



Celadon Pharmaceuticals Plc (formerly Summerway Capital Plc)

("Celadon", the "Company" or the "Group")

Final Results for the year ended 31 December 2022

London, 5 June 2023 - Celadon Pharmaceuticals Plc (AIM: CEL) today announces its audited final results for the year ended 31 December 2022.

Strategic and operational highlights for the year and post year end

- Achieved AIM readmission following the reverse takeover of Vertigrow Technology Limited in March 2022 and raised gross proceeds of £8.5m.
- Registration of the Group's Midlands facility with UK Medicines and Healthcare products Regulatory Agency ("MHRA") for the Good Manufacturing Practice ("GMP") manufacturing of its cannabis Active Pharmaceutical Ingredient (API) in January 2023.
- Home Office licence successfully updated in March 2023 to allow commercial sale of the Group's high Δ-9 tetrahydrocannabinol ("THC") product.
- Successfully completed seven harvests from Phase 1 grow facility, with independent third-party testing of the select test batches confirming high quality, consistent pharmaceutical grade cannabis with high THC profile.
- Results of the Feasibility Study for the Group's chronic pain study submitted to the Research Ethics Committee ("REC") in December 2022. Anticipate REC meeting to formally approve commencement of Clinical Trial in H2 FY23.
- Construction of Phase II facility in 2022 and Q1 FY23; initial footprint operational with capacity, and further fitting requirements, expected to ramp up in line with demand during 2023.
- Inaugural product sale, for a minimum of £3m over three years, to a leading UK Medical Cannabis company announced on 24 May 2023, with first shipments anticipated in Q4 2023. Letter of intent with same customer for a further £7m of product annually.
- Cash balance at 31 May 2023 of £1.8m, with £1.0m of VAT and Research & Development tax credits due from HM Revenue and Customs.
- Committed credit facility for £7.0m signed on 29 May 2023 with a 2-year term, providing additional balance sheet flexibility to meet increasing demand for Celadon's product.

Financial highlights for the period

- Revenue of £24k (December 2021: £2k)
- Operating loss of £5,381k (December 2021: £2,713k)
- Loss before tax of £18,118k (December 2021: £4,796k)
- Cash at 31 December 2022 of £5,061k (December 2021: £3,823k)

James Short, CEO of Celadon, commented:

"2022 was a strong year for Celadon following our readmission to AIM and £8.5m equity fundraising, cementing our place as a leader in the field of developing breakthrough cannabis-based medicines. The start of this year has now seen Celadon successfully achieve our Good Manufacturing Practices registration from the UK's Medicines and Healthcare products Registration Agency and an update to our Home Office licence to allow commercial supply of our product. We believe that we are the first UK company of our kind to obtain these approvals since regulations changed in 2018 which positions Celadon to supply the UK market with our pharmaceutical-grade product."

"Following the update of our Home Office licence, we have been contacted by a number of potential customers expressing interest in entering into long-term supply agreements, to allow them to source high-quality, locally produced medical cannabis. We are aiming to provide the first product to customers during the course of Q4 2023. The progress we have made this year, and the promising early data from our chronic pain study, give me further conviction of the potential of our cannabis-based medicines to transform patients' lives."

"Finally, I would like to thank our shareholders for their continued support as we pursue our primary aim of helping patients."

Analyst briefing: 10.00am today

James Short, Chief Executive Officer, and Jonathan Turner, Chief Financial Officer, will host a virtual analyst presentation followed by a Q&A session at 10.00am BST today.

Analysts wishing to join should register their interest by contacting Powerscourt at celadon@powerscourt-group.com, or by calling +44 (0) 20 7250 1446.

A copy of the presentation will be published on the Company's website at www.celadonpharma.co.uk

Investor Presentation: 3.30pm today

Management will be hosting a live presentation and Q&A session today at 3.30pm BST via the online platform Investor Meet Company. Investors can sign up to Investor Meet Company for free and attend the presentation via the following link: <https://www.investormeetcompany.com/celadon-pharmaceuticals-plc/register-investor>

Questions can be submitted pre-event and at any time during the live presentation via the Investor Meet Company platform.

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This announcement contains inside information for the purposes of article 7 of the Market Abuse Regulation (EU) 596/2014 as amended by regulation 11 of the Market Abuse (Amendment) (EU Exit) Regulations 2019/310. With the publication of this announcement, this information is now considered to be in the public domain.

CELADON PHARMACEUTICALS PLC (FORMERLY SUMMERWAY CAPITAL PLC)

Group Strategic Report For the year ended 31 December 2022

Chairman's Statement

I am pleased to present the first full year results of Celadon Pharmaceuticals plc (the "Company" and together with its subsidiaries, the "Group"), Summerway Capital plc (which was renamed Celadon Pharmaceuticals plc on 25 March 2022) acquired Vertigrow Technology Limited ("Celadon") and was re-admitted to trading on AIM with effect from 28 March 2022. The results are for the year ended 31 December 2022.

I am proud of the role the Group plays in striving to make a positive impact on the lives of patients and its aim to produce a reliable and safe source of pharmaceutical grade cannabis-based products available to them and to the pharmaceutical Research & Development community in the UK.

Significant Milestones

The law changed in the UK in 2018 allowing medical cannabis to be prescribed to patients. Since that time Celadon has been working with the UK Home Office and the Medicines and Healthcare products Regulatory Agency ("MHRA") to be approved to provide a high-quality and consistent domestic supply of high Δ -9-tetrahydrocannabinol ("THC") cannabis products.

A significant amount of work and capital has been invested over the last four years that culminated in January 2023 with the Group's facility being awarded its Good Manufacturing Practices ("GMP") registration in March 2023 and the Home Office authorising the commercial supply of the Group's product.

Clear opportunities ahead

The initial data from participants on the Group's chronic pain feasibility study show the potential benefits pharmaceutical cannabis can bring to patients and their quality of life.

Whilst the market is clearly developing, the reliance until now for cannabis products to be imported on a named patient basis has caused significant additional cost and delays for the patients who need the products the most.

The Group's achievements in obtaining regulatory approvals means that the UK now has a domestic supplier who is in time expected to be able to meet the needs of this significant underserved patient base.

Advancing our sustainability agenda

The Group's transition to a sustainable energy supplier in December 2022 and its ongoing investigation of solar power as a means of reducing the Group's impact on the environment demonstrates the Board and Group's commitment to wherever possible operating in a sustainable fashion.

Board changes

As a result of the acquisition of Celadon and readmission of the Company to trading on AIM on 28 March 2022, there was a significant amount of change in the composition of the Board during 2022, and into 2023.

I was re-appointed as Chairman on 28 March 2022, replacing Ben Shaw who had been Interim Chairman and stood down from the Board in advance of the acquisition of Celadon.

At the time of the acquisition Jim Short and Katie Long became the Group's CEO and CFO respectively and Robbie Barr and Dr Steven Hajioff took up the roles of Senior Independent Director and Non-Executive Director.

Latterly, Katie Long stood down as CFO on 17 January 2023 and was replaced by Jonathan Turner.

I would like to thank Ben and Katie for their contributions to the Group and the Board.

Our employees

The Board is extremely grateful for the commitment and innovation of our employees in their approach to maintaining and growing the business despite the many challenges faced whether Covid related lockdowns, or an emerging regulatory landscape. We thank them for embracing new approaches to working and for adapting quickly to new ways of supporting the Group and its anticipated patients and customers.

Dividend

Given the Group is continuing to invest in growing the business, the Board does not recommend the payment of a dividend (2021: nil).

Looking ahead

Despite the macroeconomic and political challenges over the past two years, the Group has made significant progress, and in January and March 2023 successfully obtained the required regulatory licences to allow it to begin the commercial supply of its cannabis-based products. The signing of the inaugural supply contract in May 2023 and the multiple expressions of interest demonstrates the appetite for the Group's product. This commitment underpins our mission to place the patient at the heart of everything that we do. The Board remains confident in the Group's strategic direction as a platform to improve the quality of life for the patients who desperately need the Group's products whilst delivering sustainable growth and in time, profitability for our investors.

Alexander Anton
Chairman

2 June 2023

Chief Executive Officer's Report

Introduction & Overview

I am delighted to report on the significant number of achievements and strategic progress for the Group in the last year.

These results are the Group's first as a public company following the Group's successful readmission to AIM in March 2022 as a result of the reverse takeover of Vertigrow Technology Limited by Summerway Capital Plc (renamed Celadon Pharmaceuticals Plc), where we raised £8.5 million of equity capital to support our organic growth plans. On readmission, we became one of a small number of medicinal cannabis companies to be admitted to AIM, one of the world's leading growth markets for small and mid-cap companies.

In the past few years, cannabis-based medicinal products ("CBMPs") have expanded rapidly in several international geographies, with a growing evidence base for their efficacy across a number of conditions (e.g. chronic pain, epilepsy, autism). In the UK, it is estimated that there are eight million people with moderate to severely disabling chronic pain, and around 50 million in the US. The interest in CBMPs as medicines to treat pain has grown against the backdrop of the opioid crisis in the US, and the recommendations of UK regulators in 2021 to reduce their prescription for chronic pain.

Our aim is to position Celadon as a leader in breakthrough cannabis-based medicines, capitalising on our early-mover advantage in a highly regulated market as one of what the Board believes are only two UK companies of our kind with the licences to cultivate and manufacture pharmaceutical-grade cannabis in the UK for commercial sale.

Our strategy to open up the UK market combines domestic production of pharmaceutical-grade medicinal cannabis, clinical trials to generate the data to support prescriptions by doctors, and research into future breakthrough medicines. There is a substantial need for high-quality UK produced cannabis to reduce the need for imports from overseas, with the associated unacceptable costs and delays often faced by patients. Our subsidiary, Harley Street (CPC) Limited, trading as LVL Health ("LVL"), completed the initial feasibility phase of its chronic pain study in 2022, with promising early results from the data for pain reduction, opioid reduction and sleep. A number of parties have since approached us about using the Trial Protocol for different medicines and in new jurisdictions. We anticipate approval for the LVL trial being given in H2 FY23, and remain confident of the trial's ability to provide a robust data set that may enable The National Institute for Health and Care Excellence ("NICE") to recommend the re-imbursement for the type of cannabis-based medicinal product studied in the clinical trial for prescription on the NHS for the uses studied in the clinical trial.

We believe the opportunity for CBMPs in the UK and internationally remains compelling for the following reasons:

- **Large addressable market:** there are an estimated eight million people in the UK with moderate to severely disabling chronic pain, with around 50 million in US. CBMPs are expanding rapidly internationally across a number of territories, including Germany and Australia.
- **Growing evidence of efficacy for a number of conditions:** there is a growing evidence base for the efficacy of CBMPs (e.g. chronic pain, epilepsy, autism), which we are experiencing through the early results from the first patients on LVL's chronic pain study. The previous standard of care - opioids - has been estimated to work for only 5-10% of patients^[1], with widespread evidence noting the harmful side effects of long-term opioid use. A recent study of the prescription of anti-depressants to treat chronic pain has suggested a "shocking" lack of long-term data^[2] and further highlighting the need for evidence-based alternatives.

To unlock this opportunity, Celadon continues to pursue its strategy, with a mission and values aligned to deliver this. Critically, our strategy has a patient-first objective at the heart of everything we do as an organisation.

- **Mission:** to improve quality of life for patients most in need through developing breakthrough cannabis-based medicines
- **Values:** patient-first, collaboration, innovation, determination

STRATEGY

Celadon's strategy places the Group in a strong position to open up the UK market, having successfully built a strong foundation over the past four years, and to develop breakthrough cannabis-based medicines for patients. The regulatory and capital barriers to entry remain high, and Celadon's successful GMP registration and Home Office licence update puts it in a strong position to supply its pharmaceutical-grade product to the market.

With a strategy based around patient needs and an initial focus on chronic pain, Celadon has three core pillars to unlock the emerging market opportunity, which we continue to pursue:

- **Grow, extract and sell:** create an integrated UK supply chain that is not reliant on imported, costly product; licenced to cultivate, manufacture and sell to the market for revenue
- **Trial:** conduct clinical trials to demonstrate the efficacy of cannabis-based medicines, open up the UK market and support the case for NHS reimbursement
- **Breakthrough R&D:** develop advanced cannabinoid medicines with novel delivery technologies, led by Celadon's in-house R&D team and de-risked through industry partnerships

OPERATIONAL UPDATE

Since readmission to AIM in March 2022, Celadon has continued to make progress against its key operational milestones.

Phase 1 Cultivation Facility

In August 2022, the Company completed its seventh harvest of high THC medicinal cannabis from the Phase 1 grow rooms. The harvested cannabis flower product underwent rigorous internal and independent testing to assess its consistency, quality and cannabinoid profile. The results of the independent third-party testing confirmed that the cannabis flower tested consistently met Good Agricultural and Collection Practice ("GACP"), pharmaceutical grade standards for medical cannabis, demonstrating a consistent and high level of THC, well within all testing tolerances. The product supported the Company's application to the MHRA, with GMP registration achieved in January 2023. In addition to tight batch-to-batch consistency, the specification of Celadon's indoor hydroponic cultivation and smart environmental monitoring has driven high levels of yield.

Phase 1 has since undergone planned maintenance improvements, with a genetics and pheno-hunting programme underway.

Phase 2 Facility Fit Out

The Company has made significant progress in the development and fit out of its second cannabis cultivation space (Phase 2) during the period and post period end. The Company has taken the decision to ramp-up Phase 2 capacity - and the underlying operations - in phases, in line with demand. At full capacity, Phase 2 will have the potential to achieve an annualised yield of approximately three tonnes of high THC pharmaceutical cannabis in the form of dry flower.

The Company took a few key decisions to alter and improve the construction of the Phase 2 build in 2022. This was partly in response to additional cost pressures, which the Group is clearly not immune to. To mitigate the inflationary environment, the decision was taken to in-house the management of the build, which generated substantial savings. The Group spent approximately £2.0 million on the construction of the grow rooms during the period. Certain works were also undertaken on Phase 3, ahead of the original schedule, on the recommendation of the independent third-party testing firm, to ensure that Phase 3 is ready to go live when Phase 2 is fully operational.

recommendation of the regulatory auditors, in order to avoid disrupting phase 2 operations at a later date.

Commercialisation

Since announcing its GMP and Home Office licencing updates in early 2023, Celadon has held a number of positive discussions regarding commercial supply of its pharmaceutical-grade cannabis products.

The Company has received multiple expressions of interest in the sale of its pharmaceutical-grade product. The Company is currently in discussions to convert these into commercial contracts, and whilst there is no guarantee around if or when these will convert, if successful they would be expected to move the Company to a cash generative position. The discussions include a further contract from the inaugural customer worth in excess of £7 million of annual supply.

The level of interest in Celadon's product further confirms management's belief that UK production, combined with indoor, fully-controlled hydroponic cannabis cultivation, has a significant advantage over imported product, with the associated frustrations for patients of supply delays and increased cost.

MHRA and Home Office Licencing

The Celadon team worked hard over the period to prepare the Group for its MHRA inspection, with a successful inspection in Q4 22 and the submission of the results of independently verified testing of its cannabis product.

Celadon was delighted to obtain confirmation from the MHRA in January 2023 that it had achieved GMP certification to manufacture its pharmaceutical-grade cannabis product.

