acacia pharma

Acacia Pharma Group plc
Annual Report and
Financial Statements
for the year ended 31 December 2021

Registered number 09759376

Directors and advisers

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Chairman’s introduction

The primary focus this past year was on establishing the launch trajectory for the Group’s two recently approved products, Barhemsys® and Byfavo®, both in the acute care setting with a focus on anesthesia and surgical teams. As previously indicated, being added to formularies in hospitals and surgery centers would lay the foundation for future sales of the products in this setting. As expected, and as previewed by Acacia in its interim results announcement on 30 September 2021, Acacia met its formulary goals for both Barhemsys® and Byfavo® for the full year 2021 and the Group continues to be very encouraged by the positive user feedback received for both products. Acacia continues to believe these products, with the right promotional support, are well positioned to deliver significant commercial success in the future.

However, as previously communicated, there remain significant operational challenges for Acacia, as a result of the limited physical access to institutions resulting from the global COVID-19 pandemic, as well as the latency in demand due to the postponement of non-essential surgical procedures. The market has continued to be challenging as a result of the global COVID-19 pandemic, resulting in disrupted hospital operations, limited access, and significantly increased time and capital investment required for product launches. As a result of these conditions, the Group has experienced a significant reduction in its available liquidity as the net revenue in 2021 and so far in 2022 continues to lag behind expectations.

Against this challenging backdrop, the performance of the Group in 2021 against its formulary targets has been positive and has continued to position the business well for growth over the longer term. Net revenues for FY21 were US$1.2 million, cash as at 31 December 2021 was US$21.6 million and the cash runway, consistent with what has previously been communicated, would continue to finance the Group until mid-2022 as the Group has managed its cash accordingly. However, in light of the continued delay in achieving significant revenues, Acacia now expects it would require a minimum of approximately US$115 million of additional cash to fund operations to break even (estimated to be by early FY25).

As a result, the Acacia Board appointed Greenhill & Co, Inc to undertake a comprehensive review of strategic alternatives available to maximize value for Acacia’s Shareholders. The review of strategic alternatives has included consideration of options to raise additional capital, but found that the terms on which such capital was likely to be available would have led to significant dilution and potential destruction of value for Shareholders. Moreover, it was not clear that it would be viable to raise sufficient capital available to cover the Group’s requirements, meaning the Group would likely have only a slightly longer runway following any such dilution. The strategic review also considered obtaining further debt financing but, due to the terms of the existing debt of Acacia and Acacia’s low revenue and early-stage position, any debt financing would have required acceptance of terms that would have been significantly destructive of shareholder value.

A process was therefore undertaken in which proposals were solicited from multiple parties to acquire the entire issued share capital of Acacia Group and, in response, several proposals of different types were received and considered carefully by the Acacia Board.

Following consideration of the available proposals, and having regard to the advice provided by the board’s advisors and in view of Acacia’s available resources, the directors of Acacia unanimously believe the proposed transaction with Eagle Pharmaceuticals Inc announced on 28 March 2022 is the best available option for Acacia Shareholders to maximize the value of their Acacia Shares.

Eagle is a specialty pharmaceutical company working to advance safe and efficient injectable treatments for patients across oncology, critical care, and orphan diseases, is publicly traded on the NASDAQ and currently has six approved products, several pipeline projects underway and the potential for up to three product launches over the next several years.

Under the terms of the Proposed Transaction, which will be subject to the full terms and conditions set out in the Scheme Document, Scheme Shareholders at the Scheme Record Time will be entitled to receive €0.68 in cash and 0.0049 new Eagle shares for each Scheme Share. The cash portion of the Scheme represents approximately 75 percent. of the total consideration, and the New Eagle Shares that Acacia Shareholders would receive represent approximately 25 percent. of the total consideration, which represents approximately 3.8 percent. of the enlarged Eagle share capital in issue immediately following completion of the Scheme. The reference price for Eagle shares is $49. The total Consideration equates to €0.90 for each Scheme Share.

The proposed transaction will be effected by means of a Court-sanctioned Scheme of Arrangement between Acacia and the Scheme Shareholders under Part 26 of the Companies Act 2006. The Scheme will only become effective if, among other things, the following events occur on or before 30 June 2022:

- a resolution to approve the Scheme is passed by a majority in number of the Scheme Shareholders present and voting (and entitled to vote) at the Court Meeting (and any separate class meeting which may be required by the Court (or at any adjournment thereof)), either in person or by proxy, representing not less than 75 percent. in value of the Scheme Shares held by such Scheme Shareholders (or the relevant class or classes thereof);
- each of the Resolutions necessary to implement the Scheme are passed by the requisite majority of Acacia Shareholders at the General Meeting (which will require the approval of Acacia Shareholders representing at least 75 percent. of the votes cast at the General Meeting, either in person or by proxy);
- the Co-operation Agreement is not terminated in accordance with its terms;
- the Scheme is sanctioned by the Court (with or without modification, on terms agreed by Eagle and Acacia); and
- an office copy of the Scheme Court Order is delivered to the Registrar of Companies.

Acacia Shareholders should note that, if the Scheme of Arrangement in relation to the proposed transaction is not approved by the necessary majorities of Acacia Shareholders and, as a result, does not become unconditional in all respects, the Scheme will not come into effect. In that circumstance, the board of Acacia may not be able to negotiate alternative arrangements to ensure Acacia's financial survival in its current form. It is impossible at this time to predict with certainty the consequences of a failure of the Scheme, but given the financial and liquidity situation of Acacia and on the basis of the information currently available to it, the Acacia Board considers that there is a significant risk that if the Scheme is not approved by the necessary number of Acacia Shareholders, this could lead to a very material reduction in the value attributable to Acacia Shares and/or an insolvency procedure relating to the Acacia Group, which could in turn result in negligible (if any) value being attributable to Acacia Shares.

The Acacia Board believes this Proposed Transaction alleviates the need for the further provision of capital by Acacia Shareholders and represents an opportunity for Acacia Shareholders to immediately realise some value for their investment in cash, while through Eagle, retain an interest in the future value that may be generated from Barhemsys® and Byfavo® being part of a larger portfolio of hospital products, in the hands of a well-capitalized company. We are therefore unanimously recommending this Proposed Transaction to our Shareholders.

Scott Byrd
Chairman

29 April 2022

Chief Executive Officers Review

In 2021 the global COVID-19 pandemic continued to challenge and disrupt business across many industries, but perhaps none greater than US healthcare in the hospital and acute care setting. The year was fraught with various waves of different variants which significantly challenged hospital care. Due to the precautions hospitals put in place to protect their patients and staff, physical access for our field teams was significantly impacted and in many cases non-existent. I want to begin by thanking my colleagues at Acacia for their professionalism and persistency in the face of these challenges as they continued to progress the launches of our products through these unprecedented circumstances.

We maintained our view on formulary wins (unadjusted for the pandemic) being the key performance metric for the early launch success of the products. Despite the very challenging environment, the team delivered 339 (against the goal of 300) accounts on formulary for Barhemsys® and 152 (against the goal of 150) accounts on formulary for Byfavo®. We also tracked and reported formulary win success rates and both exceeded the benchmark goal of 75% with Barhemsys® achieving c.85% and Byfavo® achieving c.95% since launch. Exceeding these unadjusted goals for both of these key performance indicators in the challenging environment resulting from the pandemic is further testament to the extraordinary efforts of our team and the value that both products offer to the healthcare system.

Yet, despite these formulary successes, the lack of physical access for our field teams to customers in the acute care setting significantly impeded and delayed the uptake and use of the drugs, even where they were adopted on formulary, as it hindered and in many cases prevented our teams from ensuring the products were stocked and available at the point of care, fully coded and available in the computer ordering systems, embedded into the requisite protocol sets, and from providing the in-service education to the doctors and nurses to ensure they knew they were available and how to properly administer the drugs to their patients. Thereby the launch revenue uptake has been significantly delayed, resulting in revenues for 2021 falling below internal forecasts and creating greater impact on 2022 and future years' forecast projections. There still remains uncertainty around future variants and effects of the global pandemic on our business.

Meanwhile, we have upheld all of our post marketing commitments for both products, however we have had to delay beginning to study APD403 for chemotherapy-induced nausea and vomiting ("CINV").

While we raised €27m ($32.8m) in February 2021 through an equity offering, and have managed expenses very conservatively due to the revenue uptake delays, since our mid-year earnings announcement we have been consistent that our cash runway would take us through the first half of 2022. Unfortunately, the equity markets have been extremely unfavourable for raising capital in the second half of 2021 and early 2022, reducing the likelihood of a successful capital raise. Any equity raise would have resulted in significant dilution and potential destruction of value for Acacia shareholders. Therefore, the board of directors have unanimously recommended the proposed transaction with Eagle as referred to in the Chairman's statement above.

We do continue to receive very positive feedback from customers who have had the opportunity to use our products in their patients. They have continually informed us that both products are seen as "game changers" in the field of anesthesia. We are very proud of the fact that these products have improved patients' experiences and assisted our customers in their daily practice even in such a short time on the market. We are even more excited about the long-term impacts that both brands may have on patient care over the coming years and are very grateful to all of our stakeholders who have supported and enabled bringing them to market.

Mike Bolinder
Chief Executive Officer

29 April 2022

Business Model

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. Future operational plans under Eagle's proposed ownership are uncertain.

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

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 incentivized 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 anesthesia 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 gastrointestinal procedures and over 40 million total procedures that require moderate sedation performed annually in the US.

Chemotherapy-induced nausea and vomiting ("CINV")

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.

Market overview

A changed and uncertain world

- The impact of COVID-19 on the US healthcare system has been severe and we have needed to continuously adjust our commercialization strategy to accommodate the challenges presented in order to meet 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 has 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. However, it has also led to a prolonged lack of physical access to customers in the acute care setting that has significantly delayed the uptake and usage of our products beyond what is normally seen during a hospital product launch. While it is uncertain how long this situation will persist, we believe that our products will eventually see strong adoption and usage given the limited early experience.

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 percent 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 anesthesia 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 minutes 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 centers compared to other recommended treatments

Strategy

Our strategic priorities

To date, our strategic priorities have been:

- To deliver effective new treatments
- To fund growth

Following the announcement of the proposed transaction with Eagle, our focus is on maximising shareholder value by ensuring completion of the transaction.

How we report our progress

Key Performance Indicators (KPIs) The following pages present our KPIs for the year ending 31 December 2021. Our KPIs 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 three 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.
- **Principal Risks:** we review the risks that might challenge the delivery of our strategy (page 30 to 31).

Strategic Priority	Deliver effective new treatments	Funding growth
Key activities and progress	❖ 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 ❖ At year end, we had achieved 339 accounts on formulary for Barhemsys®, with c85% that reviewed Barhemsys® adding it to their formulary ❖ We achieved 152 accounts on formulary for Byfavo® with a success rate of c.95%	❖ Seeking new sources of capital (equity and/or debt) and managing our capital to continue to commercialize our products and business plan ❖ In February 2021, completing a €27 million ($32.8 million) equity financing ❖ Despite the delays in sales revenues due to the global COVID-19 pandemic, the team managed the operating expenses in order to make up for the revenue shortfall in 2021 and maintain the anticipated cash runway. ❖ Appointing advisers to undertake a comprehensive review of strategic alternatives available to maximize value for Acacia Shareholders.

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 historic 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.

Progress against objectives set for 2021

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 provided guidance that our goal for 2021 was to achieve 300 accounts on formulary for Barhemsys® and 150 accounts on formulary for Byfavo® by year end. We also stated that our plan was to have at least 75% of formulary committees approve these products when they are reviewed. At year end, we had achieved 339 accounts on formulary for Barhemsys® and 152 accounts on formulary for Byfavo® with c.85% of accounts that reviewed Barhemsys® adding it to their formulary and c.95% of accounts that reviewed Byfavo® adding it to their formulary.

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

It was necessary for the Group to raise additional capital in order to fully fund the product launches through to cash-flow positivity. In February 2021, we raised €27m ($32.8m) through an equity offering.

Deliver revenues and manage OPEX to plan/budget for 2021

Given the lack of physical access to accounts by our sales team due to the global COVID-19 pandemic, revenue uptake was slower than anticipated and our 2021 revenues were below forecast. However, despite the delays in sales revenues, the team successfully managed the operating expenses in order to make up for the revenue shortfall in 2021 and maintain the target cash runway.

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. We successfully completed and submitted the Barhemsys® renal study to the FDA for patients with severe renal disease. All other post-marketing commitments for both products are progressing satisfactorily with appropriate FDA input and remain on track to satisfy the deadlines.

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 by focusing our commercial efforts for Barhemsys® and Byfavo® on anesthesia providers and surgical teams in the acute care setting.

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 almost 50 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 have already received as prophylaxis, 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 anestheologists 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 portfolio of hospital products in 2020 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 both products in the portfolio allows for significant synergies in sales and marketing operations and allows for more efficient investment in commercial infrastructure.

Operational progress

We met our formulary goals for both Barhemsys® and Byfavo® for the full year 2021 and continue to be very encouraged by the positive user feedback received for both products. We continue to believe these products, with the right promotional support, are well positioned to deliver significant commercial success in the future.

However, there remain significant operational challenges for Acacia as a result of the limited physical access to institutions resulting from the global COVID-19 pandemic, as well as the significant latency of demand due to the postponement of non-essential surgical procedures. The market has continued to be challenging as a result of the global COVID-19 pandemic, resulting in disrupted hospital operations, limited access, and significantly increased time and capital investment required for product launches. As a result of these conditions, the Acacia Group has experienced a significant reduction in its available liquidity as the net revenue in 2021 and so far in 2022 continues to lag behind expectations.

Against this challenging backdrop, our performance in 2021 against our formulary targets has been positive and has continued to position the business well for growth over the longer term. Net revenues for FY2021 were US$1.2 million, cash as at 31 December 2021 was US$21.6 million and the cash runway, consistent with original forecasts, would continue to finance Acacia until mid-2022 as it has managed its cash accordingly. However, in light of the continued delay in achieving significant revenues, Acacia now expects it would require a minimum of approximately US$115 million of additional cash to fund operations to break even (estimated to be by early FY2025).

As a result, the Acacia Board appointed Greenhill to undertake a comprehensive review of strategic alternatives available to maximize value for Acacia Shareholders, resulting in the proposed transaction with Eagle.

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 launch our products 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 2021 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	2	3
(i) Direct reports to senior managers	3	11
(iv) Employees, in the Group as a whole, excluding those included above	27	25

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, or remotely from home at times due to COVID-19. As we now have more field-based employees, we instituted appropriate 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 prolonged and 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.

