Destiny Pharma

Preventing life-threatening infections

Annual Report and
Financial Statements 2019

About us

Destiny Pharma plc

We are a clinical stage biotechnology company focused on the development of novel medicines that represent a new approach to the prevention and treatment of infectious disease.

The company is targeting large global markets by developing cost-effective products tailored to the requirements of health practitioners and patients. These medicines are being developed to address the need for new drugs for the prevention and treatment of life-threatening infections caused by antibiotic resistant bacteria, often referred to as superbugs.

The need for new anti-infective drugs has also been highlighted by the large number of serious bacterial infections being treated in patients suffering from the COVID-19 viral infection.

In this report

Highlights

Destiny Pharma plans to deliver key clinical data in 2020

We are dedicated to the discovery, development and commercialisation of new anti-infectives that improve outcomes for patients and provide more cost-effective medical care.

- Lead programme XF-73 Phase 2b clinical programme in 200 patients started in Q2 2019. Results expected 2020 subject to COVID-19
- £7.5 million in cash at end of 2019
  Destiny Pharma funded through to Q4 2021
- Second positive Phase 1 trial data from XF-73 skin irritation study. Primary objective achieved by both XF-73 concentrations
- Positive results published on XF-73 nasal gel from an independent (US National Institute of Health) XF-73 Phase 1 clinical trial
- New dermal infection XF formulations identified through Medpharm collaboration
- UK-China government AMR non-dilutive funding of up to £1.6 million awarded
- Awarded grant to fund a research collaboration with the University of Sheffield targeting ophthalmic bacterial and fungal infections
- New initiatives from US and UK governments to provide financial incentives and support to anti-infective drugs
- Board strengthened with appointment of Nick Rodgers as Chairman in January 2019 and Debra Barker MD as NED in December 2019

Chairman's statement

We have made good progress in developing our pipeline in 2019 and have an exciting year ahead.

Nick Rodgers
Chairman

Our longer-term strategy is to build Destiny Pharma into a world leader in developing life-saving medicines to prevent and treat serious infections.

Overview

We have made good progress in 2019 and I am delighted we are now well underway with our important Phase 2b clinical trial. We are working hard to complete the study in 2020 despite the impact on clinical activities at hospitals caused by the current pandemic crisis and move forward to planning and partnering the Phase 3 programme. We remain convinced that there is a clinical need and a billion-dollar commercial opportunity for our XF-73 nasal gel formulation as a novel treatment for the prevention of post-surgical staphylococcal infections.

The crisis caused by COVID-19 is a very unfortunate example of what can happen when pandemics occur and is a timely reminder of the need for effective anti-infective products such as XF-73.

The Board is in regular communication to monitor and react to the serious COVID-19 pandemic.

In the past twelve months we have strengthened the Destiny team, particularly in clinical trial management and also at Board level with the appointment of Dr Debra Barker, an experienced drug development clinician, as a Non-executive Director.

Strategy

Under the leadership of our CEO, Neil Clark, the company has evolved out of its development stage into a commercially focused business. Our strategy is to become a world leader in developing life-saving medicines designed for the prevention and treatment of serious infections where we believe there are significant opportunities. This means considering products and developments to expand our portfolio outside the XF platform, as well as the development of other XF products such as the XF-73 dermal product, which is heading towards Phase 2.

Our collaboration with China Medical Systems provides us access to the very significant Chinese market, one which, following their experience of COVID-19, is, in my view, likely to become increasingly valuable to Destiny over the next few years.

Very importantly, due to careful stewardship, Destiny Pharma is funded to Q4 2021, which allows us to complete the important Phase 2b clinical development of our lead asset XF-73 and work on partnering that product to enable the Phase 3 clinical trial.

Pipeline

Earlier projects in our pipeline have also progressed well in 2019 and the potential of the XF platform has been validated further by the award of a grant to support a new collaboration with Sheffield University. That adds to the ongoing work with expert UK groups at Aston and Southampton Universities and also the joint collaboration with Cardiff and Tianjin Universities under the UK-China Antimicrobial Resistance ("AMR") grant funded initiative. The COVID-19 pandemic is also creating new opportunities for the XF platform and we are actively reviewing these with collaborators.

The Board of Destiny Pharma would like to thank our investors for their continuing support. I would also like to thank our employees, advisers and collaborators for their ongoing efforts to ensure that Destiny Pharma makes progress. We are looking forward to 2020 and are confident in the outlook for Destiny Pharma plc.

Nick Rodgers
Chairman

28 April 2020

Impact of coronavirus pandemic on company operations

Destiny Pharma is complying with international governmental advice and requirements across its operations to prioritise safety, with all employees able to continue working effectively from home with minimal disruption to the company's day-to-day operations.

Due to the unprecedented impact of the COVID-19 pandemic, including government measures to contain the spread of the disease and increased pressure on hospital facilities across the globe, recruitment for the company's Phase 2b clinical trial with XF-73 for the prevention of post-surgical infections has effectively been paused in April 2020 due to the decrease in hospital site activity. The study has recruited 68 patients to date. The company will resume the study as soon as possible and will provide further guidance regarding the revised timing of completion of the study in due course.

Patients already treated in the study will receive follow-up consultations on a remote basis in order to ensure patient safety. The quality of the clinical study has not been compromised by this delay, and Destiny Pharma anticipates an efficient restart of recruitment as soon as possible. It is still planned to complete the study by the end of 2020 but this cannot be certain until the pandemic eases and patient recruitment starts up again.

