

Destiny Pharma plc
(“Destiny Pharma” or “the Company”)

Audited results for the year ended 31 December 2017

Well funded and on track to deliver Phase 2b headline data in H2 2019 for lead asset, XF-73, a novel anti-microbial

Brighton, United Kingdom – 12 April 2018 – Destiny Pharma (AIM: DEST), a clinical stage biotechnology company focused on the development of novel anti-microbial drugs, which address the global problem of anti-microbial resistance (AMR), announces its audited financial results for the year ended 31 December 2017.

Financial highlights

- Successfully completed placing and admission to AIM, raising £15.3 million
- Additional £3.0 million invested by China Medical Systems Holdings Ltd
- Strong cash position with cash and term deposits at 31 December 2017 of £16.7 million (2016: £1.5 million)

Operational highlights

- China and Asia regional development and collaboration agreement signed with China Medical System Holdings Ltd (CMS)
- Patent portfolio strengthened with the grant of the South Korean XF-biofilm patent
- Board and executive management team strengthened with the appointment of Neil Clark as CEO, Dr Bill Love, founder of the Company, as Chief Scientific Officer and Dr Huaizheng Peng, General Manager of International Operations at CMS, as Non-executive Director

Post-period highlights

- US Investigational New Drug (IND) application opened for XF-73
- US Food and Drug Administration (FDA) Fast Track designation granted for XF-73
- First subject enrolled in a Phase 1 dermal safety study for XF-73
- Clarification, through dialogue with the FDA, of the Phase 1 and Phase 2b clinical trials programme – further details of which can be found in a separate announcement released this morning
- Patent portfolio expanded with the grant of Canadian XF-biofilm patent

Neil Clark, Chief Executive Officer of Destiny Pharma, commented:

“In 2017, we built on the existing strong foundations of Destiny Pharma, successfully completing the placing admission to AIM which raised significant additional capital to progress our pipeline through the planned clinical studies, and executing a key strategic partnership in Asia, with China Medical Systems, to help realise our commercial aspirations.

“In 2018, progress has continued to be been strong for our lead candidate, XF-73, with the opening of the IND and award of Fast Track designation. Subsequent discussions with the FDA have clarified the clinical pathway for XF-73. We remain on track to deliver Phase 2b results in H2 2019 as part of a Phase 3 ready package. Importantly, our market analysis continues to support the clinical need and commercial opportunity for XF-73 in the prevention of post-surgery hospital infections, such as MRSA, which is estimated to be over a \$1 billion market opportunity.



“The Company is well funded following the placing at the time of admission to AIM and, whilst our main focus is on our lead asset, we are also looking to progress our earlier pipeline and develop our collaboration with China Medical Systems. There is continuing international support for the development of novel anti-infective drugs that address the issue of anti-microbial resistance and Destiny Pharma’s unique platform is very well-positioned to meet this global need.”

For further information, please contact:

Destiny Pharma plc

Neil Clark, CEO

Simon Sacerdoti, CFO

pressoffice@destinypharma.com

+44 (0)1273 704 440

FTI Consulting

Simon Conway / Victoria Foster Mitchell

destinypharma@fticonsulting.com

+44 (0) 20 3727 1000

Cantor Fitzgerald Europe (Nominated Adviser and Joint Broker)

Philip Davies / Will Goode, Corporate Finance

Andrew Keith, Healthcare Equity Sales

+44 (0)20 7894 7000

finnCap Ltd (Joint Broker)

Geoff Nash /Kate Bannatyne, Corporate Finance

Alice Lane, Corporate Broking

+44 (0)20 7220 0500

About Destiny Pharma

Destiny Pharma is an established, clinical stage, innovative biotechnology company focused on the development of novel medicines that represent a new approach to the treatment of infectious disease. These potential new medicines are being developed to address the need for new drugs for the prevention and treatment of life-threatening infections caused by antibiotic-resistant bacteria, often referred to as “superbugs”. Tackling anti-microbial resistance has become a global imperative recognised by the World Health Organisation (WHO) and the United Nations, as well as the G7 and the G20 countries. For further information, please visit <https://www.destinypharma.com>