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 when appropriate.

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 is 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 organizations.

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: the continuing impact of COVID-19; maintaining and obtaining product regulatory approvals; obtaining sufficient capital; gaining acceptance on hospital formularies at the major surgery centers; gaining access to hospitals in order to generate meaningful revenues after formulary approval; ensuring continuity of product supplies; healthcare law compliance; and ensuring the completion of the proposed deal with Eagle.

What next?

Priorities for 2022

Our key objective for 2022 is:

Successfully complete the proposed sale of the Company to Eagle and effectuate a seamless transition of the business.

The Board believes that the proposed transaction with Eagle represents the best opportunity to maximize value for Shareholders, while continuing to improve the outcomes and recovery for surgical patients in the US. The focus for the Board and senior management is therefore on ensuring the successful completion of the transaction.

Financial review

Operating loss

Revenue increased to $1.2m (2020: $0.2m), however remains behind internal forecasts as a result of the continuing impact of COVID-19 on access to hospitals, and will continue to affect 2022 and future years' forecast projections. .

The operating loss increased by $35.4m to $66.3m (2020: $30.9m), reflecting the investment in our US commercial infrastructure and product launch expenditure.

R&D expenditure was $4.1m (2020: $0.1m), up $4.0m, reflecting spend on FDA post-marketing requirements, together with the reversal in 2020 of $1.4m of inventory provisions on Barhemsys®, following FDA approval.

Sales and marketing expenses were $32.0m (2020: $19.4m) in the year, driven by the costs of running our commercial team and significant marketing, education, training, distribution, regulatory and other activities.

Total general and administrative costs increased $19.5m to $31.1m (2020: $11.6m), largely as a result of the impairment charge recognised in relation to Byfavo® ($13.0m) as detailed below, the amortization of the Byfavo® license (increase of $5.0m), IP costs arising from the Byfavo® licence ($0.2m), legal costs in relation to strategic financing proposals ($1.1m) and an increase in the IFRS2 charge ($0.2m).

At year end, the Company noted that there were potential impairment triggers, including the drop in market capitalization and challenges to liquidity. As a result, an impairment assessment was performed. On 28 March 2022 the proposed acquisition of the Company by Eagle was announced, in a deal valuing the Group at £79,513,010 (€94,700,000). This offer provided an observable fair value less costs to sell. This transaction value was adjusted for working capital movements between the balance sheet date and the deal completion date per the published deal timetable, which the Directors considered an appropriate approximation of the year end value of the Group. The Directors considered the excess value that the proposed transaction value, as adjusted, attributed to the intellectual property assets of the Group. The Directors considered the carrying value of the Byfavo® license in the context of this value, and concluded that an impairment charge of $13,030,000 would be appropriate. The impairment charge was calculated by reviewing our current future cash flow forecasts and assessing the contribution from Byfavo®. This percentage was then applied to the adjusted valuation of the Group. The Directors considered other metrics, for example relative formulary wins to date. These were considered too short-term, and influenced by the later launch date of Byfavo®, to provide an accurate basis for valuation.

Finance income and expense

Finance income increased to $1.6m (2020: $0.04m), reflecting the increases in foreign exchange gains, mainly on Euro-denominated loans, together with the reduction in interest rates implemented by banks in response to the financial volatility cause by the pandemic.

Finance expense increased $0.1m in the year to $3.3m (2020: $3.2m) primarily as a result of repayment of the Hercules loan, offset by with movements in foreign exchange rates.

Taxation

The tax credit for 2021 was $0.9m (2020: $0.6m) 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 2021 was $67.1m (2020: $33.5m) largely as a result of the increase of $35.4m in the operating loss. The loss per share was $0.68 (2020: $0.46) 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 February 2021 equity financing.

Balance sheet

Non-current assets

Non-current assets decreased by $21.6m to $30.8m, as a result of amortization in the year of $8.1m (2020: $3.1m), together with the impairment charge discussed above of $13.0m.

Current assets

Current assets decreased by $19.2m to $31.2m, dominated by the decrease in cash and cash equivalents to $21.6m (2020: $46.7m) as a result of expenditure in the year offset by the February equity financing.

Liabilities

Non-current liabilities of $27.9m mainly represent 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. The proposed change of control does not impact the payment terms or maturity of the loans.

Current liabilities decreased to $8.2m (2020: $11.1m), as a result of the repayment of the Hercules loan in the year.

Share capital and total equity

Total equity at 31 December 2021 was $25.9m compared to $60.5m at the previous year end, reflecting the financing transactions undertaken in the year ($30.1m), offset by the loss in the year ($67.1m).

Viability statement

The Directors have assessed the prospects of the Group for 12 months from the date of signing the accounts.

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 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 2 to 12. 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 summarized in the risk management and principal risks section on pages 30 to 31.

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 mid-July 2022. It is however anticipated that the transaction with Eagle (the Proposed Transaction) will complete prior to this point, however that requires, amongst other matters, that shareholders approve the Scheme of Arrangement within the required timetable.

Accordingly, the most significant challenge to the viability of the Group is the risk that the Proposed Transaction does not complete. In that circumstance, the board of Acacia may not be able to raise sufficient additional funding to enable the group to continue as a going concern

In addition, if the Proposed Transaction does complete, management does not have access to the financing arrangements of the potential purchaser going forward or their detailed forecasts and so does not know what terms and conditions the entity may need to comply with, Further, certain liabilities crystalise on completion of the Proposed Transaction and funding will need to be made available to the company to settle such liabilities.

These matters above indicate the existence of a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern (refer to Going Concern on page 51).

Anne-Marie Elsley
Company Secretary

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 30 to 31 and our Audit Committee report on pages 25 to 29.

Our people
Being a relatively small group with some 68 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 10 and 21 to 22.

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 21 to 22.

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 21 to 22.

Community and Environment
The Board seeks to support as many interactions with the medical community as possible through medical meetings, meetings with group purchasing organizations 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 page 10.

Approval of the strategic report

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

Mike Bolinder
Chief Executive Officer
29 April 2022

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 2021 which outlines the leadership of the Group, the governance arrangements that are in place and explains how we have reviewed their effectiveness.

The Directors recognize 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 recognize 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 2022 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 24,26,32 and 36.

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.

Scott Byrd
Chairman
29 April 2022

Board of Directors

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 Chief Executive Officer at Sudo Biosciences, and director of Algo Therapeutix.

Expertise and experience: Scott has more than 25 years of experience in the pharmaceutical industry. He is an Entrepreneur-in-Residence at Frazier Lifesciences. Scott was formerly the Chief Executive Officer of Outpost Medicine. Prior to this he was Chief Operating Officer of Acacia Pharma. He was 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 19 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 Calcivis and Senior Independent Director of Yourgene Health plc.

Expertise and experience: John has extensive experience in the life sciences sector. Previously he was Chairman of the Cell and Gene Therapy Catapult, Kyowa Kirin International plc, BTG plc, Axis-Shield plc, Touch Bionics Ltd and CXR Biosciences Ltd and a Non-Executive Director of BioCity and Quantum Pharma plc. In the public sector, he is Chairman of the Roslin Foundation, a Fellow of the Royal Society of Edinburgh, 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 First Wave BioPharma Inc. (formerly known as AzurRx BioPharma Inc) 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 Therapeutics MD, 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 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 2021.

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 2021 there were 6 scheduled meetings and a further 13 ad-hoc meetings.

Attendance by individual Directors at Board and Committee meetings during 2021 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	19/19	n/a	n/a	n/a
Non-Executive Directors						
Scott Byrd	Rem, Nom[1]	Yes	19/19	2/2	n/a	3/3
John Brown	Aud, Rem[1], Nom	Yes	19/19	2/2	3/3	3/3
Edward Borkowski	Aud[1], Rem	Yes	18/19	n/a	3/3	3/3
Alessandro Della Chà	Nom	No	19/19	2/2	n/a	n/a

1. Committee Chairman

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 2021

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

- Reviewing and considering regular updates from management in relation to the launches of Barhemsys® and Byfavo®;
- Reviewing and assessing strategic financing options;
- Reviewing and assessing M&A options;
- Reviewing, assessing and approving the equity financing in February 2021;
- 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 2021; and
- Approval of the budget for FY 2022 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	Board Considerations	Key Actions/Outcomes
Employees	We ensure that the Executive Director holds quarterly all-Group meetings to disseminate progress and hear any employee concerns. We consider this to be 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.	A more formal and robust performance review process was implemented in the year. All our employees have share-based incentives, including performance-based awards to our top-performing sales staff Quarterly incentive programs for field sales staff, focussing on formulary access, were implemented.
Shareholders	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.	Detailed assessment of strategic options to maximize shareholder value, resulting in proposed transaction.
Business partners	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.	Working groups were formed with Paion, the Group's license partner for Byfavo® to ensure regular supply and production of Byfavo®.
Medical community	The Board seeks to support as many interactions with the medical community as possible through medical meetings, meetings with group purchasing organizations 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.
Environment	The Group's operations are relatively low in their impact on the environment, but the Board does review this area and seeks to minimize 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.

Key Stakeholders and Concerns	Board Considerations	Key Actions/Outcomes
Reputation	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, our risk management procedures 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. The Group has met the requirements of the Code for the year ended 31 December 2021.

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.

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 2021 Annual General Meeting.

Diversity

The Board recognizes 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 organized 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 make 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 17 to 18.

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, anonymized 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 2022, the Company considers that the Board, its Committees and its individual members continue to perform effectively.

Relations with Shareholders

The Board maintains regular communication with Shareholders. Meetings between existing and potential Shareholders and senior management, including the Executive Director, 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.

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 2021.

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 auditors. 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 2021, 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 2022, the Committee will continue to focus on the Group's internal controls and risk management processes, together with reviewing the accounting implications of the proposed sale..

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.

Edward Borkowski
Chair of the Audit Committee
29 April 2022

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. 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. 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 2021 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 judgements and estimates • Review of new accounting policies • Review of the going concern basis of preparation and viability statement • Review of 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 • Review of internal compliance monitoring • Consideration of internal audit function
Future financing	• Review and assessment of potential strategic options • Review and assessment of accounting impact of proposed transaction
Governance	• Review of the Audit Committee's terms of reference • Undertook a Committee effectiveness review, assessed the results and concluded that the Committee was operating effectively

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 2021, together with a summary of the Audit Committee's work, are set out below:

Carrying value of the Company's investments 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, together with an intercompany receivable are carried in the statement of financial position of the Company at cost less provision for impairment. At year end, the Company noted that there were potential impairment triggers, including the drop in market capitalization and challenges to liquidity. As a result, an impairment assessment was performed. On 28 March 2022 the proposed acquisition of the Company by Eagle was announced, in a deal valuing the Group at £79,513,010 (€94,700,000). This offer provided an observable fair value less costs to sell. This transaction value was adjusted for working capital movements between the balance sheet date and the deal completion date per the published deal timetable, which the Directors considered an appropriate approximation of the year end value. The Directors considered a value-in-use scenario, however as management does not currently have access to the financing arrangements of the purchaser going forward or forecasts it is considered that any value-in-use calculation is not reliable. Accordingly, a provision was established over the intercompany receivable, and the investments in subsidiaries were impaired such that the carrying value cumulatively did not exceed this.

Carrying value of the Byfavo® intangible

At year end, the Company noted that there were potential impairment triggers, including the drop in market capitalization and challenges to liquidity. As a result, an impairment assessment was performed. On 28 March 2022 the proposed acquisition of the Company by Eagle was announced, in a deal valuing the Group at £79,513,010 (€94,700,000). This offer provided an observable fair value less costs to sell. This transaction value was adjusted for working capital movements between the balance sheet date and the deal completion date per the published deal timetable, which the Directors considered an appropriate approximation of the year end value of the Group. The Directors considered the excess value that the proposed transaction value, as adjusted, attributed to the intellectual property assets of the Group. The Directors considered the carrying value of the Byfavo® license in the context of this value, and concluded that an impairment charge of $13,030,000 would be appropriate. The impairment charge was calculated by reviewing our current future cash flow forecasts and assessing the contribution from Byfavo®. This percentage was then applied to the adjusted valuation of the Group. The Directors considered other metrics, for example relative formulary wins to date. These were considered too short-term, and influenced by the later launch date of Byfavo®, to provide an accurate basis for valuation.

Going concern

The group currently has cash and cash equivalents on hand which our forecasts indicate should be sufficient to continue operating until mid July 2022.

A transaction was announced on 28 March 2022, whereby it was proposed that 100% of the share capital of Acacia Pharma Group plc will be acquired by Eagle Pharmaceuticals, Inc. (Eagle), for consideration of €0.68 in cash and 0.0049 shares in Eagle ("the Proposed Transaction"). The acquisition will be implemented via a Court-sanctioned Scheme of Arrangement. The Scheme is dependent on the approval of Shareholders at the General Meeting on 19 May 2022. If the Scheme is not approved by the necessary majorities of Acacia Shareholders and, as a result, does not become unconditional in all respects, the Scheme will not come into effect. In addition, if the Scheme does not become effective and the Proposed Transaction is not completed by 30 June 2022, the agreement with Eagle will lapse and the Proposed Transaction will not proceed (unless Eagle and Acacia otherwise agree). In that circumstance, the Directors may not be able to negotiate alternative arrangements before the cash is forecast to run out to ensure the group continues as a going concern.

On the basis that the Proposed Transaction concludes, the Directors have had discussions with Eagle and are confident that Eagle's intentions are for Acacia to continue as a going concern, however the Directors do not have access to the detailed plans and forecasts of Eagle post completion, and they do not know what financing arrangements will be in place and the related terms and conditions of any such financing. In addition, certain liabilities crystalise on completion of the Proposed Transaction and funding will need to be made available to the company to settle such liabilities.

The two matters described above indicate the existence of a material uncertainty which may cast significant doubt on the company's and the group's ability to continue as a going concern.

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

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 Group Financial Controller 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 29 April 2022.

The Committee discussed the 'fair, balanced and understandable' statement at a meeting on 29 April 2022 in light of the above, and, having done so, recommend that the Board provide it in the form set out on page 53.

Viability

The Directors have assessed the prospects of the Group for 12 months from the date of signing the accounts.

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 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 2 to 15. 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 summarized in the risk management and principal risks section on pages 30 to 31.

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 mid-July 2022. It is however anticipated that the transaction with Eagle (the Proposed Transaction) will complete prior to this point, however that requires, amongst other matters, that shareholders approve the Scheme of Arrangement within the required timetable.