On the basis of the successful MHRA registration, Celadon requested that the Home Office update the Group's licence to allow the commercial supply of its cannabis product. As disclosed at the time, the Home Office extended the Group's licence in March 2023. The Directors believe that the Group is the first in the UK to be licensed to cultivate and sell high-THC EU-GMP grade cannabis product from its own facility following the changes to pharmaceutical cannabis licensing in 2018, and one of a small number of EU-GMP facilities of its kind globally.

LVL's Chronic Pain Trial

LVL, the Company's private pain clinic subsidiary, has conditional approval from the MHRA for a trial of medical cannabis in patients with non-cancer chronic pain, allowing the enrolment of up to 5,000 patients. Before the trial commenced, the Research Ethics Committee ("REC") requested a Feasibility Study, designed to demonstrate the ability to engage and retain patients. The operation of the Feasibility Study required the Group to utilise a Care Quality Commission ("CQC") approved clinic to onboard patients. LVL's clinic on Harley Street successfully received CQC authorisation in the year.

This Feasibility Study allowed us to ensure that the onboarding process was efficient and effective and the Group presented its results to REC in December 2022. Feedback from patients who received treatment has been positive, with improvements in quality of life (including pain and sleep levels), and significant reduction in other medications (some respondents noted reductions in their opioid usage by 60%), being reported.

The Group remains confident that permission will be given to proceed to the full Clinical Trial. The full trial carries a number of advantages, most notably the clarification of its fully approved status, which is expected to substantially increase the recruitment of patients and sponsoring organisations, which had been lower than anticipated, largely as a result of the "conditionally approved" nature of the Trial during the Feasibility Study. The Group is currently exploring potential opportunities to enable a wider number of people to benefit from the Trial.

Breakthrough R&D

Led by Celadon's Chief Scientific Officer and in line with the Company's strategy, the in-house R&D team commenced work in 2022 on exploring opportunities to broaden the Company's product range of advanced medicines, using the Company's proprietary cannabinoid API.

During the period, the Company increased its stake in Kingdom Therapeutics, an early-stage biopharmaceutical company focused on the development of a cannabinoid treatment for Autism Spectrum Disorder, from 17% to 19%.

The Group also entered into an initial partnership agreement to collaborate with Phytome Life Sciences Limited on early-stage R&D projects. Phytome is a leading UK early-stage biopharmaceutical company conducting R&D into plant derived therapeutics with a specific focus on pharmaceutical cannabis, for which it has a UK Government R&D licence. The initial partnership agreement has explored the potential to develop novel medicines for the UK pharmaceutical market. By working with a third-party R&D specialist partner, Celadon's goal is to accelerate and expand its R&D pipeline with reduced financial and execution risk. Research has since progressed, with a priority indication selected.

Recruitment

During 2022 and Q1 23, the Company made significant progress in building a high-quality management team and strengthening its operations across all parts of the business. In January 2023, Jonathan Turner joined as Chief Financial Officer from the FTSE-250 company Oxford Instruments, and we recruited an experienced Business Development Director and a new Head of Quality to oversee our GMP operations and interactions with the MHRA. These are three significant hires for a business at Celadon's stage of growth.

ESG

As a company, we recognise the importance of operating to the highest standards of compliance across the business, and we have continued to advance our approach to ESG, focusing on identifying those issues that are most material to Celadon's business and its key stakeholders. This work will form part of a comprehensive ESG strategy.

At the heart of Celadon's approach to ESG is that societal benefit will flow from addressing the UK's 'silent epidemic' of chronic pain (and opioid misuse), with eight million people experiencing moderate or severely disabling chronic pain and largely not benefiting from current treatments. This is Celadon's mission - to improve quality of life for patients most in need through breakthrough cannabis-based medicines.

Furthermore, as a UK pharmaceutical company aiming to develop medicines that might one day be reimbursed on the UK's National Health Service ("NHS"), Celadon is working to align with the NHS's requirement that by 2027 suppliers report emissions and publish a carbon reduction plan aligned with its 2045 net zero targets.

Where possible the Group is also taking measures now to reduce the impact that it has on the environment. In Q4 2022, the Group entered into exclusively renewable energy supply contracts for its Midlands facility. The Group is also in advanced discussions about installing solar panels to further reduce its environmental impact.

Outlook

While the UK market for CBMPs is early in its development, we remain confident of the medium to long-term sector outlook and the prospects for Celadon within this market. Having successfully obtained our Home Office licence to sell the Group's EU-GMP pharmaceutical cannabis products, we entered into our first Supply Agreement in May 2023 to supply £3m of product over three years to a leading UK Medical Cannabis company and are in active discussion with a number of potential partners about entering into long-term supply agreements.

We look forward to commencing the full Clinical Trial of the Group's chronic pain trial following the anticipated authorisation from Ethics Committee, and are currently investigating ways to enable a wider participation in the Trial.

James Short
CEO

FINANCIAL OVERVIEW

Financial presentation of the Celadon Pharmaceuticals Plc Group results

On 28 March 2022, Summerway Capital Plc ("Summerway") (renamed Celadon Pharmaceuticals Plc), completed the acquisition of Vertigrow Technology Limited ("Vertigrow") and its 100% shareholding in Celadon Pharma Limited and the 57.5% shareholding in Harley Street (CPC) Limited to create the Celadon Pharmaceuticals Plc group. Vertigrow was renamed Celadon Property Co Limited on 3 January 2023.

Prior to the acquisition, Summerway had 8,033,409 ordinary shares in issue, and was an investing company under the AIM Rules. On acquisition, Summerway issued 48,484,848 new ordinary shares to the Vertigrow shareholders and to redeem £4.13m of loan convertible loan notes that Vertigrow had issued.

After the combination, the Vertigrow shareholders comprised 86% of the Company's enlarged share capital. On consolidation and presentation of the Group's financial position, performance and cash flows, Vertigrow, was treated as the accounting acquirer, and the legal parent company Summerway Capital Plc (renamed Celadon Pharmaceuticals Plc), was treated as the accounting subsidiary, as though Vertigrow had acquired Summerway and its AIM listing. As a result, and unlike a traditional acquisition, the value of £80 million ascribed to Vertigrow has not been capitalised as non-current asset, but instead recorded in shareholders' equity in the Company's balance sheet.

Accordingly:

- the Consolidated balance sheet at 31 December 2022 shows the acquisition of Summerway by Vertigrow, which occurred on 28 March 2022, whilst the Consolidated balance sheet at 31 December 2021 is the Vertigrow group;
- the income statement and statement of cash flows shows for the year ended 31 December 2022 are the results of Vertigrow with the inclusion of Summerway from 28 March 2022; and,
- the income statement and statement of cash flows for the year ended 31 December 2021 is that of the Vertigrow group only.

In addition, the accounting for the reverse acquisition itself is deemed to be the issue of shares to the original Summerway Capital Plc shareholders by Vertigrow and this is accounted for as a share based payment which gives rise to a non-cash charge in the income statement of £6.4 million, which is included within the reverse acquisition reserve.

The *Reverse Acquisition Accounting* is described in more detail in note 5 to these financial statements.

Revenues - in the year ended 31 December 2022, the Group recorded revenues from the Harley Street (CPC) Limited clinical study of £24k (2021: £2k).

Cost of sales - includes all costs for the Harley Street (CPC) Limited study patients, including initial suitability tests, medical consultation and onboarding of all patients.

Gross profit - for the year ended 31 December 2022, the Group reported a gross loss of £66k (2021: loss of £2k). The gross losses were due to the mix of paying and non-paying patients for LVL's Feasibility Study, and the lower patient numbers meaning that operational efficiencies were unavailable.

Operating costs - include all people costs, property costs (including utilities, repairs and maintenance), marketing and legal and professional costs. These totalled £4.9 million in the year ended 31 December 2022 (2021: £2.4 million), which comprises all the Vertigrow operating costs, with Summerway's corporate costs included from 28 March 2022 onwards. The increase in operating costs reflects the scale up in the Group's people, operations and cost base pursuant to our enlarged Group business plan.

Operating loss - is gross margin less operating costs, depreciation and amortisation. The operating loss for the year ended 31 December 2022 was £5.4 million (2021: £2.7 million).

One off and non-cash items - in this reporting period there are a number of non-recurring and non-cash items below Operating Profit, which are detailed as follows:

Reverse acquisition and listing related costs in the year ended 31 December 2022:

- **Reverse acquisition share based payment and IPO costs** - a £6.4 million share based payment charge reflecting the net cost of Vertigrow acquiring Summerway and the AIM listing. This is a non-cash cost. In the year ended 31 December 2022 we incurred £1.5 million of advisers costs (2021: £0.8 million), included in the £1.5 million was the fair value of £245k of warrants issued to Canaccord Genuity Limited for their work on the readmission of the Group to AIM. (See note 5).
- **Finance charges on convertible loan notes** - in February and March 2021 Vertigrow raised £4.13 million in pre IPO finance via convertible loan notes (the "CLNs"). These CLNs are categorised at inception between an Embedded Derivative and a Host Liability, recognising the optionality in the CLN for the investor to convert their loan note in Vertigrow shares immediately prior to the acquisition by Summerway. In the year ended 31 December 2022, the Group recorded a finance charge of £3.4 million on the convertible loan notes, and a finance credit of £556k on the derivative liability. These are non-cash items as the loan notes converted into equity on 28 March 2022. (See note 22).

Both of these costs are non-recurring

Non-cash movements relating to Harley Street (CPC) Limited

The Group has undertaken a Purchase Price Allocation exercise in the period to allocate the purchase price spent on acquiring the Group's 57.5% ownership (which provided operational control) to the underlying assets of the Harley Street (CPC) Limited business. This led to an adjustment of the 2021 balance sheet to reflect the split between Clinical Trial related intangible assets of £498k, deferred tax liabilities of £125k and goodwill of £639k.

The patient uptake was lower than anticipated as a result of the Clinical Trial only being conditionally approved, subject to the results of the initial Feasibility Study being approved by the Research Ethics Committee ("REC"). In order to operate the Feasibility Study, the Group needed to operate through a Care Quality Commission approved clinic, which led to additional costs.

These factors meant that the whilst the results for patients on the Trial demonstrated significant improvement in their condition, the update of the Trial was slower than expected and as a result the contingent consideration of up to £1.5 million (which was fair valued to £375k) was released. In addition, the Goodwill was impaired. The net result was a charge to the income statement of £264k. (See note 13.)

Long term incentive plan - the Group has a share based long term incentive plan for certain directors, advisors and employees. In the year ended 31 December 2022, the Group recognised a £910k charge for this Subsidiary Incentive Scheme. A further £226k charge related to warrants awarded to an advisor in respect of services to be provided between April 2022 and March 2024 (See note 28).

Finance charges on leased assets - Celadon has a Right Of Use lease on its production facility with almost 22 years remaining. There is also a 3 year Right Of Use lease on one item of production equipment. The finance charge on these leased assets of £531k is a fair valuation charge to unwind the respective balance sheet lease liabilities. The charge has increased on the prior periods as (a) the lease on the production facility was varied in February 2022 to extend the initial rent free period; and (b) a 3 year production equipment leased asset was taken on in the six months ended 30 June 2022. (See note 15).

Loan interest charges - Vertigrow had three loan funding lines:

- (a) a UK Government backed COVID related Bounce Back loan;
- (b) a Supplier Loan; and,
- (c) a pre IPO loan from Summerway Capital Plc.

The external loan interest for (b) reduced versus prior period as the Supplier Loan was repaid in February 2022. The loan interest on (c) of £53k is for the period prior to 28 March 2022, and after that date is eliminated on consolidation. (See note 22).

Non Current Assets - increased by £2.2 million in the year ended 31 December 2022, the Group continued its facility fit out, increasing property, plant and equipment by £1.9 million, and increased the Right of Use asset (and associated lease liability) by £1.1 million due to a lease variation on the business property and entering a new small equipment lease (see note 15). These increases were offset by the impairment of Harley Street (CPC) Limited goodwill of (£0.6 million) and the amortisation of the LVL Chronic Pain Clinical Trial related intangible assets of (£0.1 million).

Current Assets - increased with IPO placing proceeds, and £1.0m of additional VAT and refundable R&D Tax Credits due. Cash balances at 31 December 2022 were £5.1 million (2021: £3.8 million). Inventories represent the value of consumables for use in cultivation and the LVL trial. The cannabis grown for validation and internal research and development purposes has been expensed. Excess supply from the trial grows has been destroyed.

Current Liabilities - reduced as the £4.9 million convertible loan note and accrued interest converted to equity on 28 March 2022. The £2.2 million related party loan between Summerway Capital Plc and Vertigrow was eliminated on consolidation from 28 March 2022, and the £375,000 contingent consideration liability on the purchase of Harley Street (CPC) Limited has been released (see note 13).

Non-current liabilities - increased by £0.5m as the lease liability increased (by £1.6 million) due to the property lease variation, and the recognition of a provision in respect of the property decommissioning costs of £0.4 million and a new small equipment lease which was largely offset by the repayment of the supplier loan of £1.5 million (in February 2022).

Net assets - at 31 December 2022 were £7.0 million.

Shareholders' Equity - Share Capital including Share Premium and the Merger Relief Reserve total £88.3 million at 31 December 2022 following the IPO and acquisition of Vertigrow by Summerway Capital Plc; the Reverse Acquisition Reserve of £59.2 million (which is the consolidation reserve created on the reverse acquisition of combining Summerway Capital Plc and Vertigrow); the Retained losses (increased to £22.8 million) and the Non-controlling Interest (£638k) increased with the losses in the year ended 31 December 2022.

Cash outflows from operating activities - for the year ended 31 December 2022 were £5.5 million (2021: £3.2 million). The main spend items include people, advisers and utility costs.

Investing activities - in the year ended 31 December 2022 capex items totalled £2.1 million. The Group increased its investment in Kingdom Therapeutics Limited by £18k (to £218k). The Group also received £3.5 million of cash inflow on the acquisition of Summerway Capital Plc. In the year ended 31 December 2021 capex items totalled of £542k, and we invested £500k acquiring 57.5% of the issued share capital of Harley Street (CPC) Limited in addition to our £200k investment in Kingdom Therapeutics Limited.

Financing activities - in the year ended 31 December 2022, the Group raised £7.5 million of new equity financing (net of allocated issue costs, which were specifically related to the fundraising process) and repaid a supplier loan of £1.5 million which was not used. In the year ended 31 December 2021 the Group raised £4.1 million of new funding (net of costs) via CLNs, which were redeemed on 28 March 2022 through the issue of new ordinary shares of Summerway Capital Plc, as part of the share consideration paid to Vertigrow's vendors.

Cash balance - at 31 December 2022 the Group had £5.1 million in cash.

New funding line - on 29 May 2023, the Group obtained £7.0m of new funding via a 2-year fixed rate Revolving Credit Facility Agreement. Interest will accrue at a rate of 10% on balances drawn under the Facility Agreement. The Revolving Credit Facility Agreement will be repayable in the event that the Group obtains sufficient alternative funding to allow the Revolving Credit Facility Agreement to be repaid in full.

Going Concern - as a result of the access to the £7.0m Revolving Credit Facility, the anticipated refund of £0.5 million of R&D tax credits and the Group's recently won new supply contract, the Directors consider that the Group is able to meet its financial liabilities as they fall due for the period of at least 12 months from the date of this report.

