing and Quality Assurance team monitoring • Internal quality inspections of API manufacturers performed in the year • Quality policy established between Company and suppliers to regulate future operations
Regulatory *Healthcare law compliance*	The Group must comply with complex regulations in relation to the marketing of its drug products. These regulations are strictly enforced. Failure by the Group (or its commercial partners) to comply with the Sunshine Act, the US False Claims Act, Anti-Kickback Statute and the US Foreign and Corrupt Practices Act and regulations relating to data privacy (amongst others) and similar legislation in countries outside the US may result in criminal and civil proceedings against the Group.	• Global Head of Regulatory hired. • Policies and procedures approved and integrated with thorough training of sales staff • 3rd party contract to audit interactions (requirement of FDA) • Sunshine Act information capture and reporting mechanisms in place • Promotional review process in place

Area	Risk	Mitigating activities
Commercialisation	**Commercialisation of BARHEMSYS and BYFAVO** The Group's ability to generate future revenues and become profitable will depend upon its ability to successfully commercialise BARHEMSYS, BYFAVO and APD403. The Group has limited experience of manufacturing its product candidates on a commercial scale and is dependent on third-party manufacturers for the manufacture of all product candidates. The Group's strategy is dependent on gaining acceptance on hospital formularies at the major surgery centres	• Highly experienced commercial team in place • Projects underway to understand and optimise market • National accounts team planning and implementing strategy • Outsourced distribution to experienced third-party logistics provider (Eversana) • Obtained required State licences
Product supply	**Supply chain** The Group has single suppliers for its production of finished products. There are currently shortages of certain components, specifically glass vials. The glass vial shortage will be exacerbated over the coming months as mass production of COVID-19 vaccines is rolled out.	• Buffer stocks will be produced and held in order to avoid the risk of product shortages.
Corporate *Financing*	**Availability of additional financing** Inability to replenish cash balances weaken the Group's strategic ambitions. For example, failure to obtain additional funding to take BARHEMSYS and BYFAVO through to profitability.	• The in-licensing and funding deal with Cosmo Pharmaceuticals, together with the equity financing in August,2020 and February 2021 has improved the short-term outlook, however additional funds will need to be raised to take the Group through to cash flow positivity.

Nomination Committee report

Dear Shareholder

On behalf of the Board, I am pleased to present Acacia Pharma's Nomination Committee report for the year ended 31 December 2020. The key objective of the Nomination Committee is to ensure the Board is made up of a range of individuals who together have the appropriate mixture of skills and experience to lead the Group.

A summary of the activities of the Nomination Committee is set out below.

Responsibilities

The Nomination Committee must review the size, structure, and composition of the Board and its Committees evaluating the balance of skills, experience, independence, and diversity of the Board as a whole. On the basis of this evaluation it will then make recommendations to the Board on any appointments. As part of this process, the Nomination Committee will prepare a description of the skills, experience and other characteristics required, and identify through a transparent procedure, individuals who are capable of filling those roles.

The Nomination Committee also plans for the orderly succession of Directors to the Board and recommends to the Board the membership and chairmanship of the Audit and Remuneration Committees. The full terms of reference of the Nomination Committee can be found on the website www.acaciapharma.com.

The Company Secretary acts as Secretary to the Nomination Committee. The Chief Executive Officer may attend meetings by invitation. The Nomination Committee is empowered to obtain external professional advice to assist in the performance of its duties. However, during the year the Nomination Committee did not require any external services.

Activities

The Nomination Committee met three times during the period covered by this report and the principal activities undertaken were:

- Review of the structure, size and composition of the Board (including skills, experience, independence, knowledge and diversity);
- Review of the composition of the Audit Committee
- Senior management succession planning and execution, including the appointment of Gary Gemignani as Chief Financial Officer and Anne-Marie Elsley as Company Secretary.

In view of Christine Soden's decision to resign from her role of Chief Financial Officer, the Nomination Committee relied on the extensive network of its Directors to bring together a shortlist of candidates. The Committee reviewed Gary Gemignani's candidacy against that of other candidates and concluded that he fulfilled the key requirements of the role. Accordingly, the Nomination Committee recommended to the Board that Gary be offered the role of Chief Financial Officer. In line with common market practice in the US, it was decided not to appoint him to the Board of Directors. After due consideration, the Board approved the Nomination Committee's recommendation and Gary was appointed as the Group's Chief Financial Officer with effect from 1 March 2020.

In February 2021 the Nomination Committee assisted with the annual performance evaluation of the Board, its members and its Committees and reviewed the results of the Board's performance evaluations that relate to the composition of the Board. The Committee is also working to ensure compliance with the Code on the composition of the Audit and Remuneration Committees.

Scott Byrd
Chairman of the Nomination Committee
26 March 2021

Remuneration Report

Annual Statement from the Remuneration Committee Chairman

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2020, which will be subject to an advisory vote at the 2021 Annual General Meeting, and our Directors' Remuneration Policy, which was subject to a binding vote at the 2019 Annual General Meeting together with changes thereto which were approved by Shareholders at the 2020 Annual General Meeting. The outcome of these votes will also be considered carefully by the Remuneration Committee in the formulation and approval of the Company's future Remuneration Policy. The report includes full details of remuneration earned by the Directors and information on key decisions taken by the Remuneration Committee during the year.

The Group underwent significant development during the year.

In January 2020, the Group concluded a strategic in-licensing and financing deal with Cosmo Pharmaceuticals NV, granting the Group exclusive US commercialisation rights to BYFAVO, as well as an equity investment and debt facility. On 26 February, the FDA approved the NDA for BARHEMSYS, and on 2 July the FDA approved the NDA for BYFAVO. On 29 February, Christine Soden stepped down as CFO and was replaced by Gary Gemignani. On 16 August, the Group settled a €25m ($30m) equity raise, allowing the Group to hire a salesforce to launch BARHEMSYS. As the Group's activities become more heavily focussed on US sales and marketing activities, the Remuneration Committee will continue to benchmark its remuneration structure and has made, and will, in the future, make recommendations to reflect the different approach to remuneration that is standard practice in the US market.

To help Shareholders understand our remuneration structure and its link to the Company's strategy and performance we have included a 'Remuneration at a glance' section, which can be found on page 39. This is followed by the Annual Report on Remuneration on pages 40 to 46 and by the Directors' Remuneration Policy on pages 46 to 53.

Directors' Remuneration Policy

Following Listing, 2018 was the first year that the Company was required to put the Remuneration Policy ('the Policy') to Shareholders for approval. The Policy is set out in full within the Directors' Remuneration Report and was proposed and passed as a resolution at the 2019 Annual General Meeting of the Company. A revised Remuneration Policy was approved by Shareholders at the 2020 Annual General Meeting including changes to the vesting conditions of share-based incentives, reflecting standard practice in the US, where the CEO, CFO and majority of employees are located and employed, in order that the Group can remain competitive in recruiting and retaining employees. The CFO is not a Director of the Company and as such his remuneration is not governed by the remuneration policy.

Key decisions and activities in the year ended 31 December 2020

The Remuneration Committee has undertaken the following key decisions and activities:

- Granted share awards under the Acacia Pharma Group Performance Share Plan (the "2018 PSP"), under which the Company may grant cash and equity-based incentive awards to eligible employees in order to attract, incentivise and retain the skilled and talented individuals we need to operate our business;
- Performed a benchmarking exercise for executive remuneration, resulting in the Committee recommending to the Board that the salary for Mike Bolinder should increase in line with market;
- Negotiated and recommended to the Board termination arrangements with Christine Soden as set out on page 46;
- Following receipt of the BARHEMSYS NDA approval, re-instated executive director salaries to 100% levels, following the voluntary temporary reduction in salaries from August 2019 as a result of the receipt of the Complete Response Letter ("CRL") in May 2019;
- On a medium-term basis, the Committee determined the aims of the business should be to deliver above-average returns to Shareholders, secure additional funding and successfully commercialise BARHEMSYS and BYFAVO, measured by product revenues once launched. The targets for the performance-based element of the share awards were set around these measures;
- Assessed performance against the 2020 annual bonus objectives and recommended bonus awards to the Board;

- Recommended to the Board the annual bonus objectives for the financial year ending 31 December 2021 for the Executive Directors. Performance against these objectives will be assessed and disclosed by the Remuneration Committee following completion of that financial year; and

- As the Group moves towards a more commercial outlook, the Committee has reviewed and agreed with management a new performance review timetable, such that annual bonuses and share awards will be finalised once the financial results are completed. As a result of this review, performance-based LTIP awards were not made in 2020.

AGM voting

The resolutions placed before the 2020 AGM in relation to Directors' remuneration were all passed:

	Votes for	%	Votes Against	%	Votes total	Votes withheld
To approve the Directors' Remuneration Policy	29,691,156	99.19	242,085	0.81	29,933,241	0
To approve amendments to the Directors' Remuneration Policy approved in 2019	29,691,156	99.19	242,085	0.81	29,933,241	0
To approve the Directors' Remuneration Report	29,691,156	99.19	242,085	0.81	29,933,241	0

Having grown its workforce in the US from one employee at the time of the IPO to some 90 today, the Group continuously reviews its remuneration policies and procedures to ensure they meet the operating objectives. As the Group develops, the Remuneration Committee will consult with both the wider workforce and Shareholders to ensure the Remuneration Policy aligns with the expectations of both stakeholder groups, noting the fact that the majority of the employees are US-based requiring the policy to be competitive in that market. We strive to ensure our remuneration policy addresses the FRC Corporate Governance Code remuneration principles of supporting the strategy of the business and promoting long-term sustainable success, aligning executive remuneration with the Group's purpose and values with a clear link to long-term strategy. We believe our remuneration arrangements are transparent and straightforward, the range of rewards clearly identified, they are proportional and will drive behaviours consistent with our strategy and culture. We seek to ensure that remuneration arrangements are not excessive and will not reward behaviour that might damage the business.

The Remuneration Committee is currently considering whether the current Remuneration Policy as set out in this report is fit for purpose in the light of the increase in US-focussed activities and management and may consider putting a new policy to a shareholder vote prior to the expiry of the normal three year cycle, and potentially as early as this year's AGM.

I hope that you find this Remuneration Report clear in explaining the implementation of our Remuneration Policy during 2020. We trust that we have provided the information you need to be able to support the resolution to be put to shareholders on this Remuneration Report at the Company's AGM.

Yours faithfully,

Dr John Brown
Chair of the Remuneration Committee
26 March 2021

Remuneration at a glance

2020 outcomes:

- Increased executive director salaries back to 100% following the receipt of NDA approval
- Termination arrangement agreed with Christine Soden
- Compensation arrangements agreed with Mike Bolinder following BARHEMSYS approval
- Share options awarded under the 2018 PSP.
- Approved the compensation arrangements for Gary Gemignani (CFO)
- Group-wide benchmarking exercise to review senior management compensation and bring in line with market.

Directors' Remuneration – Policy principles

Acacia Pharma's remuneration strategy is to provide a remuneration framework that:

- promotes the long-term success of the business;
- attracts, retains and motivates executives and senior management in order to deliver the Group's strategic goals and business outputs;
- provides an appropriate balance between fixed and performance related pay supporting a high-performance culture promotes the long-term success of the business;
- provides a simple remuneration structure which is easily understood by all stakeholders;
- adheres to the principles of good corporate governance and appropriate risk management;
- aligns employees with the interests of Shareholders and other external stakeholders;
- considers the wider pay environment both internally and externally; and
- encourages widespread equity ownership across the Group.

In setting Executive Directors' remuneration, the Committee takes account of pay and conditions throughout the Group. The Committee also considers corporate governance requirements and best practice in terms of remuneration structures in the markets in which the Group operates and recruits and the process of setting executive remuneration.

The Committee reviews performance targets regularly to ensure that they do not encourage or motivate inappropriate risk taking. Furthermore, the Committee will, when necessary, take into account any reputational, environmental, social and governance (ESG) events and the Audit Committee's reviews of the effectiveness of internal controls and risk management when assessing performance. This is reinforced by the recovery withholding provisions in the DABP and PSP.

The following diagram provides an overview of the key elements of reward for the Executive Director and the performance measures used.

Key elements of reward – 2020 outcomes

2020:
Returned executive director salaries to 100%, following the cut to 40% in 2019. Performed benchmarking exercise on CEO salary to bring in line with peers.

2020:
No company pension provided to the Executive Director. Private medical benefits and travel insurance provided on the same terms as for other US employees.

Cash bonus
Cash bonus of $297,000 awarded, representing 50% of base salary
Deferred shares
Share awards amounting to approximately 50% of salary were awarded

2020 awards:
No awards were made in 2020, due to the modifications made to the performance review timetable. Awards made in 2021 are set out below on pages 42 to 43

Structure of the report

The report is divided into three parts: (i) the 'Annual Statement' (above), summarising the business context in which the Remuneration Committee has operated; (ii) the 'Annual Report on Remuneration' which provides details of the major decisions made by the Remuneration Committee and the remuneration actually delivered to the Group's directors during the 2020 financial year; and (iii) the 'Directors' Remuneration Policy report'.

Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

The Annual Report on Remuneration and Annual Statement will be put to an advisory shareholder vote at the 2020 Annual General Meeting.

About the Remuneration Committee and its advisers

The Remuneration Committee has been established by the Board and is responsible for executive remuneration.