Accordingly, the most significant challenge to the viability of the Group is the risk that the Proposed Transaction does not complete. In that circumstance, the board of Acacia may not be able to raise sufficient additional funding to enable the group to continue as a going concern

In addition, if the Proposed Transaction does complete, management does not have access to the financing arrangements of the potential purchaser going forward or their detailed forecasts and so does not know what terms and conditions the entity may need to comply with, Further, certain liabilities crystalise on completion of the Proposed Transaction and funding will need to be made available to the company to settle such liabilities.

These matters above indicate the existence of a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern (refer to Going Concern on page 51).

External audit

The Group's external auditor, PwC is engaged to express its opinion on the Group's financial statements. At its meetings in September 2021, and April 2022, the Audit Committee discussed the 2021 audit process, more specifically as set out below:

	Outcome/action taken by the Audit Committee
September 2021	
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
PwC's resources and staffing	Reviewed and discussed with PwC
Audit fee and terms of engagement	Reviewed, challenged and approved by the Audit Committee
April 2022 (post period) Confirmation of PwC's audit plan	PwC confirmed that the risk in relation to the potential impairment of Byfavo had been raised from elevated to significant, but that there were otherwise no changes to the audit plan presented to the Audit Committee.
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 no non-audit services of the Group in the course of the year to 31 December 2021. The Audit Committee confirms that the Group has received an independent audit service in the year to 31 December 2021 and up to the date of this report.

Evaluation of the external audit

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 proposed sale to Eagle, it is anticipated that Eagle's auditor, Ernst and Young, will be asked to take on the audit, and that PwC will be asked to resign.

Belgian legal requirements

As a company listed in Belgium, we are required by Belgian law to have our accounts audited by an EU-registered auditor. As there is currently no legal mechanism for PwC UK to register as a third country auditor in Belgium, we are required to also have our accounts audited by PwC Belgium. In addition, we are required to comply with Belgian laws in relation to ESEF tagging and specifically, the requirement for the ESEF tagging to be opined on by our auditor. Accordingly, we have engaged PwC Belgium to perform this work.

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 30 to 31.

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.

Edward Borkowski
Chairman of the Audit Committee
29 April 2022

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 14).

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, Clinical Research Organizations or other third parties such as healthcare settings with whom we conduct business.	• Adjustment of commercialization strategy to allow for virtual marketing and sales activities. • Investment in virtual conferencing materials. • Performed additional analysis and responded as hospital settings emerged from lock-down, in particular, performing analysis of sales targets in relation to those that were allowing physical access and concentrating our efforts on those.
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 Quality 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
Commercialization	**Commercialisation of Barhemsys® and Byfavo®** The Group's ability to generate future revenues and become profitable will depend upon its ability to successfully commercialize 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 centers	• Highly experienced commercial team in place • Projects underway to understand and optimize market • National accounts team planning and implementing strategy • Outsourced distribution to experienced third-party logistics provider (Eversana) • Obtained required State licences • Met targets for formulary acceptance and formulary acceptance win rates
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 continues to be 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, or failure to complete proposed transaction	• The equity financing in February 2021 improved the short-term outlook • Pursued alternative financing arrangements. • Engaged strategic advisors to review potential strategic options, resulting in the announcement of the proposed transaction in March 2022.

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 2021. 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 Debra Hussain as Chief Commercial Officer; and
- Undertook a Committee effectiveness review, assessed the results and concluded that the Committee was operating effectively

In February 2022 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.

Scott Byrd
Chairman of the Nomination Committee
29 April 2022

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 2021, which will be subject to an advisory vote at the 2022 Annual General Meeting, unless the transaction completes prior to this date, and our Directors' Remuneration Policy, which was subject to a binding vote at the 2021 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.

On 18 February 2021, the Group settled a €27m ($32.8m) equity raise, allowing the Group to continue its commercialization efforts for both Barhemsys® and Byfavo®. Remuneration decisions following completion of the proposed transaction will be controlled by the purchaser and will reflect Eagle's remuneration strategy.

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 35. This is followed by the Annual Report on Remuneration on pages 36 to 42 and by the Directors' Remuneration Policy on pages 43 to 48.

Directors' Remuneration Policy

The Policy is set out in full within the Directors' Remuneration Report and was proposed and passed as a resolution at the 2021 Annual General Meeting of the Company. The key changes in comparison to the Company's initial remuneration policy reflect 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 key changes were:

- to increase the maximum bonus that may be payable in the event of achievement of stretch performance targets to 150% of annual base salary;
- to remove the quantitative maximum on the size of Executive Director equity awards and instead to work within benchmarking guidelines;
- to amend our approach to severance payments to permit additional flexibility in line with US market practice;
- to permit Executive Directors to participate in all employee share plans (to the extent offered to our employees in the relevant location) and defined contribution pension benefits; and
- to permit Non-Executive Directors to participate in non-performance related equity incentives.

The CFO was not a Director of the Company and as such his remuneration was not governed by the remuneration policy.

Key decisions and activities in the year ended 31 December 2021

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, incentivize and retain the skilled and talented individuals we need to operate our business;

- On a medium-term basis, the Committee determined the aims of the business should be to 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 2021 annual bonus objectives and recommended bonus awards to the Board; and

- Engaged with remuneration consultants to update the Company's Directors' Remuneration Policy to reflect standard practice in the US.

AGM voting

The resolutions placed before the 2021 AGM in relation to Directors' remuneration were all passed:

	Votes for	%	Votes Against	%	Votes total	Votes withheld
To approve the Directors' Remuneration Policy	51,451,342	100	0	0	51,451,342	0
To approve the Directors' Remuneration Report	51,451,342	100	0	0	51,451,342	0

Having grown its workforce in the US from one employee at the time of the IPO to some 68 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.

I hope that you find this Remuneration Report clear in explaining the implementation of our Remuneration Policy during 2021.

Yours faithfully,

Dr John Brown
Chairman of the Remuneration Committee
29 April 2022

Remuneration at a glance

2021 outcomes:

- Share options awarded under the 2018 PSP.
- Approved the compensation arrangements for Debra Hussain (CCO)
- Approved achievement of 2021 corporate targets at 96%
- Awarded performance share awards to top 10 sales staff, measured primarily on formulary wins

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 that 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 Deferred Annual Bonus Plan ("DABP") and Performance Share Plan ("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 – 2021 outcomes

Base salary

2021:
Agreed payrise of 3% in line with other employees in the group

Pension & benefits

2021:
No company pension provided to the Executive Director. Private medical benefits and travel insurance provided on the same terms as for other US employees.

Annual bonus

Cash bonus
Cash bonus of $294,000 awarded, representing 48% of base salary. Payment delayed until completion of successful equity financing or sale process.

Deferred shares
No deferred share awards were made.

Performance Share Plan

2021 awards:
Awards made in 2021 are set out below on pages 38 to 39

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 subject to an advisory shareholder vote.

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
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"). The Committee is 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, incentivize 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 incentivize 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 undertook a Committee effectiveness review, assessed the results and concluded that the Committee was operating effectively.		
Committee advisers	The Remuneration Committee appoints advisers from time to time. During 2021, the Committee appointed Aon Consulting Inc as independent advisers to perform a benchmarking exercise for executive and senior management remuneration, and consulted on severance policies for the Group. Fees paid to Aon totalled $30,000.		

Single figure for total remuneration (audited)

		Salary / fees	Benefits[3]	Pension	Annual bonus[4]	Share awards[5]	Long-term incentives[5&6]	Total	Fixed remuneration	Variable remuneration
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive Directors										
Mike Bolinder[1]	2021	609	24	-	294	-	175	**1,102**	**633**	**469**
	2020	514	19	-	594	-	183	1,310	533	777
Christine Soden[2]	*2020*	*24*	-	*2*	-	-	-	*26*	*26*	-
Non-executive directors										
Scott Byrd	2021	224	-	-	-	-	-	**224**	**224**	-
	2020[7]	*138*	-	-	-	*15*	-	*153*	*138*	*15*
Ed Borkowski	2021	142	-	-	-	-	-	**142**	**142**	-
	2020[7]	*86*	-	-	-	*17*	-	*103*	*86*	*17*
John Brown	2021	144	-	-	-	-	-	**144**	**144**	-
	2020[7]	89	-	-	-	18	-	**107**	**89**	**18**
Alessandro Della Chá[8]	2021	118	-	-	-	-	-	**118**	**118**	-
	2020	*64*	-	-	-	-	-	***64***	***64***	-
Patrick Vink[9]	*2020*	*28*	-	-	-	-	-	***28***	***28***	-
Pieter van der Meer[9]	*2020*	-	-	-	-	-	-	-	-	-
Johan Kördel[9]	*2020*	-	-	-	-	-	-	-	-	-

1. To improve cash flow management while waiting for Barhemsys® approval, Mike Bolinder reduced his salary to 40% from 1 August 2019. This was reinstated to 100% 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 $294,000 in cash bonus, with $nil awarded in Restricted Stock Units ("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 17 December 2021, 90,000 RSUs awarded to Mike Bolinder in 2018 vested, resulting in a gain of $130,000. A further 31,583 options awarded to Mike Bolinder in 2019 in relation to Long-Term Incentives vested on 31 December 2021, with a gain of $45,000.
6. Long-term incentive awards under the PSP are detailed and set out on page 42. The vesting conditions and outcome of awards made in 2019 are set out on page 39.
7. From 1 August 2019 to 29 February 2020, the non-executive directors reduced their director fees by 50%.
8. Alessandro Della Chá was appointed on 7 April 2020, and his fees are shown from that date.
9. Patrick Vink, Pieter van der Meer and Johan Kördel resigned on 7 April 2020.

Annual bonus for the year to 31 December 2021

For the year ended 31 December 2021, the remuneration policy provided for a theoretical bonus opportunity maximum of 150% of base salary for Executive Directors, and up to 45% for other senior staff.

The CEO's target bonus for the year was 100% of base salary, 50% payable in cash and 50% deferred into share awards. Bonus targets were set at the beginning of the year and evaluated at year end for the CEO based on the achievement of the following:

- Successfully launch Barhemsys® in the US by gaining formulary access to facilitate product use within hospital accounts
  - *Formulary win target and formulary win rate target met*
- Successfully launch Byfavo® for procedural sedation by gaining formulary access enabling product use
  - *Formulary win target and formulary win rate target met*
- Raise sufficient capital to fund the product launches and support the current business plan
  - *Target partially met*
- Deliver revenues and manage OPEX to plan/budget for 2021, measured on net cash outflows
  - *Net cashflow target met*
- Meet all FDA timelines for post-marketing requirement/commitment studies for both products
  - *FDA requirements targets met*

The Remuneration Committee set performance levels for each of these measures. In considering the level of bonus to award, the Committee considered the achievement of significant progress against the bonus targets, despite the global pandemic. It was agreed to award the CEO 48% of his base salary as a bonus payable in cash with no bonus deferred into share awards.

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

Measure	As a percentage of maximum bonus opportunity	Mike Bolinder % cash award
Barhemsys® launch	20%	20%
Byfavo® launch	20%	18%
Secure additional financing	30%	28%
Deliver revenues and manage OpEx	15%	15%
Meet FDA timelines	15%	15%
Total	**100%**	**96%**
Total awarded		**294,000**

2018 PSP

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, incentivizes and retains all employees in the key markets in which the Group operates.

Audited

The awards, in the form of RSUs, made on 29 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.

In 2019, Mike Bolinder was awarded 100,000 LTIPs with the following performance conditions.

Percentage of vesting of portion of an award	Total Shareholder Return ("TSR") growth (33.33% weighting)	Cumulative funding in the years to 31 December 2021 (33.33% weighting)	Cumulative revenue targets for the period 1 January 2019 to 31 December 2021 (33.33% weighting)
Nil	<7.5% p.a.	Below $90 million	Below $50 million
25%	7.5% p.a.	$90 million	$50 million
Pro-rata between 25% and 100%	Between 7.5% and 25% p.a.	Between $90 million and $120 million	Between $50 million and $70 million
100%	>25% p.a.	$120 million	>$70 million

No awards vested for both Total Shareholder Return and Cumulative Revenue targets, however the Cumulative funding target was 95% met, as a result of the equity financing in August 2020 and February 2021, together with the Cosmo transaction. Accordingly, 31,583 awards vested.

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 29 March 2021. The number of RSUs awarded were calculated by reference to the share price at the date of grant.

Audited

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

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.

Audited

Mike Bolinder

Date of grant / award	Exercise price (p)	At 1 January 2021	Awarded in year	Exercised / Vested	Lapsed	At 31 December 2021	Exercise period / vesting date
2018 PSP awards							
18 December 2018	-	90,000	-	(90,000)	-	-	17 December 2021
4 September 2019	-	175,000	-	-	-	175,000	30 July 2022
4 September 2019	-	100,000	-	(31,583)	(68,417)	-	31 December 2021
29 March 2021	-	-	546,000	-	-	546,000	31 December 2023
29 March 2021	-	-	88,349	-	-	88,349	31 December 2023
Total awards		**365,000**	**634,349**	**(121,583)**	**(68,417)**	**809,349**	

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.

Audited

Name	Date of grant / award	Exercise price (p)	At 1 January 2021	Awarded in year	Exercised /lapsed	At 31 December 2021	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**	**-**	**(16,770)**	**20,270**	

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' shareholdings and share interests

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

From 1 July 2020, non-executive director base fee levels were increased to include a share purchase requirement. A fixed proportion of the total fee, representing a calculated post-tax amount, is withheld and used to purchase shares in Acacia Pharma Group plc in the market. The first purchase took place in May 2021.