Destiny Pharma had net cash of £7.5 million at 31 December 2019. The company is managing its cash resources and working capital commitments to stretch its cash runway through to Q4 2021 and to cope with the impact of the pandemic. The key spending commitment is the completion of the key Phase 2b study with its lead candidate XF-73.

The COVID-19 viral pandemic has affected millions of people across the globe and unfortunately many thousands have already died and a larger number have had serious respiratory infections that have needed hospital treatment.

It is well established that many of these patients also had serious bacterial infections that were made worse by the COVID-19 viral infection. The inability to treat these bacterial infections has no doubt led to increased suffering and death rates. It has highlighted yet again the need for new anti-infective drugs that can be targeted at such bacterial infections. Destiny Pharma and other companies in its peer group researching and developing these much-needed new drugs believe strongly that there will now be increased support for developing new drugs that are safe, fast and cost effective and address the global challenge of antimicrobial resistance.

Global AMR crisis is key focus for governments

The need for new anti-infective drugs – there have been no new mechanisms for 40 years

Destiny Pharma is focused on the development of novel medicines that represent a new approach to the prevention and treatment of life-threatening infections caused by antibiotic resistant bacteria often referred to as superbugs.

WHO lists antibiotic resistance as a top global concern

UK and US governments started new initiatives in 2019 to support drug development addressing AMR

COVID-19 pandemic has highlighted need for new anti-infectives. Half of reported deaths from the virus also have bacterial infections

Antibiotic resistant bacteria pose a threat to public health and are of serious concern to the World Health Organization ("WHO"). There is now a global imperative to put in place initiatives at all levels of society (including stewardship, new drug R&D, and diagnostics in both human and animal health) to address antibiotic resistant bacteria in a concerted effort to counter the prediction of ten million deaths (and an estimated $100 trillion cost by 2050). The US, EU and UK governments continue to provide non-dilutive funding support and regulatory initiatives to support the development of novel anti-infectives, especially those addressing key pathogens and AMR. This need has also been highlighted clearly by the ongoing COVID-19 pandemic and the associated bacterial infections.

In 2019, the UK government confirmed its commitment to continuing support and initiatives to address AMR as part of its 2019-2024 Vision and five-year action plan. This included a commitment for the National Institute for Clinical Excellence ("NICE") and NHS England to deliver a new pricing and reimbursement model for novel anti-bacterial drugs. In 2018 the FDA Commissioner, Scott Gottlieb MD, announced the US regulator's support of new incentives for companies developing novel anti-infectives through both financial reimbursement and further streamlined clinical trial requirements.

The US Centers for Disease Control and Prevention confirm that each year in the US at least two million people become infected with bacteria that are resistant to antibiotics and at least 23,000 die each year as a direct result of such infections.

Bacteria have been shown to evolve to resist the new drugs that modern medicine uses to combat them. Indeed, this was the case with penicillin, one of the first antibiotics developed, almost 100 years ago. However, in recent years, the rise in AMR has been a concern, especially with the emergence of many different types of superbug.

Methicillin-resistant *Staphylococcus aureus* ("MRSA") is one of the most prominent superbugs and a major cause of hospital-associated infection and featured in the WHO's "most dangerous" list of superbugs. The WHO followed US and European guidelines by recommending the screening and decolonisation of MRSA and all strains of *Staphylococcus aureus* in pre-surgical patients undergoing high-risk surgeries in a step designed to help prevent such infections. This is the focus for Destiny Pharma's lead XF-73 medicine.

Tackling AMR is now recognised as a high priority at a national and global level. With an increasing number of hospital-based medical procedures being carried out across the world, there is a specific need for improved patient care regarding hospital infections. If successful, this should deliver both better outcomes for patients and a reduction in the increasing costs of post-operative care incurred by hospitals, governments and insurance companies.

Steps are already being taken in this direction, particularly in the US, with the Generating Antibiotics Incentives Now ("GAIN") Act and the 21st Century Cures Act.

Both propose incentives to spur development of new drugs, including a more streamlined regulatory path, to tackle AMR. Furthermore, the Hospital-Acquired Condition Reduction Program financially penalises the poorest performing US hospitals in terms of MRSA infection rates. In August 2019, the US government announced further support through healthcare reform for novel anti-bacterial drug payments which include an alternative pathway for New Technology Add-On Payments ("NTAPs") which increases the value of these payments to 75% for Qualified Infectious Disease Products ("QIDPs"). Destiny Pharma's lead medicine XF-73 nasal gel, as it has QIDP status, should benefit from such reimbursement reforms.

The drive to tackle AMR is receiving global interest and priority with new specific sources of 'pull' and 'push' incentives, including funding from Innovate UK, the US Department of Defense, IMI, Carb-X, GAMRIF and potential pricing and reimbursement adjustments or market entry rewards to recognise the societal value that anti-bacterial drugs contribute. Destiny Pharma has a strong track record in attracting non-dilutive funding from such sources, with approximately £2 million awarded to date, and will continue to seek similar non-dilutive funding to assist in financing its pipeline.

Importantly, a key aim in the overall management of infection is the increased focus on **'Prevention'** – if infection does not take hold then you reduce the need for treatment by antibiotics and the creation of resistance. Destiny Pharma's prophylactic approach in its lead programme for nasal decolonisation of *Staphylococcus aureus* fits perfectly with this aim.

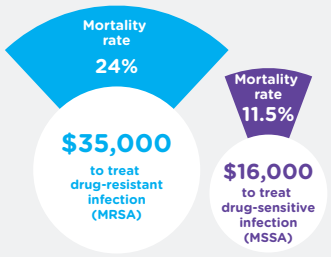
Destiny Pharma participates in groups that are discussing the problem and developing solutions.