Forward looking statements

Certain information contained in this announcement, including any information as to the Group’s strategy, plans or future financial or operating performance, constitutes “forward-looking statements”. These forward looking statements may be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “projects”, “expects”, “intends”, “aims”, “plans”, “predicts”, “may”, “will”, “seeks” “could” “targets” “assumes” “positioned” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this announcement and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things, the Group’s results of operations, financial condition, prospects, growth, strategies and the industries in which the Group operates. The directors of the company believe that the expectations reflected in these statements are reasonable, but may be affected by a number of variables which could cause actual results or trends to differ materially. Each forward-looking statement speaks only as of the date of the particular statement. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group’s control. Forward looking statements are not guarantees of future performance. Even if the Group’s actual results of operations, financial condition and the development of the industries in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Chief Executive Officer's Statement

Operational review

Destiny Pharma is an established, clinical stage, innovative biotechnology company focused on the development of novel medicines that represent a new approach to the treatment of infectious disease. These potential new medicines are being developed to address the need for new drugs for the prevention and treatment of life-threatening infections caused by anti-microbial resistance (AMR). AMR poses a threat to public health and is of serious concern to the WHO. Lord O'Neill's Independent Review on AMR, published in May 2016, predicts ten million deaths and an estimated \$100 trillion cost by 2050.

The Company's lead asset, XF-73, has been developed from Destiny Pharma's novel, antimicrobial "XF" drug platform. Unlike most antibiotics, XF drugs have not been seen to generate bacterial resistance in industry-standard microbiology tests to date and therefore have significant potential to address the global threat of AMR. XF-73 has been shown to kill bacteria very rapidly and therefore may be an effective new treatment in the reduction of bacterial infections in hospital patients, including those caused by methicillin resistant *Staphylococcus aureus* (MRSA). XF-73 is administered topically as a nasal gel whereby it reduces the nasal carriage of the bacteria *Staphylococcus aureus* which is the source of many post-surgical bacterial infections. Approximately a third of all patients across the world have this nasal carriage as they enter surgery and it has the potential to be a very valuable market due to the millions of surgical procedures carried out each year.

Successfully completed placing and admission to trading on AIM to support future growth

In September 2017, Destiny Pharma successfully completed the placing and admission to trading on AIM, a milestone event for the Company. Destiny Pharma raised gross proceeds of £15.3 million from existing and new institutional and other investors. Destiny Pharma is now well funded to deliver on its strategy to continue the focused development of its pipeline through to 2020. These strategic aims, set out at the time of the Company's admission to AIM, include advancing the Company's lead asset, XF-73, to complete a Phase 2b clinical trial and supporting studies; developing two other pipeline projects through formulation and pre-clinical studies; conducting further research on the earlier assets in the XF drug platform; and exploring other opportunities to generate shareholder value from the XF and DPD drug platforms.

Destiny Pharma also announced in September a binding framework agreement, detailing a collaboration with a wholly-owned subsidiary of China Medical System Holdings Ltd (CMS), to enable the development and commercialisation of the Company's platform in China and certain other Asian countries, excluding Japan. In December 2017 the Company entered into a regional development and collaboration agreement with CMS, at which time CMS invested a further £3.0 million (also invested £3.0 million through the IPO placing) and Dr Huaizheng Peng, a senior CMS executive, joined the Board of Destiny Pharma. This collaboration has started well and the parties' research and development teams have commenced discussions on what activities will be carried out by CMS in China under the supervision of a joint Steering Committee, which was established to coordinate the collaboration.

