12 October 2016

Diurnal Group plc
("Diurnal" or the "Company")

Results for the year ended 30 June 2016

Significant progress towards becoming a revenue generating endocrinology specialty pharmaceutical company

Diurnal Group plc (AIM: DNL), the specialty pharmaceutical company targeting patient needs in chronic endocrine (hormonal) diseases, announces its results for the year ended 30 June 2016.

Operational highlights

- Primary endpoint met in European pivotal study of Infacort® in paediatric Adrenal Insufficiency; regulatory filing anticipated by the end of 2016.
- First patient treated in the Group's European Phase III trial of Chronocort® in Congenital Adrenal Hyperplasia.
- First patient treated in the Group's European open-label safety extension studies of Infacort® in paediatric Adrenal Insufficiency and Chronocort® in Congenital Adrenal Hyperplasia.
- Initial Public Offering on the Alternative Investment Market ("AIM") of the London Stock Exchange in December 2015, raising £30m before expenses.
- Strengthening of the Board with the appointment of Peter Allen as Non-executive Chairman and John Goddard as Non-executive Director.

Financial overview

- Operating loss of £7.0m (2015 13 months: £3.0m) reflecting investment in increased clinical and development activities together with investment in overheads to support the anticipated growth and development of the business and including £1.5m of one-off, share option related and non-cash expenses.
- Held to maturity financial assets, cash and cash equivalents at 30 June 2016 of £30.1m (2015: £6.1m) following the successful AIM IPO and fundraising.
- Net assets of £25.9m (2015: £6.0m).
- Net cash used in operating activities was £5.1m (2015 13 months: £2.9m).

Martin Whitaker, PhD, Chief Executive Officer of Diurnal, commented:
"This financial year has been transformational as we executed our Initial Public Offering on AIM, providing the Group with the capital to accelerate product development to bring our novel products to market. Despite the distraction of the IPO, the Group's late-stage products, Infacort® and Chronocort®, continue to progress according to plan in Europe and we are working with the US Food and Drug Administration to design the optimal clinical pathway towards regulatory approval in the US. Diurnal expects to receive its first market authorisation in late 2017 and is well positioned to initiate commercialisation activities towards building a proprietary endocrinology franchise."

In the Results for the year ended 30 June 2016:

- "bn", "m" and "k" represent billion, million and thousand respectively
- "Group" is the Company and its subsidiary undertaking, Diurnal Limited

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Notes to Editors

About Diurnal
Diurnal is a clinical stage specialty pharmaceutical company targeting patient needs in chronic endocrine (hormonal) diseases which the Company believes are currently not satisfactorily met by existing treatments. It has identified a number of specialist endocrinology market opportunities in Europe and the US that are together estimated to be worth more than $11bn per annum.

On its admission to AIM in December 2015, the Company raised £30 million by way of a placing of new ordinary shares and a convertible loan. The new funds will accelerate the development of two leading product candidates which are in, or expected to commence shortly, Phase III clinical trials, targeting diseases of cortisol deficiency; Chronocort®, to be used for Congenital Adrenal Hyperplasia ("CAH") in adults, and Infacort®, to be used for Adrenal Insufficiency ("AI"), including CAH in children. The lead product candidate, Infacort®, is anticipated to receive its first regulatory approval in Europe towards the end of 2017.

For further information about Diurnal, please visit www.diurnal.co.uk

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.

Chairman's Statement

I am pleased to provide my inaugural Chairman's statement and the first for Diurnal Group plc as a public company. This financial year has been transformational as we executed our Initial Public Offering (IPO), providing the Group with the capital to accelerate product development to bring our novel products to market. I am excited to be part of Diurnal with its entrepreneurial and patient-centric approach, combined with its international network of experts, which have enabled the development of a balanced late-stage portfolio of prospects and provide a solid platform from which we can confidently build a proprietary endocrinology franchise.

Diurnal aims to develop and commercialise products to address unmet patient needs in chronic endocrine (hormonal) diseases, typically where there is either no licensed medicine or where current treatment does not sufficiently improve the patients' health. Diurnal has identified a number of such needs within the field of endocrinology, which the Group believes represent a multi-billion dollar combined market opportunity. The Group intends to address these market opportunities through the development of its late-stage pipeline, by finalising its commercialisation plans in Europe, to be followed by the US, through development of its early-stage pipeline and, longer-term, through in-licensing and acquisitions.

In December 2015, Diurnal successfully completed an IPO on AIM, raising £30m from new and existing long-term investors. These monies enable the Group to continue to pursue its vision of becoming a world-leading endocrinology speciality pharmaceutical group.

