Destiny Pharma

Final Results

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Destiny Pharma plc
("Destiny Pharma" or "the Company")

Audited results for the year ended 31 December 2018

Well-funded and on track

Brighton, United Kingdom - 9 April 2019 - 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 2018.

Financial highlights

- Strong cash position with cash and term deposits at 31 December 2018 of £12.1 million (2017: £16.7 million)
- Increase in R&D expenditure to £3.5 million (2017: £0.8 million) due to planned clinical development costs

Operational highlights

XF-73 for prevention of post-surgical infections

- Phase 2b protocol finalised and 200 patient study now starting April 2019
- Results due around year-end 2019
- US market research report confirms clinical need and attractive target product profile of XF-73 nasal - clear unmet need and payer support for proposed pricing supports large market potential
- US Investigational New Drug (IND) application opened for lead clinical programme XF-73 nasal - a novel anti-microbial being developed as a preventative treatment
- US Food and Drug Administration (FDA) Fast Track designation granted for XF-73
- Clarification, through dialogue with the FDA, of the Phase 1 and Phase 2b clinical trials programme
- Successful completion of required Phase 1 dermal safety studies to enable start of Phase 2b

Earlier pipeline and research grants

- New dermal infection clinical programme initiated with XF-73 targeting diabetic foot ulcer infections
- Award of two research grants in collaborations with Aston and Southampton Universities
- Patent portfolio expanded with the grant of Canadian XF-biofilm patent

Corporate highlights

- Board and executive management team strengthened with the appointment of Jesus Gonzales MD as Chief Medical Officer and Shaun Claydon as Chief Financial Officer

Post-period highlights

- Award of UK China AMR grant of up to £1.6 million to examine XF compounds potential against dermal and ocular infections
- UK government announces new 5 and 20 year plans to address AMR and to support novel drug development addressing AMR and improved financial incentives for companies bringing such new drugs to market
- Nick Rodgers appointed as Chairman replacing Sir Nigel Rudd who stepped down after 15 years with the Company

Neil Clark, Chief Executive Officer of Destiny Pharma, commented:
"We have made significant progress in the first full year following our IPO in September 2017, delivering on key targets set out at the time, including a number of clinical development objectives, and the Company remains well funded to H2 2020.

"Our lead clinical candidate, XF-73 nasal is being developed as a preventative treatment reducing the carriage of Staphylococcus aureus with the intention of preventing post-surgical hospital infections; a $1 billion peak sales market opportunity. During April 2019 we will initiate the important Phase 2b clinical trial in this setting and will complete recruitment later this year.

"Whilst our main focus is on our lead asset we are also continuing to progress our earlier XF pipeline having won three grants to support this workstream. 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 well-positioned to meet this global need."

This announcement has been released by Neil Clark, CEO, on behalf of the Company

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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 UK government's recent update on their 5 and 20 year AMR plans also confirmed yet again the importance of addressing AMR and innovation in the development of novel anti-infectives.

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.

We believe XF-73 is clearly differentiated from traditional antibiotics and many current anti-infective drugs in development in that the XF approach is prophylactic and follows the well-established medical truth that "prevention is better than cure". The XF's target product profile also addresses the key issue of AMR. This belief is supported by feedback from our market research targeting physicians, pharmacists and payers in the US who are responsible for managing hospital infections and the associated cost implications. This research also supports our proposed pricing strategies for XF-73 nasal gel as a new hospital product.

Executive management team strengthened, new Chairman appointed

In 2018, Jesús M González Moreno, M.D was appointed as Chief Medical Officer and Shaun Claydon joined as Chief Finance Officer. Jesus is an infectious disease expert with more than 11 years' experience of working within global pharmaceutical and biotechnology companies to design, coordinate and execute clinical development plans for anti-infective drug candidates. His experience spans from early and late clinical development to medical affairs and preparation for marketing authorisation submissions. Shaun is an accomplished

corporate financier and Chartered Accountant with over 16 years board level experience within the biotechnology sector.