- **Dr William Love was appointed by the UK Chief Medical Officer for the Department of Health, to the Expert Advisory Board of the Global Antimicrobial Resistance Innovation Fund in November 2016.**
- **The company is also a founder member of the BEAM Alliance, set up in 2015 and representing and promoting the interests of more than 40 European biotech companies in the area of anti-bacterial drug development.**

If not tackled, rising AMR could have a devastating impact

By 2050, the death toll could be a staggering **one person every three seconds** if AMR is not tackled now.(1)

Resistant infections lead to higher death rates and are more expensive to treat



A study in the US found that infections caused by the superbug methicillin-resistant *Staphylococcus aureus* ("MRSA") were more than twice as expensive to treat as infections caused by the easier-to-treat methicillin-sensitive *Staphylococcus aureus* ("MSSA").(2)

(1) The Review on Antimicrobial Resistance: Tackling drug-resistant infections globally: final report and recommendations, May 2016.

(2) Filice GA, Nyman JA, Lexau C et al., Excess costs and utilization associated with methicillin resistance for patients with *Staphylococcus aureus* infection, Infection Control and Hospital Epidemiology, 2010, 31 (4).

Global government initiatives

Supporting novel anti-infective development – new UK and US initiatives in 2019 and 2020

Infections caused by antibiotic resistant strains of bacteria continue to rise at an alarming rate and are of serious concern to the WHO.

World Health Organization

Key initiatives in recent years are set out below:

Independent Review on Antimicrobial Resistance, 2016

Predicts ten million deaths and $100 trillion cost of AMR globally by 2050 if not addressed.

Recommends global fund to drive R&D and billion-dollar market entry rewards for new drugs.

United Nations, 2016

The UN recognises the threat from AMR and the UN General Assembly has, for only the fourth time in its history, published a directive on a healthcare issue requesting the UN, WHO, FAO, OIE and OECD to report on actions to address this global threat in 2018.

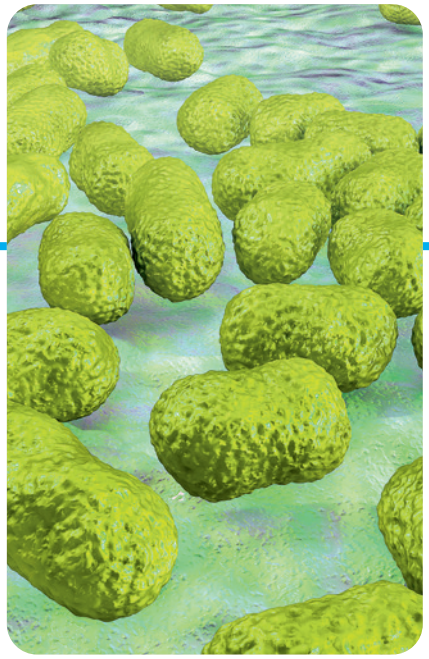
UK long-term AMR plans updated, 2019

The UK government announced its 20-year vision and second five-year action plan on AMR which outlines how the government will contribute to the global effort against AMR through optimising use of antimicrobials and investing in innovation, supply and access.

Under the AMR Action Plan, the UK government undertakes to:

- work with international partners to agree a co-ordinated global system for incentivising new therapeutics. Establish collaboratives that link UK researchers and industry to make best use of data, information and skills;
- support successful and emerging product development partnerships for priority therapeutics;
- invest in research in academia and businesses, including SMEs, through UKRI and other funding agencies; and
- continue to support the AMR Benchmark to stimulate improved accountability and positive competition in industry.

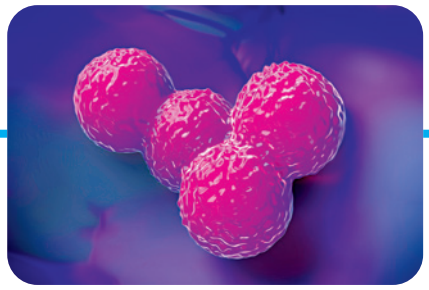
As part of this plan, the UK has announced in 2020 that it will be the first government to publish clear financial incentives for two new anti-infective drugs. These incentives are expected to consist of clear annual purchasing commitments that will provide more certainty on revenue streams for the chosen drug marketing companies.



"Preventing infections is essential and our new plan has a strong focus on infection prevention and control."

HM Government

Tackling AMR 2019-2024
UK Action Plan

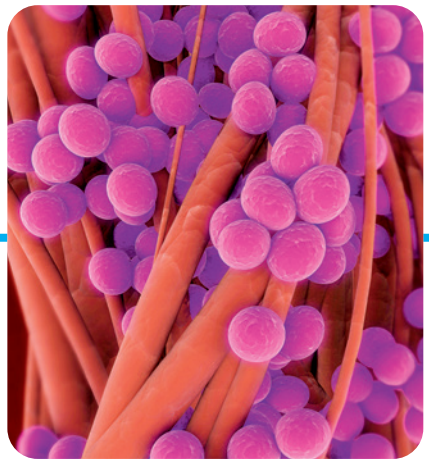


21st Century Cures Act, 2016 (US)

Instructs the FDA to enable approval of QIDPs in limited patient populations which will allow a more efficient clinical trial design and greater ease of drug approval for a limited label population.

Davos announcement, 2018

$1 billion rewards proposed at Davos 2018 for new antibiotics: the study, titled "Revitalizing the Antibiotic Pipeline: Stimulating Innovation while Driving Sustainable Use and Global Access", was produced by an international group made up of big pharma, academic institutions and public health organisations. The measures laid out included an increase of $300 million, or approximately 50%, in government grant funding.