Directors' holdings of Company shares (audited)

	Beneficially owned at 31 December 2021	Guideline met?	Vested unexercised share options	Subject to performance conditions	Subject to service/other conditions
			Options	PSP	PSP
Mike Bolinder[1]	75,000	No	273,083	27,300	782,049
John Brown	19,618	N/A	7,290	-	-
Scott Byrd	19,618	N/A	256,125	-	-
Edward Borkowski	19,618	N/A	6,855	-	-
Alessandro Della Chá	19,618	N/A	-	-	-

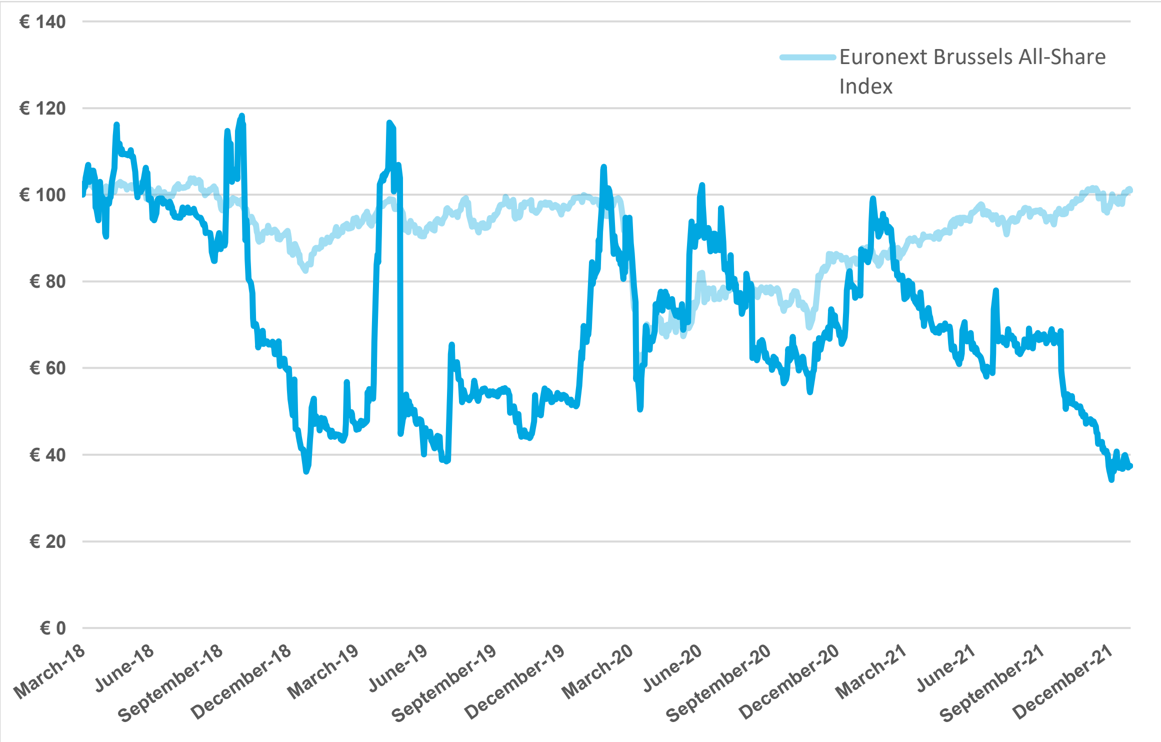
1. Mike Bolinder will be required to retain at least half of the net of tax shares awarded under any incentive plan until the guideline as set out in the Remuneration Policy is met.

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 2021, 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 2021 was €1.27. From 6 March 2018 to 31 December 2021 the share price ranged from a high of €4.02 to a low of €1.16.



Chief Executive Officer Total Remuneration History

	2014	2015	2016	2017	2018	2019		2020	2021
Chief executive total single figure of remuneration ($'000)[3]	317	330	323	675	604	267[1]	67[2]	1,310	1,102
Bonus as a % of maximum	-	-	-	-	40%	-	-	100%	48%
LTIPs[3]	-	-	-	-	-	-	-	-	45
Intrinsic value of share awards vesting[4]	8	-	24	367	16	-	-	183	175

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. 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.
4. 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.

Percentage change in Remuneration

The Company has no UK employees that require disclosure. Due to 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 2020 to 2021		
	Salary / fee	Benefits	Bonus
CEO percentage change	18%	29%	(51)%
NED percentage change	94%	-	-

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.

	2021 $'000	2020 $'000	Increase %
Total employee remuneration	22,774	17,004	34%
Total expenditure	53,172	28,058	90%

Application of the Remuneration Policy for the Year Ended 31 December 2022

The specific remuneration arrangements for Executive Directors for 2022 are described below.

Base salary	No changes
Pension and benefits	No changes.
Annual bonus	Targets for the Annual Bonus will be set following the completion of the proposed transaction.
Performance share plan	No awards have been granted under the Long-Term Incentive Plan. Any targets will be set following the completion of the proposed transaction.
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. Any changes will be made following the completion of the proposed transaction

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 a peer group of listed companies.

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 a peer group of listed companies. 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.

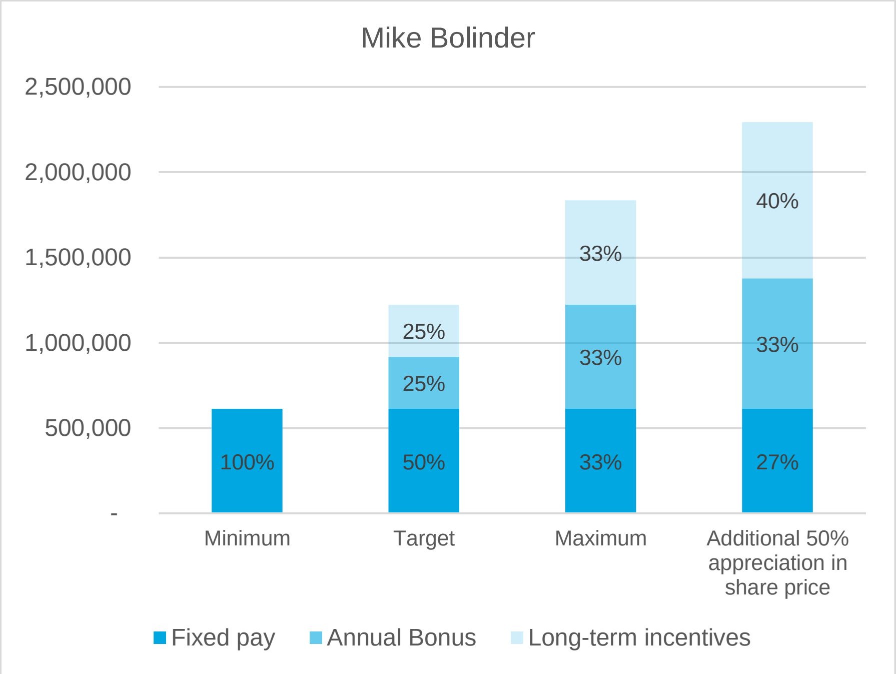
The table on page 41 shows the annual fees currently payable to our Chairman and Non-Executive Directors.

Directors' Remuneration Policy

The Company's updated Remuneration Policy was subject to a binding Shareholder vote at the 2021 AGM and approved. 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 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 capitalizations 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 Executive Directors will be eligible to participate in the Company's all employee share plans as may be established and offered from time to time on the same terms as other employees in the jurisdiction in which they are engaged. Travel, accommodation and any reasonable business-related expenses (including tax thereon) may be reimbursed.	Benefits will be based on market practice.	None.
Pension	The Company aims to provide a contribution towards life in retirement.	Depending on their location and comparable benefits offered to local employees, Executive Directors may be eligible to receive employer contributions to a defined contribution pension scheme or a cash supplement in lieu of such contributions, or a mixture of both.	The maximum employer pension contribution or cash in lieu amount will be a percentage of annual base salary aligned with that provided to other senior executives in the Executive Director's location.	None.

Element	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Annual Bonus	To incentivize and recognize execution of the business strategy and personal objectives on an annual basis.	Annual bonus performance targets are set in respect of each year by the Board and performance against objectives is assessed by the 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 that may be awarded in the event of achievement of stretch targets for each Executive Director is 150% of annual base salary.	Financial and operational targets are set in respect of each year by the Board. The weighting for each performance measure is determined by the 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.
Equity Incentives	To align the interests of management with shareholder interests and to enhance retention of staff. To incentivize and recognize achievement of longer-term business objectives and sustained superior Shareholder value creation.	Conditional awards (RSUs) or nil or nominal cost options are usually granted annually under the 2018 PSP or a future replacement equity incentive plan that may be put to Shareholders for approval. Other forms of awards, including market value of options, may be granted in the discretion of the Committee. Awards vest provided the Executive remains employed by the Company over a defined vesting period. In line with competitive practice in the US, awards will generally be subject to time based vesting only, but all or part of an award may also be subject to certain performance conditions, which have been approved by the Board in respect of the relevant performance period. Recovery and withholding provisions may apply for reasons of mis-statement of results, error in performance calculation or gross misconduct.	There is no defined maximum opportunity for equity awards. However, the Committee will generally work within the guidelines provided by our compensation consultants. We seek to establish equity-based remuneration competitive to that offered by a set of comparable companies with whom we may compete for talent. Dividend equivalents may be payable on vested awards.	Performance conditions may apply to all or part of an award. Such conditions may be strategic objectives which may include milestones events, financial, strategic and/or personal objectives. Any performance conditions set will be designed to incentivize performance in support of the Company's strategy and business objectives. The Committee has flexibility to vary the mix of measures or introduce new measures for each subsequent award taking into account business priorities at the time of grant. The Committee may alter the vesting outcome if it considers that the level of vesting is inconsistent with the underlying performance of the business, taking account of any factors it considers relevant. This will help ensure that vesting reflects overall Company performance during the period.
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 generally 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

Committee Powers

The Committee operates the Company's remuneration plans in accordance with their rules from time to time. To maintain an efficient administrative process, the 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 any 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 and the treatment of such leaver's cash and equity remuneration;
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 certain other out-of-the-ordinary events;
h. the annual review of performance and other vesting conditions for the annual bonus plan and equity awards.

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 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 equalization 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 Company's equity incentive arrangements 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 equity awards in the first year of employment in addition to any awards made with respect to prior employment being forfeited, which shall be excluded from any annual maximum on the size of awards.

To enable the recruitment of exceptional talent, the 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 on whether the award foregone 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 Committee will have discretion to make standalone awards where appropriate.

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

Depending on market practice in the jurisdiction in which an executive director is employed, exit payments shall depend on the circumstances of termination and may be made by reference to a notice period (including a payment in lieu of notice) or employment "at-will" together with a severance payment. Where a notice period applies, this will not exceed 12 months but may be accompanied by additional severance entitlements where applicable.

Salary and benefits

Termination without "cause" or for "good reason"	Termination without "cause" or for "good reason" within 3 months before or 12 months after a change of control	Other termination circumstances
Subject to the executive executing a release (subject to applicable law): 12 months' salary and contractual benefits including COBRA or other applicable healthcare coverage.	Subject to the executive executing a release (subject to applicable law): 18 months' salary and contractual benefits including COBRA or other applicable healthcare coverage.	No termination payment is contractually due (although a notice period may apply, depending on local market practice and circumstances of termination).

Annual Bonus

Termination without "cause" or for "good reason"	Termination without "cause" or for "good reason" within 3 months before or 12 months after a change of control	Other termination circumstances
Subject to the executive executing a release (subject to applicable law), on-target bonus paid in respect of any part year served, subject to pro-ration for time served plus a lump sum equal to 12 months' on-target bonus. Bonus will be paid in full in respect of any full year served (subject to performance conditions being met).	Subject to the executive executing a release (subject to applicable law) a lump sum payment equal to 1.5 times on-target bonus will be paid.	Not normally paid, however, at the 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.

Equity awards

Termination by notice or otherwise than in the prescribed circumstances	Redundancy, retirement, ill health, injury or disability, transfer of employment outside of the Group or change of control, or any other reason the Committee determines	Death	Change of control
Unvested awards lapse on cessation.	Unvested awards will vest either on the normal vesting date or at an earlier time determined by the Board. Awards will generally vest subject to the extent the performance condition has been met, as determined by the Committee. Awards will be pro-rated for time, unless the Committee determines otherwise.	Unvested awards will vest on the date of death. Awards will be pro-rated for time, unless the Committee determines otherwise.	Unvested awards will vest in connection with a change of control, generally subject to the extent any performance condition have been met, as determined by the Committee. Awards will be pro-rated for time, unless the Committee determines otherwise. Upon termination without "cause" or for "good reason" within 3 months before or 12 months after a change of control and subject to the executive executing a release (subject to applicable law) equity awards may be accelerated in full regardless of the extent to which time and performance based conditions have been met.

Additional payments:
The Committee will make payment of any statutory entitlements as necessary. In addition, the Committee will retain the discretion to make additional payments in settlement of, or to compromise, an actual or potential claim in connection with a termination of any Executive Director as necessary.

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

Executive Director Employment Agreement

Michael Bolinder (our Chief Executive Officer and only current Executive Director) is currently employed at-will pursuant to an employment agreement entered into with our subsidiary, Acacia Pharma Inc., effective as of 1 August 2019 and amended as of 21 September 2021. His employment may be terminated by either party at any time for any or no reason, with or without notice. Severance payments no greater than those described in this policy will be payable to him on termination. Upon termination of his employment agreement, our Chief Executive Officer is required to resign from all other positions within the Company's group. Following termination of his employment, our Chief Executive Officer will be bound by certain post-termination covenants.

As is customary for US executives, our Chief Executive Officer's remuneration is subject to a "best-after-tax" cutback for excise tax calculations under section 280G of the US Internal Revenue Code of 1986, with no tax gross-up.

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 recognize 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.

This report was approved by the Board of Directors on 29 April 2022 and signed on its behalf by:

Dr John Brown
Chairman of the Remuneration Committee
29 April 2022

Directors' Report

The Directors present their Report and the audited financial statements for the year ended 31 December 2021. The Directors' Report comprises pages 49 to 53 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 52
Financial instruments and financial risk management	Financial Statements - note 10
Present membership of the Board	Pages 17 to 18
Corporate Governance Report	Pages 16 to 48
Strategic Report	Pages 2 to 15
Directors' Remuneration Report	Pages 33 to 48
Share capital	Financial Statements – note 16

Results and dividends

The results for the year and the financial position as at 31 December 2021 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 2021 (2020: $nil).

Research and development

During the year ended 31 December 2021 the Group's expenditure on research and development was $4,070,000 (2020: $99,000).

Review of business and future developments

The Chairman's Statement on page 2, the Chief Executive Officer's Report on page 4 and the Strategic Report on pages 2 to 15 provide a review of the business, the Group's trading for the year ended 31 December 2021, key performance indicators, risk and an indication of likely future developments in the business of the Group.

Post period events

On 28 March 2022 the Company announced a proposed transaction with Eagle Pharmaceuticals which would effect transfer of the entire issued and to be issued share capital of Acacia to Eagle by way of a scheme of arrangement under Part 26 of the Companies Act 2006.

Under the terms of the Proposed Transaction, each Scheme Shareholder will receive as consideration for each Scheme Share, €0.68 in cash and 0.0049 New Eagle Shares. The Proposed Transaction values Acacia's existing issued and to be issued share capital at approximately €94,700,000 on a fully diluted basis.

The cash portion of the Consideration represents approximately 75 percent. of the total Consideration, and the New Eagle Shares Acacia Shareholders would receive represents approximately 25 percent. of the total Consideration, which represents approximately 3.8 percent. of the enlarged Eagle share capital in issue immediately following completion of the Scheme. The total Consideration equates to €0.90 for each Scheme Share.

