

Report of the Directors and
Financial Statements for the Year Ended 31 December 2016
for
Destiny Pharma Holdings Ltd (formerly known as Destiny Pharma Ltd)

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for the Year Ended 31 December 2016

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DIRECTORS:

Dr W G Love
P Morgan
D V Scott
G H Matthews
A J Eagle
Dr D Roblin
Sir N R Rudd
J E Wade
S E Sacerdoti
N R Clark

SECRETARY:

Dr W G Love

REGISTERED OFFICE:

Sussex Innovation Centre
Science Park Square
Falmer
Brighton
East Sussex
BN1 9SB

REGISTERED NUMBER:

03167025 (England and Wales)

INDEPENDENT AUDITORS:

Crowe Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

Report of the Directors
for the Year Ended 31 December 2016

The directors present their report and the audited financial statements of the company for the year ended 31 December 2016. This report has been prepared in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

CHANGE OF NAME

The Company passed a special resolution on 26 January 2017 changing its name from Destiny Pharma Ltd to Destiny Pharma Holdings Ltd.

REVIEW OF BUSINESS

Financial Review

The year's financial performance was again satisfactory with a loss for the year of £1,257,828 (2015: £1,015,033) reflecting additional investment in the company research portfolio, particularly in the clinical development of XF-73 and the maintenance of the Company Intellectual Property portfolio.

Review of business and future developments

2016 was defined by the continued clinical development of the Company's lead drug - XF-73 (exeporfinium chloride) - with the successful completion of the 5 day dosing study (DMID-11-0007) in the form of the publication of the official Clinical Study Report (CSR) by the US government.

The awareness of the global significance of the issue of bacterial resistance continues to increase in political and economic importance. The United Nations promoted Antimicrobial Resistance to the main UN agenda at their September meeting - only the 4th time ever that a healthcare issue has been discussed at this level. In December 2016, the 21st Century Cures Act was signed into law by President Obama and specifically identifies a new Limited Patent Population pathway for approval of anti-microbial drugs which may offer an expedited route to approvals for Destiny's XF drugs.

In November 2016, Dr Love was appointed to the UK Department of Health's Global Anti-Microbial Resistance Innovation Fund committee as a member of the Expert Advisory Panel.

The Company further strengthened its Board of Directors by two key appointments, namely Mr Simon Sacerdoti as CFO and Mr Neil Clark as CEO, allowing Dr Love to focus on the drug pipeline as CSO.

The Company continues to protect its intellectual property. During 2016, significant patent grants were achieved in the USA with the grant of the XF drug anti-biofilm activity patent and the XF drug novel mechanism of action patent was granted in Japan and Norway.

During 2017, the focus for the Company will be to:

- define its next stage XF-73 clinical trial design;
- engage with the investment community;
- actively seek and evaluate partnering opportunities;
- define further the market for XF-73;
- define the pre-clinical pathway for other XF drug products;
- seek non-dilutive support for Company proprietary projects; and
- engage with industry and governments to develop partnerships for developing XF Drug products.

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Report of the Directors
for the Year Ended 31 December 2016

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2016 to the date of this report.

Dr W G Love
P Morgan
D V Scott
G H Matthews
A J Eagle
Dr D Roblin
Sir N R Rudd
J E Wade

Other changes in directors holding office are as follows:

S E Sacerdoti - appointed 7 April 2016

N R Clark – appointed 20 January 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

-
- select suitable accounting policies and then apply them consistently;
 - make judgements and accounting estimates that are reasonable and prudent;
 - prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

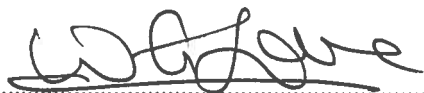
During the year, PricewaterhouseCoopers LLP resigned and Crowe Clark Whitehill LLP were appointed in their place as auditors of the Company for the purpose of the audit of the Company's financial statements.

Report of the Directors
for the Year Ended 31 December 2016

SMALL COMPANIES NOTE

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

ON BEHALF OF THE BOARD:

A handwritten signature in black ink, appearing to read 'W G Love', written over a dotted line.

Dr W G Love - Director

Date: 24 May 2017

Report on the financial statements

We have audited the financial statements of Destiny Pharma Holdings Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, and the related notes numbered 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the FRC's Ethical Standard for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

-
- give a true and fair view of the state of the Company's affairs at 31 December 2016 and of its loss for the year then ended.
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

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



Stephen Bullock
Senior Statutory Auditor
for and on behalf of
Crowe Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

Date: 24 May 2017

Statement of Comprehensive Income
for the Year Ended 31 December 2016

	Notes	2016 £	2015 £
TURNOVER		-	-
Administrative expenses		<u>(1,449,892)</u>	<u>(1,204,627)</u>
OPERATING LOSS		<u>(1,449,892)</u>	<u>(1,204,627)</u>
Interest receivable and similar income		<u>486</u>	<u>7,662</u>
LOSS BEFORE TAXATION	4	<u>(1,449,406)</u>	<u>(1,196,965)</u>
Tax on loss		<u>191,578</u>	<u>181,932</u>
LOSS FOR THE FINANCIAL YEAR		<u><u>(1,257,828)</u></u>	<u><u>(1,015,033)</u></u>

There were no recognised gains and losses for 2016 or 2015 other than those included in the statement of comprehensive income.

