Diurnal

30 March 2016

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

Interim Results for the six months ended 31 December 2015

Diurnal Group plc (AIM: DNL), the specialty pharmaceutical company targeting patient needs in chronic endocrine (hormonal) diseases, announces its maiden results for the six months ended 31 December 2015.

Operational highlights

- Initial Public Offering on the Alternative Investment Market ("AIM") of the London Stock Exchange in December 2015, raising £30m before expenses via a placing of new ordinary shares and a convertible loan
- First patient treated in the Company's European Phase III trial of Chronocort® in Congenital Adrenal Hyperplasia, following the period end
- First patient treated in the Company's European follow-on study of the Phase III Infacort® registration trial in paediatric Adrenal Insufficiency, post period end
- 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 £3.5m (H1 2014/15: £1.3m) reflecting investment in increased clinical and development activities together with investment in overheads to support the anticipated growth and development of the business
- Cash and cash equivalents at 31 December 2015 of £33.1m (31 Dec 2014: £5.8m) following the successful AIM IPO and fundraising
- Net assets of £28.6m (31 Dec 2014: £5.5m)
- Net cash used in operating activities was £2.0m (H1 2014/15: £1.0m)

Martin Whitaker, PhD, Chief Executive Officer of Diurnal, commented:

"I am pleased to announce our first set of results as a listed company. The Board is grateful for the continued support of the Company's existing shareholders together with the investment made by new investors in the £30m fundraising and AIM IPO in December. These monies enable the Company to continue to pursue its vision of becoming a world-leading endocrinology speciality pharmaceutical company. In the near term, it allows Diurnal to maintain the momentum behind its late stage development programmes for treatments targeting Congenital Adrenal Hyperplasia and Adrenal Insufficiency and where we anticipate market authorisation of our first product towards the end of 2017."

In the Interim Results:

- "H1" refers to the six month period ended 31 December
- "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.

Operational Review

The last six months have been transformational for the Company, culminating with an Initial Public Offering ("IPO") on the Alternative Investment Market ("AIM") of the London Stock Exchange in December 2015. Building on the success of the Company's late-stage products, Infacort® and Chronocort®, Diurnal raised £30m through its IPO. These funds provide the Company with the financial strength to complete the development of Infacort® in Europe and the US; obtain market authorisation in Europe for Infacort® and generate first revenues; complete the development of Chronocort® in Europe and commence development in the US; and commence the construction of Diurnal's commercial capability in Europe. Diurnal also believes that the IPO on AIM will assist in the Company's 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.

Diurnal has made significant clinical development progress with its late-stage pipeline products over the past year. Infacort® and Chronocort® are in late-stage clinical development targeting indications of cortisol deficiency (adrenal disease). Infacort® is currently undergoing a Phase III clinical trial in Europe and Chronocort® commenced a Phase III clinical trial in Europe in February 2016. Diurnal anticipates its first market authorisation in Europe towards the end of 2017, with the maximum combined addressable market potential, including further indication extensions in cortisol deficiency, of its late-stage product candidates expected to be approximately $3.4bn.

Significant Clinical Progress
Diurnal's lead programme is aiming to solve patient needs in adrenal diseases that result from deficiency of the essential hormone cortisol and which the Company believes are currently not met satisfactorily through existing treatments. Diurnal expects that, if approved, its most advanced product candidate, Infacort®, will be the first product specifically designed and licensed for children under six years of age suffering from the rare diseases Congenital Adrenal Hyperplasia ("CAH") and Adrenal Insufficiency ("AI"). Infacort® aims to address the need for a product that is licensed, effective, safe and easy to administer to infants, neonates and children under six years of age. Diurnal currently anticipates marketing authorisation approval for Infacort® in Europe towards the end of 2017.

Diurnal expects its second product candidate, Chronocort®, to achieve market authorisation in Europe towards the end of 2018. Chronocort provides a drug release profile that the Company 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. In August 2015, 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 study of Chronocort® for the treatment of CAH. Diurnal successfully collaborated with the NIH to complete the Phase II study of Chronocort®. The NIH is participating in and, following the period end, treated the first patient in the Company's European Phase III trial of Chronocort® in CAH.