The Consideration provides Acacia Shareholders with both up-front cash and, through the New Eagle Shares to be acquired by Acacia Shareholders, equity participation in the value creation potential for the enlarged business through de-risked funding requirements, enlarged group synergies, and being part of a well-funded entity with shares trading on a liquid exchange.

Having considered all of the available alternatives as part of its strategic review, the Acacia Board believes that the Proposed Transaction represents the best option for Acacia Shareholders to maximize the value of their shares, and therefore unanimously recommends the Proposed Transaction.

The Acacia Directors consider the Proposed Transaction to be the best available option for Acacia Shareholders. In making this assessment, the Acacia Directors have received financial advice from Greenhill who, in providing its financial advice, has taken into account the commercial assessments of the Acacia Directors. Accordingly, the Acacia Directors intend unanimously to recommend that Acacia Shareholders vote in favour of the Scheme at the Court Meeting and the Resolutions to be proposed at the General Meeting, as the Acacia Directors have irrevocably undertaken to do in respect of the 217,543 Acacia Shares which they hold and which they control (or can procure the control of) the voting rights, representing approximately 0.22 percent of the issued share capital.

In addition to the irrevocable undertakings referred to above, Eagle has also received irrevocable undertakings from the three largest Shareholders of Acacia to vote in favour of the Scheme at the Court Meeting and the Resolutions to be proposed at the General Meeting in respect of the 49,012,875 Acacia Shares which they hold and which they control (or can procure the control of) the voting rights, representing approximately 48.56 percent. of the issued share capital of Acacia on 25 March 2022, being the last business day before this announcement

Therefore, Eagle has received irrevocable undertakings representing, in aggregate, 49,230,418 Acacia Shares representing approximately 48,78 percent of the issued share capital of Acacia.

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.

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 2021 the Company had 89,597,951 ordinary shares in issue. During the year the share capital of the Company increased by 11,261,472 ordinary shares as a result of the vesting and exercise of share awards and the issue of new shares for cash. Details of the movements in the Company’s share capital are shown in note 16 to the financial statements.

As at 31 December 2021, the Company had 100,859,423 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. 1,002,584 shares were held in the Employee Benefit Trust at the year end date (2020: 1,613,182).

Major shareholdings

During the period the Company has received notifications, in accordance with article 14, 1st paragraph, of the law of 2 May 2007 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	19.66%	Direct
Coltrane Asset Management L.P	4,844,404	4.86%	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 (2020: 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 take 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;
- other senior management employment contracts, which provide for specific severance payments on a change of control.

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 group currently has cash and cash equivalents on hand which our forecasts indicate should be sufficient to continue operating until mid July 2022.

A transaction was announced on 28 March 2022, whereby it was proposed that 100% of the share capital of Acacia Pharma Group plc will be acquired by Eagle Pharmaceuticals, Inc. (Eagle), for consideration of €0.68 in cash and 0.0049 shares in Eagle ("the Proposed Transaction"). The acquisition will be implemented via a Court-sanctioned Scheme of Arrangement. The Scheme is dependent on the approval of Shareholders at the General Meeting on 19 May 2022. If the Scheme is not approved by the necessary majorities of Acacia Shareholders and, as a result, does not become unconditional in all respects, the Scheme will not come into effect. In addition, if the Scheme does not become effective and the Proposed Transaction is not completed by 30 June 2022, the agreement with Eagle will lapse and the Proposed Transaction will not proceed (unless Eagle and Acacia otherwise agree). In that circumstance, the Directors may not be able to negotiate alternative arrangements before the cash is forecast to run out to ensure the group continues as a going concern.

On the basis that the Proposed Transaction concludes, the Directors have had discussions with Eagle and are confident that Eagle's intentions are for Acacia to continue as a going concern, however the Directors do not have access to the detailed plans and forecasts of Eagle post completion, and they do not know what financing arrangements will be in place and the related terms and conditions of any such financing. In addition, certain liabilities crystalise on completion of the Proposed Transaction and funding will need to be made available to the company to settle such liabilities.

The two matters described above indicate the existence of a material uncertainty which may cast significant doubt on the company's and the group's ability to continue as a going concern.

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

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 parent company ('Company') and Group financial statements in accordance with UK-adopted international accounting standards. The company has also prepared financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. In preparing these financial statements, the Directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

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 for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs issued by IASB have been followed, 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 Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs issued by IASB, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 102 give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- 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 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
29 April 2022

Independent auditors' report of PricewaterhouseCoopers LLP and PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV to the members of Acacia Pharma Group plc

PricewaterhouseCoopers LLP is the appointed statutory auditor of Acacia Pharma Group plc (the "company"), a company incorporated in the United Kingdom, under the United Kingdom Companies Act 2006 and has been appointed to audit the financial statements of the group and company for the year ended 31 December 2021.

PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV has been engaged by the directors of the company in accordance with the agreement dated 4 April 2022 (the "Agreement") to act in its capacity of registered auditor registered in the public register of the Belgian Institute of the Registered Accountants ("IBR/IRE"), to audit with PricewaterhouseCoopers LLP the consolidated financial statements of the company and its subsidiaries (jointly "the group") for the year ended 31 December 2021.

For the purpose of this report, the terms "we", "our" and "us" denote PricewaterhouseCoopers LLP in relation to United Kingdom legal, professional and regulatory responsibilities and reporting obligations to the members of the company and PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV in relation to reporting obligations to the members of the company as agreed with the directors of the company in accordance with the agreement dated 4 April 2022 (the "Agreement"). For the purposes of the "Our audit approach" section of this report, "we", "our" and "us" refer to PricewaterhouseCoopers LLP and PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV, except for the purposes of the table on pages 57 to 58 that sets out the key audit matters and how our audit addressed the key audit matters, where the terms "we" and "our" refer to PricewaterhouseCoopers LLP and/or PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV.

Report on the audit of the financial statements

Opinion

Opinion of PricewaterhouseCoopers LLP on the financial statements

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 2021 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 UK-adopted international accounting standards;
- 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 2021; 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.

Our opinion is consistent with our reporting to the audit committee.

Separate opinion by PricewaterhouseCoopers LLP 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 UK-adopted international accounting standards, have 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.

Opinion of PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV on the consolidated financial statements

We have performed the audit of the group's consolidated accounts (the "group financial statements"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated statement of financial position total of US$ '000' 62,014 and a loss for the financial year of US$ '000' 67,074.

In our opinion, Acacia Pharma Group plc's consolidated financial statements (the "group financial statements") give a true and fair view of the group's consolidated financial position as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

PricewaterhouseCoopers LLP conducted their audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("ISAs") and applicable law. PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV conducted their audit in accordance with ISAs. Our responsibilities under ISAs (UK) and ISAs 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

PricewaterhouseCoopers LLP 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 public interest entities, and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by either the FRC's Ethical Standard or Article 5(1) of Regulation (EU) No 537/2014 were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV fulfilled its ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the group financial statements, including the requirements related to independence.

Material uncertainty related to going concern

In forming our opinion on the group financial statements and our opinion on the company financial statements, which are not modified, we have considered the adequacy of the disclosure made in note 1 to the company financial statements and note 1 to the consolidated financial statements concerning the company's and group's ability to continue as a going concern. The company has entered into an agreement with Eagle Pharmaceuticals, Inc. ("Eagle") whereby it is proposed that 100% of the share capital of the company will be acquired by Eagle ("the Proposed Transaction"). The group is currently forecast to run out of cash by mid July 2022 and if the Proposed Transaction does not complete by this time then the Directors may be unable to raise sufficient additional funding to enable the company and the group to continue as a going concern. The Proposed Transaction can only complete if the Scheme of Arrangement is approved by the necessary majorities of Acacia Shareholders and is effective by 30 June 2022 (at which point the agreement with Eagle will lapse and the Proposed Transaction will not proceed unless Eagle and Acacia otherwise agree), and if Eagle complete the deal in accordance with their agreement with the company.

On the basis that the Proposed Transaction concludes, the Directors have had discussions with Eagle and are confident that Eagle's intentions are for Acacia to continue as a going concern, however they do not have access to the detailed plans and forecasts of Eagle post completion, and they do not know what financing arrangements will be in place and the related terms and conditions of any such financing. In addition, certain liabilities crystalise on completion of the Proposed Transaction and funding will need to be made available to the company to settle such liabilities.

The two matters described above, along with the other matters explained in note 1 to the group financial statements and note 1 to the company financial statements, indicate the existence of a material uncertainty which may cast significant doubt on 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 or 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 the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's forecasts for the period through to the point of anticipated cash exhaustion in July 2022, vouching these to current cost run rate and supporting documentation;
- Obtaining and reviewing the announcement of the Proposed Transaction with Eagle Pharmaceuticals, Inc. and its appendices, including the co-operation agreement;.
- Understanding the contractual form of liabilities linked to the Proposed Transaction and the extent to which the timing of these crystalise and whether they become payable contingent upon completion of the deal, or within management's discretion and control, as a key assumption in the available cash runway, and;
- Inquiring with the Directors around the discussions held with Eagle Pharmaceuticals, Inc. to date on their future plans for the group.

In relation to the directors' reporting on how they have applied the United Kingdom Corporate Governance Code, other than the material uncertainty identified in note 1 to the financial statements, PricewaterhouseCoopers LLP has 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 the 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 material reporting units (Acacia Pharma Group plc, Acacia Pharma Limited and Acacia Pharma Inc). Acacia Pharma Ireland was considered to be immaterial to the group.
- 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 company)
- Carrying value of the company's investment in and receivables due from Acacia Pharma Limited (company)
- Carrying value of intangible assets (group)

Materiality

- Overall group materiality: US$1,924,000 (2020: US$1,705,000) based on loss before tax, exclusive of impairment charges, of 3.5% (2020: 5%).
- Overall company materiality: £910,000 (2020: £2,093,000) based on total assets of 1%.
- Performance materiality: US$1,443,000 (2020: US$1,279,000) (group) and £682,000 (2020: £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.

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. In terms of ISAs (UK), they also 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.

Carrying value of intangible assets is a new key audit matter this year. Accounting for the Byfavo® in-licensing agreement and the impact of the Covid-19 pandemic, which were key audit matters last year, are no longer included because of the accounting for the agreement having been completed last year and the lesser impact of the Covid-19 pandemic on the group and company. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Related to company financial statements only - PricewaterhouseCoopers LLP	
Carrying value of the company's investment in and receivables due from Acacia Pharma Limited (company) As at 31 December 2021, the company's investment in Acacia Pharma Limited was £107.8m and the receivable due from Acacia Pharma Limited was £117.5m (see notes 6 and 7 of the company's financial statements respectively) amounting to a combined interest of £225.3m. This has been impaired during the year by £140.7m as a result of the existence of evidence that the carrying value materially exceeded the recoverable value giving rise to an impairment trigger. This area attracts additional audit focus due to the limited headroom observed between the carrying value and observable evidence of the recoverable value.	The proposed transaction with Eagle Pharmaceuticals, Inc., was being negotiated prior to the year end and as such provides persuasive evidence regarding the recoverable value of the combined interest held, representing the fair value less costs to sell. We have obtained the related agreement and verified the transaction value. We have reviewed managements computation of the impairment for arithmetic accuracy without exception. The Directors considered a value in use model, however they determined that given the uncertainties associated with future cash flows contingent on the future operational and financing plans of Eagle, such a model could not be reliably constructed. We concluded that the approach taken was reasonable, and compliant with FRS 102 section 27.

<table>
<tr><th colspan="2">Related to group financial statements - PricewaterhouseCoopers LLP and PwC Réviseurs d’Entreprises SRL/PwC Bedrijfsrevisoren BV</th></tr>
<tr><td>Carrying value of intangible assets (group)
In 2020, the group entered into an agreement with Cosmo Pharmaceuticals to acquire the distribution rights for Byfavo® in the United States. The consideration payable was recognised as an intangible asset, to be amortised over the useful life to patent expiry. This has been impaired during the year by $13m as a result of the existence of evidence that the carrying value materially exceeded the recoverable value giving rise to an impairment trigger. This area attracts additional audit focus due to the limited headroom observed between the carrying value and observable evidence of the recoverable value.</td><td>The proposed transaction with Eagle Pharmaceuticals, Inc., was being negotiated prior to the year end and accordingly provides persuasive evidence regarding the recoverable value of the intangible asset, representing the fair value less costs to sell, as discussed in the Key Audit Matter above. We have obtained the related agreement and verified the transaction value. Since this transaction values the group in its entirety, judgement needs to be exercised in the attribution of the value of the group across its assets, in particular Barhemsys® and Byfavo®. The Directors have considered a range of options and have used a measure based on forecast future contribution attributable to each of Barhemsys® and Byfavo®, concluding that Byfavo® represents 24% of the value of the group’s intellectual property. We have evaluated alternative potential measures, including forecast and actual revenues, reports of analysts following the group as well as formulary wins to date, identifying a low end within the range of possible outcomes of 17%. The low end of the range, which would result in greater impairment, results from measures which are backward looking, with Byfavo® receiving approval later, formulary wins to date are consequently proportionately lower. We therefore concur that management's chosen measure of contribution, falling towards the middle of the range, appears reasonable and balanced. We have reviewed management's computation of the impairment and apportionment for arithmetic accuracy without exception. The Directors considered a value in use model, however they determined that given the uncertainties associated with future cash flows contingent on the future operational and financing plans of Eagle, such a model could not be reliably constructed. We concluded that the approach taken was reasonable, and compliant with IAS 36.</td></tr>
</table>

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.

The company audit is scoped such that balances are tested to the extent they are material to the company. We incorporated an element of unpredictability to our testing.

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, PricewaterhouseCoopers LLP and PwC Réviseurs d’Entreprises SRL/PwC Bedrijfsrevisoren BV determined materiality for the group financial statements as a whole, and PricewaterhouseCoopers LLP determined materiality for the company financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	US$1,924,000 (2020: US$1,705,000).	£910,000 (2020: £2,093,000).
How we determined it	Based on loss before tax, exclusive of impairment charges, of 3.5% (2020: 5%)	Based on total assets of 1%
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 low 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 $1,000,000 and $1,837,000. 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% (2020: 75%) of overall materiality, amounting to US$1,443,000 (2020: US$1,279,000) for the group financial statements and £682,000 (2020: £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 the audit committee that we would report to them misstatements identified during our audit above $95,000 (group audit) (2020: $85,000) and £46,000 (company audit) (2020: £105,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information by PricewaterhouseCoopers LLP

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 United Kingdom Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the United Kingdom 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 2021 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 United Kingdom 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 United Kingdom 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', 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.