In the near term, funding from the IPO allows Diurnal to maintain the momentum behind its late-stage development programmes for treatments targeting indications of cortisol deficiency. Cortisol is an essential hormone for health in regulating metabolism, growth, fertility and the response to stress. It is Diurnal's ambition to develop a product franchise that can treat patients with all forms of cortisol deficiency. Diurnal anticipates its first market authorisation in Europe towards the end of 2017.

I am pleased with the significant clinical development progress in the Group's late-stage pipeline products during the year, with Chronocort® commencing a pivotal Phase III clinical trial in Europe and Infacort® reporting positive headline data from a pivotal Phase III clinical trial also in Europe. Infacort® has the potential to be the first licensed treatment in Europe for Adrenal Insufficiency (AI) (including Congenital Adrenal Hypoplasia (CAH)) specifically designed for use in children under six years of age. Chronocort® has the potential to be the first product candidate for adults with CAH to mimic the natural cortisol circadian rhythm, therefore improving disease control. In the US, Infacort® and Chronocort® are expected to commence Phase III clinical development in 2017.

During the period, Diurnal enhanced its Board with the appointment of John Goddard as Non-executive Director and Chairman of the Audit Committee. John's extensive financial, accounting, strategic planning and business development experience in the global pharmaceuticals industry will be invaluable as we embark on our next stage of growth.

Diurnal also continues to develop its earlier-stage pipeline, with the Group obtaining the rights to the orphan drug designation for an oligonucleotide therapy for the potential treatment of Cushing's Disease (cortisol excess) in May 2016. In addition, Diurnal's oral native testosterone product is scheduled to enter human clinical trials imminently.

The Board will continue to monitor the potential effects of the 23 June 2016 UK referendum result on the Group's business and, in particular, any impact on the regulatory framework for pharmaceutical product development, approval and commercialisation.

I would like to thank our employees for their continued support and hard work in driving the Company's progress towards commercialising the Group's first products. Despite the distraction of the IPO, the Group's late-stage products, Infacort® and Chronocort®, continue to progress according to plan in Europe and we are working with the US Food and Drug Administration (FDA) to design the optimal clinical pathway towards regulatory approval in the US. I would also like to thank my fellow Board members for the progress made this year in formulating the foundations of a strategy that will ensure continued and sustainable growth from our pipeline. Finally, I would like to thank our shareholders for their continued support as Diurnal aims to make a real difference to patients currently without effective treatment options for chronic endocrine diseases.

Operational Review

The financial year to June 2016 has seen significant transformation in our aspiration to become a revenue generating endocrinology specialty pharmaceutical company. We successfully completed a £30m Initial Public Offering (IPO) on AIM in December 2015, providing the Group with the resources to develop our novel, high quality, patent protected products by focussing on completing the development of Infacort® in Europe and the US; obtaining market authorisation in Europe for Infacort® and generating first revenues; completing the development of Chronocort® in Europe and commencing development in the US; and commencing the construction of Diurnal's commercial capability in Europe.

As a quoted company, the IPO on AIM also provides additional currency for future development by providing potential access to development capital to progress its current and future pipeline and enabling it to expand within its chosen specialist endocrine therapy areas.

Significant clinical progress towards building a proprietary endocrinology franchise

Infacort®

Infacort® is Diurnal's most clinically advanced product and is the first preparation of hydrocortisone (the synthetic version of cortisol) specifically designed for use in children suffering from adrenal insufficiency (AI), including the related disease, Congenital Adrenal Hyperplasia (CAH). Currently there is no licensed hydrocortisone preparation in Europe or the US specifically designed to treat these young patients. Infacort® is on target to be the first pharmaceutically defined dose and consistent formulation of hydrocortisone designed specifically for children. The patented, immediate-release oral product has been designed to meet the dosing needs of children and is manufactured using commercially proven technology in paediatric acceptable doses in order to give maximum flexibility to clinicians in tailoring treatment to children as they develop and grow. Currently, pharmacists often compound (grind) hydrocortisone tablets to a fine powder and reconstitute it in individual capsules or sachets to achieve the lower doses required for children. Compounding is not a licensed method of producing medicines; it can be highly variable and may result in inaccurate dosing to patients.

Post year and ahead of schedule in July 2016, Diurnal announced positive headline data from the pivotal Phase III clinical trial for Infacort® in Europe for paediatric AI. AI (and CAH) is identified as a rare disease in Europe where there are estimated to be approximately 4,000 sufferers younger than the age of six. Left untreated, the disease is associated with significant morbidity.

The Phase III study was designed in agreement with the European Medicines Agency (EMA) and conducted in a total of 24 subjects before their sixth birthday, requiring replacement therapy for AI due to CAH, primary adrenal failure or hypopituitarism. Comprehensive analysis of the results confirms that the study met its primary endpoint, demonstrating a statistically significant ($p<0.0001$) increase in cortisol values following administration of Infacort® compared to the pre-dose values. No serious adverse events were reported.