Diurnal continues to protect its product candidates through an extensive patent portfolio, benefitting from a number of granted or pending patents in key jurisdictions. In addition, during the period, Chronocort® was granted orphan drug designation in the treatment of AI by the Food and Drug Administration ("FDA") in September 2015. This is further to Chronocort®'s orphan drug designation in 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. Diurnal intends to apply for a paediatric use marketing authorisation for Infacort® in Europe (Chronocort® already benefits from the orphan drug designations for CAH and AI in Europe). These orphan drug designations mean Infacort® and Chronocort® have the potential to be granted market and data exclusivity on approval.

Diurnal plans to use its cortisol replacement offering to build a strong platform in underserved diseases of the adrenal gland 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 Company'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.

Following the period end, the Company announced in February 2016 that the first patient was dosed in the Chronocort® pivotal Phase III clinical trial in Europe for adults with Congenital Adrenal Hyperplasia. Since then, in March 2016 the first patient has been treated in the Company's European follow-up trial of long term safety and biochemical disease control of Infacort in neonates, infants and children with Congenital Adrenal

Hyperplasia and Adrenal Insufficiency, previously enrolled in the Company's pivotal Infacort Phase III registration trial. This latter trial has been designed with advice from the European Medicines Agency through a Paediatric Investigation Plan to demonstrate hydrocortisone absorption from the Company's Infacort® product - potentially the first European approved paediatric product specifically designed for children suffering from these rare diseases.

Board Strengthened
During the period, Diurnal strengthened its Board with the appointment of Peter Allen as Non-executive Director and Chairman of the Board in July and John Goddard as Non-executive Director in November. Peter assumed the role of Chairman from Sam Williams, who had been serving as Chairman on an interim basis following the resignation of Kevin Bryett in April and continues as a Non-Executive Director. Peter's extensive experience in the healthcare industry and strong track record of success as a Non-Executive Director and Chairman in the biotech and specialty pharma industries were instrumental during the IPO process. Peter's experience at every stage of the specialty pharma life cycle, including research, development, marketing and sales will also be valuable as the Company moves towards the commercialisation of its highly specialised products for the treatment of chronic endocrine diseases. John brings extensive financial, accounting, strategic planning and business development experience in the global pharmaceuticals industry and is Chairman of the Audit Committee.

Outlook

Infacort® is currently undergoing a Phase III clinical trial in Europe and if approved has the potential to be the first licensed treatment in Europe for AI (including CAH) specifically designed for use in children under six years of age. Diurnal expects to report headline data around the end of 2016 and if successful, anticipates market authorisation in late 2017. Following FDA feedback, we will be commencing our US registration programme in 2016. This consists of two clinical studies, one is a food matrix compatibility study in adult volunteers and the other is the pivotal study in our target paediatric population.

Chronocort® commenced a Phase III clinical trial in Europe in February 2016. 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. We expect to report headline data from this trial in early 2018. We continue to be in dialogue with the FDA on the Phase III US clinical trial design and expect to have an update later in the year, with the intention to commence the Phase III study around the end of the calendar year.

As mentioned, Diurnal is developing a native oral testosterone replacement treatment for patients suffering from hypogonadism. The Company has successfully completed *in vivo* pre-clinical studies of its novel formulation and expects to initiate a proof of concept study in human hypogonadal patients mid-year 2016.

Diurnal aims to become the world's leading endocrinology specialty pharmaceutical company targeting under-served patient needs in chronic hormonal diseases. Diurnal has identified a number of such needs within the field of endocrinology, which the Company believes represent a combined market opportunity estimated to total more than $11bn. The Company intends to address these market opportunities through the development of its late-stage pipeline, by building a proprietary direct sales platform in Europe and the US, through development of its early-stage pipeline and, longer-term, through in-licensing and acquisitions.

Diurnal's products are expected to be prescribed by endocrinologists predominantly located in specialist centres throughout Europe and the US. Diurnal believes that the concentrated nature of these centres provides a significant opportunity to build a cost-effective, focused sales and marketing operation, which should enable the Company to capture value from its products and create a base for growth through pipeline development and in-licensing.

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 six month period was £1.8m (H1 2014/15: £0.9m). Expenditure on product development and clinical costs increased in the period as the Group prepares for its Chronocort® product to enter Phase III clinical trials in Europe and the US and for its native oral testosterone product 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 and the creation of a national insurance accrual for historical share option awards.

Administrative expenses for the six month period were £1.7m (H1 2014/15: £0.5m). The increase results from the appointment of new staff, the implementation of a new remuneration policy, the creation of a national insurance accrual for historical share option awards and includes one-off costs in the period incurred on the IPO. Costs of £0.6m (H1 2014/15: £nil) relate to fees paid in connection with the AIM admission. A further £0.8m (H1 2014/15: £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 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 £3.5m (H1 2014/15: £1.3m).