Members	Position	Appointment date	Number of meetings attended
Dr John Brown	Chair and senior independent Non-Executive Director	6 March 2018	3/3
Ed Borkowski	Independent Non-Executive Director	16 February 2018	3/3
Scott Byrd	Non-Executive Director	6 March 2018	3/3
Pieter van der Meer*	Non-Executive Director	16 February 2018	1/1
* Pieter van der Meer stepped down from the Board at the 2020 AGM			
Other attendees	The Company Secretary Chief Executive Officer Chief Financial Officer		
Corporate governance	The constitution of the Remuneration Committee was in compliance with the provisions of the 2018 UK Corporate Governance Code (the "Code") from 7 April 2020, following the departure of Pieter van der Meer. The Committee is now composed of two Independent Non-Executive Directors, together with the Chairman of the Board, who was independent on appointment, and the Committee is chaired by Dr John Brown who is independent and carries a casting vote if required.		
Approach to remuneration matters	The Remuneration Committee's approach to remuneration matters is to enable the Group to attract and retain talent, incentivise long-term shareholder value generation and effectively manage compensation costs. It is the belief of the Remuneration Committee that this is best achieved through balancing the mix of variable and fixed remuneration, (base salary and benefits), with the flexibility to appropriately reward and incentivise with variable pay and longer term incentives, as set out in the Directors' Remuneration Policy.		
Terms of reference	The terms of reference of the Remuneration Committee can be found on our website at www.acaciapharma.com or from the Group Company Secretary on request.		
Committee evaluation	During the year the Committee carried out a review of its effectiveness. The Committee was seen to be effective in its operations, although steps would be taken to address the membership of the committee to ensure compliance with the Corporate Governance Code in the near term.		
Committee advisers	The Remuneration Committee appoints advisers from time to time. During 2020, the Committee appointed Radford as independent advisers to perform a benchmarking exercise for executive and senior management remuneration. Fees paid to Radford totalled $30,000.		

Single figure for total remuneration (audited)

		Salary / fees	Benefits[3]	Pension[7]	Annual bonus[4]	Share awards[5]	Long-term incentives[5&6]	Total[8]	Fixed remuneration	Variable remuneration
		$'000	$'000	$'000	$'000	$'000	$'000	$'000		
Executive Directors										
Mike Bolinder[1]	2020	514	19	-	594	-	183	**1,310**	**533**	**777**
	2019	*67*	*11*	-	-	-	-	***78***	***78***	**-**
Julian Gilbert	*2019*	*239*	*4*	*24*	-	-	-	***267***	***267***	**-**
Christine Soden[1&2]	2020	24	-	2	-	-	-	**26**	**26**	**-**
	2019	*209*	-	*21*	-	-	-	***230***	***230***	**-**
Non-executive directors										
Patrick Vink[10]	2020	28	-	-	-	-	-	**28**	**28**	**-**
	2019[8]	*117*	-	-	-	-	-	***117***	***117***	**-**
Scott Byrd	2020	138	-	-	-	15	-	**153**	**138**	**15**
	2019[8]	43	-	-	-	-	-	***43***	***43***	**-**
Ed Borkowski	2020	86	-	-	-	17	-	**103**	**86**	**17**
	2019[8]	*48*	-	-	-	-	-	***48***	***48***	**-**
John Brown	2020	89	-	-	-	18	-	**107**	**89**	**18**
	2019[8]	51	-	-	-	-	-	***51***	***51***	**-**
Alessandro Della Chá[9]	2020	64	-	-	-	-	-	**64**	**64**	**-**
Pieter van der Meer[10]	2020	-	-	-	-	-	-	**-**	**-**	**-**
	2019	-	-	-	-	-	-	***-***	***-***	**-**
Johan Kördel[10]	2020	-	-	-	-	-	-	**-**	**-**	**-**
	2019	-	-	-	-	-	-	***-***	***-***	**-**

1. To improve cash flow management while waiting for BARHEMSYS approval, Christine Soden and Mike Bolinder reduced their salary to 40% from 1 June and 1 August 2019 respectively. This was reinstated to 100% for Mike Bolinder from 1 March 2020
2. Christine Soden's remuneration represents the period from 1 January 2020 to her resignation date of 29 February 2020.
3. Benefits shown above relate to the provision of private medical benefits, travel and life insurance.
4. Mike Bolinder received $297,000 in cash bonus, with $297,000 awarded in RSUs and deferred into the Deferred Annual Bonus Plan.
5. This amount relates to the intrinsic value (being the difference between exercise price and share price on vesting) of share options or RSUs granted in prior years and vesting in the year. On 21 September 2020, 75,000 RSUs awarded to Mike Bolinder in 2019 vested, resulting in a gain of $182,500. A further 100,000 options awarded to Mike Bolinder in 2017 vested on 31 October 2020 which were out of the money on vesting. 37,040 share options granted to Non-Executive Directors in 2019 in return for fees foregone vested on 21 September 2020.
6. Long-term incentive awards under the PSP are detailed and set out on page 42. The first vesting date of awards made under the 2018 PSP was 4 March 2021. None of the awards met their threshold performance conditions, and consequently did not vest.
7. Pension consists of a cash supplement in lieu of employer pension contributions in accordance with the relevant service contracts.
8. From 1 August 2019 to 29 February 2020, the non-executive directors reduced their director fees by 50%.
9. Alessandro Della Chá was appointed on 7 April 2020, and his fees are shown from that date.
10. Patrick Vink, Pieter van der Meer and Johan Kördel resigned on 7 April 2020.

Annual bonus for the year to 31 December 2020 (audited)

For the year ended 31 December 2020, there was a bonus opportunity maximum of 100% of base salary for Executive Directors, and up to 45% for other senior staff.

Bonus targets were set at the beginning of the year for Mike Bolinder based on the achievement of the following: successfully launch BARHEMSYS in the US; raise additional capital needed to support the launches of BARHEMSYS and BYFAVO; and successfully launch BYFAVO in the US. The Remuneration Committee set performance levels for each of these measures. In considering the level of bonus to award, the Committee considered the extraordinary conditions under which Mike has performed during the year, and the achievement of significant progress against the bonus targets, despite the global pandemic. It was agreed to award Mike 100% of his base salary as a bonus, of which 50% is payable in cash and 50% deferred into share awards vesting over 3 years.

The performance achieved against the bonus targets is summarised as follows:

		Mike Bolinder	
Measure	**As a percentage of maximum bonus opportunity**	**% cash award**	**% awarded in shares through the DABP**
BARHEMSYS launch	40%	20%	20%
Secure additional financing	40%	20%	20%
BYFAVO launch	20%	10%	10%
Total	**100%**	**50%**	**50%**
Total awarded		**$297,000**	**$297,000**

2018 PSP (audited)

During the year, a new performance review process was implemented. The new process ensures a regular timetable of goal-setting and review, together with bonus and share awards being calculated on results for the full year. As a result of this change in process, no share awards were made to Executive Directors, or to other employees in the year, other than those granted on joining. Awards were granted in March 2021 and these are disclosed below.

Long-Term Incentive Plan

In accordance with the Remuneration Policy, the vesting of awards was set by the Remuneration Committee with the objective of aligning long-term employee interests with those of Shareholders and providing a competitive remuneration structure that attracts, incentivises and retains all employees in the key markets in which the Group operates.

The awards, in the form of RSUs, made on 4 March 2021 to Mike Bolinder were as follows:

Executive Directors	Scheme	Basis of award	Share price at grant date	Number of shares	Face value	Performance period	Vesting date
Mike Bolinder	2018 PSP	100% of salary	$3.36	182,000	$611,820	1 January 2021 – 31 December 2023	Issue of 2023 Annual Report

The number of shares awarded under the PSP were calculated by reference to the share price at date of grant.

154,700 share awards have service-based vesting conditions in line with usual practice in the USA, the market in which the Group is seeking to compete. They will vest on 31 December 2023. 27,300 awards were made subject to the satisfaction of performance conditions in relation to:

- Cumulative net revenues in the three-year period to 31 December 2023
- Cumulative financing in the three-year period to 31 December 2023

The target ranges were set following consideration of the long-term strategy and the outlook for the markets in which we operate. The targets for these measures, and the level of performance achieved, will be disclosed following the end of the performance period.

The Remuneration Committee may vary, or waive and replace, the performance conditions applying to existing awards if an event has occurred, or series of related or connected events occurs, which causes the Remuneration Committee to consider that it would be appropriate to amend or replace the performance conditions, provided the Remuneration Committee considers the varied or replacement conditions to be fair and reasonable and at least as demanding as the current conditions. Any waiver of performance conditions would only be used in exceptional circumstances. As set out below, performance conditions in relation to certain LTIPs awarded to Christine Soden were amended in connection with her resignation.

Award on promotion

In 2019, in consideration of the special circumstances arising from his appointment as CEO, Mike Bolinder was awarded 100,000 RSUs. This award was increased following the conclusion of the senior management benchmarking exercise to include a further grant of 364,000 LTIPs on 4 March 2021. The number of RSUs awarded were calculated by reference to the share price at the date of grant.

Executive Directors	Scheme	Basis of award	Share price at grant date	Number of shares	Face value	Performance period	Vesting date
Mike Bolinder	2018 PSP	200% of salary	$3.36	364,000	$1,223,548	1 January 2021 – 31 December 2023	31 December 2023

The awards have service-based vesting conditions in line with usual practice in the USA, the market in which the Group is seeking to compete. They will vest on 31 December 2023.

Outstanding share awards (audited)

Executive directors

The tables below set out details of Executive Directors outstanding share awards (which will vest in future years subject to performance and / or continued service) as at year end. All options have a life of 10 years from the grant date.

Mike Bolinder

Date of grant / award	Exercise price (p)	At 1 January 2020	Awarded in year	Exercised / Vested	Lapsed	At 31 December 2020	Exercise period / vesting date
Share options – Unapproved scheme							
31 October 2017	260	100,000	-	(100,000)	-	-	30 October 2020
2018 PSP awards							
6 March 2018	2	60,000	-	-	(60,000)	-	31 December 2020
4 September 2019	2	75,000	-	(75,000)	-	-	26 February 2020
4 September 2019	2	175,000	-	-	-	175,000	30 July 2022
4 September 2019	2	100,000	-	-	-	100,000	31 December 2021
Total awards		**510,000**	**-**	**(175,000)**	**(60,000)**	**275,000**	

Non-executive directors

From 1 August 2019, the non-executive directors agreed to forgo 50% of their director fees until approval of BARHEMSYS, and were awarded compensatory share options in return. All share awards vested upon the NDA for BARHEMSYS receiving approval and became exercisable once the Board determines it is able to recruit the planned US salesforce. This was confirmed on 21 September 2020 and the awards became exercisable from that date. The share awards are not related to performance, but are a compensatory mechanism for the loss of cash director fees. Details of the awards are set out below.

Name	Date of grant / award	Exercise price (p)	At 1 January 2020	Awarded in year	Exercised /lapsed	At 31 December 2020	Exercise period / vesting date
Patrick Vink	4 September 2019	2	16,770	-	-	16,770	21 September 2020
John Brown		2	7,290	-	-	7,290	
Scott Byrd		2	6,125	-	-	6,125	
Edward Borkowski		2	6,855	-	-	6,855	
	Total awards		**37,040**	**-**	**-**	**37,040**	

Scott Byrd holds vested but not exercised share options as set out below. These options are a result of participation in the Company's unapproved share scheme in the past. However, this scheme is unrelated to performance, such participation was historical, with all options vested at the time of the IPO.

Scott Byrd holds 111,000 share options, granted under the Unapproved Scheme on 28 August 2015, and which vested on 6 March 2018, immediately prior to the IPO. These have an exercise price of £0.02 and a life of 10 years from the date of grant. He further holds 139,000 share options, granted under the Unapproved Scheme on 28 August 2015, and which vested on 6 March 2018, immediately prior to the IPO. These have an exercise price of £2 and a life of 10 years from the date of grant.

Directors' pensions (audited)

Christine Soden had an entitlement to receive a cash payment in lieu of pension contributions of 10% of base salary.

Directors' shareholdings and share interests (audited)

Executive Directors are required to build and maintain a minimum level of shareholding of 200% of base salary.

Directors' holdings of Company shares

	Beneficially owned at 31 December 2020	Guideline met?	Vested unexercised share options	Subject to performance conditions	Subject to service/other conditions
			Options	PSP	PSP
Mike Bolinder[1]	75,000	No	151,500	100,000	175,000
John Brown	-	N/A	7,290	-	-
Scott Byrd	-	N/A	256,125	-	-
Edward Borkowski	-	N/A	6,855	-	-

1. Mike Bolinder will be required to retain at least half of the net of tax shares awarded under any incentive plan until the guideline as set out in the Remuneration Policy is met.

Payments for loss of office

Christine Soden

On 13 January 2020 Christine Soden announced her intention to step down from her role as Chief Financial Officer, Company Secretary and Director of the Company. It was agreed that she would remain until 29 February 2020 and receive her full contractual notice pay from that date, together with a termination payment of £80,340. In addition, share awards previously granted were amended such that:

1. 116,000 options awarded under the 2015 Discretionary Share Option Plan remained exercisable until 28 February 2021 (reduced from 21 February 2025), after which date they lapsed to the extent not exercised.
2. The award of 75,000 options under the PSP, dated 4 September 2019 was amended such that it vests and becomes exercisable from the date on which the NDA for BARHEMSYS is approved, provided such approval is given no later than 30 June 2020, and it remains exercisable until 30 November 2020, after which date it shall lapse to the extent not exercised.
3. The award of 70,000 options under the PSP, dated 4 September 2019 was amended such that 35,000 were forfeited. In respect of the remaining 35,000 awards, these were amended such that they became exercisable on the day after receipt of NDA approval for BARHEMSYS, and expired on 30 November 2020.
4. The award of 50,000 shares under the PSP, dated 4 September 2019 was amended such that 20,000 were forfeited. In respect of the remaining 30,000 awards, these were amended such that they became exercisable on the day after shareholder approval was obtained, and expired on 28 February 2021.