Nick Rodgers, a Non-Executive Director, became Chairman following Sir Nigel Rudd's departure on 31 December 2018 after 15 years of service. Nick has considerable Board experience in both public and private growth companies, particularly those in the life science sector, as well as a background as a successful corporate financier and investment banker.

Phase 2b clinical trial starting Q2 in 200 patients undergoing surgical procedures

During 2018, Destiny Pharma continued to progress its clinical pipeline and has finalised the Phase 2b clinical development plans for its lead asset, XF-73, for the prevention of post-surgical infections such as MRSA. Destiny Pharma is now starting the Phase 2b with patient recruitment expected to be completed by the end of 2019. The trial is a multi-centre, randomised, blinded, placebo-controlled study of multiple applications of a single concentration of XF-73 nasal gel to assess the microbiological effect of XF-73 on commensal *Staphylococcal aureus* nasal carriage in patients scheduled for surgical procedures deemed to be at high risk of post-operative *Staphylococcal aureus* infection. The study is larger than originally planned and reflects the expert advice taken on statistical parameters, microbiological end-points and delivering the most complete study possible. The larger study also has the advantage of exposing even more sites and patients in the hospital setting to the XF-73 nasal gel.

The Phase 2b study design is 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.

In advance of finalising the Phase 2b design, Destiny Pharma opened a US IND application for XF-73, 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 was further refined following discussions with the FDA and the required Phase 1 dermal safety study, looking at potential skin irritation of XF-73 gel formulation was completed successfully with XF-73 having a very benign profile with low cumulative irritancy scores similar to a "non-irritant" such as water in our studies. This excellent dermal safety data was also very useful in clarifying the pathway for our new dermal infection programme.

In parallel with the clinical work, good progress has made with improving the efficiency of the synthesis pathway and scale up of XF-73 to improve further the costs of goods. Work is also progressing on possible final product presentations to enhance the ease of use in the hospital setting. The Company's plan is to build a Phase 3 ready package consisting of the agreed clinical studies for the XF-73 nasal gel formulation.

XF-73 dermal - new programme in multi-billion-dollar dermal infection market

Following an extensive review of dermal infection indications that XF-73 could potentially address, the Company will initially focus on developing XF-73 as a new treatment for diabetic foot ulcer infections (DFUs). Driven by the growing number of diabetics and associated complications such as infected DFUs, this represents a significant market opportunity for XF-73. As with all anti-infectives, AMR is also a concern within this market. There is no dominant treatment for DFUs and specialist physicians are therefore working to find better treatment options, including topical formulations. In addition, the target product profile of XF-73 tested favourably with dermal clinicians looking for better treatments for the smaller market for burns/wound infections. The Phase 1 skin irritation studies completed in the period were the first data supporting the use of XF-73 on damaged skin and as stated above the "non-irritant" profile is very promising.

Destiny Pharma is now assessing new formulations of XF-73 for infections in DFUs and burns wounds, which is estimated to be a $0.5 billion global opportunity for the Company based on the incidence of such infections, the costs of the associated medical care and a realistic product pricing of XF-73 in this new market.

Research collaborations and expansion of patent portfolio

Work on earlier programmes such as ventilator associated pneumonia (VAP), biofilms and other indications will be as research projects, including academic or commercial collaborations and grant funded programmes.

In line with this strategy, Destiny Pharma signed a research collaboration agreement with Aston University in July 2018 to examine novel compounds from the XF-platform and assess their potential to prevent, control and eradicate dangerous bacteria in biofilms. Serious infections are frequently caused and exacerbated by biofilms where bacteria can hide and be protected from traditional anti-infective agents. XF compounds have already shown efficacy in biofilm models and this research project will explore the potential further, including looking at the mechanisms-of-action.