G20 Declaration, 2017

Recognised the importance of reactivating the R&D pipeline through incentive mechanisms that avoid the reliance on high price/volume combinations and the need to promote prudent and responsible use of antimicrobials.

US hospital reimbursement for novel anti-infectives improved

In August 2019, the US government announced further support through healthcare reform for novel anti-bacterial drug payments which include an alternative pathway for New Technology Add-On Payments (NTAPs) which increases the value of these payments to 75% for Qualified Infectious Disease Products ("QIDPs"). The changes announced will reduce barriers to antibiotic innovation while increasing predictability and payment for novel drugs.

Business model

Building shareholder value through drug development

Using a flexible, virtual model to create novel IP and clinical data packages.

Focus

Destiny Pharma is committed to developing new drugs that will be a significant improvement on current anti-infectives and that will be part of the global project to address AMR. Destiny Pharma does not intend to build a sales and marketing infrastructure so will keep its focus as a "drug development engine" in its chosen therapeutic areas. Destiny Pharma has already proven it can develop intellectual property, identify lead candidates and bring selected compounds through early testing to be ready for later stage clinical trials.

Collaborations

Destiny Pharma has exclusive ownership of the XF platform but is committed to reach out and work with sector specialists at all stages of the drug research and clinical development process where such collaborations will advance projects and deliver shareholder value. These currently include grant funded university research partnerships, formulation development and projects examining XF drugs' interaction with other anti-infectives or potentiation mechanisms. Destiny Pharma is well connected with expert groups across the world and will continue to explore such opportunities.

Commercialisation

Whilst Destiny Pharma takes great care to assess the needs of the clinician in the anti-infectives sector, it also investigates the commercial markets, looking at potential market volumes and pricing implications. The reports produced guide the portfolio review and the selection of target indications. Destiny Pharma is looking to partner later stage Phase 3 projects with expert sales and marketing pharma or specialty pharma companies who can support the later stage clinical trials and carry out product launches and sales to maximise value creation. These may be territory rather than multi-market/global deals. Destiny Pharma has already completed one major regional collaboration with China Medical Systems.

Funding

Destiny Pharma has a track record of raising funds in both private and public markets. The company also seeks to leverage equity funding with non-dilutive funding. Four grants and other non-dilutive funding awards totalling almost £2 million have been won since the IPO in September 2017. Destiny Pharma is funded through to Q4 2021 and will continue to seek non-dilutive funding and partnerships that may generate cash income and/or bring funding support to collaborative projects. If additional projects are defined that need additional funds, then Destiny Pharma can also consider using its listed status to attract funding support.

Stakeholder engagement

Section 172(1) statement

Directors of a company must act in a way that they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, taking into account the factors listed in section 172 of the Companies Act 2006.

Engagement with our shareholders and wider stakeholder groups plays an essential role throughout Destiny Pharma's business. We are aware that each stakeholder group requires a tailored engagement approach in order to foster effective and mutually beneficial relationships. Our understanding of stakeholders is then factored into boardroom discussions, regarding the potential long-term impacts of our strategic decisions on each group, and how we might best address their needs and concerns.

The Board regularly reviews our principal stakeholders and how we engage with them. The stakeholder voice is brought into the boardroom throughout the annual cycle through information provided by management and also by direct engagement with stakeholders themselves. The relevance of each stakeholder group may increase or decrease depending on the matter or issue in question, so the Board seeks to consider the needs and priorities of each stakeholder group during its discussions and as part of its decision making.

The table below acts as our section 172(1) statement by setting out the key stakeholder groups, their interests and how Destiny Pharma has engaged with them over the reporting period. This should be read in conjunction with the corporate governance report on pages 26 to 34.

Stakeholder	Their interests	How we engage
Our employees	• Training, development and career prospects • Health and safety • Working conditions • Diversity and inclusion • Human rights and modern slavery • Fair pay, employee benefits	• Open and regular informal dialogue • Ongoing training and development opportunities • Whistleblowing procedures • Employee benefits packages • Formal annual reviews • Board-level engagement on company strategy
Our suppliers and partners	• Workers' rights • Supplier engagement and management to prevent modern slavery • Fair trading and payment terms • Sustainability and environmental impact • Collaboration • Long-term partnerships	• Initial meetings and negotiations • Performance management and feedback • Board approval of significant contracts • Direct engagement between suppliers and specified company contact
Our investors	• Comprehensive review of financial performance of the business • Business sustainability • High standard of governance • Success of the business • Ethical behaviour • Awareness of long-term strategy and direction	• Regular reports and analysis on investors and shareholders • Annual Report • Company website • Shareholder circulars • AGM • Stock exchange announcements • Press releases • Analyst research • One-to-one meetings
Regulatory bodies	• Compliance with regulations • Worker pay and conditions • Gender pay • Health and safety • Treatment of suppliers • Waste and environment • Insurance	• Company website • Stock exchange announcements • Annual Report • Direct contact with regulators • Compliance updates at Board meetings • Risk reviews
Community and environment	• Sustainability • Human rights • Energy usage • Recycling • Waste management • Community outreach and CSR	• Oversight of corporate responsibility plans • Workplace recycling policies and processes

Business model in action

A China partnership and four grant funded collaborations underway

Regional development and commercialisation agreement finalised with China Medical System Holdings Limited ("CMS").

This collaboration was signed in December 2017. The parties hold regular meetings and have commenced early stage projects that are being progressed under the agreement, including the co-ordination of the significant UK-China AMR grant project R&D. There is also discussion of clinical development plans for Destiny Pharma's lead programmes where CMS takes the lead in discussions with the Chinese regulatory authorities on XF-73 nasal product clinical development pathways in China. Destiny Pharma views China as a very important market for its anti-infective products and is pleased to have CMS as an active partner.