Financial income and expense
Financial income in the period was £8k (H1 2014/15: £2k) due to higher average cash balances during the period. The funds received from the IPO fundraising and the convertible loan arrived too late in the period to make a meaningful impact on financial income. Financial expense for the period was £6k (H1 2014/15: £20k), being mainly 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 whilst the new convertible loan had minimal impact on financial expense due to the timing of the receipt of the funds. No interest is payable in cash on the new convertible loan

Loss on ordinary activities before tax
Loss before tax for the period was £3.5m (H1 2014/15: £1.3m).

Tax
The Group has not recognised any tax assets in respect of trading losses arising in either the current financial period or accumulated losses in previous financial years. The tax credit recognised in respect of the financial period ended 30 June 2015 represents the receipt of Research & Development tax credits.

Earnings per share
Loss per share was 10.0 pence (H1 2014/15: 3.8 pence). Loss per share has been adversely impacted by the increases in operating costs explained above.

Cash flow
Net cash used in operating activities was £2.0m (H1 2014/15: £1.0m), driven by the increased loss for the period. Net cash generated by financing was £29.1m (H1 2014/15: £6.0m) reflecting the net proceeds of the issue of shares in the IPO of £24.5m (H1 2014/15: £6.0m from a private fundraising) together with £4.6m (H1 2014/15: £nil) of funds received from the convertible loan.

Balance sheet
Total assets increased to £33.5m (31 Dec 2014: £6.0m), 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. Cash and cash equivalents at 31 December 2015 were £33.1m (31 Dec 2014: £5.8m). Total liabilities increased to £4.9m (31 Dec 2014: £0.5m), reflecting the £3.1m liability component of the convertible loan (31 Dec 2014: £35k of other loans), together with trade and other payables of £1.8m (31

Dec 2014: £0.5m), which increased due to trade payables and accruals for the IPO expenses and accruals for bonuses and employer's national insurance on non-tax beneficial share options. Net assets were £28.6m (31 Dec 2014: £5.5m).

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 interim financial information.

Principal risks and uncertainties

Diurnal considers strategic, operational and financial risks and identifies actions to mitigate these risks. The principal risks and uncertainties at the time of the Company's AIM IPO can be found in its AIM Admission Document, available on the website www.diurnal.co.uk. There are no changes to these principal risks, with the exception of those in relation to the Company's cash balance, noted below.

Following the IPO, the company holds a significant cash balance, which is subject to fraud, credit and liquidity risks. The Board has adopted a policy of dual approval for all payments made by the company; in relation to credit risk, has set a minimum credit rating of A-, together with a maximum exposure of £8m to an individual counterparty; and in relation to liquidity risk, reviews cash flow forecasts and holds cash in immediate access and term deposits to a maximum term of 12 months.

Consolidated income statement
for the six months ended 31 December 2015

	Note	Unaudited 6 months ended 31 Dec 2015 £000	Unaudited 6 months ended 31 Dec 2014 £000	Unaudited 13 months ended 30 Jun 2015 £000
Research and development expenditure		(1,822)	(926)	(2,227)
Administrative expenses	4	(1,705)	(537)	(1,000)
Other operating income		-	149	241
Operating loss		(3,527)	(1,314)	(2,986)
Financial income		8	2	8
Financial expense		(6)	(20)	(41)
Loss before tax		(3,525)	(1,332)	(3,019)
Taxation	6	-	-	81
Loss for the period		(3,525)	(1,332)	(2,938)
Basic and diluted loss per share (pence per share)	5	(10.0)	(3.8)	(8.5)

All activities relate to continuing operations.

The notes form part of this condensed financial information.

Consolidated statement of comprehensive income
for the six months ended 31 December 2015

	Note	Unaudited 6 months ended 31 Dec 2015 £000	Unaudited 6 months ended 31 Dec 2014 £000	Unaudited 13 months ended 30 Jun 2015 £000
Loss for the period		(3,525)	(1,332)	(2,938)

The notes form part of this condensed financial information.