Strengthened executive management team

In 2017, Neil Clark was appointed as Chief Executive Officer and member of the Board of Directors of Destiny Pharma. Neil joined from Ergomed plc, a company dedicated to the provision of specialised services to the pharmaceutical industry and the development of new drugs, where he was Chief Financial Officer for its initial public offering in July 2014. Neil has spent 20 years in private and public life science companies and, as the Company moves forward, Neil's experience in clinical stage biopharmaceutical companies and listed companies will be invaluable as Destiny Pharma seeks to advance its pipeline.

Dr Bill Love, scientific founder and previous CEO of Destiny Pharma, was appointed as Chief Scientific Officer of the Company in the newly created role. As a recognised thought leader in combating the global issue of anti-microbial resistance, Bill will continue to focus on developing the XF drug platform as the Company seeks to expand and further strengthen its already robust intellectual property position.

Continued progress on clinical development pipeline

During 2017, Destiny Pharma continued to progress its clinical pipeline, working towards finalising development plans for its lead asset, XF-73, for the prevention of post-surgical infections such as MRSA. With the funding for the next development phase for the product secured, Destiny Pharma is finalising contracts for the manufacturing, regulatory and clinical work that will enable the completion of the planned Phase 2b and Phase 1 US studies.

This momentum has continued into 2018, with Destiny Pharma opening a US IND application for XF-73 in February, which is a key regulatory prerequisite for conducting clinical trials in the US. This was followed by the FDA granting Fast Track designation for XF-73, for the prevention of post-surgical staphylococcal infections in March 2018. The clinical programme for XF-73 has been further refined following discussions with the FDA and a Phase 1 dermal safety study, looking at potential skin irritation of XF-73 in up to 25 subjects, has started recruiting subjects in a specialist US based unit. In addition, the Company is pleased that the FDA has positively clarified the requirements and timings of the additional Phase 1 studies, reducing the amount of Phase 1 data required ahead of the Phase 2b study, (these are detailed in the separate clinical trials update announced today).

The Company remains on track to deliver Phase 2b results for XF-73 in H2 2019. This Phase 2b study will evaluate the nasal anti-staphylococcal efficacy and clinical safety of XF-73 compared to placebo in pre-surgical patients at risk of infection. The study design will be closely related to the successful 2016 clinical trial, which was funded by the National Institute of Allergy and Infectious Disease (part of the US National Institute of Health) and demonstrated the clinical efficacy of XF-73 versus placebo in reducing nasal *Staphylococcus aureus* carriage in healthy volunteers. The Company's plan is to build a Phase 3 ready package consisting of the agreed clinical studies and concurrent toxicology and manufacturing projects.

Destiny Pharma is also looking to accelerate work on its earlier programmes and is carrying out additional market research to clarify current clinical needs and the most effective targeting of the Company's compounds. This review includes discussion with key opinion leaders and a separate market research project to evaluate the commercial opportunity and competitor environment. Further updates will be given later in 2018 on the detail of the planned work.

Destiny Pharma continued to strengthen its patent estate, with the grant of the XF biofilm patent in South Korea in June 2017 and in Canada in February 2018, bringing the total number of XF platform granted patents to 95.

Globally recognised issue that urgently needs addressing

International reviews and initiatives continued to take place during the period in support of tackling the global issue of antibiotic resistance. These have included discussions and announcements at G7, G20 and United Nations meetings, as well as the World Health Organisation's GARDP and DRIVE-AB, an EU/industry partnership. Mechanisms to support the clinical development of new anti-infectives proposed include additional "push" grant incentives, as well as significant "pull" market entry rewards. This was reiterated at the World Economic Summit in Davos in January 2018. Destiny will continue to contribute to policy development and will apply for appropriate grants and other non-dilutive funding where they fit with the Company's research and development plans.