In March 2016, the first patient was treated in the Group's European open-label safety extension trial of long term safety and biochemical disease control of Infacort® in neonates, infants and children with CAH and AI, previously enrolled in the Group's pivotal Infacort® Phase III registration trial.

Chronocort®

Diurnal announced that the first patient was dosed with its second late-stage product, Chronocort®, in the pivotal Phase III clinical trial in Europe for adults with CAH in February 2016. Chronocort provides a drug release profile that the Group believes mimics the body's natural cortisol circadian rhythm, which current therapy is unable to replicate, and will improve disease control for adults with CAH. Clinical data have shown that approximately two thirds of CAH patients are estimated to have poor disease control. CAH sufferers, even if treated, remain at risk of death through an adrenal crisis, suffer from high morbidity and a poor quality of life. The condition is estimated to affect approximately 51,000 patients in Europe and 20,000 patients in the US, with approximately 405,000 patients in the rest of the world.

The Phase III trial is designed to study up to 110 patients in an open-label six month protocol. Enrolled patients currently treated with a single or combination of generic steroids (standard-of-care) will be randomised to Chronocort® on a twice daily "toothbrush" regimen or will continue on their standard-of-care regimen. Following discussions with the EMA, the primary endpoint of the trial is the control of androgens (sex hormones) on the same or lower total daily dose of steroid when treated with Chronocort® compared to standard-of-care treatment. This primary endpoint is identical to the previous successful Phase II clinical trial for Chronocort® for which data were released in 2014. Secondary endpoints will include an assessment of fatigue levels and the relative effect of Chronocort® on body mass index and bone turnover, all of which are

indicative of clinical benefits. The trial is scheduled to complete in early 2018, implying a potential market authorisation in Europe could be forthcoming around the end of 2018.

In August 2016, the first patient was treated in the Group's European open-label safety extension trial of long term safety, efficacy and tolerability of Chronocort® in patients with CAH, previously enrolled in the Group's pivotal Chronocort® Phase III registration trial.

During the period, Diurnal extended its existing Cooperative Research and Development Agreement (CRADA) with the National Institutes of Health (NIH), Maryland, US until June 2021. The extension will support the Phase III clinical trial of Chronocort® for the treatment of CAH in both the US and Europe. Diurnal successfully collaborated with the NIH to complete the Phase II clinical trial of Chronocort®.

Prelaunch activities
The EMA has already approved a Paediatric Investigation Plan (PIP) for Infacort®, setting out the regulatory pathway to market authorisation via the Paediatric Use Marketing Authorisation (PUMA) route, affording 10 years data exclusivity from the date of market authorisation. Diurnal is on track to submit this regulatory dossier to the EMA around the end of 2016. If approved, Infacort® has the potential to be the first licensed treatment in Europe for AI (including CAH) specifically designed for use in children. Diurnal anticipates market authorisation in late 2017 and is developing launch plans to ensure a prompt market introduction in the event that the product receives approval.

Extensive patent protection
Diurnal continues to protect its product candidates through an extensive patent portfolio, benefitting from a number of granted or pending patents in key jurisdictions. During the period, Chronocort® was granted orphan drug designation in the treatment of AI by the US Food and Drug Administration (FDA) in September 2015. This is further to Chronocort®'s orphan drug designation for the treatment of CAH, granted by the FDA in March 2015 and Infacort®'s orphan drug designation in the treatment of paediatric AI, granted by the FDA in May 2015. These orphan drug designations, together with the PUMA, mean Infacort® and Chronocort® have the potential to be granted market and data exclusivity for 10 years in Europe and seven years in the US post market authorisation.

Early-stage pipeline
Diurnal plans to use its cortisol replacement offering to build a strong platform in underserved diseases of cortisol deficiency and then expand into endocrine disease areas such as those associated with the thyroid, gonads and pituitary. Continued product development is expected to come from Chronocort® line extensions aiming to address additional cortisol deficiency indication(s) and from the Group's earlier-stage pipeline of endocrinology product candidates. These earlier-stage candidates currently include a native oral testosterone for the treatment of male hypogonadism; and Tri4Combi™, a novel formulation to treat hypothyroidism. Diurnal has successfully completed *in vivo* pre-clinical studies of its native oral testosterone replacement and expects to initiate a proof-of-concept study in human hypogonadal patients imminently.