Consolidated balance sheet
as at 31 December 2015

	Note	Unaudited As at 31 Dec 2015 £000	Unaudited As at 31 Dec 2014 £000	Unaudited As at 30 Jun 2015 £000
Non-current assets				
Intangible assets		8	12	10
Property, plant and equipment		4	3	5
		12	15	15
Current assets				
Trade and other receivables		387	213	376
Cash and cash equivalents		33,138	5,811	6,073
		33,525	6,024	6,449
Total assets		33,537	6,039	6,464
Current liabilities				
Loans and borrowings	7	-	(24)	(24)
Trade and other payables		(1,784)	(482)	(399)
		(1,784)	(506)	(423)
Non-current liabilities				
Loans and borrowings	7	(3,111)	(11)	-
		(3,111)	(11)	-
Total liabilities		(4,895)	(517)	(423)
Net assets		28,642	5,522	6,041
Equity				
Share capital	8	2,610	15,351	15,351
Share premium	4	23,632	-	-
Consolidation reserve		(2,943)	(4,943)	(2,943)
Other reserve		1,458	-	-
Retained earnings		3,885	(4,886)	(6,367)
Total equity		28,642	5,522	6,041

The notes form part of this condensed financial information.

Consolidated statement of changes in equity
for the six months ended 31 December 2015

	Unaudited Share Capital £000	Unaudited Share Premium £000	Unaudited Consolidation Reserve £000	Unaudited Other Reserve £000	Unaudited Retained Earnings £000	Unaudited 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	-	-	-	-	(125)	(125)
Equity settled share based payment transactions	-	-	-	-	7	7
Contributions by owners	-	-	-	-	-	-
Total transactions with owners recorded directly in equity	-	-	-	-	7	7
Balance at 30 June 2014	**15,351**	**-**	**(11,824)**	**-**	**(3,967)**	**(440)**
Loss for the period and Total comprehensive loss for the period	-	-	-	-	(1,332)	(1,332)
Equity settled share based payment transactions	-	-	-	-	13	13
Reduction of Capital	-	-	-	-	400	400
Contributions by owners	-	-	6,881	-		6,881
Total transactions with owners recorded directly in equity	-	-	6,881	-	413	7,294
Balance at 31 December 2014	**15,351**	**-**	**(4,943)**	**-**	**(4,886)**	**5,522**
Loss for the period and Total comprehensive loss for the period	-	-	-	-	(1,481)	(1,481)
Equity settled share based payment transactions	-	-	-	-	-	-
Contributions by owners	-	-	2,000	-	-	2,000
Total transactions with owners recorded directly in equity	-	-	2,000	-	-	2,000
Balance at 30 June 2015	**15,351**	**-**	**(2,943)**	**-**	**(6,367)**	**6,041**
Loss for the period and Total comprehensive loss for the period	-	-	-	-	(3,525)	(3,525)
Equity settled share based payment transactions	-	-	-	-	152	152
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	13,777	26,126
Balance at 31 December 2015	**2,610**	**23,632**	**(2,943)**	**1,458**	**3,885**	**28,642**

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 statement of cash flows
for the six months ended 31 December 2015

	Unaudited 6 months ended 31 Dec 2015 £000	Unaudited 6 months ended 31 Dec 2014 £000	Unaudited 13 months ended 30 Jun 2015 £000
Cash flows from operating activities			
Loss for the period	(3,525)	(1,332)	(2,938)
Adjustments for :			
Depreciation, amortisation and impairment	3	2	7
Share-based payment	152	13	20
Financial income	(8)	(2)	(8)
Finance expenses	6	20	41
Taxation	-	-	(81)
Increase in trade and other receivables	(11)	(114)	(261)
Increase in trade and other payables	1,385	377	284
Cash flow from operating activities	(1,998)	(1,036)	(2,936)
Interest paid	(1)	(1)	(1)
Tax received	-	-	81
Net cash used in operating activities	(1,999)	(1,037)	(2,856)
Cash flows from investing activities			
Additions of property, plant and equipment	-	-	(5)
Interest received	8	2	8
Net cash from investing activities	8	2	3
Cash flows from financing activities			
Net proceeds from issue of share capital	24,516	6,000	8,000
Repayment of borrowings	(24)	(9)	(25)
Net proceeds from issue of borrowings	4,564	-	-
Net cash generated by financing activities	29,056	5,991	7,975
Net increase in cash and cash equivalents	27,065	4,956	5,122
Cash and cash equivalents at the start of the period	6,073	855	951
Cash and cash equivalents at the end of the period	33,138	5,811	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.

2 Significant accounting policies and basis of preparation

2.1 Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

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 (1 July 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.