Jonathan Turner
CFO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

| | Note | 2022 £000 | Unaudited 2021 £000 |
|---|----------|-----------------|---------------------------|
| Revenue | 7 | 24 | 2 |
| Cost of sales | | (90) | (12) |
| Gross Loss | | (66) | (10) |
| Operating costs | | (4,849) | (2,384) |
| Depreciation and amortisation | 13,14,15 | (466) | (319) |
| Operating loss | | (5,381) | (2,713) |
| Share-based payment costs for reverse acquisition | 5 | (6,400) | - |
| Other acquisition costs | 5 | (1,465) | (777) |
| Finance Costs | 10 | (23) | (1,115) |
| Non-cash movements relating to Harley Street (CPC) Limited | 13 | (264) | - |
| Finance charge on convertible loan note | 22 | | |
| - Interest and charges | | (43) | (191) |
| - Redemption | | (3,406) | - |
| Long term incentive plans | 27 | (1,136) | - |
| | | (12,737) | (2,083) |
| Loss before taxation | | (18,118) | (4,796) |
| Taxation | 11 | 707 | 13 |
| Loss for the period, being total comprehensive loss for the period | | (17,411) | (4,783) |
| Loss attributable to: | | | |
| Owners of the Company | | (17,006) | (4,628) |
| Non-controlling interests | | (405) | (155) |
| | | (17,411) | (4,783) |
| Basic and diluted loss per share | | (29.5p) | (10.5p) |

The Group's activities derive from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

| | | 2022 | Unaudited 2021 |
|---|-------|----------------|-------------------|
| | Note | £000 | £000 |
| Non-current assets | | | |
| Intangible assets | 13 | 428 | 1,167 |
| Property, plant and equipment | 14 | 2,921 | 1,021 |
| Right-of-Use Assets | 15 | 3,354 | 2,285 |
| Investments | 16 | 218 | 200 |
| Total non-current assets | | 6,921 | 4,673 |
| Current assets | | | |
| Inventories | 18 | 20 | 2 |
| Trade and other receivables | 19 | 1,249 | 264 |
| Cash and cash equivalents | 20 | 5,061 | 3,823 |
| Total current assets | | 6,330 | 4,089 |
| Current liabilities | | | |
| Trade and other payables | 21 | (1,106) | (751) |
| Loans and borrowings | 22 | (10) | (2,170) |
| Convertible loan notes | 22 | - | (4,925) |
| Lease liabilities | 22 | (56) | (338) |
| Contingent consideration | 13, 5 | - | (375) |
| Deferred tax liability | 23 | (25) | (25) |
| Total current liabilities | | (1,197) | (8,584) |
| Non-current liabilities | | | |
| Loans and borrowings | 22 | (24) | (1,567) |
| Lease liabilities | 22 | (4,542) | (2,920) |
| Provisions | 25 | (389) | - |
| Deferred tax liability | 23 | (62) | (87) |
| Total non-current liabilities | | (5,017) | (4,574) |
| Net assets/liabilities | | 7,037 | (4,396) |
| Shareholder's Equity | | | |
| Share capital | 26 | 617 | 80 |
| Share premium | 26 | 22,553 | 7,367 |
| Merger relief reserve | 26 | 65,082 | - |
| Reverse acquisition reserve | 26 | (59,200) | (5,835) |
| Warrant reserve | 26 | 471 | - |
| Capital redemption reserve | 26 | 49 | 49 |
| Share based payment reserve | 28 | 910 | - |
| Retained earnings | | (22,807) | (5,801) |
| Equity attributable to owners of the Group | | 7,675 | (4,140) |
| Non-controlling interest | | (638) | (256) |
| Total Equity | | 7,037 | (4,396) |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

| | Share Capital £000 | Share premium £000 | Merger relief reserve £000 | Reverse acquisition reserve £000 | Warrant reserve £000 | Capital Redemption reserve £000 | Share payable £000 |
|---|--------------------------|--------------------------|----------------------------------|--|-------------------------|---------------------------------------|--------------------------|
| Balance at 31 August 2020 (unaudited) | 61 | 5,711 | - | (4,549) | - | 49 | |
| Issue of shares in Summerway Capital Plc | 19 | 1,656 | - | (1,675) | - | - | |
| Movement on Reverse Acquisition Reserve | - | - | - | 389 | - | - | |
| Acquisition of 57.5% of Harley Street (CPC) Limited | - | - | - | - | - | - | |
| Loss for the period | - | - | - | - | - | - | |
| Total movement for the period | 19 | 1,656 | - | (1,286) | - | - | |

| | | | | | | |
|--|------------|---------------|---------------|-----------------|------------|-----------|
| Balance at 31 December 2021 (unaudited) | 80 | 7,367 | - | (5,835) | - | 49 |
| Recognition of PLC Net Assets at acquisition date | - | - | - | 5,751 | - | - |
| Issue of shares for acquisition of subsidiary | 433 | - | 65,082 | (65,515) | - | - |
| Subsidiary Incentive Share issue | - | - | - | - | - | - |
| Share-based payment charge | - | - | - | 6,399 | 226 | - |
| Settlement of convertible loan notes of Vertigrow Technology Limited | 52 | 7,765 | - | - | - | - |
| Issue of shares for cash | 52 | 8,448 | - | - | - | - |
| Cost of share issue | - | (1,009) | - | - | - | - |
| Warrants issued | - | (18) | - | - | 245 | - |
| Loss for the period | - | - | - | - | - | - |
| Total movement for the period | 537 | 15,186 | 65,082 | (53,365) | 471 | - |
| Balance at 31 December 2022 | 617 | 22,553 | 65,082 | (59,200) | 471 | 49 |

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022

| | Note | 2022 £000 | Unaudited 2021 £000 |
|--|------|----------------|---------------------------|
| Cash flows from operating activities | | | |
| Loss for the period | | (17,411) | (4,783) |
| Adjustments for: | | | |
| Depreciation and amortisation | | 466 | 319 |
| Finance charges on leased assets | | 532 | 384 |
| Finance charge on convertible loan notes | | 43 | 151 |
| Final conversion of convertible loan notes | | 3,406 | - |
| Convertible loan transaction costs | | - | 40 |
| Fair value (loss) / gain on derivative liability | | (556) | 660 |
| Finance charge on loans | | 53 | 71 |
| Long term incentive plan | | 910 | -- |
| Warrant costs | | 471 | - |
| Reverse acquisition share-based payment | | 6,400 | - |
| Non-cash movements in respect of Harley Street (CPC) Limited | | 264 | - |
| Release of deferred tax liability on intangible assets | | (25) | (13) |
| Other finance cost (net) | | (5) | - |
| Operating cash flow before working capital movements | | (5,452) | (3,171) |
| (Increase)/decrease in trade and other receivables | | (985) | 171 |
| Increase/(decrease) in trade and other payables | | 355 | (148) |
| (Increase)/decrease in inventories | | (18) | -- |
| Cash outflow from operating activities | | (6,100) | (3,148) |
| Investing activities | | | |
| Cash acquired on reverse acquisition | 5 | 3,494 | - |
| Acquisition of Harley Street (CPC) Limited | | - | (500) |
| Net expenditure on purchase of property, plant and equipment | | (2,086) | (542) |
| Purchase of investments | | (18) | (200) |
| Net cash inflow/(outflow) from investing activities | | 1,390 | (1,242) |
| Financing activities | | | |
| Interest received / (paid) | | 17 | (1) |
| Repayment of Lease Liabilities | | (8) | - |

| | | |
|---|--------------|--------------|
| Proceeds from convertible loan notes (net of costs) | - | 4,074 |
| Supplier loan - interest payment | (41) | - |
| Supplier loan - (repayment) / proceeds | (1,500) | 1,500 |
| Bounce Back loan - repayment | (11) | (6) |
| Proceeds on issuing share capital, net of issue costs | 7,491 | 389 |
| Intercompany funding prior to reverse acquisition | - | 2,125 |
| Debt repayment | - | (168) |
| Net cash inflow from financing activities | 5,948 | 7,913 |
| Net increase in cash and cash equivalents | 1,238 | 3,523 |
| Cash and cash equivalents at 1 January | 3,823 | 300 |
| Cash and cash equivalents at 31 December | 5,061 | 3,823 |

NOTES TO THE FINANCIAL INFORMATION

For the year ended 31 December 2022

1. About Celadon Pharmaceuticals Plc

Celadon Pharmaceuticals Plc (the "Company") and its subsidiaries (together "the Group") are a UK based pharmaceutical group with a primary focus on growing indoor hydroponic high-quality cannabis initially for use within the chronic pain market.

The Company (called Summerway Capital Plc until 25 March 2022) is a public limited company incorporated in England and Wales and domiciled in the United Kingdom (company number: 11545912). It is a public company listed on the AIM market of the London Stock Exchange. The registered address is 32-33 Cowcross Street, London, EC1M 6DF.

On 28 March 2022, the Company completed the acquisition of Vertigrow Technology Limited (and its subsidiaries Celadon Pharma Limited and Harley Street (CPC) Limited) and the settlement of the Vertigrow Technology Limited convertible loan notes via an issuance of new shares. Vertigrow Technology Limited was renamed Celadon Property Co Limited on 3 January 2023 - the company's new name will be used in the following. Further details on this transaction and the subsequent Group structure is included at notes 5 and 17 respectively.

2. Basis of preparation

The financial information for the year ended 31 December 2022 has been extracted from the Group's audited statutory financial statements which were approved by the Board of Directors on 2 June 2023 which will be delivered to the Registrar of Companies for England and Wales. The report of the auditor on these financial statements was unqualified, did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006. The information included in this announcement has been prepared on a going concern basis under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and in accordance with UK-adopted International Accounting Standards. The information in this announcement has been extracted from the audited statutory financial statements for the year ended 31 December 2022 and as such, does not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006 as it does not contain all the information required to be disclosed in the financial statements prepared in accordance with UK-adopted International Accounting Standards. This announcement was approved by the board of directors and authorised for issue via RNS on 2 June 2023.

The financial information is presented in Pound Sterling (£) which is the functional currency of the Company and the presentation currency of the Group and all values are rounded to the nearest Pound Sterling thousand (£000s).

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary undertakings). Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those of the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiaries 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 subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

b. Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

The Group currently consumes cash resources and will continue to do so as it completes the construction of its growing facilities and until sales revenues are sufficiently high enough to generate net cash inflows.

In assessing whether the going concern assumption is appropriate, the Directors have taken into account all relevant information about the current and future position of the Group and including the current level of resources.

At 31 December 2022 the Group had £5.1 million of cash and net assets of £7.1 million. In addition on 29 May 2023, the Group entered into a 2 year £7.0m Revolving Credit Facility to provide additional liquidity for operating and capital expenditure.

Having prepared budgets and cash flow forecasts covering the going concern until June 2024 which have been stress tested, by creating a number of different scenarios in which a number of the assumptions were adversely tweaked down - such as to assume: a) a 6 month delay in revenue arising b) cost increases of more than 10% and c) a combination of the two, the Directors believe the Group has sufficient resources to meet its obligations for a period of at least 12 months from the date of approval of the financial statements.

Taking these matters into consideration, the Directors consider that the continued adoption of the going concern basis is appropriate having prepared cash flow forecasts for the coming 12 months. The financial statements do not reflect any adjustments that would be required if they were to be prepared on a non going concern basis.

3. Accounting policies

Details of significant accounting policies are set out below.

a. Reverse Acquisition of Summerway Capital Plc and creation of the Celadon Pharmaceuticals Plc group of companies

On 28 March 2022 the Company, then named Summerway Capital Plc, became the legal parent of Celadon Property Co Limited.

Summerway Capital Plc was renamed Celadon Pharmaceuticals Plc.

The results for the year ended, and as at 31 December 2022 are those of Celadon Property Co Limited group from 1 January 2022 to 31 December 2022 with the inclusion of the Celadon Pharmaceuticals Plc group at the acquisition date of 28 March 2022 through to 31 December 2022.

The comparative results for the year ended and as at 31 December 2021 represent the consolidated position of the Celadon Property Co Limited group of companies *prior* to the reverse acquisition.

This transaction is deemed outside the scope of IFRS 3 *Business Combinations (Revised 2008)* ("IFRS 3") and not considered a business combination because the directors have made a judgement that prior to the transaction, that Celadon Pharmaceuticals Plc was not a business under the definition of IFRS 3 Appendix A and the application guidance in IFRS 3.B7-B12 due to that company being a company that had no processes or capability for outputs (IFRS 3.B7).

On this basis, the Directors have developed an accounting policy for this transaction, applying the principles set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") paragraphs 10-12, in that the policy adopted:

- Provides more relevant financial information to users of these statements;
- Is more representative of the performance, financial position, and cash flows of the Group;
- reflects the economic substance of the transaction, not merely the legal form; and
- Is free from bias, prudent and complete in all material aspects.

The accounting policy adopted by the Directors applies certain principles of IFRS 3 in identifying the *accounting acquirer* (Celadon Property Co Limited) and the presentation of the consolidated financial statements of the *legal acquirer* (Celadon Pharmaceuticals Plc) as a continuation of the *accounting acquirer's* financial statements (Celadon Property Co Limited).

This policy reflects the commercial substance of this transaction as:

- the original shareholders of Celadon Property Co Limited are the most significant shareholders after the business combination and initial public offering, owning 86 per cent of the issued share capital; and
- the executive management team of Celadon Property Co Limited became the executive management of Celadon Pharmaceuticals Plc.

Accordingly, the following accounting treatment and terminology has been applied in respect of the reverse acquisition:

- the assets and liabilities of the legal subsidiary Celadon Property Co Limited group are recognised and measured in the group financial statements at the pre-combination carrying amounts, without reinstatement to fair value;
- the retained earnings and other equity balances recognised in the group financial statements reflect the retained earnings and other equity balances of the Celadon Property Co Limited group immediately before the business combination; and
- the results of the period from 1 January 2022 to 28 March 2022 are those of the Celadon Property Co Limited group.

However, in the Group financial statements:

4. the equity structure presented, reflects the equity structure of the legal parent (Celadon Pharmaceuticals Plc), including the equity instruments issued under the share-for-share exchange to effect the business combination; and

5. the cost of the combination has been determined from the perspective of Celadon Property Co Limited group.

Transaction costs of equity transactions relating to the issue and re-admission of the Company's shares, are accounted for as a deduction from equity where they relate to the issue of new shares, and listing costs are charged to the consolidated statement of comprehensive income. See note 5 for further explanation.

b. Acquisition of controlling shareholding in Harley Street (CPC) Limited

On 14 July 2021, Celadon Property Co Limited acquired a 57.5% shareholding in Harley Street (CPC) Limited for £2.0 million, of which £500,000 was paid in cash and £1,500,000 of contingent consideration was to be paid in shares in December 2022 (subject to certain targets being achieved).

In addition to acquiring the share ownership Celadon Property Co Limited had the ability to appoint four directors to the board of Harley Street (CPC) Limited compared with two from the other investor. Celadon also exercised operational control of the business. Given the degree of control, it is appropriate to include Harley Street (CPC) Limited as part of the consolidation and reflect the ownership by third parties as a non-controlling interest.

c. Revenue recognition

At this stage of the Group's development, revenues relate solely to the provision of services and products to patients engaged on the feasibility study in advance of the clinical trial with Harley Street (CPC) Limited.

Patients engaged on this feasibility study are required to pay an initial fee on joining the trial and a monthly fee thereafter in relation to the subsequent provision of clinical products.