Diurnal demonstrated its ability to identify potential endocrine therapies with one such pipeline acquisition during the period with the Group obtaining the rights, from the University of Sheffield (UK), to the orphan drug designation for an oligonucleotide therapy for the potential treatment of Cushing's Disease (cortisol excess). Cushing's Disease is often treated by the same clinicians that treat diseases of cortisol deficiency, thereby leveraging Diurnal's network in line with the Group's commercialisation strategy.

Outlook
Diurnal is well positioned to develop its late-stage pipeline to market authorisation and initiate commercialisation activities towards building a proprietary endocrinology franchise.

In Europe, Infacort® has the potential to be the first licensed treatment for AI (including CAH) specifically designed for use in children under six years of age. Following a full evaluation of the Phase III data, Diurnal is on track to submit a regulatory dossier to the EMA around the end of 2016 and is optimistic that it may receive market authorisation in late 2017. Prelaunch planning is underway to effect a rapid transition to a commercial organisation. In the US, following FDA feedback, Diurnal will be commencing the US registration programme for Infacort® in 2017 and anticipates market authorisation in the US in 2019 (previously the end of 2018).

Chronocort® has the potential to be the first product candidate for adults with CAH to mimic the natural cortisol circadian rhythm, therefore improving disease control. In Europe, Diurnal expects to report headline data from the Phase III clinical trial in Europe for adults with CAH in early 2018, implying a potential market authorisation in Europe could be forthcoming around the end of 2018. In the US, the Group continues its

dialogue with the FDA on the Phase III clinical trial design and expects to have an update in early 2017, with the intention to commence the study later that year and anticipates market authorisation in the US in 2021 (previously the end of 2020).

Financial Review

Operating income and expenses
Operating expenses are in a growth phase, reflecting the increased clinical and development activities together with investment in overheads including headcount and business infrastructure to support the anticipated growth and development of the business in the coming periods.

Research and development expenditure for the year was £3.9m (13 months 2015: £2.2m). Of this £1.7m increase in expenditure, £0.2m was as a result of the first time accounting for share options and a further £0.3m was as a result of the creation of a national insurance accrual for historical share option awards. Expenditure on product development and clinical costs increased in the period as the Group's Chronocort® product entered a Phase III clinical trial in Europe and prepared for a US trial and its native oral testosterone product prepared to commence its human proof-of-concept trial in hypogonadal patients. Staff related expenditure also increased as a result of the implementation of a new remuneration policy.

Administrative expenses for the year were £3.1m (13 months 2015: £1.0m). Of this £2.1m increase in expenditure, £0.6m was the one-off IPO costs, £0.3m was as a result of the first time accounting for share options and a further £0.1m was as a result of the creation of a national insurance accrual for historical share option awards. The remaining increase resulted from the appointment of new staff, the implementation of a new remuneration policy and public company costs. In addition to the IPO costs of £0.6m (13 months 2015: £nil), a further £0.8m (13 months 2015: £nil) of fees paid in connection with the fundraising are shown as a deduction from share premium and £59k and £28k have been charged against the convertible loan liability and its equity component respectively.

Operating income in the prior period represents funds receivable from a European Commission grant supporting the European development of the Group's Infacort® product.

Operating loss
Operating loss for the period increased to £7.0m (13 months 2015: £3.0m).

Financial income and expense
Financial income in the period was £63k (13 months 2015: £8k), due to the higher average cash balances during the year, after the IPO fundraising and convertible loan financing. Financial expense for the period was £133k (13 months 2015: £41k), being the financial expense of the convertible loan. No interest is payable in cash on this loan, the financial expense representing the effective interest required under accounting standards to charge the transaction costs and equity element of the loan to the income statement over the term of the loan. The Group had interest bearing convertible loans outstanding for two months of the comparative period, before they were converted into equity, whilst the new convertible loan was outstanding for over six months of the 2015/16 financial year.

Loss on ordinary activities before tax
Loss before tax for the period was £7.1m (13 months 2015: £3.0m).

Tax
The Group has not recognised any deferred tax assets in respect of trading losses arising in either the current financial period or accumulated losses in previous financial years. The tax credits recognised in the financial periods ended 30 June 2016 and 2015 represent the receipt of Research & Development tax credits relating to their respective prior periods' activities.

Earnings per share
Loss per share was 15.0 pence (13 months 2015: 8.5 pence). Loss per share has increased due to the higher operating costs explained above.

Cash flow
Net cash used in operating activities was £5.1m (13 months 2015: £2.9m), driven by the increased loss for the period. Net cash used in investing activities was £14.0m (13 months 2015: £nil) being the investment of funds into one year cash deposits. Net cash generated by financing was £29.1m (13 months 2015: £8.0m) reflecting the net proceeds of the issue of shares in the IPO of £24.5m (13 months 2015: £8.0m from a private fundraising) together with £4.6m (13 months 2015: £nil) of funds received from the convertible loan.