2.2 Basis of preparation

The interim 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. These interim financial statements have been prepared and approved by the Directors in accordance with International Accounting Standard 34 "Interim Financial Reporting". The financial information contained in this interim financial statement has been prepared under the historical cost convention, and on a going concern basis. The interim financial information for the six months ended 31 December 2015 and for the six months ended 31 December 2014 contained within this Interim Report does not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006 and are unaudited. The comparative figures for the year ended 30 June 2015 have been extracted from the AIM admission document dated 21 December 2015, adjusted in line with Note 2.1 above.

The main trading company within the Group historically presented statutory accounts under United Kingdom Generally Accepted Principles as applied to smaller entities (UK GAAP). The key differences arising on transition to IFRS in the consolidated Group financial statements for financial information previously presented under UK GAAP are as follows:

- Recognition of share based payment expense (IFRS 2): the Company previously applied the exemption to recognising share based payment expenses.
- Convertible loans (IAS 32): the Company previously accounted for convertible loans at their face value plus accrued interest rather than for the host liability and the equity or derivative liability.
- Preference share dividends (IAS 39): the Company previously accrued for the preference dividends over time rather than accruing on the occurrence of an obligating event.

The accounting policies used in the interim 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.

<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.

2.3 Going concern

At 31 December 2015, the Group had cash resources (being cash and cash equivalents) of £33.1m. After making enquiries and taking into account management's estimate of future expenditure, the directors have a reasonable expectation that the Group will have adequate financial resources to continue in operation for the foreseeable future.

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 Initial public offering

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 31 December 2015.

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.

A number of one-off and non-cash items, totalling £1.1m are analysed in the following table.

	Unaudited 6 months ended 31 Dec 2015 £000	Unaudited 6 months ended 31 Dec 2014 £000	Unaudited 13 months ended 30 Jun 2015 £000
Research and development expenditure			
IFRS2 equity settled share based payment transactions – non-cash	65	-	-
Employer NIC provision on unapproved share options - initial recognition of historical liability	225	-	-
	290	-	-
Administrative expenses			
Expenses of the initial public offering – one-off	623	-	-
IFRS2 equity settled share based payment transactions – non-cash	87	13	20

Employer NIC provision on unapproved share options - initial recognition of historical liability	100	-	-
	810	13	20

5 Loss per share

	Unaudited 6 months ended 31 Dec 2015	Unaudited 6 months ended 31 Dec 2014	Unaudited 13 months ended 30 Jun 2015
Loss for the period (£000)	(3,525)	(1,332)	(2,938)
Weighted average number of shares (000)	35,373	34,607	34,607
Basic and diluted loss per share (pence per share)	(10.0)	(3.8)	(8.5)

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

6 Taxation

	Unaudited 6 months ended 31 Dec 2015 £000	Unaudited 6 months ended 31 Dec 2014 £000	Unaudited 13 months ended 30 Jun 2015 £000
Current tax			
- current year	-	-	(81)
- adjustments for prior periods	-	-	-
Tax credit charge for the period	-	-	(81)

The tax credit assessed for the period ended 30 June 2015 relates entirely to R&D tax credit relief.

7 Loans and borrowings

	Unaudited As at 31 Dec 2015 £000	Unaudited As at 31 Dec 2014 £000	Unaudited As at 30 Jun 2015 £000
Current loans and borrowings			
Convertible Loans	-	-	-
Other current loans	-	24	24
	-	24	24
Non-current loans and borrowings			
Convertible Loans	3,111	-	-
Other non-current loans	-	11	-
	3,111	11	-
Total loans and borrowings	3,111	35	24

IP Group convertible loan

On 24 December 2015 the Company received £4.7m from IP2IPO Limited, a subsidiary of IP Group plc under a convertible loan agreement. The loan is interest-free and unsecured with a maturity date of 24 December 2020 (or such other date as the parties 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 IP Group did not have control of the Company. IP Group 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 31 December 2015, the amount outstanding comprised:

	Unaudited As at 31 Dec 2015 £000	Unaudited As at 31 Dec 2014 £000	Unaudited As at 30 Jun 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	-	-
Interest expense	5	-	-
Liability component at 31 December 2015	3,111	-	-
Less amount included in current liabilities	-	-	-
Included in non-current liabilities	3,111	-	-

8 Share capital

	Unaudited Number of Ordinary Shares	Unaudited Number of B Shares	Unaudited Number of Deferred Shares	Unaudited Total £
At 28 October 2015 on incorporation	1	-	-	1
Share subdivision on 1 December 2015	1	-	-	-
Issued on 1 December 2015	30,267,498	4,339,500	-	15,350,724
Share capital reduction on 1 December 2015	-	-	-	(12,107,000)
Issued on 23 December 2015	83,038	-	-	8,304
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)	(1,517,527)
Issued on 24 December 2015	17,520,721	-	-	876,036

At 31 December 2015: Ordinary shares of 5 pence each	52,210,759	-	-	2,610,538

The changes in the share capital are described in Note 2 Significant accounting policies and basis of preparation.