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.

Reporting on other information by PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV

The directors are responsible for the other information. The other information includes all of the information in the Annual Report but does not include the group financial statements and our auditor's report thereon.

Our opinion on the group financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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) and ISAs 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.

PricewaterhouseCoopers LLP's responsibilities for the audit of the group and company financial statements

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, 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, 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 financial statements such as UK and US tax legislation, Euronext listing requirements, and 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 the posting of 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;
- Conducting a review of board meeting minutes;
- Performing unpredictable procedures test examining immaterial revenue accounts and evidence of formulary wins;
- Identifying and testing certain journal entries, in particular journal entries to defer expenditure to the statement of financial position, and;
- Verifying product approval by the FDA and inspecting any 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.

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 PricewaterhouseCoopers LLP's responsibilities for the audit of the financial statements in accordance with ISAs (UK) is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV and PricewaterhouseCoopers LLP's responsibilities for the audit of the group financial statements

As part of an audit in accordance with ISAs, PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV and PricewaterhouseCoopers LLP's exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the group financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the group financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This independent auditors' report of PricewaterhouseCoopers LLP and PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV to the members of Acacia Pharma Group plc, 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 United Kingdom Companies Act 2006 and for no other purpose. PricewaterhouseCoopers LLP and PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV 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 PricewaterhouseCoopers LLP's prior consent in writing.

Report on other legal and regulatory requirements

Other required reporting by PricewaterhouseCoopers LLP

United Kingdom Companies Act 2006 exception reporting

Under the United Kingdom 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 1 January 2007 to audit the financial statements for the year ended 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement is 15 years, covering the years ended 31 December 2007 to 31 December 2021.

Other required reporting by PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV

European Uniform Electronic Format (ESEF)

We have also verified, in accordance with the draft standard on the verification of the compliance of the financial statements with the European Uniform Electronic Format (hereinafter "ESEF"), the compliance of the ESEF format with the regulatory technical standards established by the European Delegate Regulation No. 2019/815 of 17 December 2018 (hereinafter: "Delegated Regulation").

The board of directors is responsible for the preparation, in accordance with ESEF requirements, of the consolidated financial statements in the form of an electronic file in ESEF format (hereinafter "digital consolidated financial statements") included in the annual financial report.

Our responsibility is to obtain sufficient appropriate evidence to conclude that the format and marking language of the digital consolidated financial statements comply in all material respects with the ESEF requirements under the Delegated Regulation.

Based on the work we have performed, we believe that the format of and the marking of information in the digital consolidated financial statements included in the annual financial report of Acacia Pharma Group plc per 31 December 2021 comply in all material respects with the ESEF requirements under the Delegated Regulation.

Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
29 April 2022

PwC Réviseurs d'Entreprises SRL/PwC Bedrijfsrevisoren BV
Represented by Peter Van den Eynde
Réviseur d'Entreprises / Bedrijfsrevisor
Antwerp
29 April 2022

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Consolidated Income Statement for the year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Revenue	2	**1,163**	211
Cost of sales		**(295)**	(29)
Gross profit		**868**	182
Research and development expenses		**(4,070)**	(99)
Sales and marketing expenses		**(31,995)**	(19,438)
General and administrative expenses pre-impairment		**(18,031)**	(11,566)
Impairment of intangibles	11	**(13,030)**	-
General and administrative expenses		**(31,061)**	(11,566)
Operating loss		**(66,258)**	(30,921)
Finance income	3	**1,582**	41
Finance expense	4	**(3,338)**	(3,212)
Loss before income tax	5	**(68,014)**	(34,092)
Taxation credit	8	**940**	614
Loss for the financial year		**(67,074)**	(33,478)
Basic and diluted losses per Ordinary Share ($)	9	**(0.68)**	(0.46)

Consolidated Statement of Comprehensive Income for the year ended 31 December 2021

	2021 $'000	2020 $'000
Loss for the financial year	**(67,074)**	(33,478)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(1,815)**	3,218
Other comprehensive income / (expense) for the financial year	**(1,815)**	3,218
Total comprehensive expense for the financial year	**(68,889)**	(30,260)

The notes on pages 69 to 89 form an integral part of these Group Financial Statements.

Consolidated Statement of Financial Position as at 31 December 2021

	Note	2021 $'000	2020 $'000
Assets			
Non-Current Assets			
Intangibles	11	**30,608**	52,168
Right-of-use asset	12	**183**	277
Total Non-Current Assets		**30,791**	52,445
Current Assets			
Trade and other receivables	13	**1,085**	461
Current income tax assets	8	**1,653**	574
Inventories	14	**6,870**	2,662
Cash and cash equivalents	15	**21,615**	46,693
Total Current Assets		**31,223**	50,390
Total Assets		**62,014**	102,835
Equity and Liabilities			
Equity attributable to equity holders			
Called up share capital	16	**2,826**	2,518
Share premium account	16	**188,605**	158,449
Profit and loss account		**(69,374)**	(2,269)
Share based payment reserve		**10,307**	6,485
Merger reserve		**(106,625)**	(106,625)
Foreign currency translation reserve		**153**	1,968
Treasury shares		**(25)**	(41)
Total Equity		**25,867**	60,485
Liabilities			
Non-current liabilities			
Loans and other borrowings	18	**27,903**	31,275
Current liabilities			
Trade and other payables	17	**8,122**	5,657
Loans and other borrowings	18	**122**	5,418
Current liabilities		**8,244**	11,075
Total Liabilities		**36,147**	42,350
Total Equity and Liabilities		**62,014**	102,835

The notes on pages 69 to 89 form an integral part of these Group Financial Statements

The Group Financial Statements on pages 65 to 89 were approved and authorised for issue by the board of Directors on 29 April 2022 and were signed on its behalf by:

Mike Bolinder
Director

26 March 2021

Consolidated Cash Flow Statement for the year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities:			
Cash used in operations	20	**(44,619)**	(26,104)
Income tax credit received		**47**	740
Net cash used in operating activities		**(44,572)**	(25,364)
Cash flows from investing activities:			
Interest received		**2**	41
Net cash generated from investing activities		**2**	41
Cash flows from financing activities:			
Proceeds from issuance of Ordinary Shares	16	**33,176**	51,933
Issue costs of Ordinary Shares	16	**(2,713)**	(3,533)
Repayments of lease liabilities – principal and interest		**(118)**	(115)
Loan proceeds	19	**-**	13,910
Loan repayments	19	**(5,452)**	(4,621)
Interest and fees paid on loans	19	**(4,202)**	(1,586)
Net cash generated from financing activities		**20,691**	55,988
Net increase / (decrease) in cash and cash equivalents		**(23,879)**	30,665
Cash and cash equivalents at beginning of the period		**46,693**	17,009
Effect of exchange rate movements on cash held		**(1,199)**	(981)
Cash and cash equivalents at end of the period	15	**21,615**	46,693

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

	Issued Share Capital	Share Premium	Profit and Loss account	Merger reserve	Share based payment reserve	Foreign currency translation reserve	Treasury Shares	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Equity at 1 January 2020	**1,619**	**75,588**	**31,225**	**(106,625)**	**3,791**	**(1,250)**	**-**	**4,348**
Loss for the financial year	-	-	(33,478)	-	-	-	-	(33,478)
Other comprehensive income	-	-	-	-	-	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
Equity at 31 December 2020	**2,518**	**158,449**	**(2,269)**	**(106,625)**	**6,485**	**1,968**	**(41)**	**60,485**
Equity at 1 January 2021	**2,518**	**158,449**	**(2,269)**	**(106,625)**	**6,485**	**1,968**	**(41)**	**60,485**
Loss for the financial year	-	-	(67,074)	-	-	-	-	(67,074)
Other comprehensive income	-	-	-	-	-	(1,815)	-	(1,815)
Total comprehensive expense for the period	-	-	(67,074)	-	-	(1,815)	-	(68,889)
Transactions with Owners								
Issue of Ordinary Shares	274	32,505	-	-	-	-	-	32,779
Costs of issue of Ordinary Shares	-	(2,713)	-	-	-	-	-	(2,713)
Issue of Ordinary Shares to the EBT	31	-	-	-	-	-	(31)	-
Transfer of Treasury Shares to employees	-	49	(31)	-	-	-	47	65
Issue of shares on exercise of options	3	315	-	-	-	-	-	318
Employee share option scheme	-	-	-	-	3,822	-	-	3,822
Equity at 31 December 2021	**2,826**	**188,605**	**(69,374)**	**(106,625)**	**10,307**	**153**	**(25)**	**25,867**

Notes to the Financial Statements

1. Summary of significant accounting policies

General information

Acacia Pharma Group plc is a public limited company, limited by shares, 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 years ended 31 December 2021 and 2020.

Basis of preparation

The group financial statements comply with UK-adopted international accounting standards and with the requirements of the Companies Act 2006, and have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are also prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRSs as issued by the IASB for the periods presented.

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 2021 Annual Report have been consistently applied to all periods presented unless otherwise stated.

Changes in accounting policy and disclosures

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

No new standards have been adopted by the group in the year

(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 which 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 $106,626,000 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 recognized 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 group currently has cash and cash equivalents on hand which our forecasts indicate should be sufficient to continue operating until mid July 2022.

A transaction was announced on 28 March 2022, whereby it was proposed that 100% of the share capital of Acacia Pharma Group plc will be acquired by Eagle Pharmaceuticals, Inc. (Eagle), for consideration of €0.68 in cash and 0.0049 shares in Eagle ("the Proposed Transaction"). The acquisition will be implemented via a Court-sanctioned Scheme of Arrangement. The Scheme is dependent on the approval of Shareholders at the General Meeting on 19 May 2022. If the Scheme is not approved by the necessary majorities of Acacia Shareholders and, as a result, does not become unconditional in all respects, the Scheme will not come into effect. In addition, if the Scheme does not become effective and the Proposed Transaction is not completed by 30 June 2022, the agreement with Eagle will lapse and the Proposed Transaction will not proceed (unless Eagle and Acacia otherwise agree). In that circumstance, the Directors may not be able to negotiate alternative arrangements before the cash is forecast to run out to ensure the group continues as a going concern.

On the basis that the Proposed Transaction concludes, the Directors have had discussions with Eagle and are confident that Eagle's intentions are for Acacia to continue as a going concern, however the Directors do not have access to the detailed plans and forecasts of Eagle post completion, and they do not know what financing arrangements will be in place and the related terms and conditions of any such financing. In addition, certain liabilities crystalise on completion of the Proposed Transaction and funding will need to be made available to the company to settle such liabilities.

The two matters described above indicate the existence of a material uncertainty which may cast significant doubt on the company's and the group's ability to continue as a going concern.

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

A material uncertainty is equivalent in terminology to the concept of substantial doubt in US accepted practice

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 recognized 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.

1. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

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 recognized in other comprehensive income.

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 recognized 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 amortized 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 recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized 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 amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Financial liabilities
Borrowings
Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs and warrants issued) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized 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 amortized over the period of the facility to which it relates.

1. Summary of significant accounting policies (continued)

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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

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 amortization and impairment losses. The licence is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Amortization is calculated on a straight-line basis over the patent life, being 7 years from FDA approval on 2 July 2020. Amortization is charged to general and administrative expenses in the income statement. Amortization 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 recognized in accordance with IFRS15 'Revenue from Contracts with Customers'. Revenue on the sales of products to the customer is recognized 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 recognized 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 recognized 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 capitalization as intangible assets.

1. Summary of significant accounting policies (continued)

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.

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 recognized 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 were fair-valued using a Black-Scholes option pricing model and offset against the amortized cost of the loan. The warrants remain outstanding, but are out of the money.

Current and deferred income tax

Income tax on the result for the year comprises current and deferred tax. Income tax is recognized in the Income Statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 realization 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 is in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006, and and also international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are also prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. This basis of preparation, 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:

1. Summary of significant accounting policies (continued)

Critical Accounting Estimates and Judgements (continued)

Impairment of Byfavo®

At year end, the Company noted that there were potential impairment triggers, including the drop in market capitalization and challenges to liquidity. As a result, an impairment assessment was performed. On 28 March 2022 the proposed acquisition of the Company by Eagle was announced, in a deal valuing the Group at £79,513,010 (€94,700,000). This offer provided an observable fair value less costs to sell. This transaction value was adjusted for working capital movements between the balance sheet date and the deal completion date per the published deal timetable, which the Directors considered an appropriate approximation of the year end value of the Group. The Directors considered the excess value that the proposed transaction value, as adjusted, attributed to the intellectual property assets of the Group. The Directors considered the carrying value of the Byfavo® license in the context of this value, and concluded that an impairment charge of $13,030,000 would be appropriate. The impairment charge was calculated by reviewing our current future cash flow forecasts and assessing the contribution from Byfavo®. This percentage was then applied to the adjusted valuation of the Group. The Directors considered other metrics, for example relative formulary wins to date. These were considered too short-term, and influenced by the later launch date of Byfavo®, to provide an accurate basis for valuation.

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 the judgement to treat the loan as permanent is to reduce the current year loss by $1.3m, being the foreign exchange loss 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 (2021: $1,163,000, 2020: $211,000) is generated in the US and recognized at a point in time.

3. Finance income

	2021 $'000	2020 $'000
Foreign exchange gains	**1,580**	-
Interest on short-term deposits	**2**	41
	1,582	41

4. Finance expense

	2021 $'000	2020 $'000
Foreign exchange losses	**-**	234
Finance charges on term loan	**3,304**	2,156
Finance charge on Cosmo debt-equity swap	**-**	788
Interest expense on lease liabilities	**34**	34
	3,338	3,212

5. Loss before income tax

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

	2021 $'000	2020 $'000
Expense relating to short-term leases	**108**	105
Auditors' remuneration:		
Fees payable to the Group's auditors for the audit of the financial statements	**200**	164
Fees payable to the Group's auditors for other services – other assurance services	**-**	230
Amortization of intangible assets	**8,095**	3,051
Impairment of intangible assets	**13,030**	-
Foreign exchange losses / (gains)	**(1,580)**	234

6. Employees and Directors

Analysis of payroll costs by category:

	2021 $'000	2020 $'000
Wages and salaries	**17,612**	13,394
Social security costs	**1,182**	841
Other pension costs (Note 21)	**158**	75
Share-based payments	**3,822**	2,694
	22,774	17,004

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

	2021 Number	2020 Number
Research and development	**3**	4
Sales and marketing	**64**	36
General and administration	**7**	7
	74	47

Key Management Compensation

	2021 $'000	2020 $'000
Salaries and short–term employee benefits	**2,774**	2,311
Post-employment benefits	**33**	52
Share-based payments	**1,625**	1,113
	4,432	3,476

The Group considers the Executive Director to be key management, together with the Chief Medical Officer, the Chief Financial Officer, the Chief Commercial Officer and the Company Secretary.