Highlights of CMS deal

- Strategic partnership grants CMS full rights to Destiny Pharma's pipeline of drug candidates in China and certain other Asian countries (excluding Japan).
- CMS will carry out all research and development required, in their territories, and both parties will share data and co-ordinate development plans.
- CMS will be responsible for the commercialisation of the drug candidates in their territories.
- Destiny Pharma will make a manufacturing margin on any product the company supplies and will also receive a commercial milestone payment subject to the applicable sales milestones being met by CMS.

Programme will research novel antimicrobial candidates from the company's XF drug platform for use against dermal and ocular infections.

Destiny Pharma was awarded funding of up to £1.6 million from a collaboration established under the UK-China AMR grant fund, set up by Innovate UK and the Department of Health and Social Care with the Chinese Ministry of Science and Technology. The two-year project is examining the use of the company's novel XF drugs to prevent, control and eradicate life-threatening bacteria or "superbugs" without generating resistance.

The research work is being carried out by Destiny Pharma's team in collaboration with expert groups at Cardiff University's School of Dentistry and College of Biomedical and Life Sciences, led by Professor David Williams, and a team at Tianjin Medical University, China.

The new China-UK Industrial Research programme seeks to extend the knowledge base and activity profile of these novel drugs.

This includes the study of multi-drug resistant ("MDR"), Gram-negative and positive, high priority bacterial pathogens *in vitro*, within biofilms and within *in vivo* bacterial infection models for dermal and ocular infections. It will also evaluate combining XF-drugs with existing antibiotics to synergise and/or restore their efficacy against priority antibiotic resistant bacteria.

National Biofilms Innovation Centre

UNIVERSITY OF Southampton

Collaboration with the University of Southampton to investigate XF drug platform activity against infections associated with biofilms.

Destiny Pharma was jointly awarded a National Biofilms Innovation Centre ("NBIC") funded research collaboration with the University of Southampton. The project is intended to examine the use of the company's novel XF compounds to prevent, control and eradicate chronic clinical infections with underlying biofilm involvement, such as those in diabetic foot ulcers and cystic fibrosis.

Destiny Pharma's XF compounds have already shown the potential to eradicate bacteria, such as MRSA, within a biofilm.

The NBIC funded collaboration plans to expand on this data using laboratory and clinical microbial biofilm models and the expertise of the team at the University of Southampton's Faculty of Environmental and Life Sciences, who have established *ex vivo* biofilm model systems and access to clinical infection samples from cystic fibrosis sufferers that will be utilised in the collaboration.

Biofilms are recognised as a key factor in the inability of antibiotics (and other anti-bacterial agents) to successfully treat infections. The formation of bacterial biofilms is implicated in the development of cystic fibrosis pneumonia, diabetic foot ulcers, dental caries and infections associated with indwelling medical devices, (eg hip implants and catheters). In the US, 1.7 million biofilm-related infections, (eg urinary tract, surgical, respiratory and circulatory infections) are annually reported (US Centers for Disease Control and Prevention Report, 2007). The annual estimation of the cost of biofilm infections in the US is $94 billion.

The University Of Sheffield.

Sheffield University research collaboration targeting ocular infections.

This NBIC funded research programme will investigate novel antimicrobial candidates from the company's XF drug platform for use against pathogenic bacteria and fungi in an ocular infection model to evaluate efficacy. This is the second grant jointly awarded to Destiny Pharma by the National Biofilms Innovation Centre and funds a research collaboration with the Sheffield Centre for Antimicrobial Resistance and Biofilms at the University of Sheffield. The project aims to establish the potential of two of the company's proprietary XF drug compounds, DPD-207 and XF-73, as novel treatments for drug-resistant, bacterial and fungal infections in a dynamic *ex vivo* eye model.

Aston University Birmingham

Research project with Aston University to investigate new XF platform drug candidates.

The research is intended to examine novel compounds from the company's XF platform and assess their potential to prevent, control and eradicate dangerous bacteria and biofilms.

Serious infections are sometimes caused and exacerbated by biofilms where bacteria can hide and be protected from traditional anti-infective agents. XF compounds have already shown efficacy in biofilm models and this research project will explore that further and look at the mechanisms of action. The collaboration with Aston University will also look at other potential uses of the XF platform in the prevention and treatment of serious, drug-resistant infections. Aston University's Department of Life and Health Sciences has established expertise in *in vitro* bacterial biofilm models that will be utilised in the collaboration.

CEO's operational and strategic review

Destiny Pharma's strategic aim is to become one of the world's leading developers of medicines that target the prevention and treatment of life-threatening infectious disease.

Neil Clark
Chief Executive Officer

Destiny Pharma is clearly differentiated from traditional approaches where commercialisation and investment returns have been limited.

We believe that XF-73, our lead drug candidate, has a target product profile that is very attractive to hospital infection experts. There are many millions of hospital operations in the US alone where a new drug is needed to help prevent infections. There have also been several independent papers published in 2019 from experts in the US, Europe and Asia that support the clinical need for XF-73 and the market potential of such a preventative approach.

The Board is committed to progressing the Destiny Pharma pipeline with the goal of delivering better drug treatments for patients and creating significant value for shareholders. The company will also continue to consider partnerships and licensing opportunities where appropriate.

Destiny Pharma plans to generate income and shareholder value from the clinical development and commercial exploitation of its proprietary, highly innovative anti-bacterial drug platform; the XF drug series. The XF drug platform is being developed to prevent and treat existing and emerging superbug infections within and outside of hospitals.