Outlook

The funds raised in 2017 provide Destiny Pharma with the capital to develop its lead asset, XF-73, through the proposed US clinical Phase 2b programme, delivering a robust package for partnering and/or further development into Phase 3, the final stage of clinical development. The Company has had a strong start to 2018, having opened a US IND and received Fast Track designation for XF-73. Subsequent discussions with the FDA have clarified the clinical pathway for XF-73 and the Company remains on track to deliver Phase 2b results in H2 2019. Importantly, market analysis continues to support the clinical need and commercial opportunity for XF-73 in the prevention of post-surgery hospital infections, such as MRSA, which is estimated to be over a \$1 billion market opportunity.

Funds will also be used to develop new clinical candidates from the Company's pre-clinical pipeline and to capitalise on commercial opportunities, including partnering and licensing. The Board is confident that the Company is well funded to execute on its business strategy and to progress its lead and follow-on programmes through the planned clinical studies in 2018 and 2019. In addition, with the completion of the collaboration agreement with CMS in China, Destiny Pharma is committed to working with its Chinese partner to develop the Company's exciting clinical pipeline to help realise its commercial aspirations. There is continuing international support for the development of novel anti-infective drugs that address the issue of anti-microbial resistance and Destiny Pharma's unique platform is very well-positioned to meet this global need.

Neil Clark
Chief Executive Officer
12 April 2018

Chief Financial Officer's Statement

Financial review

Financial information is presented for the year ended 31 December 2017.

In January 2017, shareholders approved a series of corporate measures in preparation for the planned flotation of the Company. This included a bonus issue of shares from the share premium account, whereby 499 new ordinary shares were issued for each ordinary share held (effectively multiplying the number of shares in issue by 500 and dividing the value of each by 500). The balance sheet was then restructured to enable Destiny Pharma to re-register as a public limited company, a necessary precursor to flotation, by capitalising the remaining share premium account into retained earnings. Destiny Pharma re-registered as a public limited company in August 2017.

In September 2017, the Company raised gross proceeds of £15.3 million in a placing with institutional and other investors, and on 4 September 2017, the Company's share capital was admitted to trading on the AIM market of the LSE, under the ticker DEST.

The Company raised a further £3.0 million in December 2017 at the IPO price, at the time of entering into a regional development and commercialisation agreement with China Medical Systems.

Revenue

Destiny Pharma is a clinical stage research and development company and therefore did not generate any revenue during the period.

Administrative expenses

Administrative expenses, which exclude the share-based payments charge of £0.7 million (2016: 0.2 million), during the period, amounted to £2.5 million (2016: £1.2 million).

This includes £0.5 million (2016: £nil) of one-off costs relating to the AIM flotation that have been taken through the statement of comprehensive income, rather than offset against share premium. Research and development (R&D) costs totalling £0.8 million (2016: £0.9 million) reflects the relatively light scientific and clinical programme during the first eight months of the year as the Company focused on preparing and delivering a successful placing and admission to trading on AIM. These costs have subsequently ramped up towards the key clinical studies that will begin in 2018.

Taxation

The Company's R&D activities are eligible for UK R&D small or medium-sized enterprise ("R&D tax credit") scheme, which provides additional taxation relief for qualifying expenditure on R&D activities, with an option to surrender a portion of tax losses arising from qualifying activities in return for a cash payment from HM Revenue & Customs (HMRC). The Company received a repayment of £0.2 million in respect of the R&D tax credit claimed in respect of the year ended 31 December 2016, and the R&D tax credit receivable in the balance sheet of £0.2 million is an estimate of the cash repayment the Company expects to qualify for in respect of activities during the year ended 31 December 2017, however, as at the date of this report these amounts have not yet been agreed with HMRC.

Loss per share

Basic and diluted loss per share for the year was 8.4 pence (2016: 4.0 pence).

Cash, cash equivalents and term deposits

The Company's cash, cash equivalents and term deposits at the year-end totalled £16.7 million (2016: £1.5 million).