Revenue is measured based on the completion of the performance obligations that are identified and satisfied as outlined below:

- for the initial fees paid by patients on joining the study, the performance obligations are to provide an initial suitability screening test and to determine if the patient is suitable. Revenue is recognised, at a point in time, on provision of the screening test kit to the patient, with the related costs of test kits recognised in cost of sales.
- for the subsequent monthly fees paid by patients on the study, the performance obligation is to provide monthly supplies of filled cartridges containing medicinal cannabis. Revenue is recognised on delivery of these supplies to the patient. The contracts with patients do not include any fixed term or locked in periods, so monthly fees are only recognised on provision of the monthly supplies.

d. Financial instruments

Recognition and initial measurement

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group's financial instruments comprise cash, trade and other receivables, unlisted investments, trade and other payables, convertible loan notes and embedded derivative, contingent consideration, and long-term incentive arrangements.

Financial instruments are initially measured at fair value which is deemed to be the transaction price. Transaction costs arising on the issue of financial asset or liability are included in the initial measurement if they are directly attributable to the acquisition of the instrument, and the instrument is not measured at FVTPL on an ongoing basis. Where the financial asset or liability is measured at FVTPL, transaction costs are immediately recognised in profit or loss.

Classification and subsequent measurement

The Group classifies and subsequently measures its financial instruments in the following measurement categories:

- Amortised cost:
- Fair value through profit or loss ("FVTPL")
- Fair value through other comprehensive income ("FVTOCI") (financial assets only)

All recognised financial assets and liabilities are subsequently measured in their entirety at either amortised cost or fair value, depending on their classification under one of these categories.

Financial Assets

Trade and other receivables

For purposes of subsequent measurement, trade and other receivables are classified as financial assets measured at amortised cost.

They are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Any interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The Group will write-off financial assets, either in their entirety or a portion thereof, if there is no reasonable expectation of its recovery. A write-off constitutes a derecognition of a financial asset.

Cash and cash equivalents

The Group manages short-term liquidity through the holding of cash and highly liquid interest-bearing deposits. Only deposits that are readily convertible into cash with maturities of three months or less from inception, with no penalty of lost interest, are shown as cash and cash equivalents.

Unlisted Investments

The Group recognises unlisted equity investments at transaction cost which management believes approximates the fair value

or measured based on discounted cashflow models if this is what has been used to determine if there has been an impairment.

Impairment of financial assets

An impairment loss allowance is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both. The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. This impairment loss allowance is reassessed at each reporting date.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities are classified and measured at FVTPL when (i) the financial liability is a contingent consideration to which IFRS 3 applies, or (ii) it is a derivative. Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss.

Trade and other payables

Trade and other payables are initially measured at fair value, net of direct transaction costs and subsequently measured at amortised cost.

Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right and an intention to defer settlement of the liability for at least 12 months after the reporting date. Borrowings are initially recognised at fair value, net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method.

Convertible Loan Notes

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

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

The component parts of compound instruments, such as convertible loan notes, are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement.

If the conversion feature of a convertible loan note does not meet the definition of an equity instrument, that portion is classified as an embedded derivative and measured accordingly. The debt component of the instrument is determined by deducting the fair value of the conversion option at inception from the fair value of the consideration received for the instrument as a whole. The debt component amount is recorded as a financial liability on an amortised cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

Where debt instruments issued by the Group are repurchased or cancelled, the financial liability is derecognised at the point at which cash consideration is settled. Upon derecognition, the difference between the liability's carrying amount that has been cancelled and the consideration paid is recognised as a gain or loss in the Income Statement, net of any direct transaction costs.

Derivative financial instruments

Embedded derivatives in financial instruments or other host contracts that are not financial assets are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract are not measured at fair value through the profit or loss ("FVTPL"). Derivatives embedded in financial instruments that are closely related or other host contracts that are financial assets are not separated, instead the entire contract is accounted for either at amortised cost or fair value as appropriate.

Contingent Consideration

The Group is party to consideration arrangements in the form of contingent consideration. Contingent consideration is consideration that is contingent on a future event, usually the future performance of the acquired business. It is measured at its discounted present value and remeasured at each reporting date. The discount unwind and remeasurement of the liability is recognised in profit or loss as finance cost.

e. Equity

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 fair value on initial recognition net of transaction costs.

Equity comprises the following

- **Called up share capital** represents the nominal value of the equity shares.
- **Share Premium** represents the excess over nominal value of the fair value of consideration received from the equity shares, net of expenses of the share issue.
- **Capital Redemption Reserve** is a statutory, non-distributable reserve into which amounts are transferred following the redemption or purchase of a company's own shares.
- **Merger Relief Reserve** is a statutory, non-distributable reserve arising when conditions set out in section 612 of the Companies Act occur and relate to the share-premium from shares issued to acquire Celadon Property Co Limited.
- **Retained Deficit** represents accumulated net gains and losses from incorporation recognised in the Statement of Comprehensive Income

- **Reverse Acquisition Reserve** includes the accumulated losses incurred prior to the reverse acquisition and the share capital and share premium of Celadon Pharmaceuticals Plc (previously Summerway Capital Plc) at acquisition; the value of the shares issued to acquire all of the share capital of Celadon Property Co Limited; the value of share capital and share premium of Celadon Property Co Limited at acquisition; as well as the reverse acquisition share-based payment expense.
- **Warrant Reserve** represents the fair value of warrants issued as part of an equity-based payment.
- **Non-controlling Interest** represents (i) the accumulated net gains and losses of Harley Street (CPC) Limited attributable to the minority shareholder; and (ii) the amounts subscribed for the B Ordinary Shares of Celadon Subco Limited (previously Summerway Subco Limited) pursuant to the Group's long term incentive plan.

f. Right-of-use Assets

Initial Recognition

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. In addition, at the lease commencement date the right-of-use asset incorporates the unavoidable costs to return the asset to its original condition, for which a corresponding amount is recognised in provisions.

Depreciation of right-of-use Assets

The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as:

- Leasehold property - over 25 years
- Leased plant and equipment - over 3 to 5 years.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases (of less than 12 months) including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Please refer to note 15 for further information on the Group's lease arrangements.

g. Property, plant and equipment

Recognition and measurement

Property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Assets under construction is stated at cost, net of accumulated impairment losses, if any. Depreciation of assets under construction will commence from the date on which the asset becomes available for use. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- Leasehold improvements - 10 to 25 years
- Plant and equipment - 3 to 10 years
- Office equipment and IT - 3 to 5 years
- Assets under construction - depreciation will commence when assets brought in to use.

h. Intangible Assets

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and

separately recognised. Goodwill is carried at cost less accumulated impairment loss.

Cost comprises the fair value of assets given, liabilities assumed, and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Impairment tests on Goodwill are undertaken at least annually at the financial year end, and more frequently if indicators of impairment exist. Where the carrying value of goodwill exceeds its recoverable amount an impairment is recognised and shall not be reversed in later periods.

Other Intangible Assets

Other intangible assets relate to the Intellectual Property associated with the design of the chronic pain clinical study protocol devised by the Group's subsidiary Harley Street (CPC) Limited. The amortisation period for this has been determined to be 5 years.

i. Inventory

Production consumables and lab inventory is measured at the lower of cost and net realisable value. The cost of inventory is based on the first in, first out allocation method.

j. Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in Other Comprehensive Income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Temporary differences in relation to a right of use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

k. Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation, and a reasonable estimate can be made of the amount of the obligation.

The amount recognised as a provision is management's best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

l. New and amended accounting standards

New and amended standards and interpretations applied

The following accounting standards and updates were applicable in the reporting period but did not have a material impact on

the Company:

- Amendments to IFRS 1 and IFRS 9 Annual Improvements to IFRS 2018-2020
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 16: Property, Plant and Equipment
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets

New and amended standards and interpretations not applied

The following new and amended standards and interpretations in issue are applicable to the Company but are not yet effective and therefore, have not been adopted by the Company:

- IFRS 17: Insurance Contracts (effective 1 January 2023)
- Amendments to IAS 17: Insurance Contracts (effective 1 January 2023)
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (effective 1 January 2023)
- Amendments to IAS 12: Income Taxes (effective 1 January 2023)
- Amendments to IAS 1: Presentation of Financial Statements (effective 1 January 2023)

The Company has considered the IFRSs in issue but not yet effective and do not consider any to have a material impact on the Company.

4. Use of critical judgements and key accounting estimates

In preparing the financial information, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income, expenses, shareholders' equity and reserves. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. In the process of applying the Group's accounting policies, management has made the following judgements and estimates, which have the most significant effect on the amounts recognised in the financial information:

Critical Judgements

a. Reverse Acquisition Accounting

The Celadon Pharmaceuticals Plc Group of companies was formed by Celadon Property Co Limited (previously Vertigrow Technology Limited) reverse acquiring Summerway Capital Plc (a "reverse acquisition") on 28 March 2022. Summerway Capital Plc was then renamed Celadon Pharmaceuticals Plc. The board used judgment in applying Reverse Acquisition Accounting principles and used an estimate as to the average share price of £1.5125 on 28 March 2022, the first day of trading after the Company was readmitted to trading on AIM, to value the consideration shares issued by Celadon Pharmaceuticals Plc to the owners of Celadon Property Co Limited. Further details are in note 5.

b. Tax Losses

The Group has significant tax losses and has incurred significant capital expenditure on leasehold improvements and plant and machinery. The corporation tax treatment of these items and the potential recognition of deferred tax assets requires management judgement. The Group has decided not to recognise a deferred tax asset at the balance sheet date, given the uncertainty of when profits will arise. See note 11.

Key accounting estimates

c. Subsidiary incentive scheme

The Group established a Subsidiary Incentive Scheme in 2018 (in Celadon Subco Limited (previously Summerway Subco Limited)) in order to incentivise and retain key employees, directors and advisers to the Group. The fair value of share-based awards is measured using the Monte Carlo model which inherently makes use of significant estimates and assumptions including the share price volatility, an estimate of exercise date and the number of scheme members that will achieve the vesting conditions. Further details of the scheme, and the assumptions used in the Monte Carlo model are given in note 28.

d. Convertible loan notes

Celadon Property Co Limited raised £4.13 million through an issue of convertible loan notes in February and March 2021. The convertible loan notes contained an embedded derivative (the right to convert in to shares) that was fair valued at inception and at each reporting date. The fair value estimate required assumptions on share price volatility, the expected value of the shares and conversion date. Further details of the methodology applied and assumptions made are given in note 22.

e. Leases and right-of-use assets

In 2019, Celadon Property Co Limited signed a 25 year lease on a 100,000 square foot production and head office facility in the UK. The lease was varied in February of 2022. The fair value accounting for the lease liability and associated asset value, at inception and the date of variation requires the estimation of the effective borrowing rate in the lease. Further details of the assumptions made in calculating the incremental borrowing cost are provided in note 15.

f. Acquisition of controlling shareholding in Harley Street (CPC) Limited and measurement period adjustment

The acquisition date fair value accounting required an estimation by management. The fair value accounting for the contingent consideration required an estimation of the appropriate discount rate at inception and at reporting dates.

The likelihood of the targets being delivered to trigger the contingent consideration payment required judgement by management. Further details of the assumptions made in those calculations are set out in note 13.

Subsequent changes to the fair value of contingent consideration are recognised in accordance with IFRS 9 *Financial Instruments* as described above.

Measurement Period Adjustment

The figures included in the consolidated accounts of Celadon Property Co Limited for the period ended 31 December 2021 were based on initial estimates of the fair value of the assets acquired. The accounts have been adjusted to include the split between goodwill and intangible assets following the completion of a fair value exercise.

Impact on 31 December 2021 unaudited financial statements:

| | Adjusted 2021 | As Stated 2021 | Impact |
|---|------------------|-------------------|--------|
| | £000 | £000 | £000 |
| Statement of Financial Position | | | |
| Goodwill | 719 | 1,092 | (373) |
| Intangible Assets | 448 | - | 448 |
| Deferred tax liability in respect of intangible asset | (112) | - | (112) |
| Net impact on equity | 1,055 | 1,092 | (37) |
| Statement of Comprehensive Income | | | |
| Impact on depreciation and amortisation | (50) | - | (50) |
| Impact on operating loss | (50) | - | (50) |
| Impact on loss before tax | (50) | - | (50) |
| Earnings per share | (0.0p) | (0.0p) | (0.0p) |

g. Site Restoration Obligation provision

In October 2019 Celadon Property Co Limited signed a 25 year lease which included the option for the landlord to require the company (at the end of the lease in 2044) to repair the leasehold property to its original condition. The fair value of the site restoration obligation provision requires estimation and judgement of the potential costs to put the site back in its original state. See note 25 for further details of the assumptions made.

h. Research & Development Tax Credits

The Group has submitted its first R&D tax credit application to HMRC totalling £269k relating to 2021 activities. Elements of the R&D claims required judgement by management. At the date of these financial statements £269k had been received by the company in respect of the year to 31 December 2021. Using the same methodology, the estimated R&D claim for the year to 31 December 2022 is £412k. See note 11.

5. Reverse Acquisition of Celadon Property Co Limited

On 28 March 2022, Celadon Pharmaceuticals Plc (previously Summerway Capital Plc) acquired through a share-for-share exchange, the entire share capital of Celadon Property Co Limited and its subsidiary companies Celadon Pharma Limited and Harley Street (CPC) Limited (together the "Celadon Group"), whose principal activity is growing highly controlled indoor hydroponic, high THC cannabis for use within medicinal products used to treat chronic pain.

Although the transaction resulted in the Celadon Group becoming a wholly-owned subsidiary group of the Company, the substance of the transaction means it constitutes a *reverse acquisition*, as the previous shareholders of Celadon Property Co Limited own a substantial majority of the Ordinary Shares of the Company and the executive management of Celadon Property Co Limited became the executive management of Celadon Pharmaceuticals Plc.

Furthermore, as Celadon Pharmaceuticals plc's activities prior to the acquisition were purely the maintenance of the AIM Listing, acquiring Celadon Property Co Limited and raising equity finance to provide the required funding for the operations of the acquisition, it did not meet the definition of a business in accordance with IFRS 3.

Accordingly, this reverse acquisition does not constitute a business combination and was accounted for in accordance with IFRS 2 *Share-based Payments* ("IFRS 2") and associated IFRIC guidance.

Although, the reverse acquisition is not a business combination, the Company has become a legal parent and is required to apply IFRS 10 *Consolidated Financial Statements* ("IFRS 10") and prepare consolidated financial statements with Celadon Pharmaceuticals Plc consolidated as a subsidiary. The Directors have prepared these financial statements using the reverse acquisition methodology, but rather than recognising goodwill, the difference between the equity value given up by the shareholders of Celadon Property Co Limited and the share of the fair value of net assets gained by the shareholders of Celadon Property Co Limited is charged to the statement of comprehensive income as a share-based payment on reverse acquisition. In substance, this represents the cost of acquiring an AIM listing.

In accordance with reverse acquisition accounting principles, these consolidated financial statements represent a continuation of the consolidated statements of Celadon Property Co Limited and its subsidiaries and include:

- the assets and liabilities of Celadon Property Co Limited and its subsidiaries at their pre-acquisition carrying value amounts and the results for the periods presented; and
- the assets and liabilities of the Company (and its wholly owned subsidiary Celadon Subco Limited (previously Summerway Subco Limited)) as at 28 March 2022 and its results from the date of the reverse acquisition (28 March 2022) to 31 December 2022.