Our lead asset, XF-73, is in Phase 2b trials and if the results are positive in 2020 Destiny Pharma will have a novel drug candidate targeted at a significant market and ready for Phase 3 clinical trials.

Destiny Pharma is clearly differentiated from traditional approaches of antibiotic development where commercialisation and the generation of investment returns has been difficult in recent years. The XF platform presents the opportunity to deliver "prevention rather than cure" at sensible pricing whilst delivering safe, effective anti-infective treatments that also address the issue of AMR.

The company's intellectual property is well established and is still being expanded. Currently, Destiny has 95 granted and two pending patents within three patent families, covering composition of matter, novel mechanism of action and bacterial biofilm action. The company has plans to develop and commercialise its earlier pipeline supported where possible through grant funding and research collaborations.

Therefore, while Destiny Pharma's strategy is to develop robust Phase 2 clinical packages around its drug candidates that make them attractive to pharmaceutical companies to license, the company believes it can potentially continue to build value through conducting late stage clinical development itself, ensuring a licensing deal need only be struck at the right time and on optimal terms for its shareholders.

Additionally, while the market for the lead asset XF-73 is initially in the US, the need for such a new treatment is global and Destiny Pharma can enter into licensing agreements and collaborations for other territories in due course. We have already established an agreement with CMS to develop and commercialise the company's assets in the China/Asia market and the company will also look to enter selected partnerships to develop its earlier stage assets. In addition, Destiny Pharma has successfully applied and closed four non-dilutive funding grants in the last twelve months to assist in the development of its pre-clinical portfolio. Destiny Pharma will continue to look at these alternative sources of funding to finance proposed and future pre-clinical and clinical projects. This includes grant funded projects related to COVID-19.

The Board believes that the increasing governmental pressure and financial incentives that are being implemented by leading institutions such as the WHO, UN, FDA and G7/G20 will further increase the options available for profitable commercialisation and the generation of shareholder value. The UK and US governments are taking the lead here in the last twelve months by introducing new regulations with clear financial incentives that may be available for novel anti-infectives such as those being developed by Destiny Pharma. The bacterial infections associated with COVID-19 will increase this support further.

Our platform

The XF drug platform has a novel, patented, ultra-rapid mechanism that reduces the chance of bacteria becoming resistant to its action.

Destiny Pharma's XF platform has advantages over traditional antibiotics	Antibiotic	XF drug
Ultra-rapid bacterial kill/elimination (within minutes)	✗	✓
MRSA unable to become resistant to drug action	✗	✓
Potential for widespread use	✗	✓
Kills all antibiotic resistant Gram-positive bacteria tested	✗	✓
Kills any stage of bacterial growth – including bacterial biofilms	✗	✓
FDA, QIDP & Fast Track status	✓	✓

The key potential benefits are significant:

Ultra-rapid bacteria kill

Studies have shown the XF drugs killing bacteria *in vitro* in less than 15 minutes; faster acting than standard antibiotics currently in use.

Ability to kill bacteria in any growth phase

This is an important feature as bacteria are not always actively growing. XF drugs can kill bacteria even when dormant.

Ability to kill bacteria within staphylococcal bacterial biofilms

Biofilms are an increasing problem that are poorly treated by current drugs as they act as a protective barrier for bacteria. They are associated with indwelling medical devices (for example, heart valves and joint replacements) and invasive medical devices (for example, catheters and endoscopes).

Active against all Gram-positive bacteria tested to date and selected Gram-negative bacteria

This includes clinically important and infection-causing strains, such as:

- *Staphylococcus aureus;*
- *Listeria monocytogenes;*
- *Propionibacterium acnes;*
- Group G *Streptococcus;*
- *Mycobacterium tuberculosis;*
- *Streptococcus pneumonia;*
- *Bacillus anthracis;*
- *Yersinia pestis;*
- *Acinetobacter baumannii;*
- *Pseudomonas aeruginosa;* and
- *Clostridium difficile.*

All existing antibiotic resistant strains of Gram-positive bacteria tested to date are susceptible to XF drugs, including MRSA.

No bacterial (MRSA) resistance is seen to emerge

No bacterial (MRSA) resistance was seen to emerge in a landmark *in vitro* study of bacterial resistance that compared XF-73 to standard antibiotics currently in use. The bacteria (MRSA) did not demonstrate any resistance to XF-73 even after 55 repeat exposures (being the longest repeat exposure study published as far as the company is aware). In contrast, MRSA rapidly developed significant resistance to a range of antibiotics tested. A second study using clinical bacterial samples from a clinical trial of XF-73 provided the first clinical data supporting the same "no resistance profile".

Our pipeline

Focused on markets restricted or blocked by antibiotic resistance.

Destiny Pharma's XF drug pipeline includes several preventative and therapeutic projects at clinical and pre-clinical development stages utilising a portfolio of additional patent-protected XF assets that are available to enter in-house development and/or partnership collaborations.

Our lead asset, XF-73, is currently in a 200-patient Phase 2b trial that is completing in 2020. The company has already commenced the planning for a Phase 3 trial which, with the Phase 2b data, will allow it to secure commercial partnerships for the late stage clinical trials and commercialisation of the XF-73 drug product post its approval. Earlier pipeline assets are also being developed into the clinic and the company is progressing its second clinical programme in 2020 as a novel dermal infection product by carrying out formulation work, additional toxicology studies and clarifying the proposed Phase 2 clinical development plan. The earlier grant funded research programmes are progressing well and the results from these projects will also help in finalising the dermal programme and potentially identify additional clinical candidates targeting new indications.