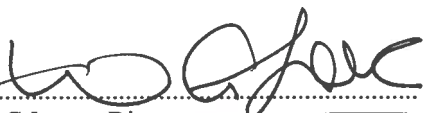
There was no other comprehensive income for 2016 (2015: £NIL).

Statement of Financial Position
31 December 2016

	Notes	2016 £	2015 £
FIXED ASSETS			
Tangible assets	6	1,161	2,500
CURRENT ASSETS			
Debtors	7	24,924	18,947
Prepayments and accrued income		191,578	205,142
Cash at bank and in hand	8	<u>1,481,493</u>	<u>1,118,574</u>
		1,697,995	1,342,663
CREDITORS			
Amounts falling due within one year	9	<u>(154,739)</u>	<u>(94,343)</u>
NET CURRENT ASSETS		<u>1,543,256</u>	<u>1,248,320</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,544,417</u>	<u>1,250,820</u>
CAPITAL AND RESERVES			
Called up share capital		638	620
Share premium		18,335,074	16,984,524
Retained earnings		<u>(16,791,295)</u>	<u>(15,734,324)</u>
SHAREHOLDERS' FUNDS		<u>1,544,417</u>	<u>1,250,820</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements were approved by the Board of Directors on 24 May 2017 and were signed on its behalf by:


.....
Dr W G Love - Director


.....
S E Sacerdoti - Director

Notes to the Financial Statements
for the Year Ended 31 December 2016

1. GENERAL INFORMATION

Destiny Pharma Holdings Ltd is a private company, (limited by shares), incorporated in England and Wales (registration number 03167025).

The address of the registered office is Sussex Innovation Centre, Science Park Square, Falmer, Brighton, East Sussex, BN1 9SB.

Destiny is engaged in the discovery, development and commercialisation of new antimicrobials that have unique properties to improve outcomes for patients and the delivery of medical care into the future.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared under the historical cost convention and in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006.

This is the first year in which the financial statements have been prepared under FRS102. The effect of transition from preparing the financial statements in accordance with FRSSE (2015) to FRS102 (1A) is disclosed in note 15. The date of transition was 1st January 2015.

The following principal accounting policies have been applied:

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated on the original cost of the assets and based on expected useful lives as follows:

Fixtures and equipment - straight line method, between 2 and 10 years

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Research and development

Development costs and expenditure on pure and applied research are charged to the profit and loss account in the year in which they are incurred.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

2. ACCOUNTING POLICIES - continued

Foreign currency

The Destiny Financial Information has been presented in Pound sterling (GBP), being the functional and presentation currency of Destiny.

Transactions in foreign currencies are initially recorded using the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the statement of financial position date. Any resulting exchange differences are included in the statement of comprehensive income.

Pension costs accounting policy

Contributions are made to the personal plans of certain employees. The expenditure is charged to the profit and loss account in the period to which it relates.

Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Creditors

Short term creditors are measured at transaction price.

Cash and cash equivalents

Bank balances and cash in the statement of financial position comprise cash at banks and on hand.

Interest Income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Share based payments

Employees (including Directors and senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments ("equity-settled transactions"). These individuals are granted share option rights approved by the Board. No cash settled awards have been made or are planned.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award ("vesting point"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments and value that will ultimately vest. The statement of comprehensive income charge for the year represents the movement in the cumulative expense recognised as at the beginning and end of that period.

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in the statement of comprehensive income on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of a Black Scholes model.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

2. **ACCOUNTING POLICIES - continued**

Critical Accounting Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following critical judgements have been made by the directors.

Going concern

The Company has not yet recorded any revenues and funds its operations through periodic capital issues. Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. Cash flow forecasts and projections take into account sensitivities on receipts, and costs. Having made relevant and appropriate enquiries, including consideration of the Company's current cash resources and the working capital forecasts, the Directors have a reasonable expectation that the Company will have adequate cash resources to continue to meet the requirements of the business for at least the next twelve months. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Share based payments

The directors have to make judgments when deciding on the variables to apply in arriving at an appropriate valuation of share based compensation and similar awards including appropriate factors for volatility, risk free interest rate and applicable future performance conditions and exercise patterns.

3. **DIRECTORS' REMUNERATION**

	2016	2015
	£	£
Directors' remuneration	152,580	175,411
Pension costs	10,681	10,681
Share option expense	<u>186,571</u>	<u>263,771</u>
	<u>349,832</u>	<u>449,863</u>

The number of directors to whom retirement benefits were accruing was as follows:

Defined contribution schemes	1	1
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The Company defines key management personnel as the Directors of the Company. In addition to the above directors' remuneration, amounts were paid to third parties for directors' services which are disclosed in note 12.