Balance sheet

Total assets increased to £30.7m (2015: £6.5m), reflecting the increase in cash and cash equivalents arising from the issue of ordinary shares and the convertible loan, offset by the operating cash outflow for the period. Held to maturity financial assets were £14.0m (2015: £nil) and cash and cash equivalents were £16.1m (2015: £6.1m). Total liabilities increased to £4.7m (2015: £0.4m), reflecting the £3.2m liability component of the convertible loan (2015: £24k of other loans), together with trade and other payables of £1.5m (2015: £0.4m), which increased due to accruals for clinical costs, bonuses and employer's national insurance on non-tax beneficial share options. Net assets were £25.9m (2015: £6.0m).

Comparative information

The Group has applied the principles of reverse acquisition accounting under IFRS 3 'Business Combinations' in the presentation of consolidated shareholders' equity for comparative periods. These comparative periods show the results of the accounting acquirer (Diurnal Limited) along with the share capital structure of the parent company (Diurnal Group plc). As a result, the consolidated share capital and share premium presented for comparative periods is that which was in existence immediately following the share for share exchange which occurred on 1 December 2015, and which is explained further in note 2 to the financial statements.

Consolidated income statement
for the year ended 30 June 2016

	Note	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Research and development expenditure	4	(3,886)	(2,227)
Administrative expenses	4	(3,106)	(1,000)
Other operating income		-	241
Operating loss		(6,992)	(2,986)
Financial income	5	63	8
Financial expense	6	(133)	(41)
Loss before tax		(7,062)	(3,019)
Taxation	7	491	81
Loss for the period		(6,571)	(2,938)
Basic and diluted loss per share (pence per share)	8	(15.0)	(8.5)

All activities relate to continuing operations.

Consolidated statement of comprehensive income
for the year ended 30 June 2016

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Loss for the period	(6,571)	(2,938)

Consolidated balance sheet
as at 30 June 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets		6	10
Property, plant and equipment		3	5
		9	15
Current assets			
Trade and other receivables		530	376
Held to maturity financial assets	9	14,000	-
Cash and cash equivalents	10	16,114	6,073
		30,644	6,449
Total assets		30,653	6,464
Current liabilities			
Loans and borrowings	11	-	(24)
Trade and other payables		(1,480)	(399)
		(1,480)	(423)
Non-current liabilities			
Loans and borrowings	11	(3,239)	-
		(3,239)	-
Total liabilities		(4,719)	(423)
Net assets		25,934	6,041
Equity			
Share capital	12	2,610	15,351
Share premium		23,632	-
Consolidation reserve		(2,943)	(2,943)
Other reserve		1,458	-
Retained earnings		1,177	(6,367)
Total equity		25,934	6,041

Consolidated statement of changes in equity
for the year ended 30 June 2016

	Share Capital £000	Share Premium £000	Consolidation Reserve £000	Other Reserve £000	Retained Earnings £000	Total £000
Balance at 27 May 2014	**15,351**	**-**	**(11,824)**	**-**	**(3,849)**	**(322)**
Loss for the period and total comprehensive loss for the period	-	-	-	-	(2,938)	(2,938)
Equity settled share based payment transactions	-	-	-	-	20	20
Reduction of Capital	-	-	-	-	400	400
Contributions by owners	-	-	8,881	-	-	8,881
Total transactions with owners recorded directly in equity	-	-	8,881	-	420	9,301
Balance at 30 June 2015	**15,351**	**-**	**(2,943)**	**-**	**(6,367)**	**6,041**
Loss for the period and total comprehensive loss for the period	-	-	-	-	(6,571)	(6,571)
Equity settled share based payment transactions	-	-	-	-	490	490
Reduction of Capital	(12,107)	-	-	-	12,107	-
Issue of shares for cash	884	24,465	-	-	-	25,349
Costs charged against share premium	-	(833)	-	-	-	(833)
Equity component of convertible loan	-	-	-	1,486	-	1,486
Issue expenses of convertible loan	-	-	-	(28)	-	(28)
Repurchase of deferred shares	(1,518)	-	-	-	1,518	-
Total transactions with owners recorded directly in equity	(12,741)	23,632	-	1,458	14,115	26,464
Balance at 30 June 2016	**2,610**	**23,632**	**(2,943)**	**1,458**	**1,177**	**25,934**

Loss for the period is the only constituent of total comprehensive loss for each period so the period amounts are shown in the same line in the consolidated statement of changes in equity.