The net cash outflow from operating activities in 2017 was £2.2 million against an operating loss of £3.2 million, with the major reconciling items being the non-cash charge for share-based payments of £0.7 million, the R&D credit received of £0.2 million and other net movements in working capital of £0.1 million.

Simon Sacerdoti
Chief Financial Officer
12 April 2018

Statement of comprehensive income

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Continuing operations			
Revenue		-	-
Administrative expenses		(2,511,871)	(1,249,035)
Other operating income		-	89
Share option charge		(709,979)	(200,857)
Operating loss		(3,221,850)	(1,449,803)
Finance income	4	10,459	397
Loss before tax		(3,211,391)	(1,449,406)
Taxation	5	233,908	191,578
Loss and total comprehensive loss for the year from continuing operations		(2,977,483)	(1,257,828)
Loss per share – pence			
Basic	6	(8.4)p	(4.0)p
Diluted	6	(8.4)p	(4.0)p

Statement of financial position
as at 31 December 2017

	Notes	As at 31 December 2017 £	As at 31 December 2016 £	As at 1 January 2016 £
Assets				
Non-current assets				
Property, plant and equipment		22,313	1,161	2,500
Non-current assets		22,313	1,161	2,500
Current assets				
Trade and other receivables	7	277,126	216,520	200,879
Cash and cash equivalents	8	11,724,037	1,481,493	1,118,574
Prepayments		59,641	-	23,210
Other financial assets	9	5,000,000	-	-
Current assets		17,060,804	1,698,013	1,342,663
TOTAL ASSETS		17,083,117	1,699,174	1,345,163
Equity and liabilities				
Equity				
Called up share capital	10	435,626	638	620
Share premium		17,292,284	18,335,074	16,984,507
Retained earnings		(1,042,268)	(16,791,296)	(15,734,325)
Shareholders' equity		16,685,642	1,544,416	1,250,802
Current liabilities				
Trade and other payables	11	397,475	154,758	94,361
Current liabilities		397,475	154,758	94,361
TOTAL EQUITY AND LIABILITIES		17,083,117	1,699,174	1,345,163

Statement of changes in equity
for the year ended 31 December 2017

	Called up share capital £	Share premium £	Retained earnings £	Total £
1 January 2016	620	16,984,507	(15,734,325)	1,250,802
Issue of share capital	18	1,350,567	-	1,350,585
Total comprehensive loss	-	-	(1,257,828)	(1,257,828)
Share option charge	-	-	200,857	200,857
31 December 2016	638	18,335,074	(16,791,296)	1,544,416
Reduction of capital (note 12)	-	(18,016,532)	18,016,532	-
Bonus issue of shares (note 12)	318,542	(318,542)	-	-
Issue of share capital	116,446	18,165,573	-	18,282,019
Cost of share issue	-	(873,289)	-	(873,289)
Total comprehensive loss	-	-	(2,977,483)	(2,977,483)
Share option charge	-	-	709,979	709,979
31 December 2017	435,626	17,292,284	(1,042,268)	16,685,642

Statement of cash flows
for the year ended 31 December 2017

	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Cash flows from operating activities		
Loss before income tax	(3,211,391)	(1,449,406)
Depreciation charges	2,077	1,339
Share option charge	709,979	200,857
Finance income	(10,459)	(397)
(Increase)/decrease in trade and other receivables	(77,935)	17,233
Increase in trade and other payables	242,736	60,397
Tax received	191,578	181,932
Net cash outflow from operating activities	(2,153,415)	(988,045)
Cash flows from investing activities		
Purchase of tangible fixed assets	(23,230)	-
Purchase of other financial assets	(5,000,000)	-
Interest received	10,459	(396)
Net cash outflow from investing activities	(5,012,771)	(396)
Cash flows from financing activities		
New shares issued net of issue costs	17,408,730	1,350,568
Net cash inflow from financing activities	17,408,730	1,350,568
Net increase in cash and cash equivalents	10,242,544	362,919
Cash and cash equivalents at the beginning of the year	1,481,493	1,118,574
Cash and cash equivalents at the end of the year	11,724,037	1,481,493

Notes to the financial statements

1. Corporate information

Destiny Pharma plc ("Destiny Pharma" or the "company") was incorporated and domiciled in the UK on 4 March 1996 with registration number 03167025. The company's registered office is located at Unit 36 Sussex Innovation Centre Science Park Square, Falmer, Brighton, BN1 9SB.