Directors' remuneration in the year ended 31 December 2021 totalled $1,730,000 (2020: $1,791,000), comprising:

- $1,730,000 for aggregate emoluments (2020: $1,789,000)
- $nil for employer pension contributions (2020: $2,000)

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 2020	**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 2020	**3,298,540**	**0.00**	**44,444**	**1.89**	**1,280,476**	**0.13**	**767,500**	**2.27**	**5,390,960**	**0.80**
Exercisable at 31 December 2020	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	

	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 2021	**3,298,540**	**0.00**	**44,444**	**1.89**	**1,280,476**	**0.13**	**767,500**	**2.27**	**5,390,960**	**0.80**
Granted in the year	2,788,644	0.00	-	-	-	-	-	-	2,788,644	0.00
Exercised during the year	(1,312,242)	0.00	-	-	(443,829)	0.15	(116,000)	3.06	(1,872,071)	0.23
Lapsed / forfeited during the year	(174,653)	0.00	-	-	-	-	-	-	(174,653)	0.00
Outstanding at 31 December 2021	**4,600,289**	**0.00**	**44,444**	**1.89**	**836,647**	**0.11**	**651,500**	**2.13**	**6,132,880**	**0.26**
Exercisable at 31 December 2021	316,666	0.00	-	-	836,647	0.11	651,500	2.13	1,804,813	0.82
Weighted average life remaining - 2021	7.77		6.97		1.85		4.14		6.57	

7. Share–based payments (continued)

Awards granted under the Performance Share Plan (PSP) consist of 978,300 Long-Term Incentive Plan share option awards made to executive directors and other senior management, certain of which contain performance related conditions; and 3,621,989 Performance Share Awards (PSA) issued to staff, including non-executive directors.

Of the 6,132,880 outstanding options (2020: 5,390,961), 1,804,813 options (2020: 2,047,976) were exercisable at the year end date.

Options exercised in 2021 resulted in 1,145,472 shares (2020: 996,473, 2019: 1,558,993), being issued to the EBT, and a further 116,000 shares issued to the relevant employee. 1,872,071 shares were transferred to employees on the exercise of options / vesting of RSUs at a weighted average exercise price of $0.23 each. The related weighted average share price at the time of exercise was €*1.65* 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 (£)	2021 (number)	2020 (number)
04/07/2011	02/07/2014	02/07/2021	0.1	**-**	**430,829**
07/03/2012	06/03/2015	06/03/2022	0.1	**138,515**	**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**	**161,000**
28/08/2015	05/03/2018	27/08/2025	2	**189,000**	**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	**-**	**-**
30/12/2016	05/03/2018	29/12/2026	0.02	**1,500**	**1,500**
30/12/2016	05/03/2018	29/12/2026	0.02	**5,375**	**5,375**
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	**-**	**-**
18/12/2018	17/12/2021	17/12/2028	-	**90,000**	**874,500**
18/12/2018	17/12/2021	17/12/2028	-	**-**	**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**	**89,000**
04/09/2019	31/07/2022	30/07/2029	-	**741,125**	**767,000**
04/09/2019	31/07/2022	30/07/2029	0.02	**55,000**	**55,000**
04/09/2019	26/02/2020	30/07/2029	-	**-**	**-**
04/09/2019	26/02/2020	30/07/2029	0.02	**95,270**	**262,040**
04/09/2019	31/12/2021	30/07/2029	0.02	**170,000**	**170,000**
21/07/2020	20/07/2023	20/07/2030	-	**182,000**	**203,500**
21/07/2020	31/12/2020	20/07/2030	-	**113,333**	**113,333**
21/07/2020	31/12/2021	20/07/2030	-	**113,333**	**113,333**
21/07/2020	31/12/2022	20/07/2030	-	**113,334**	**113,334**
21/07/2020	20/07/2023	20/07/2030	0.02	**50,000**	**50,000**
03/12/2020	02/12/2023	02/12/2030	-	**92,500**	**132,500**
29/03/2021	31/03/2024	28/03/2031	0.02	**261,850**	**-**

7. Share–based payments (continued)

Grant date	Vesting date	Expiry date	Exercise price (£)	Outstanding at 31 December 2021 (number)	2020 (number)
29/03/2021	31/03/2024	28/03/2031	-	**1,735,195**	-
29/03/2021	31/12/2023	28/03/2031	0.00	**88,349**	-
29/03/2021	30/09/2023	28/03/2031	0.00	**150,000**	-
28/06/2021	27/06/2022	27/06/2031	0.00	**110,000**	-
28/06/2021	27/06/2023	27/06/2031	0.00	**110,000**	-
28/06/2021	27/06/2024	27/06/2031	0.00	**110,000**	-
28/09/2021	27/09/2024	27/09/2031	0.00	**130,000**	-
				6,132,880	**5,390,960**

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 $2.83 per award (2020: $2.79).

The significant inputs into the Black-Scholes model were:

	2021	2020
Share price at grant	**$2.43 - $2.90 dependent on grant date**	$2.14 - $2.85 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	**0.27 %**	0.13% - 0.27 % dependent on grant date
Share price volatility	**72%**	50%

Share price volatility has been derived based on the historic volatility of Acacia shares.

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

8. Taxation credit

	2021 $'000	2020 $'000
Current tax		
Current year tax credit	**978**	560
Prior year adjustments	**(38)**	54
Total tax credit	**940**	614

8. Taxation credit (continued)

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 2021 amounts have not yet been agreed with the relevant tax authorities. The 2020 tax credit was received in January 2022.

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% (2020: 19%). The differences are explained in the following table:

Tax reconciliation

	2021 $'000	2020 $'000
Loss before income tax	**(68,014)**	**(34,092)**
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	**(12,923)**	**(6,478)**
Tax effect of:		
Expenses not deductible for tax purposes	**176**	**233**
Temporary differences	**726**	**512**
Additional deduction for R&D expenditure	**(878)**	**(425)**
Surrendered losses for R&D tax credit	**639**	**327**
Items for which no deferred tax asset was recognized	**11,567**	**5,311**
Utilization of losses	**(285)**	**(40)**
Prior year adjustments	**38**	**(54)**
	(940)	**(614)**

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

As at 31 December 2021, the unrecognized deferred tax assets relating to operating losses amounted to $33,803,000 (2020: $14,123,000).

These have not been recognized due to the uncertainty over the utilization 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:

	2021	2020
Losses per Ordinary Share		
Loss for the financial year ($'000)	**(67,074)**	(33,478)
Weighted average number of Ordinary Shares (basic) (thousands)	**98,402**	73,580
Losses per Ordinary Share basic ($)	**(0.68)**	(0.46)

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 are anti-dilutive in both 2021 and 2020 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 minimize 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:

	2021 $'000	2020 $'000
Financial assets as per statement of financial position		
Trade and other receivables	**411**	58
Cash and cash equivalents	**21,615**	46,693
Total	**22,026**	**46,751**

	2021 $'000	2020 $'000
Financial liabilities as per statement of financial position		
Loans and other borrowings	**28,017**	36,693
Trade and other payables	**7,754**	5,271
Total	**35,771**	**41,964**

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

10. Financial instruments and financial risk management (continued)

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 commercialization 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. For additional detail on liquidity, see the viability statement on page 14.

The principal liabilities of the Group are the term loan, which matures in 2025 as set out in note 18 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.

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.

	2021 $'000	2020 $'000
Trade and other receivables		
AAA	**411**	58
Total unimpaired receivables	**411**	58
Cash at bank and short-term deposits		
AAA	**14,685**	25,001
A	**6,930**	21,692
Total cash and cash equivalents	**21,615**	46,693

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, which was repaid in the year, was 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 security is granted, 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 2021 or 2020.

11. Intangibles

	Byfavo® licence $'000
Year ended 31 December 2020	
Opening net book amount	**-**
Additions	51,359
Amortization	(3,051)
Foreign exchange differences	3,860
Closing net book amount	**52,168**
At 31 December 2020	
Cost or fair value	55,219
Accumulated amortization	(3,051)
Net book amount	**52,168**
Year ended 31 December 2021	
Opening net book amount	**52,168**
Additions	-
Amortization charge	(8,095)
Impairment charge	(13,030)
Foreign exchange differences	(435)
Net book amount	**30,608**
At 31 December 2021	
Cost or fair value	54,784
Accumulated amortization and impairments	(24,176)
Net book amount	**30,608**

At year end, the Company noted that there were potential impairment triggers, including the drop in market capitalization and challenges to liquidity. As a result, an impairment assessment was performed. On 28 March 2022 the proposed acquisition of the Company by Eagle was announced, in a deal valuing the Group at £79,513,010 (€94,700,000). This offer provided an observable fair value less costs to sell. This transaction value was adjusted for working capital movements between the balance sheet date and the deal completion date per the published deal timetable, which the Directors considered an appropriate approximation of the year end value of the Group. The Directors considered the excess value that the proposed transaction value, as adjusted, attributed to the intellectual property assets of the Group. The Directors considered the carrying value of the Byfavo® license in the context of this value, and concluded that an impairment charge of $13,030,000 would be appropriate. The impairment charge was calculated by reviewing our current future cash flow forecasts and assessing the contribution from Byfavo®. This percentage was then applied to the adjusted valuation of the Group. The Directors considered other metrics, for example relative formulary wins to date. These were considered too short-term, and influenced by the later launch date of Byfavo®, to provide an accurate basis for valuation. If the contribution by Byfavo were increased to 30%, the impairment would reduce by $7,652,000. If the contribution by Byfavo were decreased to 20%, the impairment would increase by $5,101,000.

11. Intangibles (continued)

The intangible asset acquired in 2020 represents amounts paid to Cosmo for the Byfavo® license. Amortization is included within general and administrative expenses in the income statement. Under the terms of the agreement, a number of milestones became payable during 2020 as set out below. No milestones were payable in 2021.

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	6,135
As at 31 December 2020			**51,359**

The remaining useful economic life at the year end date is 5.5 years (2020: 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 recognized in the statement of financial position*

	2021 $'000	2020 $'000
Right of use assets		
Buildings	**183**	277
	183	277

	2021 $'000	2020 $'000
Lease liabilities		
Current	**122**	120
Non-current	**103**	189
	225	**309**

ii) Amounts recognized in the income statement

The income statement shows the following amounts relating to leases:

	2021 $'000	2020 $'000
Depreciation charge of right of use assets	**95**	95
Interest expense (included in finance cost)	**34**	34
Expense relating to short-term leases (included in general and administrative expenses)	**108**	105

The total cash outflow for leases in 2021 was $227,000 (2020: $220,000).

13. Trade and other receivables

	2021 $'000	2020 $'000
Trade receivables	**411**	58
Other receivables	**646**	363
Prepayments and accrued income	**29**	40
	1,086	461

The fair value of trade and other receivables is considered materially equal to their carrying value. Loss allowances are $nil (2020: $nil).

14. Inventories

	2021 $'000	**2020 $'000**
Raw materials	**1,882**	**401**
Work in progress	**591**	**936**
Finished goods	**4,397**	**1,325**
	6,870	**2,662**

Amounts recognized in profit or loss

Inventories recognized as an expense during the year ended 31 December 2021 amounted to $295,000 (2020: $29,000) included in cost of sales. This includes the write-down $105,000 of short-dated Byfavo® inventory obtained as part of the Cosmo transaction in 2020.

15. Cash and cash equivalents

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

	2021 $'000	2020 $'000
Sterling accounts	**827**	663
Euro accounts	**6,557**	29,516
US Dollar accounts	**14,231**	16,514
	21,615	46,693

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 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 and 1 January 2021	**89,597,951**	**2,518**	**158,449**
Issue of Ordinary Shares	11,261,472	308	32,820
Issue costs	-	-	(2,713)
Transfer of shares to employees from EBT	-	-	49
At 31 December 2021	**100,859,423**	**2,826**	**188,605**

Share option exercises

In 2020, 996,473 shares were issued upon the exercise of share options or vesting of RSUs, resulting in proceeds of $10,000. Shares issued in 2021 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
20 January 2021	30,000	82
4 February 2021	31,500	86
12 February 2021	30,000	82
26 February 2021	24,500	47
17 December 2021	1,145,472	31
	1,261,472	**328**

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 2021, the Trust held 1,002,584 (2020: 1,613,182) ordinary shares in the Company with a market value of $1.4 million (2020: $5.2 million). 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.

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

The Acacia Pharma Employee Benefit Trust

	2021	2020
Number of shares in the Company owned by the EBT	**1,002,584**	1,613,182
Nominal value of shares held	**$25,126.37**	$41,526.58
Cost price of shares held	**$25,126.37**	$41,526.58
Market value of 1 share at 31 December 2021	**$1.44**	$3.25
Total market value of shares	**$1,444,335.47**	$5,242,841.50
Maximum number of shares in the Company owned by the EBT in the year	**2,161,055**	2,218,264
Minimum number of shares in the Company owned by the EBT in the year	**1,002,584**	nil

17. Trade and other payables

	2021 $'000	2020 $'000
Trade payables	**2,756**	1,144
Tax and social security	**368**	386
Accruals and other creditors	**4,998**	4,128
	8,122	5,657

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 bore interest at the higher of 9.25% or the Wall Street Journal prime rate plus 4.5%, bore 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 was repayable in 25 equal monthly instalments. The loan was fully repaid in May 2021. 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 security has been granted, 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.

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.

	2021 $'000	2020 $'000
Loans and other borrowings payable within one year		
Term loans, amounts payable within one year	**-**	5,298
Lease liability, amounts payable within one year	**122**	119
Total Loans and other borrowings payable within one year	**122**	5,417

18. Loans and other borrowings (continued)

Loans and other borrowings payable after one year		
Term loans, amounts payable after one year	**27,792**	31,087
Returns reserve	**8**	-
Lease liability, amounts payable after one year	**103**	189
Total Loans and other borrowings payable after one year	**27,903**	31,276

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

	2021 $'000	2020 $'000
Euro	**27,792**	30,753
US dollar	**225**	5,940
	28,017	36,693

The fair value of non-current borrowings is $28.2 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 $'000	**Lease liability** $'000	**Total** $'000
As at 1 January 2020	**9,765**	**389**	**10,154**
Finance expense and exchange movements	2,098	3	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.