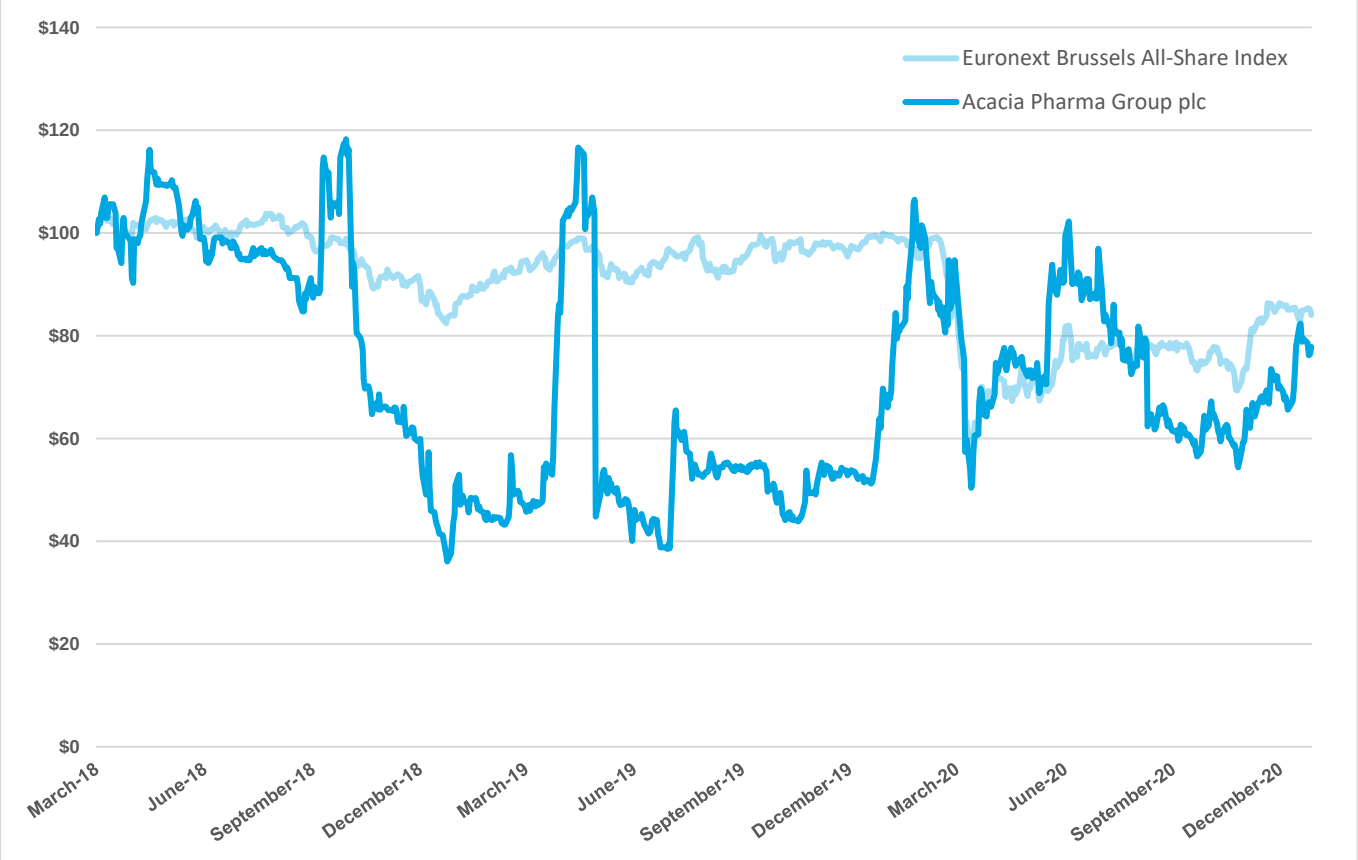
The above changes to share awards were conditional on receiving shareholder approval. The changes were presented to Shareholders at the 2020 AGM and approved.

The following information is unaudited.

Total Shareholder Return

The performance of the Company's Ordinary shares compared with the Euronext Brussels All-Shares Index (the "Index") for the period from Admission on 6 March 2018 to 31 December 2020, which is considered to be the most appropriate index against which to make a comparison, as it is the market on which the Company's shares are traded, is shown in the graph below.

The mid-market price of an Ordinary share on 31 December 2020 was €2.65. From 6 March 2018 to 31 December 2020 the share price ranged from a high of €4.02 to a low of €1.23.



Chief Executive Officer Total Remuneration History

	2014	2015	2016	2017	2018	2019		2020
Chief executive total single figure of remuneration ($'000)[3]	317	330	323	675	604	267[1]	67[2]	1,310
Bonus as a % of maximum	-	-	-	-	40%	-	-[4]	100%
LTIPs[3]	-	-	-	-	-	-	-	-
Intrinsic value of share awards vesting[5]	8	-	24	367	16	-	-	183

1. This column relates to Julian Gilbert's remuneration up to 31 July 2019, when he stepped down as CEO. Not included in this figure is $308,000 which represents the face value of share options awarded upon waiving any rights under the PSP award made in 2018 over 96,875 shares and any approved 2019 award and in agreeing to continue to provide services to the Group.
2. This column relates to Mike Bolinder's remuneration from 1 August 2019, when he was appointed as CEO. Not included in this figure is $205,000 which represents the face value of share options awarded as a promotion bonus.
3. Included in the total single figure of remuneration is the intrinsic value of share awards vesting in each period. Prior to 6 March 2018, the Company was not listed, and therefore a market price for the shares has been estimated. The same market price has been used in the calculation of intrinsic value as was used in each year for the calculation of options granted in that same year.
4. No cash bonuses were awarded in 2019
5. Share options awarded prior to the IPO under the EMI and Unapproved Schemes held no performance related conditions. We have therefore separately disclosed the intrinsic value of share options vesting in each year.

Percentage change in Remuneration

The Company has no UK employees that require disclosure. Due to the significant changes in director remuneration in the current year, mainly arising from the voluntary reduction of fees / salary in 2019 which reversed in 2020, together with the fact that nearly 50% of the worldwide workforce was only hired in Q3 2020, we do not consider there to be a meaningful alternative comparator.

	% change from 2019 to 2020		
	Salary / fee	Benefits	Bonus
CEO percentage change	68%	30%	100%[1]
NED percentage change	25%	-	-

1. No cash bonuses were awarded in 2019

Relative importance of spend on pay

The Remuneration Committee currently considers the Group's overall expenditure relative to salary expenditure for all employees, to be the most appropriate metric for assessing overall spend on pay due to the nature and stage of the Group's business. However, as the Group launches its product and becomes driven by sales revenues, revenue will become of much greater importance. Dividend distribution and share buy-back comparators have not been included as the company has no history of such transactions.

The table below illustrates the gross pay to all employees per year as compared to total expenditure and illustrates the year-on-year change.

	2020 $'000	2019 $'000	Increase %
Total employee remuneration	17,004	10,633	60%
Total expenditure	28,058	22,394	25%

Application of the Remuneration Policy for the Year Ended 31 December 2021

The specific remuneration arrangements for Executive Directors for 2021 are described below.

Base salary	3% increase in line with RPI/Cost-of living changes, applied Group-wide
Pension and benefits	No changes.
Annual bonus	For 2021, performance under the annual bonus will be measured on the following basis, with specific targets against which the underperformance, on target performance and out-performance will be measured **Successfully launch BARHEMSYS in the US by gaining formulary access to facilitate product use within hospital accounts (20%)** • Achieve total formulary wins in line with internal plan • Achieve formulary acceptance rates in line with internal plan to achieve forecast sales ramp **Successfully launch BYFAVO for procedural sedation by gaining formulary access enabling product use (20%)** • Achieve total formulary wins in line with internal plan • Achieve formulary acceptance rates in line with internal plan to achieve forecast sales ramp **Raise sufficient capital to fund the product launches and support the current business plan (30%)** **Deliver revenues and manage OPEX to plan/budget for 2021 (15%)** • Net cash flows from operations in line with internal plan **Meet all FDA timelines for post-marketing requirement/commitment studies for both products (15%)** • Meet all requirements per FDA approval letters
Performance share plan	As stated above, awards have been granted under the Long-Term Incentive Plan. The CEO has been granted an award under the PSP, part of which shall be subject to continued service over a 3 year period, and the remainder subject to the following performance conditions: **Cumulative net revenue targets from launch to 31 December 2023 (50% weighting)** • 25% of this element will vest for threshold performance • 100% vesting for upper-quartile performance • Vesting on a straight-line basis between these points **Cumulative funding targets in the 3 years to 31 December 2023 (50% weighting)** • 25% of this element will vest for threshold performance • 100% vesting for upper-quartile performance • Vesting on a straight-line basis between these points The target ranges were set following consideration of the long-term strategy and the outlook for the markets in which we operate. As the targets are commercially sensitive, the targets for these measures, and the level of performance achieved, will be disclosed following the end of the performance period.
Shareholding guidelines	Requirement to build and maintain a shareholding in the Company equivalent to 200% of base salary. Executive Directors who do not meet the shareholding guidelines will be expected to retain at least half of the net of tax shares vesting under any incentive plan until the guideline is met.

Chairman and Non-Executive Director fees

Chairman fees

The Chairman is paid a flat fee to include attendance at meetings, committee memberships, and all other related activities. The current chairman fee was reviewed in 2020 having regard to the peer group of listed companies referred to above.

Non-Executive Director cash fees

Non-Executive Directors are paid a basic fee, together with committee fees for chairmanship or membership of a Board committee. Non-Executive Director fees were reviewed in 2020 having regard to the peer group of listed companies referred to above. It was decided to increase non-executive director fees in line with US comparators, and to require a portion of after-tax fees be used to purchase shares in the market.

The table on page 41 shows the annual fees currently payable to our Chairman and Non-Executive Directors.

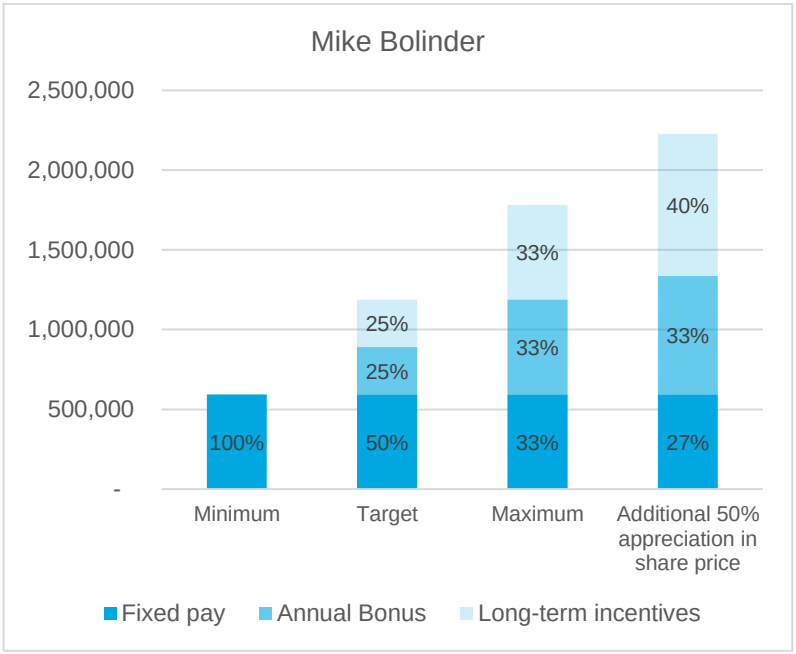
Directors' Remuneration Policy

The Company's initial Remuneration Policy was subject to a binding Shareholder vote at the 2019 AGM and approved. Given the significant shift in the focus of the Company on the US market and the need to be competitive in recruiting and incentivising senior US staff, the policy has been slightly amended, and as such the policy below was approved by Shareholders at the 2020 AGM.

The potential levels of remuneration should be set so that they are competitive against those comparator companies from which the Group will compete for talented individuals.

The Remuneration Committee's goal is to design and implement a remuneration policy which will support and reward Executive Directors and senior management for delivering the Group's strategic objectives and ultimately creating value to Shareholders, whilst adhering to good corporate governance and reflecting best practice. To achieve this, the balance of remuneration was and is focused on variable performance-related pay. In particular, to reflect the long-term nature of the Group's development pipeline, variable pay is more heavily weighted towards long-term sustainable value creation through the use of share incentive plans. When combined with significant levels of share ownership guidelines, this creates an alignment between Executive Directors and Shareholders persisting for the longer-term.

The chart below indicates the potential contribution of fixed and variable pay at different performance levels.



The total remuneration for the Executive Director is made up of the following elements: salary, benefits, annual bonus and long-term incentive awards. Recovery and withholding provisions will apply to elements of the bonus and long-term incentive arrangements in specific circumstances as determined appropriate by the Remuneration Committee. The policy sets out the link between each element with the strategy, the manner in which it will be operated, the maximum potential values and performance metric.

Element	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Salary	Provides fixed remuneration in-line with market rates that reflects the responsibilities of the role undertaken and the experience of the individual.	Set at an approximately mid-market level and reviewed annually taking into account individual responsibilities, performance, inflation, and market rates. The Remuneration Committee will also consider the pay and employment conditions in the wider workforce when determining an Executive Directors' salary. Salary increases are normally effective from 1 January each year. Salaries are periodically benchmarked against a relevant peer group of companies with similar market capitalisations and operations.	The current base salaries are set out in the Annual report on Remuneration. There is no formal maximum limit, but increases are generally in line with those of the wider workforce. Larger increases will only be permitted to reflect a change in responsibilities or a significant increase in the scale or complexity of the role.	The overall performance of the individual and Company is a key determinant for salary increases.
Benefits	Provides market competitive, yet cost-effective employment benefits.	For Executive Directors this includes private medical insurance, life assurance and similar benefits. The benefits package available will generally be that which is available to all Group employees based in the same country as the Executive	Benefits will be based on market practice.	None.
Annual Bonus	To incentivise and recognise execution of the business strategy and personal objectives on an annual basis.	Annual bonus performance targets are set at the start of the year by the Board and performance against objectives is assessed by the Remuneration Committee. Bonuses will usually be delivered in cash although the Committee will review from time to time whether part of the bonus should be delivered in deferred shares and be subject to recovery and withholding provisions in the event of mis-statement of results, error in performance calculation or gross misconduct	The maximum bonus opportunity for each Executive Director is 100% of salary.	Financial and operational targets are set at the start of the year by the Board. The weighting for each performance measure is determined by the Remuneration Committee and may vary for each Executive Director according to their role and reflecting their objectives for the year. Details of the performance measures for the current year are provided in the Annual report on remuneration.