The company 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. Basis of preparation

This financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS's") as adopted by the European Union. The financial information has been prepared under the historical cost convention.

The company's Financial Information has been presented in Pounds sterling (GBP), being the functional and presentation currency of the company.

Standards and interpretations issued but not yet applied

At the date of authorisation of the company's Financial Information, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board but are not yet effective and have not been adopted early by the either the company. All relevant standards, amendments and interpretations to existing standards will be adopted in the company's accounting policies in the first period beginning on or after the effective date of the relevant pronouncement.

The Directors do not anticipate that the adoption of these standards, amendments and interpretations will have a material impact on the company's Financial Information in the periods of initial application.

3. Segment reporting

The chief operating decision-maker is considered to be the Board of Directors of the company. The chief operating decision-maker allocates resources and assesses performance of the business and other activities at the operating segment level.

The chief operating decision maker has determined that the company has one operating segment, the development and commercialisation of pharmaceutical formulations. All activities take place in the United Kingdom.

4. Net finance income

	31 December 2017 £	31 December 2016 £
Finance income:		
Deposit account interest	10,459	397

5. Income tax

	31 December 2017 £	31 December 2016 £
Research and development tax credits based on costs in the financial year	(233,908)	(191,578)
	<u> </u>	<u> </u>
Tax reconciliation		
	31 December 2017 £	31 December 2016 £
Loss before tax	(3,221,850)	(1,449,406)
Loss before tax multiplied by the UK corporation tax rate of 20% (2016: 20%)	(644,370)	(289,881)
Effects of:		
Non-deductible expenditure	99,969	40,171
R&D enhanced expenditure	(132,210)	(106,432)
Lower tax rate on R&D losses	38,576	32,297
Tax losses carried forward	404,127	132,268
	<u> </u>	<u> </u>
Total tax credit on loss	(233,908)	(191,578)
	<u> </u>	<u> </u>

There were no tax charges in the period. There are tax losses available to carry forward amounting to approximately £12.8 million (2016: £10.8 million), which includes £1.5 million (2016: £1.4 million) in respect of tax deductions on share options. A deferred tax asset on losses is not recognised in the accounts due to the uncertainty of future profits against which they will be utilised.

6. Loss per ordinary share

The calculation for loss per ordinary share (basic and diluted) for the relevant period is based on the earnings after income tax attributable to equity shareholders for the period. As the company made losses during the period, there are no dilutive potential ordinary shares in issue, and therefore basic and diluted loss per share are identical. The calculation is as follows:

	31 December 2017 £	31 December 2016 £
Loss for the year attributable to shareholders	(2,977,483)	(1,257,828)
Weighted average number of shares	35,253,765	62,426
Bonus issue of shares in January 2017 (see note 12)	-	31,854,164
Total	35,253,765	31,916,590
Loss per share – pence - Basic and diluted	(8.4)p	(4.0)p

7. Trade and other receivables

	31 December 2017 £	31 December 2016 £	1 January 2016 £
Other debtors	43,218	24,942	18,947
Research and development tax repayment	233,908	191,578	181,932
	<u>277,126</u>	<u>216,520</u>	<u>200,879</u>

8. Cash and cash equivalents

	31 December 2017 £	31 December 2016 £	1 January 2016 £
Cash and bank balances	<u>11,724,037</u>	<u>1,481,493</u>	<u>1,118,574</u>