	Term Loans $'000	**Lease liability** $'000	**Total** $'000
As at 1 January 2021	**36,385**	**308**	**36,693**
Finance expense and exchange movements	1,061	35	1,096
Cash outflows	(9,654)	(118)	(9,772)
As at 31 December 2021	**27,792**	**225**	**28,017**

20. Cash used in operations

	2021 $'000	2020 $'000
Loss before income tax	**(68,014)**	(34,092)
Adjustments for:		
Share-based payments	**3,822**	2,694
Foreign exchange (gain)/loss	**(1,580)**	234
Finance expense	**3,338**	2,977
Finance income	**(2)**	(41)
Depreciation and amortization	**8,189**	3,146
Impairment of intangibles	**13,030**	-
Changes in working capital		
- Decrease / (Increase) in trade and other receivables	**(801)**	(150)
- (Increase) in inventory	**(4,187)**	(2,662)
- Increase / (Decrease) in trade and other payables	**1,587**	1,490
Cash used in operations	**(44,619)**	(26,104)

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.

	2021 $'000	2020 $'000
Amount paid during the year	**158**	75
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:

	2021 $'000	2020 $'000
Inventory	**4,718**	1,548
Research and development expenditure	**1,192**	736
Total	**5,910**	2,284

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:

	2021 $'000	2020 $'000
Payments under short-term leases which fall due:		
Within 1 year	**24**	25
Total	**24**	25

23. Related party disclosures

During the year, the Group entered into a number of transactions with Cosmo as set out below:

- €209,858 in respect of packaging and manufacturing services
- €11,598 in respect of legal fees in relation to the equity raise in February 2021
- €2,750,000 in respect of loan interest payments.

Balances outstanding with Cosmo as at the balance sheet date are:
- Loan balance of €25 million (2020: €25 million)

In the prior 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

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 28 March 2022 announced a proposed transaction with Eagle which would effect transfer of the entire issued and to be issued share capital of Acacia to Eagle by way of a scheme of arrangement under Part 26 of the Companies Act 2006.
Under the terms of the Proposed Transaction, each Scheme Shareholder will receive as consideration for each Scheme Share, €0.68 in cash and 0.0049 New Eagle Shares. The Proposed Transaction values Acacia's existing issued and to be issued share capital at approximately €94,700,000 on a fully diluted basis.
The cash portion of the Consideration represents approximately 75 percent. of the total Consideration, and the New Eagle Shares Acacia Shareholders would receive represents approximately 25 percent. of the total Consideration, which represents approximately 3.8 percent. of the enlarged Eagle share capital in issue immediately following completion of the Scheme. The total Consideration equates to €0.90 for each Scheme Share.
The Consideration provides Acacia Shareholders with both up-front cash and, through the New Eagle Shares to be acquired by Acacia Shareholders, equity participation in the value creation potential for the enlarged business through de-risked funding requirements, enlarged group synergies, and being part of a well-funded entity with shares trading on a liquid exchange.
Having considered all of the available alternatives as part of its strategic review, the Acacia Board believes that the Proposed Transaction represents the best option for Acacia Shareholders to maximize the value of their shares, and therefore unanimously recommends the Proposed Transaction.
The Acacia Directors consider the Proposed Transaction to be the best available option for Acacia Shareholders. In making this assessment, the Acacia Directors have received financial advice from Greenhill who, in providing its financial advice, has taken into account the commercial assessments of the Acacia Directors. Accordingly, the Acacia Directors intend unanimously to recommend that Acacia Shareholders vote in favour of the Scheme at the Court Meeting and the Resolutions to be proposed at the General Meeting, as the Acacia Directors have irrevocably undertaken to do in respect of the 217,543 Acacia Shares which they hold and which they control (or can procure the control of) the voting rights, representing approximately 0.22 percent of the issued share capital.

In addition to the irrevocable undertakings referred to above, Eagle has also received irrevocable undertakings from the three largest Shareholders of Acacia to vote in favour of the Scheme at the Court Meeting and the Resolutions to be proposed at the General Meeting in respect of the 49,012,875 Acacia Shares which they hold and which they control (or can procure the control of) the voting rights, representing approximately 48.56 percent. of the issued share capital of Acacia on 24 March 2022, being the last business day before this announcement.

Therefore, Eagle has received irrevocable undertakings representing, in aggregate, 49,230,418 Acacia Shares representing approximately 48.78 percent. of the issued share capital of Acacia.

Company Financial Statements

Company Financial Statements for the year ended 31 December 2021

Statement of Financial Position as at 31 December 2021

	Note	**2021 £'000**	2020 £'000
Assets			
Fixed assets			
Investments	6	**90,866**	111,397
Total fixed assets		**90,866**	111,397
Current Assets			
Other receivables	7	**-**	97,847
Cash and cash equivalents		**99**	3
Total Current Assets		**99**	97,850
Total Assets		**90,965**	209,247
Equity and Liabilities			
Called-up Share capital	8	**2,017**	1,792
Share premium account		**141,239**	119,207
Profit and loss account		**(60,246)**	83,279
Share-based payments reserve		**7,670**	4,946
Treasury shares		**(20)**	(32)
Total Equity		**90,660**	209,192
Liabilities			
Current liabilities			
Trade and other payables	9	**305**	55
		305	55
Total Equity and Liabilities		**90,965**	209,247

The loss of the Company attributable to the equity Shareholders for the year was £143.5 million (2020: £3.2 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 93 to 99 form an integral part of these Financial Statements.

The Financial Statements on pages 91 to 99 were approved by the Board of Directors on 29 April 2022 and were signed on its behalf by:

Mike Bolinder
Director

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 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 January 2021	**1,792**	**119,207**	**4,946**	**83,279**	**(32)**	**209,192**
Comprehensive expense						
Total comprehensive expense for the year	-	-	-	(143,502)	-	(143,502)
Transactions with Owners						
Issue of ordinary shares	202	23,957	-	-	-	24,159
Issue of ordinary shares to the EBT	23	-	-	-	(23)	-
Costs of issue of ordinary shares	-	(1,961)	-	-	-	(1,961)
Transfer of treasury shares to employees	-	36	-	(23)	35	48
Capital contribution arising on share-based payments	-	-	2,724	-	-	2,724
Balance at 31 December 2021	**2,017**	**141,239**	**7,670**	**(60,246)**	**(20)**	**90,660**

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 company limited by shares, 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 2021.

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 recognized 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 recognized 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 amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized 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 group currently has cash and cash equivalents on hand which our forecasts indicate should be sufficient to continue operating until mid July 2022.

A transaction was announced on 28 March 2022, whereby it was proposed that 100% of the share capital of Acacia Pharma Group plc will be acquired by Eagle Pharmaceuticals, Inc. (Eagle), for consideration of €0.68 in cash and 0.0049 shares in Eagle (“the Proposed Transaction”). The acquisition will be implemented via a Court-sanctioned Scheme of Arrangement. The Scheme is dependent on the approval of Shareholders at the General Meeting on 19 May 2022. If the Scheme is not approved by the necessary majorities of Acacia Shareholders and, as a result, does not become unconditional in all respects, the Scheme will not come into effect. In addition, if the Scheme does not become effective and the Proposed Transaction is not completed by 30 June 2022, the agreement with Eagle will lapse and the Proposed Transaction will not proceed (unless Eagle and Acacia otherwise agree). In that circumstance, the Directors may not be able to negotiate alternative arrangements before the cash is forecast to run out to ensure the group continues as a going concern.

On the basis that the Proposed Transaction concludes, the Directors have had discussions with Eagle and are confident that Eagle’s intentions are for Acacia to continue as a going concern, however the Directors do not have access to the detailed plans and forecasts of Eagle post completion, and they do not know what financing arrangements will be in place and the related terms and conditions of any such financing. In addition, certain liabilities crystalise on completion of the Proposed Transaction and funding will need to be made available to the company to settle such liabilities.

The two matters described above indicate the existence of a material uncertainty which may cast significant doubt on the company's and the group’s ability to continue as a going concern.

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

The Company incurred a loss of £143.5 million in the year to 31 December 2021 (2020: £3.2 million, 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. Balances are monitored for potential impairment triggers, and if such a trigger exists, an impairment assessment is performed. A value-in-use model, consisting of current internal cash flow forecast, is used. If no such model can be found to be reliable, then the value is assessed based on fair value less costs to sell.

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.

1. Summary of significant accounting policies (continued)

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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

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 recognized 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 recognized 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 recognized in the Profit and Loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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, together with an intercompany receivable are carried in the statement of financial position of the Company at cost less provision for impairment. At year end, the Company noted that there were potential impairment triggers, including the drop in market capitalization and challenges to liquidity. As a result, an impairment assessment was performed. On 28 March 2022 the proposed acquisition of the Company by Eagle was announced, in a deal valuing the Group at £79,513,010 (€94,700,000). This offer provided an observable fair value less costs to sell. This transaction value was adjusted for working capital movements between the balance sheet date and the deal completion date per the published deal timetable, which the Directors considered an appropriate approximation of the year end value. The Directors considered a value-in-use scenario, however as management does not currently have access to the financing arrangements of the purchaser going forward or forecasts it is considered that any value-in-use calculation is not reliable. Accordingly, a provision was established over the intercompany receivable, and the investments in subsidiaries were impaired such that the carrying value cumulatively did not exceed this.

2. Auditors' Remuneration

The audit fee of Acacia Pharma Group plc amounted to £7,000 (2020: £6,000).

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 76 to 78

4. Directors' emoluments

Directors' emoluments are set out in the Directors' Remuneration Report on page 37.

5. Employee numbers

The Company had no employees in 2021 or 2020.

The Chief Executive Officer is an employee of Acacia Pharma Inc.

6. 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 recognized 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

	2021 £'000	2020 £'000
At beginning of year	**107,567**	107,514
Capital contribution	**245**	53
Impairment charge in the year	**(23,255)**	-
	84,557	107,567

Investment in Acacia Pharma Inc

	2021 £'000	2020 £'000
At beginning of year	**3,830**	1,980
Capital contribution	**2,479**	1,850
	6,309	3,830
Total investments	**90,866**	111,397

6. 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 commercialization 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

During the year share-based payment charges of £245,000 (2020: £53,000) arose in respect of the share options granted over shares in the Company to employees of Acacia Pharma Limited, and charges of £2,479,000 (2020: £1,850,000) in respect of the share options granted over shares in the Company to employees of Acacia Pharma Inc.

At year end, the Company noted that there were potential impairment triggers, including the drop in market capitalization and challenges to liquidity. As a result, an impairment assessment was performed. On 28 March 2022 the proposed acquisition of the Company by Eagle was announced, in a deal valuing the Group at £79,513,010 (€94,700,000). This offer provided an observable fair value less costs to sell. This transaction value was adjusted for working capital movements between the balance sheet date and the deal completion date per the published deal timetable, which the Directors considered an appropriate approximation of the year end value. The Directors considered a value-in-use scenario, however as management does not currently have access to the financing arrangements of the purchaser going forward or forecasts it is considered that any value-in-use calculation is not reliable. Accordingly, a provision was established over the intercompany receivable, and the investments in subsidiaries were impaired such that the carrying value cumulatively did not exceed this.

7. Other receivables

	2021 £'000	2020 £'000
Amounts owed by group undertakings	-	97,847
	-	97,847

Amounts owed by Group undertakings are unsecured, interest-free and repayable on demand. The amounts owed have been fully provided for. Please see note 6 for details of the provision recognized in the year.

8. 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.

9. Trade and other payables

	2021 £'000	2020 £'000
Accruals and deferred income	**305**	55
	305	55

10. Financial instruments

Details of the Company's financial instruments are included in note 10 of the Group Financial Statements on pages 80 to 81.

11. 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.

12. 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 Group entered into a number of transactions with Cosmo as set out below:

- €209,858 in respect of packaging and manufacturing services
- €11,598 in respect of legal fees in relation to the equity raise in February 2021
- €2,750,000 in respect of loan interest payments.

Balances outstanding with Cosmo as at the balance sheet date are:

- Loan balance of €25 million (2020: €25 million)

In the prior 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

13. Post period events

On 28 March 2022 announced a proposed transaction with Eagle which would effect transfer of the entire issued and to be issued share capital of Acacia to Eagle by way of a scheme of arrangement under Part 26 of the Companies Act 2006.

Under the terms of the Proposed Transaction, each Scheme Shareholder will receive as consideration for each Scheme Share, €0.68 in cash and 0.0049 New Eagle Shares. The Proposed Transaction values Acacia's existing issued and to be issued share capital at approximately €94,700,000 on a fully diluted basis.

The cash portion of the Consideration represents approximately 75 percent. of the total Consideration, and the New Eagle Shares Acacia Shareholders would receive represents approximately 25 percent. of the total Consideration, which represents approximately 3.9 percent. of the enlarged Eagle share capital in issue immediately following completion of the Scheme. The total Consideration equates to €0.90 for each Scheme Share.

The Consideration provides Acacia Shareholders with both up-front cash and, through the New Eagle Shares to be acquired by Acacia Shareholders, equity participation in the value creation potential for the enlarged business through de-risked funding requirements, enlarged group synergies, and being part of a well-funded entity with shares trading on a liquid exchange.

Having considered all of the available alternatives as part of its strategic review, the Acacia Board believes that the Proposed Transaction represents the best option for Acacia Shareholders to maximize the value of their shares, and therefore unanimously recommends the Proposed Transaction.

The Acacia Directors consider the Proposed Transaction to be the best available option for Acacia Shareholders. In making this assessment, the Acacia Directors have received financial advice from Greenhill who, in providing its financial advice, has taken into account the commercial assessments of the Acacia Directors. Accordingly, the Acacia Directors intend unanimously to recommend that Acacia Shareholders vote in favour of the Scheme at the Court Meeting and the Resolutions to be proposed at the General Meeting, as the Acacia Directors have irrevocably undertaken to do in respect of the 217,543 Acacia Shares which they hold and which they control (or can procure the control of) the voting rights, representing approximately 0.22 percent of the issued share capital.

In addition to the irrevocable undertakings referred to above, Eagle has also received irrevocable undertakings from the three largest Shareholders of Acacia to vote in favour of the Scheme at the Court Meeting and the Resolutions to be proposed at the General Meeting in respect of the 49,012,875 Acacia Shares which they hold and which they control (or can procure the control of) the voting rights, representing approximately 48.56 percent. of the issued share capital of Acacia on 24 March 2022, being the last business day before this announcement.

Therefore, Eagle has received irrevocable undertakings representing, in aggregate, 49,230,418 Acacia Shares representing approximately 48.78 percent. of the issued share capital of Acacia.