The average monthly number of employees, including directors, during the year was 8 (2015: 8)

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

4. **LOSS BEFORE TAXATION**

The loss is stated after charging:	2016	2015
	£	£
Depreciation - owned assets	1,339	778
Paid to third parties for directors' services	107,568	49,750
Foreign exchange differences	<u>2</u>	<u>367</u>

5. **AUDITORS' REMUNERATION**

	2016	2015
	£	£
Fees payable to the Company's auditors for the audit of the Company's financial statements	<u>15,259</u>	<u>9,204</u>

6. **TANGIBLE FIXED ASSETS**

	Plant and machinery £
COST	
At 1 January 2016 and 31 December 2016	<u>56,147</u>
DEPRECIATION	
At 1 January 2016	53,647
Charge for year	<u>1,339</u>
At 31 December 2016	<u>54,986</u>
NET BOOK VALUE	
At 31 December 2016	<u>1,161</u>
At 31 December 2015	<u>2,500</u>

7. **DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2016	2015
	£	£
Other debtors	<u>24,924</u>	<u>18,947</u>

8. **CASH EQUIVALENTS**

	2016	2015
	£	£
Cash at bank and in hand	<u>1,481,493</u>	<u>1,118,574</u>

9. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2016	2015
	£	£
Trade creditors	57,881	39,156
Taxation and social security	17,252	29,508
Other creditors	<u>79,606</u>	<u>25,679</u>
	<u>154,739</u>	<u>94,343</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

10. **FINANCIAL INSTRUMENTS**

	2016 £	2015 £
Financial assets		
Financial assets measured at fair value through profit or loss	1,481,493	1,118,574
Financial assets measured at amortised cost	24,924	18,947
Financial liabilities		
Financial liabilities measured at amortised cost	135,405	64,834

11. **PENSION COMMITMENTS**

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounts to £19,100 (2015: £14,234). Contributions totalling £2,083 (2015: £nil) were payable to the fund at the balance sheet date and are included in creditors.

12. **RELATED PARTY DISCLOSURES**

The Cadmus Organisation

During the year, £32,827 (2015: £38,025) was paid to The Cadmus Organisation Ltd ("Cadmus") for the services of G H Matthews as director. The amount due to Cadmus at 31 December 2016 was £3,324 (2015: £3,617).

Sacerdoti Consulting

During the year, £56,429 (2015: £nil) was paid to Sacerdoti Consulting Limited for the services of S E Sacerdoti as director of the company. The amount due to Sacerdoti Consulting Limited at 31 December 2016 was £9,600 (2015: £nil).

13. **ULTIMATE CONTROLLING PARTY**

Due to the company's shareholding structure, as no shareholder owns in excess of 50% of the total share capital of the company, the directors consider there to be no ultimate controlling party.

14. **POST BALANCE SHEET EVENT**

On 23 January 2017, the Company undertook a bonus issue of shares whereby, in respect of each Ordinary Share in issue, 499 Ordinary Shares were issued, fully paid resulting in a transfer of £318,542 from share premium to called up share capital.

On 23 January 2017, the Company effected a reduction of share capital whereby the outstanding balance on the Share Premium account amounting to £18,016,550 was transferred to the profit and loss reserve.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2016

15. FIRST TIME ADOPTION OF FRS 102

The company transitioned to FRS 102 from previously extant UK GAAP as at 1 January 2015. The impact of the transition to FRS 102 is as follows:

	As previously stated 31 December 2015 £	Effect of transition 31 December 2015 £	FRS 102 31 December 2015 £
Administrative expenses	<u>(920,755)</u>	<u>(283,872)</u>	<u>(1,204,627)</u>
Operating loss	(920,755)	(283,872)	(1,204,627)
Interest receivable	<u>7,662</u>	<u>-</u>	<u>7,662</u>
Loss before tax	(913,093)	(283,872)	(1,196,965)
Tax on loss	<u>181,932</u>	<u>-</u>	<u>181,932</u>
Loss for the financial year	<u>(731,161)</u>	<u>(283,872)</u>	<u>(1,015,033)</u>

This is the first financial year that the company has presented its financial statements in accordance with FRS 102 Section 1A - small entities The Financial Reporting Framework Applicable in the UK and Republic of Ireland ("FRS 102"). For financial years up to and including the year ending 31 December 2015, the company prepared its financial statements in accordance with previously extant UK GAAP.

The date of transition to FRS 102 Section 1A - small entities is therefore 1 January 2015. This note sets out the changes to accounting policies and the transitional adjustment that are required to be made for first-time transition to FRS 102 Section 1A - small entities.

Share based payment charge

The transition adjustment of £283,872 was related to share based payment charge for the year ended 31 December 2015. The Company was not required to recognise share based payment charges under previously extant UK GAAP. The charge was credited in retained earnings therefore did not have any impact on the net assets of the Company at 31 December 2015. The Company's opening position as at 1 January 2015 and 1 January 2016 has not been restated from previously extant UK GAAP.