9. Other financial assets

	31 December 2017 £	31 December 2016 £	1 January 2016 £
Term deposits with maturities greater than three months	5,000,000	-	-
	<u> </u>	<u> </u>	<u> </u>

10. Share capital

Ordinary shares of £0.01 each

	31 December 2017 Number	31 December 2016 Number
Authorised	n/a*	10,000,000
Allotted and fully paid		
At 1 January	63,836	61,976
Bonus issue of shares during the year (see note 12)	31,854,164	-
Issued for cash during the year	11,644,598	1,860
	<u> </u>	<u> </u>
At 31 December	43,562,598	63,836
	<u> </u>	<u> </u>

* - During the year, the company adopted new Articles of Association, which do not require the company to have authorised share capital.

	31 December 2017 £	31 December 2016 £	1 January 2016 £
Authorised	n/a	100,000	1,000
Allotted and fully paid	435,626	638	620

	31 December 2017 £	31 December 2016 £	1 January 2016 £
Share premium account			
Share premium account	17,292,284	18,335,074	16,974,384
	<u> </u>	<u> </u>	<u> </u>

Each ordinary share ranks *pari passu* for voting rights, dividends and distributions and return of capital on winding up.

Share options

The expense arising from share-based payment transactions recognised in the year ended 31 December 2017 was £709,979 (year ended 31 December 2016: £200,857).

The company's share-based payment arrangements are summarised below.

Share option schemes

As part of its strategy for executive and key employee remuneration, the company issued share options under two schemes established on 15 November 2000 – an Unapproved Scheme and an EMI Scheme (the "Old Schemes"). During 2017, the company established two new share option schemes – the LTIP Employee Scheme and the LTIP Non-Employee Scheme, both of which were established on 18 April 2017 (the "New Schemes"). Awards under the LTIP Employee Scheme are made to qualifying employees and in accordance with Schedule 5 of the Income Tax (Earnings and Pensions) Act 2003 so that, provided awards are within the qualifying limits, the awards qualify as EMI options. Any awards under the LTIP Employee Scheme which do not fall within the qualifying limits do not qualify as EMI options. Awards under the LTIP Non-Employee Scheme do not qualify as EMI options.

The principal terms of the company's share option schemes are as follows:

Unapproved Scheme

Options are granted at the discretion of the Directors. The price per share to be paid on exercise of an option will be the market value as agreed with the Share Valuation Division of HM Revenue & Customs at the time of the grant of the option and as detailed in the option certificate. Options may be exercised three years from the date of grant and lapse on the expiry of ten years from the date of grant of the option.

EMI Scheme

Options granted under the EMI Scheme are on substantially the same terms as options granted under the Unapproved Scheme, save that the EMI Scheme rules comply with the terms of the enterprise management incentive as set out in Schedule 14 of the Finance Act 2000.

Employee LTIP Scheme

Options are granted at the discretion of the Directors to eligible employees in accordance with Schedule 5 of the Income Tax (Earnings and Pensions) Act 2003 up to the limits set out therein. The price per share to be paid on exercise of an Employee LTIP Option will be the market value as agreed with HMRC at the time of the grant of the option. Option lapse on the expiry of ten years from the date of grant, the date specified in any leaver provisions or any other lapse date specified in the relevant option agreement.

Non-Employee LTIP Scheme

Options are granted on substantially similar terms to the Employee LTIP Scheme except that the EMI and/or employment related provisions and requirements do not apply. These options can be granted to any Director of, or individual providing consultancy or other services to, the company.

Modification of schemes and reconciliation of share options in issue

During May and June 2017, modifications were made to the Old Schemes by issuing replacement options in the New Schemes to participants in the Old Schemes and new awards were subsequently made to individuals under the New Schemes.