Element	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Long-term Incentives: 2018 PSP	To align the interests of management with shareholder interests and to enhance retention of staff. To incentivise and recognise achievement of longer-term business objectives and sustained superior Shareholder value creation.	Conditional awards or nil or nominal cost options from the 2018 PSP are granted, usually annually. The awards vest provided the Executive remains employed by the Company for at least 3 years. In line with competitive practice in the US, a proportion of each award will be subject only to the employee remaining in service for 3 years, with the remainder subject to certain performance conditions, which have been approved by the Board, being achieved over a period of at least three financial years. Performance targets are set at the start of each performance period. Recovery and withholding provisions may apply for reasons of mis-statement of results, error in performance calculation or gross misconduct.	The maximum PSP opportunity of up to 100% salary each year may be granted to each Executive Director. In special circumstances (such as a recruitment) an award of up to 300% of salary is permitted. Dividend equivalents may be payable on vested awards.	Awards are currently subject to a combination of relative TSR and clinical and commercial progression timelines for Executive Directors. No more than 25% of the maximum award will vest for achieving the threshold performance level. The weighting of these performance measures, the choice of comparators for TSR if a relative measure is applied and/or the inclusion of additional performance measures will be reviewed annually by the Remuneration Committee, reflecting the strategic objectives and priorities of the following three-year performance period. If the Remuneration Committee determines a material change to the performance measures used for future awards is required to reflect a change in strategy, this would only be made following appropriate dialogue with the Company's major Shareholders.
Share ownership guidelines	To align Executives with Shareholders and provide an ongoing incentive for continued performance.	Only shares which are fully owned with no outstanding vesting criteria count towards the shareholding guideline. Executive Directors will be required to retain half of any post-tax awards which vest under deferred bonus or long-term incentive plans, until the share ownership guideline has been satisfied. Furthermore, they will be required to retain half of any such post-tax awards for two years post-vesting or for two years post-employment if sooner.	Executive Directors are required to build and maintain a minimum level of shareholding of 200% of base salary.	None

Remuneration Committee Powers

The Remuneration Committee operates the annual bonus and 2018 PSP, in accordance with their rules, and where relevant, the Listing Rules. To maintain an efficient administrative process, the Remuneration Committee retains the following powers to apply its judgement in setting remuneration:

a. the eligibility to participate in the plans;
b. the timing of grant of awards and any payments;
c. the size of awards and payments (subject to the maximum limits set out in the policy table above and the respective plan rules);
d. the determination of whether the performance conditions have been met;
e. determining a good or bad leaver under the terms of the plan;
f. dealing with a change of control or restructuring of the Group;
g. adjustments required in certain capital events such as rights issues, corporate restructuring, events and special dividends; and
h. the annual review of performance conditions for the annual bonus plan and 2018 PSP.

In certain exceptional circumstances, such as a material acquisition/divestment of a Group business, which mean the original performance conditions are no longer appropriate, the Remuneration Committee may adjust the targets, alter weightings or set different measures as necessary, to ensure the conditions achieve their original purpose and are not materially less difficult to satisfy.

Remuneration on recruitment

The remuneration package for a new director will be set in accordance with the terms of Acacia's approved remuneration policy in force at the time of appointment but focusing on the objective of appointing the most appropriate incumbent in the right geography.

The salary for a new executive will be set to reflect their skills and experience, the Group's target pay positioning and the market rate for the role in the relevant location, subject to the overall goal of attracting the right candidate. Where it is appropriate to do so, salaries may be set below the normal market rate, with phased increases over the first few years as the executive gains experience in their new role.

Benefits and pensions will be in line with those offered to other executive directors, taking account of local market practice with relocation expenses provided if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with the Group. Legal fees and other costs incurred by the individual may also be met by the Group.

The ongoing incentive opportunity offered to new recruits will be in line with that offered to existing directors. Different measures and targets under the bonus plan or the PSP may be set initially taking account of the responsibilities of the individual and the point in the financial year at which they join. A new employee may be granted normal annual PSP awards in the first year of employment in addition to any awards made with respect to prior employment being forfeited.

To enable the recruitment of exceptional talent, the Remuneration Committee may determine that the buy-out of remuneration forfeit from a prior employer is necessary. Where possible, any replacement remuneration will be offered on a like-for-like basis with the forfeited awards and may be in the form of cash or shares and depending whether the award forgone has similar performance conditions, may or may not be subject to performance conditions. The value of any buy-out will be limited to the value of remuneration forfeit. Where appropriate, such awards will be granted under existing share plans, however, the Remuneration Committee will have discretion to make use of the flexibility to make awards under exemptions in the Listing Rules.

For an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to Shareholders for approval at the earliest opportunity.

For the appointment of a new Chairman or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

Exit payment policy

Service contracts

Termination by notice	Redundancy	Retirement, death and ill-health, injury or disability
12 months - Chief Executive Officer	12 months - Chief Executive Officer Annual salary payable (reduced accordingly if part of the notice period is worked)	No termination payment.

Annual Bonus

Termination by notice by individual	Redundancy, retirement, death and ill-health, or any other reason the Remuneration Committee determines	Termination by notice
If an individual serves notice and the termination date falls before 31 December, the bonus is forfeited. If notice is served between 1 January following the year in which the bonus was earned and the payment date, the employee may (as determined by the Remuneration Committee) receive the entire bonus payable in cash, subject to malus and clawback provisions.	If the termination date falls during the financial year, pro-rated for service rendered and subject to performance. If it falls after the end of the financial year the bonus is payable in cash based on actual results on the normal bonus payment date with standard deferment being applied where appropriate.	Not normally paid, however, at the Remuneration Committee's discretion, if the termination date falls during the financial year, a bonus may be paid pro-rata for service rendered and subject to performance over the full financial year and normally paid on the normal payment date. If it falls after the end of the financial year bonus is payable based on actual results on the normal bonus payment date. There will be no payment for failure to perform.

PSP awards

Long-term incentives and deferred bonuses PSP awards are governed by the respective plan rules as approved by Shareholders. Likewise, the deferred bonus awards are subject to the same leaver provisions. These are summarised below.

Termination by notice	Redundancy, retirement, ill health, injury or disability, transfer of employment outside of the Group or change of control, or any other reason the Remuneration Committee determines	Death	Change of control
Unvested awards lapse on cessation.	Unvested awards will vest either on the normal vesting date or if the Board decides, immediately on the participant ceasing to be in employment. Awards will vest subject to the extent the performance condition has been met, as determined by the Remuneration Committee. Awards will be pro-rated for time, unless the Remuneration Committee determines otherwise.	Unvested awards will vest on the date of death. Awards will be pro-rated for time, unless the Remuneration Committee determines otherwise.	Unvested awards will vest on the date of the takeover. Awards will vest subject to the extent the performance condition has been met, as determined by the Remuneration Committee. Awards will be pro-rated for time, unless the Remuneration Committee determines otherwise.

Additional payments:

The Remuneration Committee will make payment of any statutory entitlements as necessary. In addition, the Remuneration Committee will retain the discretion to make settlement or to compromise a claim in connection with a termination of any Executive Directors as necessary.

Reasonable legal and outplacement costs will be met if deemed necessary.

Statement of consideration of employees' pay and remuneration conditions elsewhere in the Group

The Company does not formally consult with employees on the matters of Executive Director remuneration. However, the Remuneration Committee is made aware of employment conditions in the wider Group. The same broad principles apply to the remuneration policy for both Executive Directors and the wider employee population. However, the remuneration for Executive Directors has a stronger emphasis on performance-related pay than for other employees. Salaries, benefits and pensions are compared to appropriate market rates and set at approximately mid-market level with allowance for role, responsibilities and experience.

Remuneration policy for Non-Executive Directors

The Remuneration Committee is responsible for evaluating and making recommendations to the Board on fees payable to the Chairman. The Chairman does not participate in discussions in respect of fees. The Chairman and Chief Executive Officer are responsible for evaluating and making recommendations to the Board on the fees payable to the Company's Non-Executive Directors.

The current fee levels are set out in the Annual Report on Remuneration. There is no formal maximum, but fee levels will be aligned to the market. Fees are reviewed on a periodic basis against those in similar sized companies to ensure they remain competitive and adequately reflect the time commitments and scope of the role.

A Board fee is paid to each Non-Executive Director. Supplemental fees are paid to the Senior Independent Director and for the Chairing and membership of Committees to recognise the additional time commitments and responsibilities of these roles. Any increase in fee levels may be above that of the wider workforce in a particular year to reflect the periodic nature of any review and/or any change in responsibilities/time commitments.

Statement of consideration of Shareholders' views

The Remuneration Committee will consider any Shareholder feedback received at the Annual General Meeting and at meetings throughout the year, when reviewing the overall remuneration policy each year. The guidance from shareholder representative bodies is also considered on an ongoing basis.

More specifically the Remuneration Committee will consult with major Shareholders when proposing any significant changes to the policy in the future. The Remuneration Committee is currently considering whether the current Remuneration Policy as set out in this report is fit for purpose in the light of the increase in US-based activities and management and may consider putting a new policy to a shareholder vote prior to the expiry of the normal three year cycle, and potentially as early as this year's AGM.

This report was approved by the Board of Directors on 26 March 2021 and signed on its behalf by:

Dr John Brown
Chairman of the Remuneration Committee
26 March 2021

Directors' Report

The Directors present their Report and the audited financial statements for the year ended 31 December 2020. The Directors' Report comprises pages 50 to 54 and the following sections of the Annual Report which are incorporated by reference:

Item	Location in Annual Report
Statement of Directors' Responsibilities in respect of the financial statements	Page 57
Financial instruments and financial risk management	Financial Statements - note 10
Present membership of the Board	Pages 20 to 21
Corporate Governance Report	Pages 19 to 27
Strategic Report	Pages 2 to 18
Directors' Remuneration Report	Pages 37 to 53
Share capital	Financial Statements – note 16

Results and dividends

The results for the year and the financial position as at 31 December 2020 are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position. The results of the Group are explained in more detail in the Financial Review. The Directors do not recommend the payment of a dividend for the year to 31 December 2020 (2019: $nil).

Research and development

During the year ended 31 December 2020 the Group's expenditure on research and development was $99,000 (2019: $3,928,000), after taking into account the reversal of a $1,397,000 inventory provision, following the FDA approval of BARHEMSYS.

Review of business and future developments

The Chairman's Statement on page 3, the Chief Executive Officer's Report on page 5 and the Strategic Report on pages 2 to 18 provide a review of the business, the Group's trading for the year ended 31 December 2020, key performance indicators, risk and an indication of likely future developments in the business of the Group.

Post period events

On 23 February 2021, the Company completed a capital raise by way of a Placing of new ordinary shares. The capital raise had gross proceeds of €27 million ($33m), providing the Group with additional financial resources to support the continued launch and roll out of BARHEMSYS and BYFAVO in the US.

Following the end of the United Kingdom's transition period for leaving the European Union on 31 December 2020, the United Kingdom can no longer be the home Member State of Acacia Pharma for the purposes of Directive 2004/109/EC of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (the EU Transparency Directive).

The Group therefore chose Belgium as its home Member State in accordance with article 10, §3, of the Belgian Act of 2 August 2002 regarding financial supervision and financial services. The Company has given due notice of this change to the Belgian Financial Services and Markets Authority (the "Belgian FSMA").

Directors and Directors' interests

The Directors of the Company at the date of this report, together with their biographical details and dates of appointment are set out in the Corporate Governance Report and the Board of Directors section. All the current Directors served throughout the year, with the exception of Alessandro Della Chá, who was appointed on 7 April 2020. Christine Soden was an executive Director until her resignation on 29 February 2020. Patrick Vink, Johan Kördel and Pieter van der Meer were Non-Executive Directors until their resignations on 7 April 2020.

The Board confirms that each of the Directors who served during the year has been formally appraised during this year. In accordance with the 2018 UK Corporate Governance Code, all Directors of the Company will stand for re-election on an annual basis.

Information on the Directors' remuneration and their interests in the share capital of the Company are set out in the Directors' Remuneration Report. None of the Directors has a commercial interest in any material contract entered into by the Company.

Directors' indemnity provisions

As is permitted by sections 232 to 235 Companies Act 2006, and consistent with the Company's Articles of Association, the Company has maintained insurance cover for its Directors and Officers under a Directors and Officers Liability Policy. This Policy was in force during the year and to the date of approval of the financial statements. Further, the Company has granted an indemnity to its Directors against liability which arises due to claims brought by third parties. The Directors may exercise their powers pursuant to the Articles of Association, the Companies Act 2006 and related legislation, and any resolution of the Shareholders. The Articles are available for review at the Company's registered office or can be downloaded from the Company's website www.acaciapharmagroup.com.

Share capital and control

At 1 January 2020 the Company had a total of 54,888,198 ordinary shares in issue. During the year the share capital of the Company increased by 34,709,753 ordinary shares as a result of the vesting and exercise of share awards and the issue of new shares for cash, together with share issues in relation to the Cosmo transaction. Details of the movements in the Company's share capital are shown in note 16 to the financial statements.

As at 31 December 2020, the Company had 89,597,951 ordinary shares in issue.

The Company has only one class of shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions on voting rights or on the holding or transfer of these securities. Details of employee share schemes are set out in note 7. Shares held by the Acacia Pharma Group plc Employee Benefit Trust abstain from voting. 1,613,182 shares were held in the Employee Benefit Trust at the year end date (2019: Nil).

Major shareholdings

During the period the Company has received notifications, in accordance with Disclosure Guidance and Transparency Rule 5.1.2R, of interests in 5% or more of the voting rights attaching to the Company's issued share capital, as set out in the table below:

	Ordinary shares (number)	Percentage of ordinary shares in issue	Nature of holding
Cosmo Pharmaceuticals N.V	19,600,098	21.88%	Direct
Gilde Healthcare II Management BV	16,943,822	18.91%	Direct
Lundbeckfond Invest A/S	12,468,955	13.92%	Direct

Following our change of Home Member State to Belgium, no changes have been disclosed in accordance with article 14, 1st paragraph, of the law of 2 May 2007 on the disclosure of major holdings in the period between 31 December 2020 and 29 March 2021, except as set out in the table below:

	Ordinary shares (number)	Percentage of ordinary shares in issue	Nature of holding
Cosmo Pharmaceuticals N.V	19,600,098	19.66%	Direct
Coltrane Asset Management L.P	4,931,684	5.50%	Direct

Employment policies and Employee involvement

The Group gives every consideration to applications for employment from disabled persons. Employees who become disabled are given every opportunity to continue employment under normal terms and conditions with appropriate training, career development and promotion wherever possible. The Group seeks to achieve equal opportunities in employment through recruitment and training policies.