On 28 March 2022, Celadon issued 43,316,201 ordinary shares to acquire the entire share capital of Celadon Property Co

On 28 March 2022, Celadon issued 5,168,647 ordinary shares to redeem the Celadon Property Co Limited convertible loan notes. At 28 March 2022, the average share price of Celadon for the day was £1.5125.

On consolidation and presentation of the Group's financial position, performance and cash flows, Celadon Property Co Limited, was treated as the accounting acquirer, and the legal parent company, Celadon, was treated as the accounting acquiree.

The fair value of the shares deemed to have been issued by Celadon Property Co Limited was calculated at £12,151k based on an assessment of the purchase consideration for a 100% holding of Celadon on the reverse acquisition date.

The fair value of the net assets of Celadon Pharmaceuticals plc at acquisition was as follows:

| | £000 |
|--|--------------|
| Cash and equivalents | 3,494 |
| Other assets | 2,285 |
| Accounts payable and other liabilities | (28) |
| Net assets | 5,751 |

The difference between the deemed cost £12,151k and the fair value of the net assets assumed per above of £5,751k resulted in £6,400k being expensed within "Reverse Acquisition Expenses" in accordance with IFRS 2, reflecting the economic cost to the shareholders of Celadon Property Co Limited of acquiring a quoted entity.

The professional fees in the period were £2,493k (2021: £777k), of which £1,028k (2021: £nil) was charged to the share premium account, and £1,465k (2021: £777k) was expensed in the consolidated statement of comprehensive income.

Reverse Acquisition Reserve

The Reverse Acquisition Reserve which arose from the reverse acquisition is made up as follows:

| | Note | £000 |
|--|------|-----------------|
| Pre-acquisition total retained earnings of Celadon Pharmaceuticals Plc | 1 | (1,746) |
| Celadon Property Co Limited share capital at acquisition | 2 | 1,662 |
| Investment in Celadon Property Co Limited, net of convertible loan note charge | 3 | (65,516) |
| Reverse acquisition expense | 4 | 6,400 |
| | | (59,200) |

1. Recognition of pre-acquisition equity of Celadon Pharmaceuticals Plc.
2. Celadon Property Co Limited had issued share capital of £1,662k. As these financial statements present the capital structure of the legal parent entity, the equity of Celadon Property Co Limited is eliminated.
3. The value of the shares issued by the Company in exchange for the entire share capital of Celadon Property Co Limited.
4. The reverse acquisition expense represents the difference between the value of the equity issued by the Company, and the deemed consideration given by Celadon Property Co Limited to acquire the Company.

6. Operating segments

a. Basis of segmentation

Reportable segment results include items directly attributable to a segment as well as those which can be allocated on a reasonable basis. The operating results of each are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Board of Directors. Discrete financial information is available for each segment and used by the Board of Directors for decisions on resource allocation and to assess performance.

The Group has the following segments:

| Reportable segment | Operations |
|---------------------------|---|
| Celadon | Build out of the grow facilities, growing of medical grade cannabis and research in the GMP lab |
| Harley Street (CPC) | A clinical study into the pain relief benefits of medicinal cannabis |

Information related to each reportable segment is set out below.

| 2022 | Celadon £000 | Harley Street £000 | Central Costs £000 | Group £000 |
|--------------------------------|-------------------------|-------------------------------|-------------------------------|-----------------------|
| External revenue | - | 24 | - | 24 |
| Cost of sales | - | (90) | - | (90) |
| Gross margin | - | (66) | - | (66) |
| Operating costs | (4,006) | (848) | - | (4,854) |
| Depreciation | (360) | (6) | - | (366) |
| Operating (loss) | (4,366) | (920) | - | (5,286) |
| Unallocated central costs | - | - | (12,684) | (12,684) |
| Finance costs | - | - | (23) | (23) |
| Group (loss) before tax | | | | (17,993) |

| 2022 | Celadon | Harley Street | Central Costs | Group |
|--------------------------------|----------------|----------------------|----------------------|-----------------|
| Segment assets | £000 | £000 | £000 | £000 |
| Segment Capital expenditure | 2,300 | 2 | - | 2,302 |
| Total Group assets | | | | 13,251 |
| Segment liabilities | (4,151) | (1,610) | (366) | (6,127) |
| Total Group liabilities | | | | (6,127) |
| 2021 (unaudited) | Celadon | Harley Street | Central costs | Group |
| | £000 | £000 | £000 | £000 |
| External revenue | - | 2 | - | 2 |
| Cost of sales | - | (4) | - | (4) |
| Gross margin | - | (2) | - | (2) |
| Operating costs | (1,848) | (544) | - | (2,392) |
| Depreciation | (318) | (1) | - | (319) |
| Operating (loss) | (2,166) | (547) | - | (2,713) |
| Unallocated central costs | | | (968) | (968) |
| Finance costs | | | (1,115) | (1,115) |
| Group (loss) before tax | | | | (4,796) |
| Segment assets | 3,871 | 1,026 | 2,719 | 7,616 |
| Capital expenditure | 996 | 25 | - | 1,021 |
| Total Group Assets | | | | 8,637 |
| Segment liabilities | (3,687) | (2,274) | (7,085) | (13,046) |
| Total Group liabilities | | | | (13,046) |

The group operates only in the UK only and has only one geographical area.

7. Revenue

The Group recorded revenue in the year ended 31 December 2022 of £24k (2021: £2k) from patients on the Group's clinical study in Harley Street (CPC) Limited.

8. Profit for the year

The loss for the year has been arrived at after charging (crediting):

| | 2022 | Unaudited |
|--|-------------|------------------|
| | £000 | 2021 |
| | | £000 |
| Depreciation of property, plant and equipment | 156 | 122 |
| Depreciation of leasehold improvements | 45 | 31 |
| Depreciation of office equipment | 27 | 15 |
| Depreciation of right-of-use asset | 138 | 100 |
| Amortisation of intangible assets | 100 | 50 |
| Non-cash charge in respect of Harley Street (CPC) Limited | 139 | - |
| Fair value charge relating to long term incentive plans | 1,136 | - |
| Fair value charge relating to Canaccord warrants included in Other acquisition costs | 227 | - |
| Auditor's remuneration | 130 | - |
| Non-Audit Services (IPO related costs) | 83 | 213 |
| Director's remuneration (including share-based payment charge) | 888 | 351 |

9. Directors and staff costs

The average number of staff (including Directors) during the year was 24 (2021: 9).

Staff costs for the year, including Directors were:

| | 2022 | Unaudited |
|-----------------------|--------------|------------------|
| | £000 | 2021 |
| | | £000 |
| Salaries | 1,778 | 745 |
| Bonuses | 37 | - |
| Pension contributions | 30 | 19 |
| Phone allowance | 11 | 5 |
| | 1,856 | 769 |
| Social security costs | 227 | 82 |
| Share based payments | 460 | - |
| | 2,543 | 851 |

The Directors have determined that there are no key management personnel other than the Directors during the year.

Management remuneration paid and other benefits supplied to the Directors during the period plus the associated social security costs were as follows:

| | 2022 | Unaudited 2021 |
|-----------------------|-------------|---------------------------|
| | £000 | £000 |
| Salaries | 474 | 312 |
| Phone allowance | 1 | - |
| | 475 | 312 |
| Social security costs | 51 | 39 |
| Share based payments | 362 | - |
| | 888 | 351 |

In accordance with section 412 Companies Act 2006 the table below shows the full amount of remuneration paid and other benefits supplied to the Directors of Celadon Pharmaceuticals plc even if those amounts relate to the period prior to the Reverse Acquisition of Celadon Property Co Limited.

| Director | Salary | Loss of service | Benefits in kind | Pension | 31 December 2022 Total | 31 December 2021 Total |
|---------------------------------|---------|-----------------|------------------|---------|------------------------|------------------------|
| | £ | £ | £ | £ | £ | £ |
| Alexander Anton ¹ | 38,266 | - | - | - | 38,266 | 4,508 |
| Benjamin Shaw ² | 4,500 | - | - | - | 4,500 | 21,723 |
| James Short ³ | 246,150 | - | - | - | 246,150 | - |
| David Firth ⁴ | 44,440 | - | - | - | 44,440 | 30,161 |
| Robbie Barr ⁵ | 38,266 | - | - | - | 38,266 | - |
| Dr Steven Hajioff ⁶ | 34,786 | - | - | - | 34,786 | - |
| Elizabeth Shanahan ⁷ | 40,000 | - | - | - | 40,000 | 11,111 |
| Kathleen Long ⁸ | 56,154 | - | - | - | 56,154 | - |
| Jonathan Turner ⁹ | - | - | - | - | - | - |
| | 502,562 | - | - | - | 502,562 | 67,503 |

- Alexander Anton resigned 15 January 2021 and was re-appointed 28 March 2022
- Benjamin Shaw resigned as Interim Chairman on 28 March 2022 - all the fees quoted above relate to the period 1 January - 28 March 2022
- James Short was appointed on 28 March 2022 - the figure quoted is the combined figure for the services provided to Celadon Pharmaceuticals plc since March 2022, and Verigrow from 1 January 2022 to 28 March 2022
- David Firth was appointed on 17 September 2018 - of the fees quoted above, £11,100 relates to the period 1 January - 28 March 2022
- Robbie Barr was appointed on 28 March 2022
- Dr Steven Hajioff was appointed on 28 March 2022 - the figure quoted is the combined figure for services provided to Celadon Pharmaceuticals plc since March 2022, and Vertigrow from 1 January 2022 to 28 March 2022.
- Elizabeth Shanahan was appointed on 21 September 2021 - of the fees quoted above, £10,000 relate to the period 1 January - 28 March 2022
- Kathleen Long was appointed on 28 March 2022 and resigned on 17 January 2023
- Jonathan Turner was appointed on 17 January 2023

10. Net finance costs

| | 2022 | 2021 |
|--|-------------|----------------|
| | £000 | £000 |
| Finance gain / (charge) on derivative liability associated with convertible loan notes (note 22) | 556 | (660) |
| Finance (charge) on leased assets (note 15) | (531) | (384) |
| Finance (charge) on related party loan (note 22) | (53) | (35) |
| Finance (charge) on external loans (note 22) | (7) | (36) |
| Finance income on bank deposits | 12 | - |
| | (23) | (1,115) |

11. Income tax

The Group has had no taxable profits since incorporation.

Reconciliation of effective tax rate

| | 2022 | Unaudited 2021 |
|---------------------------------|-------------|---------------------------|
| | £000 | £000 |
| Loss before tax from operations | (17,993) | (4,796) |
| Tax rate | 10% | 10% |

| Tax credit | 2022 | 2021 |
|---|------------|-----------|
| Tax credit at the standard rate of corporation tax | (3,418) | (911) |
| Items disallowable for corporation tax | 2,217 | 353 |
| Additional deduction for R&D expenditure | (303) | - |
| Surrendered for R&D purposes | 539 | 353 |
| Capital allowances in excess of depreciation | (33) | (251) |
| Impact of unrelieved tax losses carried forward | 998 | 456 |
| Tax credit before impact of surrender of R&D expenditure | - | - |
| Refundable tax credit for surrender of enhanced R&D expense (at 14.5%): | | |
| - current year | 412 | - |
| - prior year adjustment | 270 | - |
| Release of deferred tax liability on intangible assets | 25 | 13 |
| Tax credit for the year | 707 | 13 |

The Group has estimated tax losses of £8,811k (2021: £4,895k) which may be available for relief against future profits from current operations.

For tax years starting on or after 1 April 2023, the rate of corporation tax in the UK is 25%. As it is anticipated that the tax losses will not be utilised in the year to December 2023, the deferred tax asset not recognized has been calculated using the rate in force from 1 April 2023. The deferred tax asset not provided for in the accounts is £2,203k (2021: £1,224k).

The release of the deferred tax liability on intangible assets reflects the amortisation of the Clinical Trial related intangible assets.

12. Loss per share

| | 2022 | Unaudited 2021 |
|---|------------|----------------|
| | £000 | £000 |
| Loss attributable to the owners of the Company | (16,906) | (4,641) |
| Weighted average number of ordinary shares in issue | 57,295,086 | 44,324,386 |
| Basic loss per share | (29.5p) | (10.5p) |
| Diluted loss per share | (29.5p) | (10.5p) |

Basic earnings per share is calculated by dividing the loss/profit after tax attributable to the equity holders of the group by the weighted average number of shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potential dilutive shares.

Under the Subsidiary Incentive Scheme certain directors and employees of, and advisers to, the Group are able to participate in a share of the growth of the Group's market capitalisation over predetermined thresholds over a three- to five- year period. The participants can realise their value from the Subsidiary Incentive Scheme by exercising a put option to transfer their Celadon Subco Limited shares to Celadon Pharmaceuticals plc with the consideration satisfied at the Company's option either in cash or through the issue of ordinary shares of the Company. As a result it is not possible to accurately predict the number of shares that might be issued, and as such it is not possible to calculate a fully diluted basis, though in practical terms the maximum dilution from the Subsidiary Incentive Scheme is likely to be less than 16.5%.

The calculation of earnings per share is based on the following earnings and number of shares. In calculating the weighted average number of ordinary shares outstanding (the denominator of the earnings per share calculation) during the period in which the reverse acquisition occurs:

- The number of ordinary shares outstanding from the beginning of that period to the acquisition date shall be computed, on the basis of the weighted average number of ordinary shares of the legal acquiree (accounting acquirer) outstanding during the period *multiplied by the exchange ratio* established in the merger agreement; and
- The number of ordinary shares outstanding from the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal acquirer (the accounting acquiree) outstanding during that period.

The basic earnings per share for each comparative period *before* the acquisition date presented in the consolidated financial statements following a reverse acquisition shall be calculated by dividing:

- the profit or loss of the legal acquiree attributable to ordinary shareholders in each of those periods by
- the legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement.

The weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding warrants and other instruments would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

13. Intangible Assets

| | Clinical Trial Intangible Asset | Goodwill | Total |
|--|---------------------------------|----------|-------|
| | £000 | £000 | £000 |

| | | | |
|--|------------|------------|--------------|
| Cost | | | |
| At 1 January 2021 | - | 80 | 80 |
| Additions | 498 | 639 | 1,137 |
| At 31 December 2021 (Unaudited) | 498 | 719 | 1,217 |
| Impairment | - | (639) | (639) |
| At 31 December 2022 | 498 | 80 | 578 |

Amortisation

| | | | |
|--|--------------|---|--------------|
| At 1 January 2021 | - | - | - |
| Charge for period | (50) | - | (50) |
| At 31 December 2021 (Unaudited) | (50) | - | (50) |
| Charge for period | (100) | - | (100) |
| At 31 December 2022 | (150) | - | (150) |

Net book value

| | | | |
|----------------------------|------------|-----------|------------|
| At 31 December 2021 | 448 | 719 | 1,167 |
| At 31 December 2022 | 348 | 80 | 428 |

Celadon Property Co Limited has goodwill arising from two acquisitions: (1) the purchase of the entire share capital of Celadon Pharma Limited (in 2019); and (2) an initial 57.5% equity investment in Harley Street (CPC) Limited (in 2021).

Acquisition of Celadon Pharma Limited - 2020

On 1 January 2020, Celadon Property Co Limited acquired 100% of the share capital for Celadon Pharma Limited for £2, together with the assumed liabilities generated goodwill of £80k.