Consolidated cash flow statement
for the year ended 30 June 2016

	Note	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Cash flows from operating activities			
Loss for the period		(6,571)	(2,938)
Adjustments for :			
Depreciation, amortisation and impairment		6	7
Share-based payment		490	20
Financial income	5	(63)	(8)
Finance expenses	6	133	41
Taxation	7	(491)	(81)
Increase in trade and other receivables		(135)	(261)
Increase in trade and other payables		1,081	284
Cash flow used in operations		(5,550)	(2,936)
Interest paid		-	(1)
Tax received	7	491	81
Net cash used in operating activities		(5,059)	(2,856)
Cash flows from investing activities			
Additions of property, plant and equipment		-	(5)
Purchases of held to maturity financial assets		(14,000)	-
Interest received		44	8
Net cash (used in)/from investing activities		(13,956)	3
Cash flows from financing activities			
Net proceeds from issue of share capital		24,516	8,000
Repayment of borrowings		(24)	(25)
Net proceeds from issue of borrowings		4,564	-
Net cash generated by financing activities		29,056	7,975
Net increase in cash and cash equivalents		10,041	5,122
Cash and cash equivalents at the start of the period		6,073	951
Cash and cash equivalents at the end of the period		16,114	6,073

Notes to the consolidated financial statements

1 General information

Diurnal Group plc ('the Company') and its subsidiary (together 'the Group') are a clinical stage specialty pharmaceutical business targeting patient needs in chronic endocrine (hormonal) diseases which the Company believes are currently not met satisfactorily by existing treatments. It has identified a number of specialist endocrinology market opportunities in Europe and the US that are together estimated to be worth more than $11bn per annum.

The Company is a public limited company incorporated and domiciled in the UK. Its registered number is 09846650. The address of its registered office is Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ and its primary and sole listing is on the Alternative Investments Market (AIM). The Company was incorporated as Project Dime Limited on 28 October 2015 and reregistered as a public company and changed its name to Diurnal Group plc on 4 December 2015.

On 21 December 2015 the Company published its AIM Admission Document following its successful £30m fundraising. Its ordinary shares of 5 pence each were admitted to trading on the AIM market on 24 December 2015.

The Company issued 17,603,759 shares at a price of £1.44 per share to raise £25.3m before expenses and received £4.7m before expenses under a convertible loan from IP2IPO Limited, one of its shareholders. Total expenses of the IPO and fundraising were £1.5m, of which £0.8m were directly attributable to the issue of the new shares and have been charged to the Share Premium account. £59k and £28k have been charged against the convertible loan liability and its equity component respectively. The balance of £0.6m has been charged to the Consolidated Income Statement and included within administrative expenses in the period ended 30 June 2016.

To facilitate the IPO, the Company was incorporated on 28 October 2015 and acquired the entire issued share capital of Diurnal Limited under a share for share exchange on 1 December 2015. The Company has applied the principles of reverse acquisition accounting in the preparation of the consolidated financial information.

2 Basis of preparation

2.1 Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 30 June 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies (being those of Diurnal Limited prior to the incorporation of Diurnal Group plc), and those for 2016 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) 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 financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006. The financial information contained in these financial statements have been prepared under the historical cost convention, and on a going concern basis.

The accounting policies used in the financial information are consistent with those set out in the AIM Admission document dated 21 December 2015. The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date to be confirmed).
- IFRS 14 Regulatory Deferral Accounts (effective date to be confirmed).
- IFRS 15 Revenue from Contract with Customers (effective date to be confirmed).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date to be confirmed).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective date to be confirmed).
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date to be confirmed).

- Disclosure Initiative – Amendments to IAS 1 (effective date to be confirmed).

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

2.2 Summary of impact of Group restructure and Initial Public Offering

On 24 December 2015, the Company listed its shares on AIM. In preparation for this Initial Public Offering ('IPO') the Group was restructured. The restructure has impacted a number of the current year and comparative primary financial statements and notes.

For the consolidated financial statements of the Group, prepared under IFRS, the principles of reverse acquisition accounting under IFRS 3 'Business Combinations' have been applied. The steps to restructure the Group had the effect of Diurnal Group plc being inserted above Diurnal Limited as the holder of the Diurnal Limited share capital.

By applying the principles of reverse acquisition accounting, the Group is presented as if Diurnal Group plc has always owned Diurnal Limited. The comparative Income Statement and Balance Sheet are presented in line with the previously presented Diurnal Limited position. The comparative and current year consolidated reserves of the Group are adjusted to reflect the statutory share capital and share premium of Diurnal Group plc as if it had always existed, adjusted for movements in the underlying Diurnal Limited share capital and reserves until the share for share exchange.