The Group encourages employee involvement in its affairs and makes use of an intranet system to promote such involvement and to aid communication with employees. Group-wide meetings are held to bring senior management together to share ideas and develop policy, values and behaviours. Dialogue takes place regularly with employees to make them aware of the financial and economic factors affecting the performance of the Group. Performance related bonus schemes are in operation throughout the Group.

Greenhouse gas emissions

The Strategic Report and Directors' Report Regulations 2013 require all quoted companies to disclose their annual greenhouse gas emissions for Scope 1 and 2.

The Group currently utilises managed office space in its operations in the UK and the US. There is no direct relationship between rental payments and utilities usage, nor is the utilities usage of Acacia Pharma Group entities separable from unrelated businesses which occupy other offices in the same buildings. The Group owns no motor vehicles.

Accordingly, there are no greenhouse gas emissions for Scope 1 or 2 that can be disclosed. Our overall environmental impact is considered to be low, with only small office facilities. Wherever possible we encourage reductions in the use of electricity, reductions in air and road travel through the use of video-conferencing and similar communications, and recycling.

Political donations

No political donations were made in the year (2019: none).

Subsidiaries

All the Group's subsidiaries, joint ventures and related undertakings are listed on page 97.

Significant agreements and change of control

The Company is party to the following agreements which takes effect, alters or terminates upon a change of control of the Company:

- the Directors' service contracts, details of which are set out in the Directors' Remuneration Report;
- the Hercules loan agreement, which terminates on a change of control; and
- the Cosmo deal as set out above.

All of the Company's share option schemes contain provisions relating to a change of control. Outstanding options normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and Company will continue in operational existence for the foreseeable future. The Directors have considered a period of 18 months in making their going concern assessment.

The Directors' base case forecast and plans assume the successful commercialisation of BARHEMSYS and BYFAVO. The downside scenario assumes that revenue remains consistent with that earned in Q1 of 2021. Based on both the Directors' base case scenario and severe but plausible downside scenario assessments, and considering the existing cash and debt facilities, the Group and Company have sufficient funding to commercialise BARHEMSYS and BYFAVO until the end of Q2 of 2022. These forecasts are dependent on revenues which are not certain, and there is a need for additional financing to continue commercialisation and for the group to continue as a going concern.

Based on prior fundraising experience, the Directors are confident that they will be able to secure additional financing by the end of Q2 of 2022 and therefore consider it appropriate to prepare these financial statements on the going concern basis. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful and therefore this represents a material uncertainty, which may cast significant doubt about the Group's and Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

Independent auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's auditors will be proposed at the 2021 Annual General Meeting.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Corporate Governance Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Chairman's Introduction and the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to the auditor

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information (that is, information needed by the Group's auditor in connection with preparing their report) of which the Group and Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information.

By order of the Board

Mike Bolinder
Director
26 March 2021

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

Report on the audit of the financial statements

Opinion

In our opinion:

- Acacia Pharma Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements 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 consolidated and company statements of financial position as at 31 December 2020; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated and company statements 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.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern (group and parent)

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's and the company's ability to continue as a going concern. Based on the Directors' current forecasts and plans, and taking into account existing cash and debt facilities, the group and company will need to raise additional debt or equity by the end of Q2 of 2022 in order to meet cash requirements for the subsequent months and to continue commercialisation under the strategic plan. This condition, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the Directors' model supporting their going concern assumption, evaluating the model inputs and testing its mathematical accuracy;
- Understanding and evaluating the drivers for the revenue and level of costs included in the model and checking that they were consistent with the assumptions used in the impairment analysis performed by management to support the carrying value of the company's investment in and receivable from Acacia Pharma Limited;
- Considering whether relevant judgements/estimates are appropriately disclosed within the financial statements, and;
- Applying our own sensitivities to the model, including adjustments to the forecast revenue projections to reflect downside scenarios of varying levels of plausibility and severity.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, other than the material uncertainty identified in note 1 to the financial statements, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting, or in respect of the directors' identification in the financial statements of any other material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Overview

Audit scope

- We performed audits of the complete financial information of all three reporting units (Acacia Pharma Group plc, Acacia Pharma Limited and Acacia Pharma Inc).
- The Group engagement team performed all audit procedures.
- Our scope provided us with 100% coverage of Group loss before tax.

Key audit matters

- Material uncertainty related to going concern (group and parent)
- Carrying value of the company's investment in and receivables due from Acacia Pharma Limited (parent)
- Accounting for the BYFAVO in-licensing agreement (group)
- Impact of the Covid-19 pandemic (group and parent)

Materiality

- Overall group materiality: US$1,705,000.00 (2019: US$1,175,000.00) based on loss before tax of 5%.
- Overall company materiality: £2,093,000 (2019: £728,000) based on total assets of 1%.
- Performance materiality: US$1,279,000.00 (group) and £1,569,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to good clinical practice regulations, Euronext listing requirements, UK and US tax legislation , and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to reduce expenditure and the risk of misappropriation of assets. Audit procedures performed by the engagement team included:

- Discussions with management, including considerations of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Conducted a review of board meeting minutes;
- Performed an unpredictable procedures test examining employee expense claims;
- Identifying and testing journal entries, in particular any journal entries to defer expenditure to the statement of financial position, and;
- Verifying product approval by the FDA and inspecting GCP compliance reports.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Accounting for the BYFAVO in-licensing agreement and the impact of the Covid-19 pandemic are new key audit matters this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Carrying value of the company's investment in and receivables due from Acacia Pharma Limited (parent) As at 31 December 2020, the company's investment in Acacia Pharma Limited was £107.6m and the receivable due from Acacia Pharma Limited was £97.9m (see notes 5 and 6 of the company's financial statements respectively) amounting to a combined interest of £205.5m. This area attracts additional audit focus due to the judgements and assumptions made by management in estimating the future results of the business, and the consequential impact of this on the carrying value of the combined interest held.	We performed a comparison between the carrying value of the combined interest held and the market capitalisation of the group, which at the date of testing was £246m, further supported by a review of market research reports which also indicated a significant level of headroom. We consider that the group's market capitalisation is persuasive evidence regarding the carrying value, representing the fair value less costs to sell, such that we can conclude that the carrying value is supported by a recognised approach to establishing fair value.

Accounting for the BYFAVO in-licensing agreement (group) An agreement with Cosmo Pharmaceuticals in the year resulted in the acquisition of the distribution rights for BYFAVO in the United States, in exchange for compensation, including: an upfront payment satisfied by share issue; a 50/50 cash and equity payment on FDA approval of BYFAVO; a payment on first sale of BYFAVO payable in shares; and sales related milestone payments. Amounts paid to Cosmo under these agreements to acquire the BYFAVO licence have been recognised as an intangible asset subject to amortisation in accordance with IAS 38, as the amounts paid are capable of being reliably measured, and expected future economic benefits embodied in the asset will flow to the group. Amortisation commenced from the date of approval of BYFAVO by the FDA, with the useful life in line with the patent life. The intangible asset is $52.2m at 31 December 2020 (see note 11).	We reviewed the underlying agreement and the key terms contained therein as well as the accounting undertaken by management to ensure that the accounting for the various transactions during the year was appropriate. We also tested the amortisation on amounts capitalised in intangibles, verifying appropriate recognition from FDA approval date or, where acquired after approval, immediately. We vouched the amortisation start date to the FDA approval date, and verified that the useful life for the purpose of amortisation was consistent with that of the patent life.
Impact of the Covid-19 pandemic (group and parent) Since the outbreak of Covid-19, the Group and Company have continued to operate, support the passage of BARHEMSYS and BYFAVO through FDA approval, and progress to commercialisation, albeit there was a period of delay in the approval process. Management has considered the impact of Covid-19 on the financial statements, with these considerations principally relating to the opportunities and threats to the Group and Company's ability to continue as a going concern and the carrying value of the company's investment in and receivables due from Acacia Pharma Limited. Disclosure of the risk to the Group and Company of the impact of Covid-19, and management's conclusions on going concern and viability, have been included within the relevant sections of the financial statements.	In advance of the year end, and throughout the course of our audit procedures, we assessed the risks arising from Covid-19. We focused on areas that we considered might be susceptible to a material financial impact on the performance and position of the Group and Company for the year ended 31 December 2020. We assessed the base case going concern model prepared by management which includes the anticipated future impacts of Covid-19, as well as various downside scenarios - including management's severe but plausible scenario - which have been used to sensitise the base case model. We have obtained management's forecasts and assessed the underlying assumptions, which principally focused on the expected sales ramp from future commercialisation of the BARHEMSYS and BYFAVO. We performed sensitivity analysis to consider the impact of changes in the assumptions on the forecasts.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group has three reporting units (Acacia Pharma Group plc, Acacia Pharma Limited and Acacia Pharma Inc.). We performed audits of the complete financial information of all three reporting units. Our scope provided us with coverage of 100% of Group loss before tax. The Group engagement team performed all audit procedures.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	US$1,705,000.00 (2019: US$1,175,000.00).	£2,093,000 (2019: £728,000).
How we determined it	Based on loss before tax of 5%	Based on total assets of 1%, restricted for the purposes of group reporting.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, loss before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark	We used total assets as a basis for materiality given the significantly reduced level of activity in the company and the fact that total assets is a generally accepted auditing benchmark for holding companies.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between $503,000 and $1,475,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US$1,279,000.00 for the group financial statements and £1,569,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above $85,000 (group audit) (2019: $59,000) and £105,000 (company audit) (2019: £36,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and, except for the matters reported in the section headed 'Material uncertainty related to going concern', and as noted below we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

However, we draw attention to the disclosures made within the Viability section of the Corporate Governance Statement in the Annual Report regarding the potential impact of severe but plausible scenarios that could threaten the viability of the Group.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

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 in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
March 2021

Consolidated Income Statement for the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Revenue		**211**	-
Cost of Sales		**(29)**	-
Gross profit		**182**	-
Research and development expenses		**(99)**	(3,928)
Sales and marketing expenses		**(19,438)**	(14,019)
General and administrative expenses		**(11,566)**	(4,447)
Operating loss		**(30,921)**	(22,394)
Finance income	3	**41**	432
Finance expense	4	**(3,212)**	(1,545)
Loss before income tax	5	**(34,092)**	(23,507)
Taxation credit	8	**614**	668
Loss for the financial year		**(33,478)**	(22,839)
Basic and diluted losses per Ordinary Share ($)	9	**(0.46)**	(0.43)

Consolidated statement of comprehensive income for the year ended 31 December 2020

	2020 $'000	2019 $'000
Loss for the financial year	**(33,478)**	(22,839)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**3,218**	(78)
Other comprehensive income / (expense) for the financial year	**3,218**	(78)
Total comprehensive expense for the financial year	**(30,260)**	(22,917)

The notes on pages 70 to 90 form an integral part of these Group Financial Statements.

Consolidated Statement of Financial Position as at 31 December 2020

	Note	2020 $'000	2019 $'000
Assets			
Non-Current Assets			
Intangibles	11	**52,168**	-
Right-of-use asset	12	**277**	372
Total Non-Current Assets		**52,445**	372
Current Assets			
Trade and other receivables	13	**461**	609
Current income tax assets		**574**	679
Inventories	14	**2,662**	-
Cash and cash equivalents	15	**46,693**	17,009
Total Current Assets		**50,390**	18,297
Total Assets		**102,835**	18,669
Equity and Liabilities			
Equity attributable to equity holders			
Called up share capital	16	**2,518**	1,619
Share premium account	16	**158,449**	75,588
Profit and loss account		**(2,269)**	31,225
Share based payment reserve		**6,485**	3,791
Merger reserve		**(106,625)**	(106,625)
Foreign currency translation reserve		**1,968**	(1,250)
Treasury shares		**(41)**	-
Total Equity		**60,485**	4,348
Liabilities			
Non-current liabilities			
Loans and other borrowings	18	**31,275**	4,701
Current liabilities			
Trade and other payables	17	**5,657**	4,167
Loans and other borrowings	18	**5,418**	5,453
		11,075	9,620
Total Liabilities		**42,350**	14,321
Total Equity and Liabilities		**102,835**	18,669

The notes on pages 70 to 90 form an integral part of these Group Financial Statements

The Group Financial Statements on pages 66 to 90 were approved and authorised for issue by the board of Directors on 26 March 2021 and were signed on its behalf by:

Mike Bolinder
Director
26 March 2021

Consolidated Cash Flow Statement for the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities:			
Cash used in operations	20	**(26,104)**	(20,665)
Income tax credit received		**740**	834
Net cash used in operating activities		**(25,364)**	(19,831)
Cash flows from investing activities:			
Interest received		**41**	432
Net cash generated from investing activities		**41**	432
Cash flows from financing activities:			
Proceeds from issuance of Ordinary Shares	16	**51,933**	180
Issue costs of Ordinary Shares	16	**(3,533)**	(8)
Repayments of lease liabilities – principal and interest		**(115)**	(101)
Loan proceeds	19	**13,910**	-
Loan repayments	19	**(4,621)**	-
Interest and fees paid on loans	19	**(1,586)**	(998)
Net cash generated from / (used in) financing activities		**55,988**	(927)
Net increase / (decrease) in cash and cash equivalents		**30,665**	(20,326)
Cash and cash equivalents at beginning of the period		**17,009**	37,443
Effect of exchange rate movements on cash held		**(981)**	(108)
Cash and cash equivalents at end of the period	15	**46,693**	17,009

Consolidated Statement of Changes in Equity for the year ended 31 December 2020

	Issued Share Capital $'000	Share Premium $'000	Profit and Loss account $'000	Merger reserve $'000	Share based payment reserve $'000	Foreign currency translation reserve $'000	Treasury Shares $'000	Total Equity $'000
Balance at 1 January 2019	**1,581**	**75,454**	**54,064**	**(106,625)**	**1,354**	**(1,172)**	**-**	**24,656**
Loss for the period	-	-	(22,839)	-	-	-	-	(22,839)
Exchange differences	-	-	-	-	-	(78)	-	(78)
Total comprehensive expense for the period	-	-	(22,839)	-	-	(78)	-	(22,917)
Warrants issued	-	-	-	-	-	-		-
Transactions with Owners								
Issue of Ordinary Shares	38	142	-	-	-	-	-	180
Costs of issue of Ordinary Shares	-	(8)	-	-	-	-	-	(8)
Employee share option scheme	-	-	-	-	2,437	-	-	2,437
Balance at 31 December 2019	**1,619**	**75,588**	**31,225**	**(106,625)**	**3,791**	**(1,250)**	**-**	**4,348**
Balance at 1 January 2020	**1,619**	**75,588**	**31,225**	**(106,625)**	**3,791**	**(1,250)**	**-**	**4,348**
Loss for the period	-	-	(33,478)	-	-	-	-	(33,478)
Exchange differences	-	-	-	-	-	3,218	-	3,218
Total comprehensive expense for the period	-	-	(33,478)	-	-	3,218	-	(30,260)
Transactions with Owners								
Issue of Ordinary Shares	832	86,394	-	-	-	-	-	87,226
Costs of issue of Ordinary Shares	-	(3,533)	-	-	-	-		(3,533)
Issue of Ordinary Shares to the EBT	57	-	-	-	-	-	(57)	-
Transfer of Treasury Shares to employees	-	-	(16)	-	-	-	16	-
Issue of shares on exercise of options	10	-	-	-	-	-	-	10
Employee share option scheme	-	-	-	-	2,694	-	-	2,694
Balance at 31 December 2020	**2,518**	**158,449**	**(2,269)**	**(106,625)**	**6,485**	**1,968**	**(41)**	**60,485**

Notes to the Financial Statements

1. Summary of significant accounting policies

General information

Acacia Pharma Group plc is a public limited company incorporated and domiciled in England and Wales with registered number 09759376. The Company's registered office is The Officers' Mess, Royston Road, Duxford, Cambridge CB22 4QH.