9 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Diurnal Limited traded with Silenicus Limited a company in which Dr Bryett is a director thus related by virtue of its linked key management personnel as well as Fusion IP Sheffield, Finance Wales Investments Limited, Ridings Early Growth Limited, Sarum Investment SICA Plc and Simm Investments Limited, all shareholders in the Company.

During the period Diurnal Limited's trading with the parties mentioned above constituted:

	Unaudited 6 months ended 31 Dec 2015 £000	Unaudited 6 months ended 31 Dec 2014 £000	Unaudited 13 months ended 30 Jun 2015 £000
Purchase of goods and services			
Silenicus Limited	-	11	26
Fusion IP Sheffield Limited/IP Group plc	106	100	158
Finance Wales Investments Limited	23	56	83
Ridings Early Growth Limited,	2	2	4
Sarum Investment SICAV Plc	-	3	3
	131	172	274

Purchase of goods and services from related parties comprise management services and monitoring. These were made at arm's length and on normal commercial trading terms.

	Unaudited 6 months ended 31 Dec 2015 £000	Unaudited 6 months ended 31 Dec 2014 £000	Unaudited 13 months ended 30 Jun 2015 £000
Compensation of key management personnel of the Group			
Short term employee benefits	273	56	148
Share – based payment transactions	102	11	16
	375	67	165

Key management includes only executive and non-executive directors.

Equity Investments in Diurnal Limited before the acquisition by Diurnal Group plc

On 29 July 2014 the following Related Parties received ordinary shares from the conversion of the principal and accrued interest on loan notes held by them: IP Group, 2,940 shares for £699,741 of debt; Finance

Wales, 2,136 shares for £508,476 of debt; Ridings Early Growth Limited, 91 shares for £21,754 of debt and Richard Ross 44 shares for £10,514 of debt.

On 29 July 2014 the following Related Parties received ordinary shares from the conversion of preference shares and accrued dividend on preference shares held by them: IP Group, 1,194 shares for £373,132 of preference shares; Finance Wales, 253 shares for £79,139 of preference shares and Ridings Early Growth Limited, 84 shares for £26,379 of preference shares.

On 1 August 2014 the following Related Parties purchased the Company's shares for cash: IP Group, 715 ordinary shares and 699 B shares for £665,611; Finance Wales, 938 shares for £293,256 and Ridings Early Growth Limited, 54 shares for £16,883.

On 17 December 2014 the following Related Parties purchased the Company's shares for cash: IP Group, 3,573 ordinary shares and 3,692 B shares for £3,888,392; Finance Wales, 4,692 shares for £1,466,907 and Ridings Early Growth Limited, 75 shares for £23,448.

On 26 May 2015, the following Related Parties purchased the Company's shares for cash: IP Group, 3,908 ordinary shares for £1,221,797; Finance Wales, 1,864 shares for £582,761 and Sarum Investment SICAV Plc, 340 shares for £106,298.

Equity Investments in Diurnal Group plc

On 24 December 2015 the following Related Parties purchased the Company's shares for cash: IP Group, 5,624,600 ordinary shares for £8,099,424; Finance Wales, 1,388,888 shares for £1,999,999; Richard Ross, 6,944 shares for £9,999; Peter Allen, 34,722 shares for £50,000; John Goddard, 6,944 shares for £9,999; Alan Raymond, 13,888 shares for £19,999; Martin Whitaker, 11,111 shares for £16,000 and Ian Ardill, 13,888 shares for £19,999. IP Group's 4,399,500 B shares were also converted into ordinary shares on this date.

Convertible Loan Agreement

IP2IPO Limited, a subsidiary of IP Group plc provided the Company with £4,651k of debt financing under a convertible loan agreement. The loan is interest-free and unsecured with a maturity date of 24 December 2020 (or such other date as the parties 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 IP Group did not have control of the Company. IP Group 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.