Initial acquisition of Harley Street (CPC) Limited - 2021

On 14 July 2021, Celadon Property Co Limited acquired 57.5% of the issued share capital of Harley Street (CPC) Limited ("HSCPCL"), which is in the advanced stages of obtaining MHRA and Research Ethics Committee approval for a UK-based cannabis trial for a maximum consideration of £2,000k.

£500k was paid in cash on completion with a *contingent consideration* payment of £1,500k due in ordinary shares of the Company in the event that (a) each of MHRA and REC authorise the Trial in full; and (b) 5,000 paying patients of the Company's clinic are accepted onto the Trial and receive their first prescriptions under the Trial within 18 months of completion of the acquisition of LVL.

| | £000 |
|---|--------------|
| Fair value of initial cash consideration paid | 500 |
| Fair value of contingent consideration | 375 |
| Total consideration | 875 |
| Fair value of net liabilities acquired | 238 |
| Non-controlling interest | (101) |
| Fair value of assets acquired | 1,012 |
| Fair value of | |
| - Intangible Assets acquired | 498 |
| - Deferred tax liability on intangible assets | (125) |
| Goodwill | 639 |

The £1,500k contingent consideration payment was estimated to have an acquisition date fair value of £375k based upon 6.2% discount rate and management's probability estimate of the payment criteria being satisfied.

Release of contingent consideration in 2022

In June 2022, the Directors reassessed that the targets for the contingent consideration payment would not be met within the time frame set, and released the contingent consideration liability of £375k back to consolidated statement of comprehensive income.

Impairment test

Goodwill is tested for impairment annually, and whenever there is an indication that it may be impaired. The annual impairment test is performed as at 31 December each year. An impairment, if any, that results from that annual impairment test would be reflected in the 31 December financial statements.

Goodwill is, for the purposes of impairment testing allocated to cash generating units ("CGUs") or groups of CGUs expected to benefit from the business combination associated with that goodwill, where a CGU is the smallest identifiable group of assets that generate independent cash inflows. Management reviewed business performance, as of 31 December 2022 based on the performance of the various operating segments identified in note 6, which are also the Group's CGUs.

An impairment test of goodwill is performed by comparing the carrying amount of each division (i.e. CGU or group of CGUs), including the goodwill, with the recoverable amount of the division. The recoverable amount of a division is the higher of its fair value less costs of disposal ('FVLCD') and its value in use ('VIU'), where the VIU of the division is the present value of its future cash flows.

If the recoverable amount of a division is lower than its carrying amount, an impairment loss is recognised. The impairment test of the divisions as at 31 December 2022 resulted in an impairment charge to goodwill in respect of the Harley Street CGU, the table below shows the position after that impairment.

The key data is summarised in the following tables:

| Cash Generating Unit | Goodwill £000 | Carrying Amount £000 | Recoverable Amount £000 | Headroom £000 |
|----------------------|------------------|----------------------------|-------------------------------|------------------|
| Celadon | 80 | 6,748 | 121,000 | 114,252 |
| Harley Street | - | 376 | 376 | - |

Carrying Amount

The 'Carrying amount' column in the above table includes the carrying amounts of the CGUs. These amounts are determined by adding back external debt and lease liabilities to the net assets of each division and the Corporate non-operating division, by allocating the resulting adjusted net assets of the Head Office non-operating division across the divisions on a pro rata basis to the resulting adjusted net assets of each division, and by adding these amounts to the goodwill of the divisions after first grossing that goodwill up for the non-controlling interest.

Recoverable Amount

The recoverable amount of both CGUs has been determined on a Value-in-Use basis, being the present value of board approved forecasted future cash flows of the CGUs together with an allocation of the cash flows of the Head Office non-operating division, where the cash flows are based on the most recent five-year forecast.

These forecasts were derived from market information, by overlaying it with assumptions to reflect areas where growth or income improvement is expected, and by taking into account the expected results of cost management programmes to which the Group is committed. The 2028 forecast is extrapolated to subsequent years using a steady growth rate being the CPI inflation rate of 1.9% per annum, and a terminal value is calculated using the perpetual growth model. The discount rate of 15.0% that has been applied to the forecasts is a market participant weighted average cost of capital. Given that the Celadon CGU only obtained the requisite regulatory licences to allow it to start selling its product after the year end, its calculation of its value in use is most sensitive to the anticipated increase in revenue. Similarly, the revenues generated by the Harley Street CGU have been lower than anticipated due to its Clinical Study being conditionally-approved only. The value in use for this CGU is also sensitive to the anticipated increase in revenues.

Net impact on income statement

The net impact on income statement of the impairment of the Goodwill relating to Harley Street and the release of the deferred consideration is a charge of £264k (2021: nil).

14. Property, plant and equipment

| | Leasehold improvement £000 | Plant and machinery £000 | Office equipment £000 | Assets under construction £000 | Total £000 |
|----------------------------|----------------------------------|--------------------------------|-----------------------------|--------------------------------------|---------------|
| Cost | | | | | |
| At 1 January 2021 | 201 | 506 | - | - | 707 |
| Additions | 264 | 213 | 66 | - | 543 |
| At 31 December 2021 | 465 | 719 | 66 | - | 1,250 |
| Additions | - | 279 | 36 | 1,987 | 2,302 |
| Disposal | (216) | - | - | - | (216) |
| At 31 December 2022 | 249 | 998 | 102 | 1,987 | 3,336 |
| Depreciation | | | | | |
| At 1 January 2021 | (6) | (55) | - | - | (61) |
| Charge for period | (31) | (122) | (15) | - | (168) |
| At 31 December 2021 | (37) | (177) | (15) | - | (229) |
| Charge for period | (45) | (156) | (27) | - | (228) |
| Disposals | 42 | - | - | - | 42 |
| At 31 December 2022 | (40) | (333) | (42) | - | (415) |
| Net book value | | | | | |
| At 31 December 2021 | 428 | 542 | 51 | - | 1,021 |
| At 31 December 2022 | 209 | 665 | 60 | 1,987 | 2,921 |

Leasehold improvements with a cost of £216k were sold for their net book value of £174k generating no gain or loss on the disposal.

Assets under construction are for Phase 2 works including waste removal, walls, doors, drainage and flooring.

15. Right-of-Use Assets

| Right-of-use Property Lease | Right-of-use Furniture | Total |
|--------------------------------|---------------------------|-------|
|--------------------------------|---------------------------|-------|

| | Property lease £000 | Leasehold £000 | Total £000 |
|------------------------------------|------------------------|-------------------|---------------|
| Cost | | | |
| At 1 January 2021 | 2,511 | - | 2,511 |
| At 31 December 2021 | 2,511 | - | 2,511 |
| Additions | - | 30 | 30 |
| Increase in Restoration Obligation | 389 | - | 389 |
| Lease variation | 553 | - | 553 |
| At 31 December 2022 | 3,453 | 30 | 3,483 |
| Amortisation charge | | | |
| At 1 January 2021 | (126) | - | (126) |
| Amortisation charge | (100) | - | (100) |
| At 31 December 2021 | (226) | - | (226) |
| Lease variation - interest reset | 235 | - | 235 |
| Amortisation charge | (132) | (6) | (138) |
| At 31 December 2022 | (123) | (6) | (129) |
| Net book value | | | |
| At 31 December 2021 | 2,285 | - | 2,285 |
| At 31 December 2022 | 3,330 | 24 | 3,354 |

Property lease

The Group operates from a 100,000 square foot facility in the UK under a 25 year lease signed in 2019, with rent reviews every 5 years, with the first review on 1 October 2024. At the inception, management estimated fair value of the minimum cash flow payments under the lease to establish the right-of-use inception value. The incremental borrowing cost of 13.35% was calculated by using the credit spread of CCC rated bonds with duration of 13.75 years for bonds issued on the date the Group entered into the lease.

In February 2022, Celadon Property Co Limited varied the terms of its long-term property lease by (a) extending the rent-free period by 12 months to 11 March 2023; and (b) increasing the un-discounted cash flow payments over the existing lease term (to 30 September 2044) by £3.9 million. On a discounted cash flow basis this increased the right-of-use asset and corresponding lease liability by £553k on the variation date. There was no change required to the Incremental borrowing rate used to discount lease payments resulting from this variation.

Included in the Property Lease Right-of-Use asset is £389k (2021: £nil) for Site Restoration Obligations (note 25).

16. Unlisted Investments

| | 2022 £000 | Unaudited 2021 £000 |
|-----------------------|--------------|---------------------------|
| At 1 January | 200 | - |
| Investment | 18 | 200 |
| At 31 December | 218 | 200 |

In 2021 Celadon Property Co Limited invested £200k in Kingdom Therapeutics Limited (for a 17% shareholding) and acquired an additional holding for £18k in May 2022. At 31 December 2022 Celadon Property Co Limited has a 18.8% shareholding in Kingdom Therapeutics Limited. The small increase in ownership does not materially impact on the Group's ability to control the activities of Kingdom Therapeutics Limited and as a result it is not appropriate to consolidate the entity with the Group.

17. Subsidiaries

The Group has five subsidiaries for the year ended 31 December 2022. All subsidiary companies are consolidated in the Group's financial statements. The companies in the Group at 31 December 2022 are:

| Name | Proportion of Ownership Interest | Proportion of Control | Profit / (Loss) for the year £000 | Capital and Reserves £000 | |
|---|--|--------------------------|---|---------------------------------|---|
| Celadon Subco Limited (formerly Summerway Subco Limited) * | 100% | 100% | (13,928) | 65,539 | a |
| Celadon Property Co Limited (formerly Vertigrow Technology Limited) * | 100% | 100% | 2,819 | 1,241 | b |
| Celadon Pharma Limited * | 100% | 100% | 2,675 | 280 | c |
| Celadon Pharmaceuticals (UK) Limited * | 100% | 100% | - | - | d |
| Harley Street (CPC) Limited | 57.5% | 57.5% | (953) | (1,556) | e |

All companies are incorporated and operate in the UK. The registered office of Harley Street (CPC) Limited is The Walbrook Building, 25 Walbrook, London, EC4N 8AF. The registered office of all other group companies is 32-33 Cowcross Street, London, EC1M 6DF.

* The financial statements of these subsidiary undertakings have not been audited for the year ended 31 December 2022 in accordance with Section 479A of the Companies Act 2006 as the Group has opted to take advantage of a statutory exemption. Strict criteria must be met for this exemption to be taken and it must be agreed to by the directors of those subsidiary companies. In order to facilitate the adoption of this exemption, Celadon Pharmaceuticals plc, the ultimate parent company of the subsidiaries undertakes to provide a guarantee under Section 479C of the Companies Act 2006 in respect of those subsidiaries.

The principal activities of the companies are:

- a. **Celadon Subco Limited** - This is an equity incentive company. The company has A Ordinary Shares and B Ordinary Shares.
 - The A Ordinary Shares have full voting rights, full rights to participate in a dividend and full rights to participate in a distribution of capital. Celadon Pharmaceuticals plc holds all of the 80,000,801 issued A Ordinary shares.
 - The B Ordinary Shares have no voting rights, no rights to participate in any dividend without the consent of Celadon Pharmaceuticals Plc. The B Ordinary Shares were created to facilitate a Long Term Incentive Scheme. See note 28 for more details.
- b. **Celadon Property Co. Limited** - This is a property holding company of the Group and holds the 25 year lease on the Group's 100,000 square foot facility.
- c. **Celadon Pharma Limited** - This is an operating company growing the medicinal cannabis.
- d. **Celadon Pharmaceuticals (UK) Limited** - Is a dormant company.
- e. **Harley Street (CPC) Limited** - Is a UK company conducting a clinical study into the benefits of medicinal cannabis in pain management.

18. Inventories

| | 2022 £000 | 2021 £000 |
|------------------------|--------------|--------------|
| Production consumables | 20 | 2 |

The inventories were consumed in the validation runs to obtain the Group's EU-GMP licence.

19. Trade and other receivables

| | 2022 £000 | 2021 £000 |
|--------------------------------|--------------|--------------|
| Gross Trade receivables | - | 60 |
| Less Expected Credit Allowance | - | - |
| Net Trade Receivables | - | 60 |
| Prepayments | 186 | 160 |
| VAT receivable | 381 | 44 |
| R&D tax receivable | 682 | - |
| | 1,249 | 264 |

20. Cash & Cash Equivalents

| | 2022 £000 | 2021 £000 |
|---------------------------|--------------|--------------|
| Cash and cash equivalents | 5,061 | 3,823 |

Cash at bank comprises of balanced held by the Group in current bank accounts. The carrying amount of these assets approximated to their fair value.

21. Trade and other payables

| | 2022 £000 | 2021 £000 |
|---------------------------------------|--------------|--------------|
| Trade payables | 539 | 160 |
| Accruals | 476 | 517 |
| Other taxes and social security costs | 91 | 74 |
| | 1,106 | 751 |

In the event of payment in line with agreed payment terms, trade payables are non-interest bearing. Normal payment terms vary between suppliers but are typically settled in 30-60 days.

22. Loans and borrowings

| | 2022 £000 | Unaudited 2021 £000 |
|--|--------------|---------------------------|
| Current liabilities | | |
| Bounce back bank loan | (10) | (10) |
| Related party loan | - | (2,160) |
| Loans and borrowings | (10) | (2,170) |
| Convertible loan note | - | (2,266) |
| Embedded derivative of convertible loan note | - | (2,659) |
| Convertible loan notes | - | (4,925) |
| Lease liabilities | (56) | (338) |
| | (66) | (7,433) |
| Non-current liabilities | | |
| Bounce back bank loan | (24) | (34) |
| Supplier loan | - | (1,533) |
| Lease liabilities | (4,542) | (2,920) |
| | (4,566) | (4,487) |

a. Bounce back bank loan

Celadon Pharma Limited has a £50k bounce back loan with Barclays Bank plc. The loan was taken out on 31 May 2020, has a 6-year term, an interest rate of 2.5% pa and is repayable in monthly instalments of £833 until 31 May 2026. The loan is unsecured.

b. Supplier loan

On 16 January 2021, Harley Street (CPC) Limited had a £1,500k loan from a supplier with interest at 5% pa. The loan and interest were repaid in full on 4 February 2022.

c. Related party loan

On 28 October 2021 Vertigrow Technology Limited entered a £2,125k loan from Summerway Capital Plc (renamed Celadon Pharmaceuticals Plc), drawing down this amount in full. Interest accrued at 10% per annum. This has been eliminated on consolidation on 28 March 2022 in the reverse acquisition.

d. Convertible loan note and embedded derivative

In February and March 2021, Vertigrow Technology Limited issued £4,130k convertible loan notes, the notes carried interest at 8% pa and were issued without a redemption date, but were anticipated to be converted to ordinary shares on the Company's Initial Public Offering.

The Company estimated the fair value of the equity component of the convertible loan notes as embedded derivatives totalling £1,998,000 (at inception), and remeasured this fair value at each reporting date, with the movement recording in the statement of comprehensive income.