A second grant was awarded in November 2018 with Southampton University. The project is examining the use of the Company's novel XF compounds to prevent, control and eradicate chronic clinical infections with underlying biofilm involvement, such as those in diabetic foot ulcers and cystic fibrosis. The NBIC funded collaboration plans to expand on this data using laboratory and clinical microbial biofilm models and the expertise of the team at the University of Southampton's Faculty of Environmental and Life Sciences, who have established ex vivo biofilm model systems and access to clinical infection samples that will be utilised in the collaboration.

A third grant was awarded in early 2019, with funding of up to £1.6 million from a collaboration established under the UK-China AMR grant fund set up by Innovate UK and the Department of Health and Social Care with the Chinese Ministry of Science and Technology. The two-year project will examine the use of the Company's novel XF drugs (XF-73, XF-70 and DPD-207) to prevent, control, and eradicate life threatening bacteria or "superbugs" without generating resistance especially in the treatment of dermal and ocular infections. The research work will be carried out by Destiny Pharma's team in collaboration with expert groups at Cardiff University's School of Dentistry and College of Biomedical and Life Sciences, led by Professor David Williams, and a team at Tianjin Medical University, China.

All three of these grant funded projects are up and running and we are looking forward to their progress and the potential to identify new product opportunities for the XF platform. Destiny Pharma also continued to strengthen its patent estate, with the grant of the XF biofilm patent 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 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 and also are highlighted as key aims under the UK Government's recent announcement of its new 5 and 20 year AMR plan. Destiny Pharma 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

Destiny Pharma is well funded 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 2018, having opened a US IND and received Fast Track designation for XF-73. Subsequent discussions with the FDA clarified the clinical pathway for XF-73 and the Company completed the required Phase 1 dermal safety studies successfully. The Phase 2b study is now about to start. 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, augmented by three grant awards, are also being used to develop new clinical candidates from the Company's pre-clinical pipeline and we also announced a new dermal infection clinical programme. 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 studies in 2019 and 2020. 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
9 April 2019

Chief Financial Officer's Statement

Financial review

Following the company's successful listing on AIM in September 2017, we increased activity across our scientific and clinical programmes during 2018. Funds raised at IPO were utilised to advance our lead programme toward commencement of Phase 2b trials and to develop our earlier programmes, resulting in a significant increase in R&D spend over the prior year. We also increased headcount during the year to support this increase in activity.

We were also pleased to announce research collaborations during the year, enabling the company to further develop its earlier programmes. Grant funding associated with these research collaborations will be received from 2019 onwards.

Revenue

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

Administrative expenses

Administrative expenses, which excludes the share-based payment charge of £0.7 million (2017: £0.7 million), during the period amounted to £5.3 million (2017: £2.5 million). Included within this total are R&D costs totalling £3.5 million (2017: £0.8 million), which reflect the increase in activity with regard to our scientific and clinical programmes, particularly during the second half of the year. The remaining increase over 2017 of £0.6 million (ignoring one-off AIM costs of £0.5 million in 2017) are due to increased staff costs associated with increases in headcount and other operational costs, which were partly offset by foreign exchange gains of £0.1 million during the year.

Taxation

The Company's research and development activities are eligible for the UK research and development 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 £0.23 million in respect of the R&D tax credit claimed in respect of the year ended 31 December 2017. The R&D tax credit receivable in the balance sheet of £0.84 million is an estimate of the cash repayment the Company expects to qualify for in respect of activities during the year ended 31 December 2018. 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 11.9 pence (2017: 8.4 pence).

Cash, cash equivalents and term deposits

The Company's cash, cash equivalents and term deposits at the year-end totalled £12.1 million (2017: £16.7 million).

The net cash outflow from operating activities in 2018 was £4.7 million against an operating loss of £6.0 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 £0.4 million.

Outlook

The Board believes the Company remains well funded to execute on its business strategy and to progress its lead and follow-on programmes in 2019 and 2020.