Clinical data underpinning the XF-73 nasal programme is strong

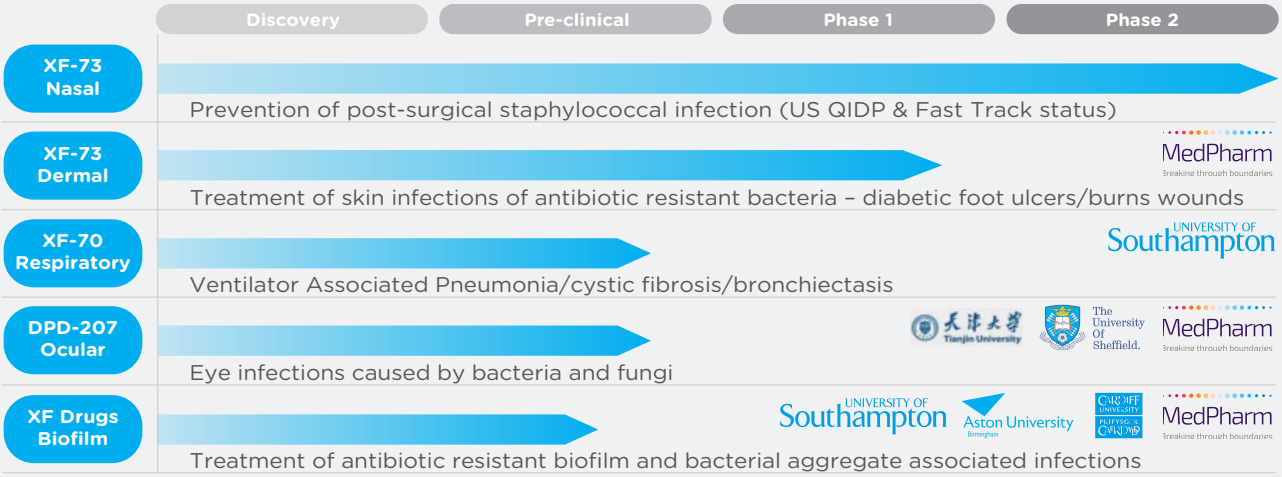
XF-73 (exeporfinium chloride) has been awarded Qualifying Infectious Disease Product ("QIDP") status by the FDA. Within the QIDP award, the FDA also confirmed a new US disease indication for XF-73; namely the "prevention of post-surgical staphylococcal infections", including MRSA. This represents a new US market for which no existing product is approved. QIDP status identifies XF-73 as a drug that is intended to treat serious or life-threatening infections, including those caused by antibiotic resistant pathogens. The FDA also awarded XF-73 nasal Fast Track status in 2018, recognising it as a priority drug for US development.

Destiny Pharma has now completed seven successful Phase 1/2a clinical trials in over 270 subjects with XF-73, which included measures of its efficacy in reducing nasal colonisation by *Staphylococcus aureus*.

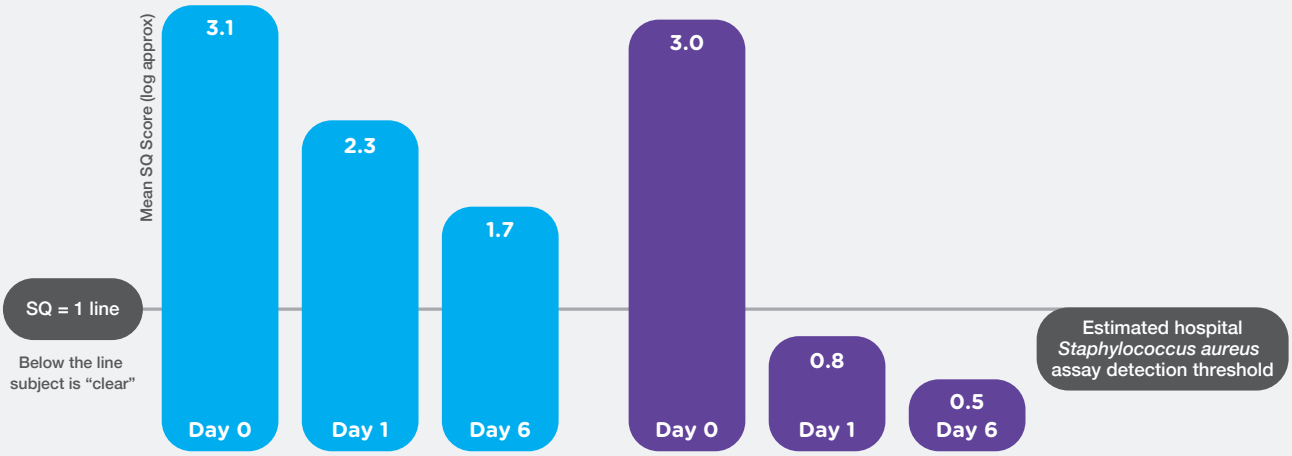
The last such efficacy trial (as shown in the chart on page 15) was conducted in the US and was funded by the US government's expert division on antimicrobial drugs, the National Institute for Allergy and Infectious Diseases ("NIAID"), who reported the successful outcome from this trial. This study indicates the potential clinical efficacy of XF-73 in reducing the nasal carriage of *Staphylococcus aureus* in the nose. Treatment with XF-73 was also associated with a rapid reduction in nasal *Staphylococcus aureus* in all subjects; nasal carriage of the bacteria is the source of the majority of post-surgical bacterial infections and the data was recently published by the US Principle Investigator in the Journal of Global Antimicrobial Resistance in October 2019.