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

The Group's Financial Statements are presented as at and for the year ended 31 December 2020.

Basis of preparation

The Group Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Following careful consideration by the directors, as set out in the Going Concern section of note 1 below, the Group Financial Statements have been prepared on a going concern basis and under the historical cost convention. The principal accounting policies set out in the 2020 Annual Report have been consistently applied to all periods presented with the exception of IFRS15, discussed below.

Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations adopted by the group

IFRS 15 'Revenue from contracts' was issued by the IASB in January 2016, and was implemented by the Group once revenue started to be generated. There are therefore no changes in accounting policies to disclose, a new policy has however been adopted below.

(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted

There are no standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Basis of Consolidation

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

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

The insertion of Acacia Pharma Group plc as the holding company of Acacia Pharma Limited on 15 September 2015 did not meet the definition of a business combination in accordance with IFRS3 "Business Combinations" as Acacia Pharma Group Limited, subsequently re-registered as Acacia Pharma Group plc, was a shell company and did not meet the definition of a business. Accordingly, upon consolidation, the transaction was accounted for as a reorganisation of Acacia Pharma Limited without any fair value uplift and a merger reserve of $106,525,000 was created. The Group financial statements are presented using the historical carrying values from the financial statements of the acquired entity, Acacia Pharma Limited, but reflecting the share capital of Acacia Pharma Group plc.

1. Summary of significant accounting policies (continued)

Basis of Consolidation (continued)

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

The Company has established an Employee Benefit Trust ("EBT") to which it is the sponsoring entity. Notwithstanding the legal duties of the Trustees, the Company considers that it has 'de facto' control. The EBT is accounted for as assets and liabilities of the Company and are included in the consolidated financial statements. The Company's equity instruments held by the EBT are accounted for as if they were the Company's own equity instruments and are treated as treasury shares. No gain or loss is recognised in profit or loss or other comprehensive income on the purchase, sale or cancellation of the Company's own equity held by the EBT.

All intra-group transactions, balances, income and expenses are eliminated in preparing the Group financial statements.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and Company will continue in operational existence for the foreseeable future. The Directors have considered a period of 18 months in making their going concern assessment.

The Directors' base case forecast and plans assume the successful commercialisation of BARHEMSYS and BYFAVO. The downside scenario assumes that revenue remains consistent with that earned in Q1 of 2021. Based on both the Directors' base case scenario and severe but plausible downside scenario assessments, and considering the existing cash and debt facilities, the Group and Company have sufficient funding to commercialise BARHEMSYS and BYFAVO until the end of Q2 of 2022. These forecasts are dependent on revenues which are not certain, and there is a need for additional financing to continue commercialisation and for the group to continue as a going concern.

Based on prior fundraising experience, the Directors are confident that they will be able to secure additional financing by the end of Q2 of 2022 and therefore consider it appropriate to prepare these financial statements on the going concern basis. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful and therefore this represents a material uncertainty, which may cast significant doubt about the Group's and Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

Foreign currency translation

The Financial Statements are presented in US dollars, which is the Group's functional and presentational currency.

Transactions and balances

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

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

Group companies

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

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

1. Summary of significant accounting policies (continued)

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

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

Financial instruments

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

Financial assets
(i) Classification
The Group classifies its financial assets as those to be measured at amortised cost. No assets are held by the Group at fair value through profit or loss.

(ii) Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

(iv) Impairment
The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Financial liabilities

Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs and warrants issued) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

1. Summary of significant accounting policies (continued)

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Intangibles
The separately acquired licence to BYFAVO is shown at historical cost, under the cost accumulation model, whereby contingent consideration, comprising development and sales milestones, is not considered upon initial recognition of the asset, but is added to the cost of the asset initially recorded when incurred. The license has a finite useful life,and is subsequently carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the patent life, being 7 years from FDA approval on 2 July 2020. Amortisation is charged to general and administrative expenses in the income statement. Amortisation on future sales milestones will be charged over the remaining patent life from the point of recognition.

Revenue
The Group generates all of its revenue from Product Sales. Revenue is recognised in accordance with IFRS15 'Revenue from Contracts with Customers'. Revenue on the sales of products to the customer is recognised when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods to the customer (typically upon delivery, which is also when transfer of title occurs). The amount of revenue recognised is based on the consideration Acacia expects to receive in exchange for its goods, when it is highly probable that a significant reversal will not occur.

The consideration Acacia receives in exchange for its goods may be fixed or variable. The most common elements of variable consideration are commercial and government rebates, fee for service agreements, prompt pay discounts, returns and allowances, and chargebacks. Given the levels of revenue in the current year, these estimates are not considered significant.

The methodology and assumptions used to estimate rebates, discounts and returns are monitored and adjusted regularly in the light of contractual and legal obligations, management experience, projected market conditions, and other information that is reasonably available to us.

Provisions for revenue deductions are adjusted to actual amounts as rebates, discounts and returns are processed. The provision represents estimates of the related obligations, requiring the use of judgment when estimating the effect of these revenue deductions.

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

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

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

1. Summary of significant accounting policies (continued)

Share–based payments

a) Employee share schemes

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 and adjusted for the expected level of vesting of non-market performance conditions and employees leaving the Group.

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 year end date to allow for forecast leaving employees and the difference is charged or credited to the Income Statement, with a corresponding adjustment to the share-based payments reserve.

b) Loan warrants

Warrants over 201,330 shares in Acacia Pharma Group plc were issued with an exercise price of €3.22 under the Hercules loan agreement. As these warrants cannot be separated from the loan, they have been fair-valued using a Black-Scholes option pricing model and offset against the amortised cost of the loan.

Current and deferred income tax

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

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Tax receivable arises from the UK legislation regarding the treatment of certain qualifying research and development costs, allowing for the surrender of tax losses attributable to such costs in return for a tax rebate.

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

Critical Accounting Estimates and Judgements

The preparation of the Financial Statements in accordance with the Companies Act 2006, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are the following, which are all judgements:

Accounting for the Cosmo transaction

The licence to BYFAVO is shown at historical cost, and we have made an accounting policy choice to use the cost accumulation model, whereby contingent consideration, comprising development and sales milestones, is not considered upon initial recognition of the asset, but is added to the cost of the asset initially recorded when incurred. Under IAS38 we could choose to recognise the asset at the cost inclusive of the fair value of future contingent payments at acquisition, together with an equivalent liability. However, the cost accumulation model appears to be more appropriate for the Group and is the more common practice in the industry.

Critical Accounting Estimates and Judgements (continued)

Accounting treatment of intercompany loan between Acacia Pharma Limited and Acacia Pharma Inc
In 2018, Acacia Pharma Inc took out a $40m loan facility with Acacia Pharma Limited, its immediate parent. The loan, which is for an initial three-year term, was renewed on maturity (31 December 2020), and is considered to be as permanent as equity. Accordingly, foreign exchange gains and losses are recorded in equity through Other Comprehensive Income. The impact of this treatment is to increase the current year loss by $1.1m, being the foreign exchange gain currently recorded in equity.

2. Segmental reporting

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

The Directors are of the opinion that under IFRS 8 the Group has only one operating segment, being the development and commercialisation of intellectual property through direct sale of the protected products in the US. The Board of Directors assess the performance of the operating segment using financial information which is measured and presented in a manner consistent with that in the financial information. All revenue (2020: $211,000, 2019: $nil) is generated in the US and recognised at a point in time.

3. Finance income

	2020 $'000	2019 $'000
Bank account interest	**-**	6
Interest on short-term deposits	**41**	426
	41	432

4. Finance expense

	2020 $'000	2019 $'000
Foreign exchange losses	**234**	57
Finance charges on term loan	**2,156**	1,446
Finance charge on Cosmo debt-equity swap	**788**	-
Interest expense on lease liabilities	**34**	42
	3,212	1,545

5. Loss before income tax

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

	2020 $'000	2019 $'000
Expense relating to short-term leases	**105**	92
Auditors' remuneration:		
Fees payable to the Group's auditors for the audit of the financial statements	**164**	115
Fees payable to the Group's auditors for other services – other assurance services	**230**	63
Amortisation of intangible assets	**3,051**	-
Foreign exchange losses / (gains)	**234**	57

The other assurance services during the year related to procedures performed as reporting accountant on historical financial information.

6. Employees and Directors

Analysis of payroll costs by category:

	2020 $'000	2019 $'000
Wages and salaries	**13,394**	7,494
Social security costs	**841**	581
Other pension costs (Note 21)	**75**	121
Share-based payments	**2,694**	2,437
	17,004	10,633

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

	2020 Number	2019 Number
Research and development	**4**	4
Sales and marketing	**36**	34
General and administration	**7**	3
	47	41

6. Employees and Directors (continued)

Key Management Compensation

	2020 $'000	2019 $'000
Salaries and short–term employee benefits	**2,311**	1,066
Post-employment benefits	**52**	69
Share-based payments	**1,113**	742
	3,476	1,877

The Group considers the Executive Directors to be key management, as well as the Chief Medical Officer, the Chief Financial Officer and the Company Secretary.

Directors' remuneration in the year ended 31 December 2020 totalled $1,791,000 (2019: $874,000), comprising:

- $1,789,000 for aggregate emoluments (2019: $829,000)
- $2,000 for employer pension contributions (2019: $45,000)

7. Share–based payments

Awards made under long–term incentive and other arrangements

Share options are granted to directors and employees over ordinary shares in Acacia Pharma Group plc. Prior to the Initial Global Offering (the "IPO"), options were awarded under the Acacia Pharma EMI Share Option Scheme (the EMI Scheme) and the Acacia Pharma Unapproved Share Option Scheme (the Unapproved Scheme). Following the IPO, new share options schemes were arranged, being the Acacia Pharma Group Performance Share Plan (the 'PSP') and the Company Share Option Plan (the 'CSOP').

Options granted under the Unapproved Scheme, the EMI Scheme and the CSOP have a fixed exercise price based on the market value of shares at the date of grant. Options granted under the PSP have a minimal or nil exercise price.

Options are usually conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from the grant date.

	Performance Share Plan		Company Share Option Plan		EMI plan		Unapproved		Total	
	Options number	Weighted average exercise price ($)	Options number	Weighted average exercise price ($)	Options number	Weighted average exercise price ($)	Options number	Weighted average exercise price ($)	Options number	Weighted average exercise price ($)
Outstanding at 1 January	**3,659,852**	**0.00**	**44,444**	**1.89**	**1,517,476**	**0.11**	**767,500**	**2.27**	**5,989,272**	**0.33**
Granted in the year	786,000	0.00	-	-	-	-	-	-	786,000	0.00
Exercised during the year	(759,473)	0.00	-	-	(237,000)	0.03	-	-	(996,473)	0.01
Lapsed / forfeited during the year	(387,839)	0.00	-	-	-	-	-	-	(387,839)	0.37
Outstanding at 31 December	**3,298,540**	**0.00**	**44,444**	**1.89**	**1,280,476**	**0.13**	**767,500**	**2.27**	**5,390,961**	**0.80**
Exercisable at 31 December	332,040	0.02	-	-	1,280,476	0.13	767,500	2.27	2,380,016	0.80
Weighted average life remaining - 2020	8.58		7.97		3.03		5.07		5.95	

7. Share–based payments (continued)

Awards granted under the Performance Share Plan (PSP) consist of 440,000 Long-Term Incentive Plan share option awards made to executive directors and other senior management, which contain performance related conditions and have an exercise price of £0.02; and 3,219,852 Performance Share Awards (PSA) issued to staff, including non-executive directors.

Of the 5,390,961 outstanding options (2019: 5,989,272 options), 2,047,976 options (2019: 2,284,976 options) were exercisable at the year end date.

Options exercised in 2020 resulted in 996,473 shares (2019: 1,558,993), being issued at a weighted average exercise price of $0.01 each. 5,609 shares were sacrificed to meet a tax liability. The related weighted average share price at the time of exercise was *€2.35* per share.