The steps taken to restructure the Group are explained in more detail in the Group Reorganisation section below. The impact on the primary consolidated financial statements is as follows:

- Equity reflects the capital structure of Diurnal Group plc. As part of the restructuring of the Group and the IPO, a number of shares in Diurnal Group plc were issued in exchange for cash. The premium arising on the issue of shares is allocated to share premium.
- A consolidation reserve was created and reflects the difference between the Diurnal Group plc reserves at the balance sheet date as reflected in the opening reserves at the start of the comparative period (28 May 2014) and the equity of Diurnal Limited at the same date.

Fees associated with the IPO are allocated to share premium and the Consolidated Income Statement depending on the nature of the costs.

<u>Group reorganisation</u>

Prior to IPO the Group undertook a reorganisation in preparation for the transaction.

The effect of this reorganisation was to insert a new ultimate parent company, Diurnal Group plc, into the Group. This company acquired the entire issued share capital of Diurnal Limited, as summarised below.

Diurnal Group plc became the ultimate parent company of the Group by acquiring Diurnal Limited in exchange for the issue of new shares.

The key steps of the process were as follows:

- On incorporation on 28 October 2015, 1 Ordinary share of £1 was allotted and issued.
- On 1 December 2015, a number of further changes to the share capital occurred:
  - a share subdivision whereby the ordinary share of £1 each was subdivided into 2 Ordinary shares of 50 pence each;
  - in accordance with the terms of a share for share exchange agreement, the allotment and issue of 30,267,498 ordinary shares of 50 pence each and 4,395,000 B shares of 5 pence each in consideration for the entire issued share capital of Diurnal Limited. Following the conclusion of this share for share exchange, which involved nil cash consideration, Diurnal Limited became a wholly owned subsidiary undertaking of the Company;
  - the nominal value of the 30,267,498 ordinary shares of 50 pence were reduced to 10 pence.
- On 23 December 2015, 83,038 ordinary shares of 10 pence each were allotted and issued to the Enterprise Investment Scheme investors participating in the IPO placing of shares.
- On 24 December, 30,350,538 ordinary shares of 10 pence each were subdivided and reclassified into 30,350,538 ordinary shares of 5 pence each and 30,350,538 deferred share of 5 pence each. Thereafter, a number of further changes to the share capital occurred, which were conditional upon and

immediately prior to admission of the Company's shares to trading on AIM and simultaneous with each other:

- the conversion of 4,339,500 B shares of 5 pence each into 4,339,500 ordinary shares of 5 pence each;
- the reduction of the Company's share capital by £1,517,526.90 representing the aggregate nominal value of the 30,350,538 deferred share of 5 pence each, as a result of the transfer of the deferred shares to the Company for nil consideration and their subsequent cancellation;
- the allotment and issue of 17,520,721 ordinary shares of 5 pence each to investors participating in the IPO placing of shares.

3 Segmental information

The Board regularly reviews the Company's performance and balance sheet position for its operations and receives financial information for the group as a whole. As a consequence the Group has one reportable segment, which is Clinical Development. Segmental profit is measured at operating loss level, as shown on the face of the Income Statement. As there is only one reportable segment whose losses, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the financial statements, no additional numerical disclosures are necessary.

4 One-off, share option related and non-cash items

A number of one-off, share option related and non-cash items, totalling £1.5m, are analysed in the following table:

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Research and development expenditure		
IFRS2 equity settled share based payment transactions - non-cash	188	-
Employer NIC provision on unapproved share options - initial recognition of historical liability	258	-
	446	-
Administrative expenses		
Expenses of the initial public offering - one-off	623	-
IFRS2 equity settled share based payment transactions - non-cash	302	20
Employer NIC provision on unapproved share options - initial recognition of historical liability	119	-
	1,044	20

5 Finance income

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Interest receivable on cash and cash equivalents and term deposits	63	8
Total finance income	63	8

6 Finance expenses

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Total interest payable on loans	133	1
Total interest expenses on financial liabilities measured at amortised cost	-	34
Total fair value losses on derivative financial liabilities	-	6
Total finance expense	133	41

7 Taxation

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
Current tax		
- current year	(491)	(81)
Tax credit charge for the period	(491)	(81)

The tax credits assessed for the periods ended 30 June 2015 and 2016 relate entirely to R&D tax credit relief.

Reconciliation of total tax expense:

	12 months ended 30 Jun 2016 £000	13 months ended 30 Jun 2015 £000
The tax assessed for the year varies from the small company rate of corporation tax as explained below		
Loss on ordinary activities before tax	(7,062)	(3,019)
Tax at the standard rate of UK corporation tax rate of 20% (2014/15: 20%)	(1,412)	(604)
Research and development tax credit	(491)	(81)
Non-deductible expenses	104	41
Current year losses for which no deferred tax asset was recognised	1,308	563
Tax credit for the period	(491)	(81)

The company has approximately £11.8m of trading losses carried forward at 30 June 2016 (2015: approximately £5.3m) for which no deferred tax asset has been recognised due to the uncertainty of availability of future taxable profits. The estimated value of the deferred tax asset not recognised, measured at a standard tax rate of 20% is £2.4m (2015: £1.1m at 20%).