	31 December 2017		31 December 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance outstanding at beginning of year	6,079,518*	£0.068	5,707,403*	£0.038
Granted during year	669,305	£0.01	372,115*	£0.52
Options outstanding at end of year	6,748,823	£0.062	6,079,518*	£0.068
Options exercisable at the end of the year	681,000	£0.068	5,627,832	£0.068

* - On 23 January 2018 the company undertook a bonus issue of shares whereby 499 new ordinary shares were issued fully paid to the holders of each ordinary share by way of a partial capitalisation of share premium account. In addition, as explained below, some existing options were modified to reduce the number of options outstanding. Comparative figures have been adjusted to restate numbers and values of share options issued as if the bonus issue and modification had been in effect from 1 January 2016.

Modification of existing options

Options over 741,000 shares granted under the Old EMI Scheme and over 103,000 shares granted under the Old Unapproved Scheme were unchanged. The remaining options over 7,004,000 shares issued under the Old Schemes were modified so that, to exercise, the holders of such options now have the right to subscribe instead for an aggregate of 5,235,518 shares in the company. The number of such options and the exercise price of such options were determined by reference to the closing fair value of the ordinary shares on the day of modification. The modification of these options as described had a neutral effect on the option holders immediately before and after the amendment of the options.

15,696 share options were issued under the Old Schemes in the period to 31 December 2016. After adjusting for the bonus issue on 23 January 2017, 7,848,000 share options had been issued prior to the modification at adjusted weighted average exercise prices of between £0.2484 and £1.4522.

The estimated fair value of all share options at the modification date was calculated by applying a Black-Scholes option pricing model. In the absence of a liquid market for the share capital of the company the expected volatility of its share price is difficult to calculate. Therefore, the Directors considered the expected volatility used by listed entities in similar operating environments to calculate the expected volatility. The resulting incremental fair value was nil.

The model inputs at the modification date were:

- share price of £1.4522;
- exercise prices of between £0.2484 and £1.4522 per share;
- expected volatility of 49%;
- remaining contractual life of options of between 5.37 and 9.65 years;
- risk-free interest rate of 1.4%; and
- expected dividends of £nil.

Grants of options

On 16 May 2017, 172,152 Employee LTIP EMI Options were granted to Neil Clark (CEO) and 78,379 Employee LTIP EMI Options were granted to Simon Sacerdoti (CFO). On 2 June 2017, 172,153 Employee LTIP Non-EMI Options were granted to Mr Clark and 152,848 Employee-LTIP Non-EMI Options were granted to Mr Sacerdoti. All of the options are exercisable at a price of £0.01 per ordinary share either on the first anniversary of issue or the first anniversary of Admission.

The estimated fair value of share options granted under the New Schemes has been calculated by applying a Black-Scholes option pricing model. In the absence of a liquid market for the share capital of the company the expected volatility of its share price is difficult to calculate. Therefore, the Directors have considered the expected volatility used by listed entities in similar operating environments to calculate the expected volatility. The weighted average fair value of options granted in the period was £1.44 (2016: £0.64)

The model inputs were:

	2017	2016
Share price	£1.4522	£1.0865/£1.4522
Exercise price	£0.01	£1.0865/£1.4522
Expected volatility	49%	49%
Expected option life	10 years	10 years
Risk free rate	1.4%	1.4%
Expected dividends	Nil	Nil

11. Trade and other payables

	31 December 2017	31 December 2016	1 January 2016
	£	£	£
Trade creditors	151,582	57,881	39,155
Social security and other taxes	41,110	17,251	29,508
Accrued expenses	189,251	77,544	25,698
Pension contributions payable	15,532	2,082	-
	<u>397,475</u>	<u>154,758</u>	<u>94,361</u>

12. Bonus issue of shares and capital reduction

In 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 26 January 2017, the company effected a reduction of capital whereby the outstanding balance on the share premium account amounting to £18,016,550 was transferred to the profit and loss reserve.

13. Statutory accounts

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditor has reported on those accounts; their reports (i) were unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The 2017 accounts will be sent to shareholders and made available on the Company's website www.destinypharma.com in due course.