Shaun Claydon
Chief Financial Officer
9April 2019

Statement of comprehensive income
For the year ended 31 December 2018

	Notes	**Year ended 31 December 2018 £**	Year ended 31 December 2017 £
Continuing operations			
Revenue		**-**	-
Administrative expenses		**(5,346,170)**	(2,511,871)
Share option charge		**(737,687)**	(709,979)
Operating loss		**(6,083,857)**	(3,221,850)
Finance income	4	**75,999**	10,459
Loss before tax		**(6,007,858)**	(3,211,391)
Taxation	5	**841,144**	233,908
Loss and total comprehensive loss for the year from continuing operations		**(5,166,714)**	(2,977,483)
Loss per share - pence			
Basic	6	**(11.9)p**	(8.4)p
Diluted	6	**(11.9)p**	(8.4)p

Statement of financial position
as at 31 December 2018

	Notes	**As at 31 December 2018 £**	As at 31 December 2017 £
Assets			
Non-current assets			
Property, plant and equipment		**30,421**	22,313
Non-current assets		**30,421**	22,313
Current assets			
Trade and other receivables	7	**930,759**	277,126
Cash and cash equivalents	8	**7,060,821**	11,724,037
Other financial assets	9	**5,000,000**	5,000,000
Prepayments		**36,406**	59,641
Current assets		**13,027,986**	17,060,804
Total assets		**13,058,407**	17,083,117
Equity and liabilities			
Equity			
Called-up share capital	10	**435,626**	435,626
Share premium		**17,292,284**	17,292,284
Retained earnings		**(5,471,295)**	(1,042,268)
Shareholders' equity		**12,256,615**	16,685,642
C**urrent liabilities**			
Trade and other payables	11	**801,792**	397,475
Current liabilities		**801,792**	397,475
Total equity and liabilities		**13,058,407**	17,083,117

Statement of changes in equity
for the year ended 31 December 2018

	Called-up share capital £	Share premium £	Retained earnings £	Total £
1 January 2017	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
Total comprehensive loss	**-**	**-**	**(5,166,714)**	**(5,166,714)**
Share option charge	**-**	**-**	**737,687**	**737,687**
31 December 2018	**435,626**	**17,292,284**	**(5,471,295)**	**12,256,615**

Statement of cash flows
for the year ended 31 December 2018

	Year ended 31 December 2018	Year ended 31 December 2017

	£	£
Cash flows from operating activities		
Loss before income tax	**(6,007,858)**	(3,211,391)
Depreciation charges	**9,663**	2,077
Share option charge	**737,687**	709,979
Finance income	**(75,999)**	(10,459)
Increase in trade and other receivables and prepayments	**(23,162)**	(77,935)
Increase in trade and other payables	**404,317**	242,736
Tax received	**233,908**	191,578
Net cash outflow from operating activities	**(4,721,444)**	(2,153,415)
Cash flows from investing activities		
Purchase of tangible fixed assets	**(17,771)**	(23,230)
Purchase of other financial assets	**-**	(5,000,000)
Interest received	**75,999**	10,459
Net cash inflow/(outflow) from investing activities	**58,228**	(5,012,771)
Cash flows from financing activities		
New shares issued net of issue costs	**-**	17,408,730
Net cash inflow from financing activities	**-**	17,408,730
Net (decrease)/increase in cash and cash equivalents	**(4,663,216)**	10,242,544
Cash and cash equivalents at the beginning of the year	**11,724,037**	1,481,493
Cash and cash equivalents at the end of the year	**7,060,821**	11,724,037

Notes to the financial statements

1. Corporate information

Destiny Pharma plc (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

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements have been prepared under the historical cost convention.