The inputs used in the Black Scholes valuation model to calculate those fair values were:

| | At Inception | 31 December 2021 | 28 March 2022 |
|----------------|--------------|------------------|---------------|
| Risk free rate | -0.03% | 0.02% | 0.51% |
| Volatility | 54.2% | 51.0% | 48.0% |
| Dividend yield | 0% | 0% | 0% |

Volatility was estimated using the Summerway Capital Plc share prices for the periods shown. The balance sheet values of the host liability and embedded derivative were:

| | 2022 £000 | Unaudited 2021 £000 |
|--|--------------|---------------------------|
| Amount classified as Host Liability | - | (2,266) |
| Amount classified as Embedded Derivative | - | (2,659) |
| Net | - | (4,925) |

On 28 March 2022, the convertible loan notes balance of £4,412k (comprising: £2,103k of derivative liability and £2,309k of host liability and accrued interest) was redeemed through the issuance of 5,168,647 Summerway Capital Plc shares worth £8,528,268.

e. The amounts charged to the statement of comprehensive income were:

2022

2021

| | £000 | £000 |
|--|--------------|------------|
| Convertible loan note finance charge | 43 | 151 |
| Finance charge on redemption of convertible loan notes | 3,406 | - |
| Arrangement fee | - | 40 |
| | 3,449 | 191 |

f. Lease liabilities

The Group has leases for its premises and also for plant and equipment assets, and has the following undiscounted minimum lease payment commitments under right-of-use leases as at 31 December 2022:

| | Leasehold Property £000 | Plant & Equipment £000 | Total £000 |
|-------------------|-------------------------------|------------------------------|---------------|
| Less than 1 year | 486 | 11 | 497 |
| 1 to 2 years | 550 | 11 | 561 |
| 2 to 3 years | 650 | 3 | 653 |
| 3 to 4 years | 650 | - | 650 |
| 4 to 5 years | 650 | - | 650 |
| More than 5 years | 10,735 | - | 10,735 |
| Total | 13,721 | 25 | 13,746 |

The movement in carrying value in the lease liabilities is summarised as follows:

| | 2022 £000 | Unaudited 2021 £000 |
|--|--------------|---------------------------|
| Leasehold Property | | |
| Start of period | 3,258 | 2,874 |
| Variation (note 15) | 787 | - |
| Finance charge - lease discount unwind | 530 | 384 |
| End of period | 4,575 | 3,258 |
| Plant & Machinery | | |
| Start of period | - | - |
| Inception of lease | 30 | - |
| Lease payments | (8) | - |
| Finance charge - lease discount unwind | 1 | - |
| End of period | 23 | - |
| Total | 4,598 | 3,258 |
| Due within 12 months | 56 | 338 |
| Due after 12 months | 4,542 | 2,920 |

g. Reconciliation of movements on liabilities to cash flows arising from financing activities

| | Bounce Back Loan £000 | Supplier Loan £000 | Related Party Loan £000 | Convertible Loan Note £000 | Embedded Derivative £000 | 1 |
|---|-----------------------------|--------------------------|-------------------------------|----------------------------------|--------------------------------|---|
| At 1 January 2021 (unaudited) | 50 | - | - | - | - | |
| Cash Flows | (7) | 1,500 | 2,125 | 2,115 | 1,999 | |
| Non-cash flows: | | | | | | |
| Charge to income statement | 1 | 35 | 35 | 151 | 660 | |
| At 31 December 2021 (unaudited) | 44 | 1,535 | 2,160 | 2,266 | 2,659 | |
| Cash Flows | (11) | (1,541) | - | - | - | |
| Non-cash flows: | | | | | | |
| Charge to income statement | 1 | 6 | 53 | 43 | (556) | |
| Lease variation | - | - | - | - | - | |
| Loan offset in consolidation | - | - | (2,213) | - | - | |
| Transaction costs | - | - | - | - | - | |
| Fair value of Canaccord warrants charged to share premium | - | - | - | - | - | |
| Issued for purchase of Celadon Property Co Limited | - | - | - | - | - | |
| Redemption of loan notes | - | - | - | (2,309) | (2,103) | |
| At 31 December 2022 | 34 | - | - | - | - | |

23. Deferred tax liability

| | Current Liability £000 | Non-Current liability £000 | Total £000 |
|--|---------------------------|----------------------------------|---------------|
| At 1 January 2021 | - | - | - |
| Recognised on business combination | (25) | (100) | (125) |
| Recognised in the income statement | - | 13 | 13 |
| At 31 December 2021 (Unaudited) | (25) | (87) | (112) |
| Recognised in the income statement | - | 25 | 25 |
| At 31 December 2022 | (25) | (62) | (87) |

24. Financial instrument and risk management

The Group's financial instruments comprise primarily cash and various items such as trade debtors and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to provide working capital for the Group's operations.

The Group does not utilise complex financial instruments or hedging mechanisms in respect of its non-sterling payments.

A description of each category of financial assets and liabilities and the related accounting policies can be found in note 3. The carrying amounts of the Group's financial assets and liabilities in each category are summarised below. For financial liabilities measured at fair value, the level within which these are on the IFRS 13 fair value hierarchy, are also presented:

a. Financial assets by category

| | 2022 £000 | Unaudited 2021 £000 |
|--|--------------|---------------------------|
| <i>Financial assets measured at amortised cost</i> | | |
| Cash and cash equivalents | 5,061 | 3,823 |
| Trade receivables | - | 60 |
| | 5,061 | 3,883 |
| <i>Financial assets measured at FVTOCI</i> | | |
| Unlisted Investments | 218 | 200 |
| | 218 | 200 |

All trade receivable amounts are short-term and none are past due.

b. Financial liabilities by category

| | 2022 £000 | Unaudited 2021 £000 |
|---|--------------|---------------------------|
| <i>Financial Liabilities measured at amortised cost</i> | | |
| Trade payables | 539 | 160 |
| Accruals | 476 | 517 |
| Bounce back bank loan | 34 | 44 |
| Supplier loan | - | 1,533 |
| Related party loan | - | 2,160 |
| Convertible loan - liability component | - | 2,266 |
| Lease liabilities | 4,598 | 3,258 |
| | 5,647 | 9,938 |
| <i>Financial Liabilities measured at FVTPL</i> | | |
| Convertible loan - derivative component | - | 2,659 |
| Contingent Consideration (Level 3) | - | 375 |
| | - | 3,034 |

Fair Value Measurement

The following valuation techniques were used for valuing instruments categorised in Levels 2 and 3.

Contingent Consideration (Level 3)

Contingent consideration payments are generally contingent on the post-acquisition performance of the acquired business and achievement of certain performance thresholds. The fair value of contingent consideration is determined based on actual and forecast business performance of the acquired business, discounted using the Group WACC as the discount rate. For further information please see Note 13.

Long term investment Scheme (Level 3)

Long-term incentive scheme (Level 2)

The current Subsidiary Incentive Scheme participants and their respective holdings of B Share holdings are described in note 28 below. These shares are not traded on an active market, but the fair value is determined using valuation techniques and available market data, by reference to the Celadon Pharmaceutical plc share price and comparable entities.

Unlisted equity investments (Level 3)

Unlisted investments are categorised within level 3 of the fair value hierarchy. The valuation technique applied, except where specific market price information is available, is cost less any provision for impairment.

Fair value of financial instruments measured at amortised cost

The Directors consider the carrying amounts for trade and other receivables, trade and other payables, and the current portion of financial liabilities that are not measured at fair value, to approximate their fair values.

Reclassifications between fair value categories

No reclassifications between the three fair value categories took place during the year.

Credit and Liquidity Risk

Credit risk is managed on a Group basis. Funds are deposited with Barclays Bank plc in instant access accounts. All financial liabilities are payable in the short term (normally between 0 and 3 months) and the Group maintains adequate liquid bank balances to meet those liabilities as they fall due.

Capital Management

The Group considers its capital to be equal to the sum of its total equity. The Group monitors its capital using cash flow projections. The Group's objective when managing its capital is to ensure it obtains sufficient funding for continuing as a growing concern.

Interest Rate Risk

The maximum exposure to interest rate risk at the reporting date by class of financial asset was £1,063k of VAT receivables and estimated R&D tax credit refunds.

| | 2022 | Unaudited 2021 |
|---------------------------|-------|-------------------|
| | £000 | £000 |
| Cash and cash equivalents | 5,061 | 3,823 |

The Group uses liquid resources to meet the cost of future development activities. Consequently, it seeks to minimize risk in the holding of its bank deposits. The Group is not financially dependent on the small rate of interest income earned on these resources and therefore the risk of interest rate fluctuations is not significant to the business and the Directors have not performed a detailed sensitivity analysis.

Nonetheless, the Directors take steps when possible and cost effective to secure rates of interest which generate a return for the Group by depositing sums which are not required to meet the immediate needs of the Group in interest-bearing deposits. Other balances are held in interest-bearing instant access accounts. All deposits are placed with main clearing banks to restrict both credit risk and liquidity risk. The deposits are placed for the short term, between one and three months, to provide flexibility and access to the funds and to avoid locking into potentially unattractive interest rates.

Market Risk

Market risk arises from changes in interest rates, foreign exchange rates and equity prices, as well as in their correlations and volatility levels. Market risk is managed on a Group basis in the ordinary course of the Group's activities.

Currency Risk

The Group currently operates in the UK market. All revenues are currently in GBP. The majority of the operating costs and capital expenditure items are incurred in GBP. The Group does not hedge potential future cashflows.

25. Provisions - Site Restoration Obligation

| | 2022 | Unaudited 2021 |
|---------------------------------|-------|-------------------|
| | £000 | £000 |
| 1 January | - | - |
| Provision made during the year | (389) | - |
| Finance charge -discount unwind | - | - |
| 31 December | (389) | - |

In 2019 Vertigrow Technology Limited signed a 25 year lease which included the option for the landlord to require the company (at the end of the lease in 2044) to repair the leasehold property to its original condition. The fair value of the site restoration obligation provision requires estimation and judgement.

The company estimated the site restoration total costs to be £435,000 at 31 December 2022. The provision has been calculated using a discount rate of 4.04% which is the risk-free rate in the UK.

The site restoration obligation has been debited to Right of Use assets in the Group's non-current assets (note 15).

26. Share capital and reserves

a. Ordinary Shares

| 2022 | Unaudited 2021 |
|------|-------------------|
| - | - |

| | Number | Number |
|---|------------|-----------|
| 1 January | 8,033,409 | 6,130,000 |
| Issued for cash | 5,151,516 | 1,903,409 |
| Issued for purchase of Vertigrow Technology Limited | 43,316,201 | - |
| Issued to redeem convertible loan notes in Vertigrow Technology Limited | 5,168,647 | - |
| 31 December | 61,669,773 | 8,033,409 |
| Authorised (at par value per share of £0.01p each) | 616,698 | 80,334 |

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

b. Issue of ordinary shares

On 15 January 2021, the company issued 1,903,409 new ordinary shares and raised gross proceeds of £1.67 million (before fees).

During March 2022 the company issued:

- 43,316,201 new ordinary shares to acquire the entire share capital of Vertigrow Technology Limited
- 5,168,647 new ordinary shares to redeem the Vertigrow Technology Limited convertible loan notes
- 5,151,516 new ordinary shares and raised gross proceeds of £8.5 million (before fees) at £1.65p

c. Ordinary share capital and share premium account

| | 2022 | 2022 | Unaudited 2021 | Unaudited 2021 |
|--|---------------|---------------|-------------------|-------------------|
| | Share capital | Share Premium | Share capital | Share Premium |
| | £000 | £000 | £000 | £000 |
| 1 January | 80 | 7,367 | 61 | 5,711 |
| Issued for cash | 52 | 8,448 | 19 | 1,656 |
| Share issue expenses | - | (1,009) | - | - |
| Warrants issued | - | (18) | - | - |
| Issued for purchase of Vertigrow | 433 | - | - | - |
| Issued to redeem Convertible Loan Notes in Vertigrow | 52 | 7,765 | - | - |
| 31 December | 617 | 22,553 | 80 | 7,367 |

d. Merger relief and Reverse acquisition relief reserves

| | 2022 | 2022 | Unaudited 2021 | Unaudited 2021 |
|---|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | Merger relief reserve | Reverse acquisition reserve | Merger relief reserve | Reverse acquisition reserve |
| | £000 | £000 | £000 | £000 |
| 1 January | - | (5,835) | - | (4,549) |
| Issue of shares by Summerway Capital Plc | - | - | - | (1,675) |
| PLC net assets at acquisition date (i) | - | 5,751 | - | - |
| Issued for purchase of Vertigrow Technology Limited (ii) 65,082 | (iii) (65,516) | - | - | - |
| Share based payment charge (iv) | - | 6,400 | - | - |
| Movement in year (i) | - | - | - | 389 |
| 31 December | 65,082 | (59,200) | - | (5,835) |

Reverse Acquisition Reserve

The reserve, arising on consolidation only, includes:

- (i) the accumulated losses incurred prior to the reverse acquisition and the share capital and share premium of Summerway Capital Plc (renamed Celadon Pharmaceuticals Plc) at acquisition;
- (ii) the value of the share premium on the shares issued to acquire all of the share capital of Vertigrow Technology Limited;
- (iii) the value of share capital and share premium of Celadon Pharmaceuticals plc at acquisition;
- (iv) the reverse acquisition share-based payment expense.

Merger Relief Reserve

Is a statutory, non-distributable reserve arising when conditions set out in section 612 of the Companies Act occur and relate to the share-premium from shares issued to acquire Celadon Property Co Limited.

e. Warrant reserve and capital redemption reserve

| | 2022 | 2022 | Unaudited 2021 | Unaudited 2021 |
|-----------------|--------------------|----------------------------------|--------------------|----------------------------------|
| | Warrant reserve | Capital Redemption reserve | Warrant reserve | Capital Redemption reserve |
| | £000 | £000 | £000 | £000 |
| 1 January | - | 49 | - | 49 |
| Warrants issued | 471 | - | - | - |
| 31 December | 471 | 49 | - | 49 |

Capital Redemption Reserve

This is a statutory, non-distributable reserve into which amounts are transferred following the redemption or purchase of a Company's own shares.

The Company was incorporated on 31 August 2018 with 50,000 Ordinary Shares of £1.

On 12 October 2018, those shares underwent a sub-division to create 50,000 Ordinary Shares of £0.01 and 50,000 Ordinary Shares of £0.99, and the £0.99 Ordinary Shares were re-designated as Deferred Shares.

On 19 October 2018, 6,080,000 Ordinary Shares of £0.01 were issued and the 50,000 Deferred Shares of £0.99 were cancelled.

Warrant Reserve

This reserve represents the fair value charge of warrants issued pursuant to equity-based payments in the form of warrants.

The charge of £245k (£2021: £nil) represents the fair value of warrants issued to the Company's NOMAD Canaccord Genuity Limited for the 2022 IPO listing work, and £226k in respect of warrants issued to an advisor

27. Non-Controlling Interests

The Group has non-controlling interests from:

- the minority 42.5% holding in Harley Street (CPC) Limited attributable to the minority shareholder; and
- the amounts subscribed for the B Ordinary Shares of Celadon Subco Limited pursuant to the Group's long term incentive plan.