Share options and PSP awards outstanding at the end of the year have the following expiry date and exercise prices:

				Outstanding at 31 December	
Grant date	Vesting date	Expiry date	Exercise price (£)	2020 (number)	2019 (number)
04/07/2011	02/07/2014	02/07/2021	0.1	**430,829**	430,829
07/03/2012	06/03/2015	06/03/2022	0.1	**151,515**	151,515
22/10/2013	20/10/2016	21/10/2023	0.1	**410,770**	410,770
04/09/2014	02/09/2017	03/09/2024	0.02	**281,987**	281,987
28/08/2015	05/03/2018	27/08/2025	0.02	**161,000**	272,000
28/08/2015	05/03/2018	27/08/2025	2	**305,000**	305,000
23/02/2016	05/03/2018	22/02/2026	2	**200,000**	200,000
21/12/2016	05/03/2018	20/12/2026	0.02	**-**	123,000
30/12/2016	05/03/2018	29/12/2026	0.02	**6,875**	9,875
31/10/2017	05/03/2018	30/10/2027	2	**100,000**	100,000
01/03/2018	28/02/2021	28/02/2028	0.02	**-**	195,000
18/12/2018	17/12/2021	17/12/2028	-	**874,500**	894,500
18/12/2018	17/12/2021	31/12/2028	-	**355,000**	355,000
19/12/2018	18/12/2021	18/12/2028	1.35	**44,444**	44,444
31/07/2019	30/07/2022	30/07/2029	-	**89,000**	169,000
04/09/2019	31/07/2022	30/07/2029	-	**767,000**	787,000
04/09/2019	31/07/2022	30/07/2029	0.02	**55,000**	105,000
04/09/2019	26/02/2020	30/07/2029	-	**-**	577,312
04/09/2019	26/02/2020	30/07/2029	0.02	**262,040**	332,040
04/09/2019	31/12/2021	30/07/2029	0.02	**170,000**	245,000
21/07/2020	20/07/2023	20/07/2030	-	**543,500**	-
21/07/2020	20/07/2023	20/07/2030	0.02	**50,000**	-
03/12/2020	02/12/2023	02/12/2030	-	**132,500**	-
				5,390,960	5,989,272

The weighted average fair value of share options and PSP share option awards granted in the year determined using the Black Scholes valuation model was $2.79 per award (2019: $1.88).

7. Share–based payments (continued)

The significant inputs into the Black-Scholes model were:

	2020	2019
Share price at grant	**$2.14 - $2.85 dependent on grant date**	$1.71 - $3.20 dependent on grant date
Exercise price	**As shown above**	As shown above
Expected option life	**10 years**	10 years
Dividend yield	**0%**	0%
Annual risk-free rate	**0.13% - 0.27 % dependent on grant date**	0.57% - 1.29% dependent on grant date
Share price volatility	**50%**	50%

See note 6 for the total expense recognised in the income statement for share options and PSP awards granted to directors and employees.

8. Taxation credit

	2020 $'000	2019 $'000
Current tax		
Current year tax credit	**560**	666
Prior year adjustments	**54**	2
Total tax credit	**614**	668

Analysis of taxation credit in the year

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure under the SME scheme. The amount included in the financial statements includes the credit receivable by the Group for the year. The 2020 amounts have not yet been agreed with the relevant tax authorities.

There is no current tax charge in the year as the Group has losses brought forward and is entitled to a cash tax credit in the United Kingdom for certain research and development expenditure. The repayable tax credit for each year is lower than the credit that would be repayable at the standard rate of corporation tax in the UK applicable of 19% (2019: 19%). The differences are explained in the following table:

8. Taxation credit (continued)

Tax reconciliation

	2020 $'000	2019 $'000
Loss before income tax	**(34,092)**	**(23,507)**
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	**(6,478)**	**(4,466)**
Tax effect of:		
Expenses not deductible for tax purposes	**233**	**157**
Temporary differences	**512**	**508**
Additional deduction for R&D expenditure	**(425)**	**(492)**
Surrendered losses for R&D tax credit	**327**	**379**
Items for which no deferred tax asset was recognised	**5,311**	**3,248**
Adjustment for foreign tax rates	**(40)**	**-**
Prior year adjustments	**(54)**	**(2)**
	(614)	**(668)**

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted for IFRS and UK GAAP purposes on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19 percent, rather than the previously enacted reduction to 17 percent. Deferred taxes at the year-end date have been measured using these enacted tax rates and reflected in these financial statements.

As at 31 December 2020, the unrecognised deferred tax assets relating to operating losses amounted to $14,123,000 (2019: $7,885,000).

These have not been recognised due to the uncertainty over the utilisation of the losses.

9. Basic and diluted losses per Ordinary Share

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

	2020	2019
Losses per Ordinary Share		
Loss for the financial year ($'000)	**(33,478)**	(22,839)
Weighted average number of Ordinary Shares (basic) (thousands)	**73,580**	53,680
Losses per Ordinary Share basic ($)	**(0.46)**	(0.43)

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held by the EBT which are accounted for as treasury shares.

Share options and convertible instruments are anti-dilutive in both 2020 and 2019 for the purposes of the losses per share calculation and their effect is therefore not considered.

10. Financial instruments and financial risk management

General objectives, policies and processes

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

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

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

Principal financial instruments

The principal financial instruments used by the Group, from which financial risk arises, are set out below:

	2020 $'000	2019 $'000
Financial assets as per statement of financial position		
Trade and other receivables	**58**	-
Cash and cash equivalents	**46,693**	17,009
Total	**46,751**	**17,009**

	2020 $'000	**2019** $'000
Financial liabilities as per statement of financial position		
Loans and other borrowings	**36,693**	10,154
Trade and other payables	**5,271**	3,901
Total	**41,964**	**14,055**

All financial assets are loans and receivables. All financial liabilities are held at amortised cost.

Liquidity risk

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

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

10. Financial instruments and financial risk management (continued)

Credit risk

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings. The majority of the Group's cash assets are held in AAA rated instruments or institutions.

	2020 $'000	2019 $'000
Trade and other receivables		
AAA	**58**	-
Total unimpaired receivables	**58**	-
Cash at bank and short-term deposits		
AAA	**25,001**	15,879
A	**21,692**	1,130
Total cash and cash equivalents	**46,693**	17,009

Credit risk arises primarily from cash and cash equivalents and deposits with banks and financial institutions, given the limited revenue generated in the year. Credit risk is managed by ensuring all cash and cash equivalents are deposited with established UK and US banking institutions of high repute and at least an A credit rating.

Interest rate cash flow risk

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

The Group is also exposed to some interest rate cash flow in respect of the term loans. The interest rate on the Hercules loan is based on the greater of 9.25% or the Wall Street Journal prime rate plus 4.5%. The interest rate on the Cosmo loan is 11% until the Hercules loan is fully repaid, after which the interest rate will decrease to 9%. The directors do not consider this risk to be significant.

Currency risk

From 2020, the greater proportion of costs have been incurred in US dollars and going forward the Group expects its revenues and costs to be predominantly US dollar-based, with the exception of manufacturing costs, which are incurred in Euros. The Group therefore holds a portion of cash in Euros to meet upcoming manufacturing needs. Accordingly, the Group has not been exposed to material transactional currency risk although some translational risks arose on consolidation.

Capital risk management

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

The Group has no undrawn committed borrowing facilities at year end in either of 2020 or 2019.

11. Intangibles

	BYFAVO licence
	$'000
Year ended 31 December 2020	
Opening net book amount	**-**
Additions	51,359
Amortisation	(3,051)
Foreign exchange differences	3,860
Closing net book amount	**52,168**
At 31 December 2020	
Cost or fair value	55,219
Accumulated amortisation	(3,051)
Net book amount	**52,168**

The intangible asset acquired in the period represents amounts paid to Cosmo for the BYFAVO license. Amortisation is included within general and administrative expenses in the income statement. Under the terms of the agreement, a number of milestones became payable during the year as set out below.

Date	Number of shares issued	Milestone	Fair value
			$'000
January 2020	4,646,841	€15 million on contract inception	11,959
July 2020	4,923,811	€15 million on BYFAVO approval	16,421
July 2020	-	€15 million on BYFAVO approval – cash payment	16,844
December 2020	2,099,958	€5 million on BYFAVO commercial milestone	6,134
As at 31 December 2020			**51,358**

The remaining useful economic life at the year end date is 6.5 years. Additional commercial milestones will become payable on sales above certain levels.

12. Leases

This note provides information for leases where the group is a lessee.

i) Amounts recognised in the statement of financial position

	2020 $'000	2019 $'000
Right of use assets		
Buildings	**277**	372
	277	372

12. Leases (continued)

	2020 $'000	2019 $'000
Lease liabilities		
Current	**120**	116
Non-current	**189**	273
	309	389

ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2020 $'000	2019 $'000
Depreciation charge of right of use assets	**95**	92
Interest expense (included in finance cost)	**34**	42
Expense relating to short-term leases (included in general and administrative expenses)	**105**	83

The total cash outflow for leases in 2020 was $220,000 (2019: $184,000).

13. Trade and other receivables

	2020 $'000	2019 $'000
Trade receivables	**58**	-
Other receivables	**363**	581
Prepayments and accrued income	**40**	28
	461	609

The fair value of trade and other receivables is considered equal to their carrying value. Loss allowances are $nil (2019: $nil).

14. Inventories

	2020 $'000	2019 $'000
Raw materials	**401**	**-**
Work in progress	**936**	**-**
Finished goods	**1,325**	**-**
	2,662	**-**

Amounts recognised in profit or loss

Inventories recognised as an expense during the year ended 31 December 2020 amounted to $29,000. These were included in cost of sales.

As at 31 December 2019, given that FDA approval for BARHEMSYS had not been received, all inventories were fully provided against, with the resulting expense recognised within research and development expenditure. Following the receipt of FDA approval for BARHEMSYS on 26 February 2020 these provisions were released during 2020, with a consequent credit of $1,397,000 to research and development expenses and increase to inventory values.

15. Cash and cash equivalents

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

	2020 $'000	2019 $'000
Sterling accounts	**663**	918
Euro accounts	**29,516**	229
US Dollar accounts	**16,514**	15,862
	46,693	17,009

16. Called up share capital and share premium account

Share capital and premium	Ordinary shares of £0.02	Ordinary shares of £0.02	Share premium
	Number	$'000	$'000
At 1 January 2019	**53,329,205**	**1,581**	**75,454**
Issue of Ordinary Shares upon exercise of share options	1,558,993	38	142
Issue costs			(8)
At 31 December 2019 and 1 January 2020	**54,888,198**	**1,619**	**75,588**
Issue of Ordinary Shares	34,709,753	899	86,394
Issue costs			(3,533)
At 31 December 2020	**89,597,951**	**2,518**	**158,449**

Share option exercises

In 2019, 1,558,993 shares were issued upon the exercise of share options, resulting in proceeds of $180,000. Shares issued in 2020 upon the exercise of share options or vesting of RSUs are set out in the table below:

Date of issue	Number of shares issued	Proceeds $'000
9 March 2020	237,000	-
7 May 2020	140,000	-
8 May 2020	14,391	-
13 October 2020	605,082	10
	996,473	10

16. Called up share capital and share premium account (continued)

The Acacia Pharma Employee Benefit Trust

The Company established a Trust on 7 December 2018 in order to distribute shares to employees enabling obligations under the Performance Share Plan, the Company Share Option Plan and the Deferred Annual Bonus Plan to be met. The Trust is managed by Ocorian Trustees (Jersey) Limited, an independent company located in Jersey.

At 31 December 2020, the Trust held 1,613,182 (2019: nil) ordinary shares in the Company with a market value of $5.1 million (2019: $nil). All of the shares are under option.

The Group accounts for its own shares held by the Trustees of the Employee Benefit Trust (EBT) as a deduction from Shareholders' funds. The costs of running the EBT are charged to the Company's profit and loss account as they occur and are financed by advances from the Company.

	2020	2019
Number of shares in the Company owned by the EBT	**1,613,182**	-
Nominal value of shares held	**$44,036.64**	-
Cost price of shares held	**$44,036.64**	-
Market value of 1 share at 31 December 2020	**$3.25**	-
Total market value of shares	**$5,242,841.50**	-
Maximum number of shares in the Company owned by the EBT in the year	**2,218,264**	-
Minimum number of shares in the Company owned by the EBT in the year	**nil**	-

17. Trade and other payables

	2020 $'000	2019 $'000
Trade payables	**1,144**	2,653
Other tax and social security	**386**	266
Accruals and other creditors	**4,128**	1,248
	5,657	4,167

18. Loans and other borrowings

Term bank loan

A term loan facility with Hercules Capital was drawn on 29 June 2018. The initial tranche drawn was $10 million and costs of $644k were incurred. The loan bears interest at the higher of 9.5% or the Wall Street Journal prime rate plus 4.5%, bears a final payment charge of 3.95% of the principal, and was interest only until January 2020. Thereafter the principal and interest on the loan is repayable in 25 equal monthly instalments. Warrants over 201,330 Ordinary Shares, exercisable at €3.22 per share, were issued to Hercules Capital as part of the terms of the loan facility.

A term loan facility with Cosmo Pharmaceuticals N.V. was entered into on 10 January 2020. The initial tranche of €15 million was drawn down on 27 July 2020, and used to pay Cosmo the milestone due on BYFAVO approval. The second tranche of €10 million was drawn down on 27 September 2020. The loan bears an interest rate of 11% until the Hercules loan has been fully repaid, after which the interest rate will be 9%. The loan is interest-only for 36 months, after which the loan will be repayable in 24 monthly instalments.

18. Loans and other borrowings (continued)

Lease liability

Lease payments represent amounts payable by the Company for its office property held under long-term leases, discounted at 9.75%. For further information see note 11.

	2020 $'000	2019 $'000
Loans and other borrowings payable within one year		
Term loans, amounts payable within one year	**5,298**	5,337
Lease liability, amounts payable within one year	**119**	116
Total Loans and other borrowings payable within one year	**5,417**	5,453
Loans and other borrowings payable after one year		
Term loans, amounts payable after one year	**31,087**	4,428
Lease liability, amounts payable after one year	**189**	273
Total Loans and other borrowings payable after one year	**31,276**	4,701

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2020 $'000	2019 $'000
Euro	**30,753**	-
US dollar	**5,940**	10,154
	36,693	10,154

The fair value of non-current borrowings is $31.3 million, based on cash flows discounted using a rate based on the borrowing rate of each loan%. The fair values of current borrowings are considered to equal their carrying value, as the impact of discounting is not significant.