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions from 20% to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015.

8 Loss per share

	12 months ended 30 Jun 2016	13 months ended 30 Jun 2015
Loss for the period (£000)	(6,571)	(2,938)
Weighted average number of shares (000)	43,746	34,607
Basic and diluted loss per share (pence per share)	(15.0)	(8.5)

The diluted loss per share is identical to the basic loss per share in all periods, as potentially dilutive shares are not treated as such since they would reduce the loss per share.

9 Held to maturity financial assets

	2016 £000	2015 £000
Bank term deposits	14,000	-

The effective interest rate on bank deposits was 1.05% and these deposits had a weighted average maturity of 11 months. The Group's treasury policy requires that deposits are held with financial institutions having a minimum credit rating of A- (from Moody's S&P or Fitch), that individual counterparty exposure is no more than £8m and that the maximum term is 12 months. The Group's deposits are in line with this policy.

10 Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and on hand	16,114	6,073

The Group holds its cash and cash equivalents with its clearing bank and in a AAA rated Liquidity fund providing same day access to its cash. The Group's treasury policy is summarised in Note 19. Although the Liquidity fund balance exceeds the £8m counterparty limit, the Board is satisfied that the individual counterparty risk within the fund is significantly below this amount.

11 Loans and borrowings

	2016 £000	2015 £000
Current loans and borrowings		
Other current loans	-	24
Non-current loans and borrowings		
Convertible Loans	3,239	-
Total loans and borrowings	3,239	24

IP Group convertible loan

On 24 December 2015 the Company received £4.7m from IP2IPO Limited, a wholly owned subsidiary of IP Group plc under a convertible loan agreement. The convertible loan facility is interest-free and unsecured with a maturity date of 24 December 2020 (or such other date as the parties may agree) at which point the Company may either repay the principal amount outstanding in full or convert such amount into non-voting shares at a lower nominal value to that of the Ordinary Shares to ensure that IP2IPO Limited did not have control of the Company. IP2IPO Limited may convert the principal outstanding in whole or in parts exceeding £0.1m into ordinary shares calculated at the IPO share price of £1.44 per share conditional on it not having control of the Company resulting from the conversion.

The convertible loan note is a compound financial instrument containing a host financial liability and an equity component as there is a contractual obligation to deliver a fixed number of shares at the IPO price if the loan note is converted.

At 30 June 2016, the amount outstanding comprised:

	2016 £000	2015 £000
Face value of convertible loan issued on 24 December 2015	4,651	-
Equity Component	(1,486)	-
Issue costs relating to the liability element	(59)	-
Liability component on initial recognition at 31 December 2015	3,106	-
Accrued interest	133	-
Liability component at 31 December 2015	3,239	-
Less amount included in current liabilities	-	-
Included in non-current liabilities	3,239	-

12 Share capital

	2016 £000	2015 £000
52,210,759 ordinary shares of £0.05 each	2,610	-
30,267,498 ordinary shares of £0.50 each	-	15,134
4,339,500 B shares of £0.05 each	-	217
	2,610	15,351

The Group has applied the principles of reverse acquisition accounting under IFRS 3 ‘Business Combinations’ in the presentation of consolidated shareholders’ equity for comparative periods. These comparative periods show the results of the accounting acquirer (Diurnal Limited) along with the share capital structure of the parent company (Diurnal Group plc). As a result, the consolidated share capital and share premium presented for comparative periods is that which was in existence immediately following the share for share exchange which occurred on 1 December 2015, and which is explained further in note 2.

	Number of Ordinary Shares	Number of B Shares	Number of Deferred Shares	Total £000
At 28 October 2015 on incorporation	1	-	-	-
Share subdivision on 1 December 2015	1	-	-	-
Issued on 1 December 2015	30,267,498	4,339,500	-	15,351
Share capital reduction on 1 December 2015	-	-	-	(12,107)
Issued on 23 December 2015	83,038	-	-	8
Share split on 24 December 2015	-	-	30,350,538	-
Conversion of B shares on 24 December 2015	4,339,500	(4,339,500)	-	-
Cancellation of Deferred shares on 24 December 2015	-	-	(30,350,538)	(1,518)
Issued on 24 December 2015	17,520,721	-	-	876
At 31 December 2015: Ordinary shares of 5 pence each	52,210,759	-	-	2,610

The changes in the share capital are described in Note 2.