The company's financial statements have been presented in pound 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 statements, 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 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 statements 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 2018	31 December 2017
	£	£
Finance income		
Deposit account interest	**75,999**	10,459

5. Income tax

	31 December 2018	31 December 2017
	£	£
Research and development tax credits based on costs in the financial year	**(841,144)**	(233,908)

Tax reconciliation

	31 December 2018	31 December 2017
	£	£

Loss before tax	**(6,007,858)**	(3,221,850)
Loss before tax multiplied by the UK corporation tax rate of 19% (2017: 20%)	**(1,141,493)**	(644,370)
Effects of:		
Non-deductible expenditure	**148,637**	99,969
R&D enhanced expenditure	**(622,976)**	(132,210)
Lower tax rate on R&D losses	**261,044**	38,576
Tax losses carried forward	**513,644**	404,127
Total tax credit on loss	**(841,144)**	(233,908)

There were no tax charges in the period. There are tax losses available to carry forward amounting to approximately £13.7 million (2017: £12.8 million), which includes £0.7 million (2017: £1.5 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 2018	31 December 2017
	£	£
Loss for the year attributable to shareholders	**(5,166,714)**	(2,977,483)
Weighted average number of shares	**43,562,598**	35,253,765
Loss per share - pence		
- Basic and diluted	**(11.9)p**	(8.4)p

7. Trade and other receivables

	31 December 2018	31 December 2017
	£	£
Other debtors	**89,615**	43,218
Research and development tax repayment	**841,144**	233,908
	930,759	277,126

8. Cash and cash equivalents

	31 December 2018	31 December 2017
	£	£
Cash and bank balances	**7,060,821**	11,724,037

9. Other financial assets

	31 December 2018	31 December 2017
	£	£
Term deposits with maturities greater than three months	**5,000,000**	5,000,000

10. Share capital

	31 December 2018	31 December 2017
Ordinary shares of £0.01 each	**Number**	Number
Authorised[1]	**n/a**	n/a
Allotted and fully paid		
At 1 January	**43,562,598**	63,836
Bonus issue of shares during the year (see note [18])	**-**	31,854,164
Issued for cash during the year	**-**	11,644,598
At 31 December	**43,562,598**	43,562,598

(1) During the year ended 31 December 2017 the company adopted new Articles of Association, which do not require the company to have authorised share capital.

	31 December 2018	31 December 2017
	£	£
Authorised	**n/a**	n/a
Allotted and fully paid	**435,626**	435,626

	31 December 2018	31 December 2017
	£	£
Share premium account	**17,292,284**	17,292,284

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 2018 was £737,687 (year ended 31 December 2017: £709,979).

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. Options 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.

	31 December 2018		31 December 2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance outstanding at beginning of year	**6,748,823**	**£0.062**	6,079,518[1]	£0.068
Granted during year	**350,000**	**£0.334**	669,305	£0.01
Options outstanding at end of year	**7,098,823**	**£0.075**	6,748,823	£0.062
Options exercisable at the end of the year	**6,585,823**	**£0.035**	681,000	£0.068

(1) On 23 January 2017 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 where modified to reduce the number of options outstanding.

Modification of existing share option schemes
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.

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.

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.

Grants of options
On 5 June 2018, 50,000 Employee LTIP EMI Options were granted to certain senior employees at an exercise price of £0.01 per ordinary share and are exercisable on or after the third anniversary of the date of grant. On 25 October 2018, 300,000 Employee LTIP EMI Options were granted to Shaun Claydon. Of these options, 50,000 are exercisable at £0.01 per ordinary share on 31 January 2019, 100,000 are exercisable at £0.01 on 31 January 2020 and 150,000 are exercisable at an exercise price of £0.765 on the third anniversary of the date of grant.

The estimated fair value of share options granted during the period 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 £0.68 (2017: £1.44).

The model inputs were:

	2018	2017
Share price	**£0.765/£1.115**	£1.4522
Exercise price	**£0.01/£0.765**	£0.01
Expected volatility	**49%**	49%
Expected option life	**10 years**	10 years
Risk free rate	**1.5%/1.55%**	1.4%
Expected dividends	**Nil**	Nil

11. Trade and other payables

	31 December 2018	31 December 2017
	£	£
Trade creditors	**403,552**	151,582
Social security and other taxes	**50,874**	41,110
Accrued expenses	**344,275**	189,251
Pension contributions payable	**3,091**	15,532
	801,792	397,475

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 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 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 2018 accounts will be sent to shareholders and made available on the Company's website www.destinypharma.com in due course.

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