19. Reconciliation of movement in liabilities from financing activities

	Term Loans	Lease liability	Total
	$'000	$'000	$'000
As at 1 January 2020	**9,765**	**389**	**10,154**
Finance expense and exchange movements	2,098	34	2,132
Other non-cash movements[1]	16,843	-	16,843
Cash inflows	13,910	-	13,910
Cash outflows	(6,231)	(115)	(6,346)
As at 31 December 2020	**36,385**	**308**	**36,693**

1. Following approval of Byfavo on 2 July 2020, a milestone payment of €15 million to Cosmo became due, and €15 million in loan facility, also with Cosmo, became available. The loan was drawn down on 27 July 2020, and was set off against the milestone liability.

During the year a €10m loan facility with Cosmo, available for drawdown on BARHEMSYS FDA approval was amended and replaced with a €10 million equity investment. As part of the amendment, 367,893 shares were issued to Cosmo (at an equity subscription price of €2.99 per share) in satisfaction of a €1,100,000 break fee payable under the terms of the loan amendment.

	Term Loans	Lease liability	Total
	$'000	$'000	$'000
As at 1 January 2019	**9,317**	**448**	**9,765**
Finance expense and exchange movements	1,446	42	1,488
Net cashflows	(998)	(101)	(1,099)
As at 31 December 2019	**9,765**	**389**	**10,154**

20. Cash used in operations

	2020 $'000	2019 $'000
Loss before income tax	**(34,092)**	(23,507)
Adjustments for:		
Share-based payments	**2,694**	2,437
Foreign exchange (gain)/loss	**234**	57
Finance expense	**2,977**	1,488
Finance income	**(41)**	(432)
Depreciation and amortisation	**3,146**	95
Changes in working capital		
- Decrease / (Increase) in trade and other receivables	**150**	(369)
- (Increase) in inventory	**(2,662)**	-
- Increase / (Decrease) in trade and other payables	**1,490**	(434)
Cash used in operations	**(26,104)**	(20,665)

21. Pensions

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

	2020 $'000	2019 $'000
Amount paid during the year	**75**	121
Amount outstanding at the year end	**-**	-

22. Commitments and contingencies

a) Commitments on expenditure

Expenditure contracted for at the year end but not yet incurred is as follows:

	2020 $'000	2019 $'000
Inventory	**1,548**	166
Research and development expenditure	**736**	230
Total	**2,284**	396

b) Short-term lease commitments

Lease payments represent amounts payable by the Group for its office property held under short-term (< 1 year) leases. The future aggregate minimum lease payments under non–cancellable short-term operating leases at year end were as follows:

	2020 $'000	2019 $'000
Payments under short-term leases which fall due:		
Within 1 year	**25**	28
Total	**25**	28

23. Related party disclosures

The Company's Chief Medical Officer, Gabriel Fox, is connected to a director of Comedica Ltd, which in the prior year provided consulting services to the Company. The cost of these services was $nil (2019: $5,909). The amount outstanding at the year end was $nil (2019: $nil).

During the year, the Group entered into a number of transactions with Cosmo after the initial equity investment in January:

- Amendment to loan facility and replacement with €10 million equity investment at a price of €3.112 per share, representing a 4.1% premium on the closing share price
- Payment of €1.1 million break fee on the amendment of the loan facility, satisfied by the issue of 367,893 Ordinary shares
- Draw down of €15 million loan on 27 July 2020
- Payment of BYFAVO approval milestone on 27 July 2020
- Draw down of €10 million loan on 28 September 2020
- €47,160 in respect of packaging services
- €5 million in satisfaction of a BYFAVO commercial milestone, satisfied by the issue of 2,099,958 Ordinary shares

24. Ultimate controlling party

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

25. Post period events

On 23 February 2021, the Company completed a capital raise by way of a Placing of new ordinary shares. The capital raise had gross proceeds of €27 million ($33m), providing the Group with additional financial resources to support the continued launch and roll out of BARHEMSYS and BYFAVO in the US.

Following the end of the United Kingdom's transition period for leaving the European Union on 31 December 2020, the United Kingdom can no longer be the home Member State of Acacia Pharma for the purposes of Directive 2004/109/EC of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (the EU Transparency Directive).

The Group chose Belgium as its home Member State in accordance with article 10, §3, of the Belgian Act of 2 August 2002 regarding financial supervision and financial services. The Company has given due notice of this change to the Belgian Financial Services and Markets Authority (the “Belgian FSMA”).

Company Financial Statements

Company Financial Statements for the year ended 31 December 2020

Statement of Financial Position as at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Fixed assets			
Investments	5	**111,397**	109,494
Total fixed assets		**111,397**	109,494
Current Assets			
Other debtors	6	**97,847**	36,187
Cash and cash equivalents		**3**	17
Total Current Assets		**97,850**	36,204
Total Assets		**209,247**	145,698
Total			
Equity and Liabilities			
Called-up Share capital	7	**1,792**	1,098
Share premium account		**119,207**	54,967
Profit and loss account		**83,279**	86,527
Share-based payments reserve		**4,946**	2,881
Treasury shares		**(32)**	-
Total Equity		**209,192**	145,473
Liabilities			
Current liabilities			
Trade and other payables	8	**55**	225
		55	225
Total Equity and Liabilities		**209,247**	145,698

The loss of the Company attributable to the equity Shareholders for the year was £3.2 million (2019: £1.5 million)

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

The notes on pages 91 to 96 form an integral part of these Financial Statements.

The Financial Statements on pages 89 to 96 were approved by the Board of Directors on 26 March 2021 and were signed on its behalf by:

Mike Bolinder
Director
26 March 2021

Company Financial Statements
Statement of Changes in Equity

	Called up Share Capital £'000	Share Premium Account £'000	Share-based payment reserve £'000	Profit and Loss account £'000	Treasury Shares £'000	Total Equity £'000
Balance at 1 January 2019	1,067	54,858	997	88,039		144,961
Comprehensive expense						
Total comprehensive expense for the year	-	-	-	(1,512)		(1,512)
Transactions with Owners						
Issue of ordinary shares	31	116	-	-		147
Costs of issue of ordinary shares	-	(7)	-	-		(7)
Capital contribution arising on share-based payments	-	-	1,600	-		1,600
Share-based payments charge	-	-	284	-		284
Balance at 31 December 2019 & 1 January 2020	**1,098**	**54,967**	**2,881**	**86,527**		**145,473**
Comprehensive expense						
Total comprehensive expense for the year	-	-	-	(3,236)	-	(3,236)
Transactions with Owners						
Issue of ordinary shares	650	66,953	-	-	-	67,603
Issue of ordinary shares to the EBT	44				(44)	-
Costs of issue of ordinary shares	-	(2,713)	-	-	-	(2,713)
Transfer of treasury shares to employees	-	-	-	(12)	12	-
Capital contribution arising on share-based payments	-	-	1,903	-	-	1,903
Share-based payments charge	-	-	162	-	-	162
Balance at 31 December 2020	**1,792**	**119,207**	**4,946**	**83,279**	**(32)**	**209,192**

Notes to the Company Financial Statements

1. Summary of significant accounting policies

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

General information

Acacia Pharma Group plc is a limited company incorporated and domiciled in England and Wales with registered number 09759376. The Company's registered office is The Officers' Mess, Royston Road, Duxford, CB22 4QH.

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

The Company's Financial Statements presented are as at and for the year to 31 December 2020.

Basis of preparation

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

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

The Company has established an Employee Benefit Trust ("EBT") to which it is the sponsoring entity. Notwithstanding the legal duties of the Trustees, the Company considers that it has 'de facto' control. The EBT is accounted for as assets and liabilities of the Company and are included in the consolidated financial statements. The Company's equity instruments held by the EBT are accounted for as if they were the Company's own equity instruments and are treated as treasury shares. No gain or loss is recognised in profit or loss or other comprehensive income on the purchase, sale or cancellation of the Company's own equity held by the EBT.

Exemptions for qualifying entities under FRS 102

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

The Company has taken advantage of the following exemptions:

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

1. Summary of significant accounting policies (continued)

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

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

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

Going Concern
The financial statements have been prepared on a going concern basis which assumes that the Group and Company will continue in operational existence for the foreseeable future. The Directors have considered a minimum period of 18 months in making their going concern assessment.

The Directors' base case forecast and plans assume the successful commercialisation of BARHEMSYS and BYFAVO. The downside scenario assumes that revenue remains consistent with that earned in Q1 of 2021. Based on both the Directors' base case scenario and severe but plausible downside scenario assessments, and considering the existing cash and debt facilities, the Group and Company have sufficient funding to commercialise BARHEMSYS and BYFAVO until the end of Q2 of 2022. These forecasts are dependent on revenues which are not certain, and there is a need for additional financing to continue commercialisation and for the group to continue as a going concern.

The Directors are confident that they will be able to secure additional financing by the end of Q2 of 2022 and therefore consider it is appropriate to prepare these financial statements on the going concern basis. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful and therefore this represents a material uncertainty, which may cast significant doubt about the Group's and Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

The Company incurred a loss of £3.2 million in the year to 31 December 2020 (2019: £1.5 million).

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

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

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.

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

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

1. Summary of significant accounting policies (continued)

Share–based payments

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

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

Capital contributions

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

Current and deferred income tax

Income tax on the result for the financial year comprises current and deferred tax. Income tax is recognised in the Profit and Loss account 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.

Critical Accounting Estimates and Judgements

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

Carrying value of the Company's investment in and receivables from its subsidiaries

The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the Company. These investments are carried in the books of the Company at cost less provisions for impairment. The carrying value at 31 December 2020 is £111,397,000 (2019: £109,494,000). The Company also holds a receivable from Acacia Pharma Limited of £97,847,000, for a combined interest in subsidiaries of £209,244,000. The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries relate to the continuing progress of the commercialisation, marketing and sale of BARHEMSYS and BYFAVO. As noted in the principal risks and uncertainties set out on pages 34 to 35, there are a number of risks and uncertainties around those assumptions and the crystallisation of any of those risks could have a significant impact on the assessment of the carrying value of the investment shown in the Financial Statements of the Company.

2. Auditors' Remuneration

The audit fee of Acacia Pharma Group plc amounted to £6,000 (2019: £5,000).

3. Share Options and Share–based payments

For details of share-based payments please refer to note 7 to the group financial statements on pages 77 to 79.

4. Employee numbers

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

	2020 Number	2019 Number
Administration	-	2
	-	2

The Chief Executive Officer is an employee of Acacia Pharma Inc. The only employee receiving remuneration in the year was Christine Soden, who resigned as a director on 29 February 2020. Her remuneration is disclosed in the Directors' Remuneration report on pages 37 to 53. The share option charge in relation to Directors in the year was £162,000 (2019: £284,000)

5. Investments

As a result of share based payment transactions relating to share options over shares in Acacia Pharma Group plc being awarded to employees of Acacia Pharma Inc and Acacia Pharma Limited, and warrants over shares in Acacia Pharma Group plc issued as part of a loan agreement taken out by Acacia Pharma Inc, a capital contribution is recognised in the financial statements of Acacia Pharma Group plc in respect of these amounts.

Acacia Pharma Inc is 100% owned by Acacia Pharma Limited.

Investment in Acacia Pharma Limited

	2020 £'000	2019 £'000
At beginning of year	**107,514**	107,371
Capital contribution	**53**	143
	107,567	107,514

Investment in Acacia Pharma Inc

	2020 £'000	2019 £'000
At beginning of year	**1,980**	523
Capital contribution	**1,850**	1,457
	3,830	1,980
Total investments	**111,397**	109,494

5. Investments (continued)

Name of undertaking	Registered or Principal Office	Proportion ownership interest (%)	Principal activity
Acacia Pharma Limited	The Officers' Mess, Royston Road, Duxford CB22 4QH	100%	Development and commercialisation of pharmaceuticals
Acacia Pharma, Inc	Allison Pointe Indianapolis, IN	100%	Sale and marketing of pharmaceuticals
Acacia Pharma Ireland Limited	32 Merrion Street Upper, Dublin 2	100%	Sale and marketing of pharmaceuticals

Acacia Pharma Inc and Acacia Pharma Ireland Limited are 100% owned by Acacia Pharma Limited

No provision for impairment has been made given the continued progress in developing the product pipeline made by Acacia Pharma Limited in the financial year and assessments of the expected value of the underlying products. During the year share-based payment charges of £52,789 (2019: £143,000) arose in respect of the share options granted over shares in the Company to employees of Acacia Pharma Limited, and charges of £1,850,000 (2019: £1,457,000) in respect of the share options granted over shares in the Company to employees of Acacia Pharma Inc.

6. Other receivables

	2020 £'000	2019 £'000
Amounts owed by group undertakings	**97,847**	36,187
	97,847	36,187

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

7. Called up share capital

Details of the Company's share capital and outstanding share options are shown in note 16 of the Group Financial Statements on page 85 to 86.

8. Trade and other payables

	2020 £'000	2019 £'000
Accruals and deferred income	**55**	225
	55	225

9. Financial instruments

Details of the Company's financial instruments are included in note 10 of the Group Financial Statements on pages 81 to 82.

10. Ultimate controlling party

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

11. Related party transactions

The Company has elected to take the exemption available in FRS 102 to not disclose transactions with wholly-owned subsidiaries. During the year, the Company entered into a number of transactions with Cosmo after the initial equity investment in January:

- Amendment to loan facility and replacement with €10 million equity investment at a price of €3.112 per share, representing a 4.1% premium on the closing share price
- Payment of €1.1 million break fee, satisfied by the issue of 367,893 Ordinary shares
- Payment of BYFAVO approval milestone on 27 July 2020
- Draw down of €10 million loan on 28 September 2020
- €5 million in satisfaction of a BYFAVO commercial milestone, satisfied by the issue of 2,099,958 Ordinary shares

12. Post period events

On 23 February 2021, the Company completed a capital raise by way of a Placing of new ordinary shares. The capital raise had gross proceeds of €27 million ($32m), providing the Group with additional financial resources to support the continued launch and roll out of BARHEMSYS and BYFAVO in the US.

Following the end of the United Kingdom's transition period for leaving the European Union on 31 December 2020, the United Kingdom can no longer be the home Member State of Acacia Pharma for the purposes of Directive 2004/109/EC of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (the EU Transparency Directive).

The Company therefore chose Belgium as its home Member State in accordance with article 10, §3, of the Belgian Act of 2 August 2002 regarding financial supervision and financial services. The Company has given due notice of this change to the Belgian Financial Services and Markets Authority (the “Belgian FSMA”).