Harley Street (CPC) Limited

| | 2022 | Unaudited 2021 |
|--|----------------|-------------------|
| | £000 | £000 |
| NCI percentage | 42.5% | 42.5% |
| Non-current assets | 21 | 25 |
| Current assets | 33 | 1,645 |
| Current liabilities | (1,610) | (2,274) |
| Non-current liabilities | - | - |
| Net assets (liabilities) | (1,556) | (604) |
| Net assets (liabilities) attributable to NCI | (661) | (257) |
| Revenue | 24 | 2 |
| Operating loss | (920) | (547) |
| Net loss | (953) | (592) |
| Net loss attributable to NCI | (405) | (155) |
| Cash flow from operating activities | (78) | (338) |
| Cash flow from investment activities | (2) | (26) |
| Cash flows from financing activities | (1,541) | (2,000) |
| Net increase (decrease) in cash and cash equivalents | (1,621) | 1,636 |

Celadon Subco Limited

In the year ended 31 December 2022, there were subscriptions for B Ordinary Shares totalling £23,300 (2021: £nil). The B Ordinary Shareholders have no entitlement to vote or any interest in the profits of Celadon Subco Limited. The B Ordinary Shares of Celadon Subco Limited have been issued as part of the Subsidiary Incentive Scheme (see note 28). The Subsidiary Incentive Scheme includes certain performance criteria with respect to the market capitalisation of the Group. As these performance criteria have not currently been met the Non-Controlling Interest arising from the B Ordinary Shares has been valued at the cost to repurchase the B Ordinary Shares.

| | 2022 | Unaudited 2021 |
|--|------|-------------------|
| | £000 | £000 |

28. Long Term Incentive Plans

Subsidiary Incentive Scheme

On 17 September 2018, the Company established its Subsidiary Incentive Scheme (using the B Ordinary Shares of Celadon Subco Limited) in order to incentivise and retain certain key employees and directors of, and advisers to, the Company. On 11 April 2022, the Company amended its Subsidiary Incentive Scheme following the acquisition of Celadon Property Co Limited and a number of directorate and personnel changes to the enlarged Group.

Under the terms of the Subsidiary Incentive Scheme, participants are entitled to subscribe for Subsidiary B Shares. Subsidiary B Shares provide the holder with a right to participate in any Shareholder value that is created over a predetermined level and over a three- to five-year period (or upon a change of control of the Company or the Subsidiary, whichever occurs first). This is calculated on a formula basis by reference to the growth in market capitalisation of the Company, following adjustments for the issue of any new Ordinary Shares and taking into account dividends and capital returns ("Shareholder Value").

On 11 April 2022, the Subsidiary Incentive Scheme was amended to create three classes of Subsidiary B Shares in issue under the Subsidiary Incentive Scheme:

- The 400,000 Subsidiary B Shares held by participants under the current Subsidiary Incentive Scheme (which commenced on 15 January 2021) were converted into B1 Shares. These B1 Shares will participate in up to 4 per cent of Shareholder Value created above a current threshold of £96,305,000 ("B1 Initial Value"), being the initial market cap of the Company, plus the amount of funds raised on 15 January 2021, plus the total subscription value of the Consideration Shares and the Placing Shares. The B1 Shares will only participate in that Shareholder Value, however, if the individual elements of the B1 Initial Value grow at an annual rate of 7.5 per cent (compounded), measured over a period of three to five years commencing on 15 January 2021.
- 650,000 B2 Shares were issued to advisers of Celadon. These B2 Shares will participate in up to 6.5 per cent of Shareholder Value created above a current threshold of £81,755,125 ("B2 Initial Value"), being the pre-Acquisition value of the Company plus a discounted value of the Celadon Group (to reflect pre-agreed incentive arrangements and the advisers' contribute to date) plus the total subscription value of the Placing Shares. The B2 Shares will only participate in that Shareholder Value, however, if the individual elements of the B2 Initial Value grow at an annual rate of 17.5 per cent (compounded), measured over a period of three to five years commencing on 28 March 2022.
- 600,000 B3 Shares were issued to selected management of Celadon, subject to a Call Option allowing the B3 Shares to be repurchased by the Company for the shares' nominal value in certain circumstances. The number of B3 Shares subject to the Call Option is reduced in three equal instalments on the first, second and third anniversaries of the acquisition of Celadon. These B3 Shares will participate in up to 6 per cent of Shareholder Value created above a current threshold of £101,755,125 ("B3 Initial Value"), being the pre-Acquisition value of the Company plus the total subscription value of the Consideration Shares and the Placing Shares. The B3 Shares will only participate in that Shareholder Value, however, if the individual elements of the B3 Initial Value grow at an annual rate of 17.5 per cent (compounded), measured over a period of three to five years commencing on 28 March 2022.

The current Subsidiary Incentive Scheme participants and their respective holdings of B Share holdings are noted below.

| Name | B1 | B2 | B3 | Total |
|---|----------------|----------------|----------------|------------------|
| Alexander Anton (Chairman) | 75,000 | 166,666 | - | 241,666 |
| Benjamin Shaw (former Director) | 75,000 | 166,667 | - | 241,667 |
| Mark Farniloe (former Director) | 75,000 | 166,667 | - | 241,667 |
| Tony Morris (former Director) | 125,000 | - | - | 125,000 |
| Paul Gibson (former Director) | 50,000 | - | - | 50,000 |
| James Short (Chief Executive Officer) | - | - | 200,000 | 200,000 |
| Katie Long (former Chief Financial Officer) | - | 150,000 | - | 150,000 |
| Issued to other employees / consultants | - | - | 400,000 | 400,000 |
| Total | 400,000 | 650,000 | 600,000 | 1,650,000 |

A summary of the B Shares are as follows:

| Tranche | B1 | B2 | B3 |
|--------------------|---------------------------------------|-----------------------------------|-----------------------------------|
| Shares in issue | 400,000 | 650,000 | 600,000 |
| Subscription price | 1.4p | 1.44p | 1.39p |
| Compound Growth | 7.5% pa | 17.5% pa | 17.5% pa |
| Exercise period | 15 January 2024 to 15 January 2026 | 29 March 2025 to 29 March 2027 | 29 March 2025 to 29 March 2027 |

The B Shares are financial instruments and have been fair valued using a Monte Carlo simulation with inputs of:

| Tranche | B1 | B2 | B3 |
|---------------------------|---------------|---------------|---------------|
| Risk free rate | 1.99% | 1.89% | 1.89% |
| Volatility | 33.0% | 33.0% | 33.0% |
| Dividend yield | 0% | 0% | 0% |
| Market cap at measurement | £58.9 million | £58.9 million | £58.9 million |

Volatility was estimated using the Celadon Pharmaceutical Plc share prices. Due to the limited share price history of the Company, volatility has been assessed against an international peer group of comparative entities. An annualised volatility range of 33% - 177% was developed within the peer group. Management estimated a volatility of 33% reflecting the low

range of 33/3 - 127/3 was developed within the peer group. Management estimated a volatility of 33/3, reflecting the low volatility of the Celadon Pharmaceuticals Plc share price data post the reverse acquisition transaction.

The Long-Term Incentive Plan charge in the income statement for the year ended 31 December 2022 was £910k (2021: £nil) in respect of the Subsidiary Incentive Scheme.

Advisor Warrants

In March 2022, warrants were issued to one of the Company's advisors over 262,626 ordinary shares, to be issued in equal instalments in March 2023 and March 2024 as consideration for provision of services over that period. These warrants are to be issued at the nominal value of £0.01 per share. The fair value of this award was calculated as £226k.

29. Related Party Transactions

Dr. Steve Hajioff

Dr. Steve Hajioff provided consultancy services to Harley Street (CPC) Limited prior to Celadon Property Co Limited's acquisition of its interest in that company.

Celadon Property Co Limited entered a consulting agreement with Dr. Steve Hajioff from 1 June 2021, which terminated on 28 March 2022 when he was appointed to the Board of Celadon Pharmaceuticals Plc. In the period ended 31 December 2022, £8,000 of consulting fees were charged to the company (2021: £11,000). At 31 December 2022, £nil was unpaid (2021: £nil).

Kingdom Therapeutics Limited ("Kingdom")

Liz Shanahan is a Director and shareholder of Kingdom, and has been a Director of Celadon Pharmaceuticals Plc since September 2021.

On 7 June 2021, Celadon Property Co Limited subscribed for a 17% shareholding in Kingdom for £200,000. On 5 May 2022 Celadon Property Co Limited purchased an additional shareholding in Kingdom from a selling shareholder for £18,000. At 31 December 2022, Celadon Property Co Limited held a 18.8% total shareholding.

Related Party Loan (between Summerway Capital Plc and Vertigrow Technology Limited)

In October 2021, Celadon Pharmaceuticals Plc provided Celadon Property Co Limited with a secured short-term working capital loan with 10% interest pa. At 31 December 2021 and 28 March 2022, £2,125,000 had been drawn down. Interest of £53,125 was incurred by Celadon Property Co Limited in the period from 31 December 2021 up to 28 March 2022. After 28 March 2022 the loan interest and balance have been eliminated on consolidation.

AFS Advisors LLP

AFS Advisors LLP is an entity indirectly and directly owned by Alexander Anton (Chairman of the Company) and Benjamin Shaw (a Director of the Company until 28 March 2022).

On 1 February 2021, Celadon Property Co Limited entered into an agreement with AFS Advisors LLP for the provision of strategic and general corporate advice, including IPO services. Under the terms of the agreement with Celadon Property Co Limited, AFS Advisors LLP were entitled to 5 per cent of shareholder value created over certain market capitalisation thresholds. Pursuant to the agreement, this entitlement was replaced by AFS Advisors LLP's participation in the Company's Subsidiary Incentive Scheme as described further in note 28.

On 14 January 2022, AFS Advisors LLP and Celadon Property Co Limited entered into an agreement under which AFS Advisors LLP would be entitled to receive an initial contingent transaction success fee of £350,000 on Admission for corporate finance and strategic advisory services provided as part of the transaction. Furthermore, under the terms of the agreement, Celadon Property Co Limited may at its election, award AFS Advisors LLP a discretionary fee of a further £580,000 within 12 months of Admission, which if paid, would equate to a total success fee of 1% of the pre-money value of the Enlarged Group. No discretionary payment has been made.

In the year ended 31 December 2022, £350,000 of fees were charged to the Company (2021: £nil). At 31 December 2022 £nil was unpaid (2021: £nil).

Long Drive Advisors LLP ("Long Drive")

Mark Familoe (a former Director of Celadon Pharmaceuticals Plc) is the LLP Designated Member of Long Drive.

On 9 July 2022, Celadon Pharmaceuticals plc entered into an agreement with Long Drive under which Long Drive agreed to provide general strategic and corporate financial advice.

In the year ended 31 December 2022, Long Drive charged £30,000 per month (plus VAT) payable in arrears. At 31 December 2022, £nil was unpaid.

Tessera Investment Management Limited ("Tessera")

Tony Morris (a former Director of Celadon Pharmaceuticals Plc), and Katie Long (the former Chief Financial Officer of Celadon Pharmaceuticals Plc) are the directors and shareholders of Tessera.

On 15 January 2021, Summerway Capital Plc entered into an agreement with Tessera pursuant to which Tessera agreed to provide strategic and general corporate advice, and M&A and capital raising transaction support services.

Tessera charged £12,500 per month (plus VAT) payable monthly in arrears from the date of the agreement. The agreement terminated on readmission of the Group to AIM on 28 March 2022. In the year ended 31 December 2022, £235,236 of fees were charged to the Company (2021: £165,000). At 31 December 2022 £50,763 was unpaid (2021: £nil).

On 5 March 2021, Vertigrow Technology Limited entered into an agreement with Tessera pursuant to which Tessera agreed to provide strategic and general corporate advice, and M&A and capital raising transaction support services. Under the agreement, Tessera was to participate in the Celadon Subco Limited share incentive scheme to be implemented in the region of 1.5 per cent of additional shareholder value created through such scheme, by way of an allocation to Katie Long on her appointment as CFO. This agreement was terminated on 28 March 2022.

This entitlement was replaced by Katie Long's participation in the Subsidiary Incentive Scheme (note 28) at re-admission on comparable terms.

On 28 July 2022, Celadon Pharmaceuticals plc reappointed Tessera as a strategic advisor to the Group. Under the new agreement Tessera agreed to continue to provide general corporate and strategic advice to the Company on the basis of four days support per month for a fixed monthly retainer of £5,000 (plus VAT).

In the year ended 31 December 2022, £54,783 of advisory fees were charged to the Company (2021: £150,000). At 31 December 2022 £nil was unpaid (2021: £nil).

Subsidiary Incentive Scheme

On the 11 April 2022, and pursuant to the amended Subsidiary Incentive Scheme detailed in note 28, a number of new B Shares were issued to former and current Directors of the Company at subscription prices ranging from £0.0139 to £0.0144 per B Share. The current allocation of B shares in issue to former and current Directors of the Company are set out below.

| Name | Previous B Shares | | New B Shares issued pursuant to amended | Current B Shares held |
|---|-------------------|--------------------|---|--------------------------|
| | held | Agreed buybacks | Scheme | |
| Alexander Anton (Chairman) | 75,000 | - | 166,666 | 241,666 |
| Benjamin Shaw (former Director) | 75,000 | - | 166,667 | 241,667 |
| Mark Familoee (former Director) | 75,000 | - | 166,667 | 241,667 |
| Tony Morris (former Director) | 175,000 | (50,000) | - | 125,000 |
| Vin Murria (former Director) | 1,000,000 | (1,000,000) | - | - |
| Paul Gibson (former Director) | 50,000 | - | - | 50,000 |
| James Short (Chief Executive Officer) | - | - | 200,000 | 200,000 |
| Katie Long (former Chief Financial Officer) | - | - | 150,000 | 150,000 |
| Issued to other employees / advisors | - | - | 400,000 | 400,000 |
| Total | 1,450,000 | (1,050,000) | 1,250,000 | 1,650,000 |

Shortly after the issuance of the new B Shares detailed above, in accordance with the terms of the resignation letters of Vin Murria and Tony Morris, all of Vin Murria's B Shares and 50,000 of Tony Morris' B Shares were bought back from the Subsidiary on 11 April 2022 at their original subscription cost of £14,000 and £700 respectively.

Market purchases

On 10 March 2022, Alexander Anton acquired 10,000 ordinary shares of Celadon Pharmaceuticals Plc as part of a secondary market transaction, which was announced on 10 March 2022. Following this and 209,569 ordinary shares held indirectly as a result of the share consideration paid by the Celadon Pharmaceuticals Plc to the shareholders of Celadon Property Co Limited, Alexander Anton's shareholding in the Company increased to 1,319,569 ordinary shares, representing 2.1 per cent of the Company's share capital.

30. Commitments and Contingencies

Commitments

At 31 December 2022 the Group had committed capital expenditure amounts of £nil (2021: £nil).

31. Subsequent events

On 16 January 2023, the Group announced that its Midlands UK facility had been registered by the UK Medicines and Healthcare products Regulatory Agency ("MHRA") for the Good Manufacturing Practice ("GMP") manufacturing of its cannabis Active Pharmaceutical Ingredient.

On 14 March 2023, the Group announced that its Home Office Licence had been successfully updated to allow the commercial sale of its high Δ9-tetrahydrocannabinol product following the registration as a GMP manufacturer by the MHRA.

On 24 May 2023, the Group announced its Inaugural Supply Contract under which the Group will sell a minimum of £3m worth of product over 3 years, with first shipments due in Q4 2023.

On 29 May 2023, the Group signed a 2 year £7.0m Revolving Credit Facility. The borrowings are available to fund the Group's operating and capital expenditure. The Term Loan Agreement is repayable in the event that the Group finds an alternative source of funding which is sufficient to allow the repayment of the Term Loan Agreement.

On 31 May 2023, the Group purchased the 42.5% of the shares of Harley Street (CPC) Limited that it did not already own for a purchase price of £1.

[1] Sannard et al, 2016

[2] <https://www.bbc.co.uk/news/health-65532464>



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