The publication demonstrated that application of the nasal gel formulation of XF-73 in healthy volunteers was safe, well tolerated and generated minimal side effects, and concluded "Treatment with XF-73 was associated with a rapid diminution in the *Staphylococcus aureus* scores in all subjects". Nasal carriage of *Staphylococcus aureus*, including MRSA, is the source of most post-surgical bacterial infections.

XF drug product pipeline: Targeting unmet clinical needs. Working with expert collaborators.



2016 Phase 1 data: *Staphylococcus aureus* load after 0, 1 and 5 days' dosing



Under the IND opened in February 2018, the company completed the required additional Phase 1 dermal safety studies in the US and the results demonstrated a very good "non-irritant" classification for the XF-73 nasal gel and XF-73 in water solution in standard safety studies examining the drug's potential to cause irritation when administered dermally.

The investigators did not report any XF-73 adverse events during the study and no XF-73 was detected in blood samples taken, confirming earlier dermal and nasal clinical trials which also demonstrated no XF-73 appeared in the bloodstream, and reinforcing its excellent safety profile.

The Phase 1 clinical trials have identified the following features that represent an attractive new product profile for XF-73 for both targeted nasal and dermal indications:

- appropriate clinical safety profile;
- non-irritant;
- well tolerated at multiple doses;
- no drug exposure in the bloodstream;
- rapid, anti-staphylococcal action in the nose; and
- anti-bacterial efficacy statistically demonstrated over placebo.

The Phase 2b design for the important next study of XF-73 for the prevention of post-surgical infections was finalised after exchanging information with the anti-infective review team at the FDA.

The study is a multi-centre, randomised, placebo-controlled study of multiple applications of a single concentration of XF-73 nasal gel to assess the antimicrobial effect of XF-73 on commensal *Staphylococcus aureus* nasal carriage in patients scheduled for surgical procedures deemed to be at high risk of post-operative *Staphylococcus aureus* infection.

This Phase 2b trial is currently enrolling 200 patients in around 20 sites in the US, Serbia and Georgia and is completing in 2020 subject to the impact of the COVID-19 pandemic on hospital site recruitment. Destiny Pharma's experience in carrying out this clinical study has confirmed the increasing compliance in US hospitals with best practice, whereby patients are screened, and carriers of *Staphylococcus aureus* are decolonised prior to surgery. This is very supportive of the potential sales in the initial market for XF-73 nasal gel in the large US hospital surgery market.

Treatment with XF-73 in a Phase 1 study was associated with a rapid reduction in nasal *Staphylococcus aureus* in all subjects; nasal carriage of the bacteria is the source of the majority of post-surgical bacterial infections.

Journal of Global Antimicrobial Resistance, Yendewa GA, Griffiss JM, Jacobs MR et al; J. Glob. Antimicrob. Resist. 2019 Oct 7

CEO's operational and strategic review continued

XF-73 nasal gel can be priced competitively, has an excellent safety profile and addresses the key challenge of AMR. The target market represents a $1 billion sales potential opportunity.

The medical need to combat surgical infections is significant

Patient carriage of *Staphylococcus aureus* strains, including MRSA, is recognised as a growing problem and the testing of patients entering hospital for surgery is widespread in many countries, including the US. Landmark outcome studies (Bode et al 2010) have demonstrated that reduction of all strains of *Staphylococcus aureus* can significantly reduce the post-surgical infection rate by 60% and reduce mortality.

In response to these and other findings, the US Surgical Infection Society ("SIS"), the Society for Hospital Epidemiologists of America ("SHEA"), the Infectious Disease Society of America ("IDSA") and the American Society of Hospital Pharmacists ("ASHP") published guidelines recommending that in the US all *Staphylococcus aureus* (including MRSA) should be decolonised in all cardiovascular and most orthopaedic surgeries.

AHRQ/IDSA/SHEA recommended an even more aggressive treatment strategy, universal decolonisation ("UD") of all intensive care unit ("ICU") patients without screening, awarding a Grade I (highest) level of evidence rating. US hospital groups, including the Hospital Corporation of America, are now implementing UD for all patients entering the ICU.

In 2019, the Journal of the American Medical Association ("JAMA") published updated guidelines that instruct US surgeons to perform topical intranasal decolonisation prior to surgery with the highest strength, IA recommendation. This publication advocates improving recovery after surgery and the recommendation was clear that topical therapy be applied universally to all cardiac surgical patients, not only *Staphylococcus aureus* carriers. This is clear support for the approach proposed by Destiny Pharma with XF-73 nasal gel.

In Europe, similar guidelines exist recommending decolonisation of *Staphylococcus aureus* positive patients prior to certain surgeries.

The antibiotic, mupirocin, is often used off-label in the US for these applications, although it has two key disadvantages in that it is slow acting, requiring five days of dosing, and staphylococcal resistance to mupirocin can develop rapidly and become widespread. Consequently, many guidelines are accompanied with a resistance warning related to mupirocin use. In 2019 another new review concluded that global mupirocin resistant *Staphylococcus aureus* prevalence had increased to 7.6% and that mupirocin resistant MRSAs have increased by 13.8% and consequently the monitoring of mupirocin use remains critical.

Destiny Pharma believes this is clear support for the need for an alternative treatment for nasal decolonisation as presented by the XF-73 programme. (Ref. Mupirocin Resistance in *Staphylococcus aureus*: A Systematic Review and Meta-Analysis – Dadashi et al 2019)

In 2016, the WHO published its Global Guidelines for the Prevention of Surgical Site Infection, which now too recommend the screening and decolonisation of all *Staphylococcus aureus* strains pre-surgery in high-risk surgeries.

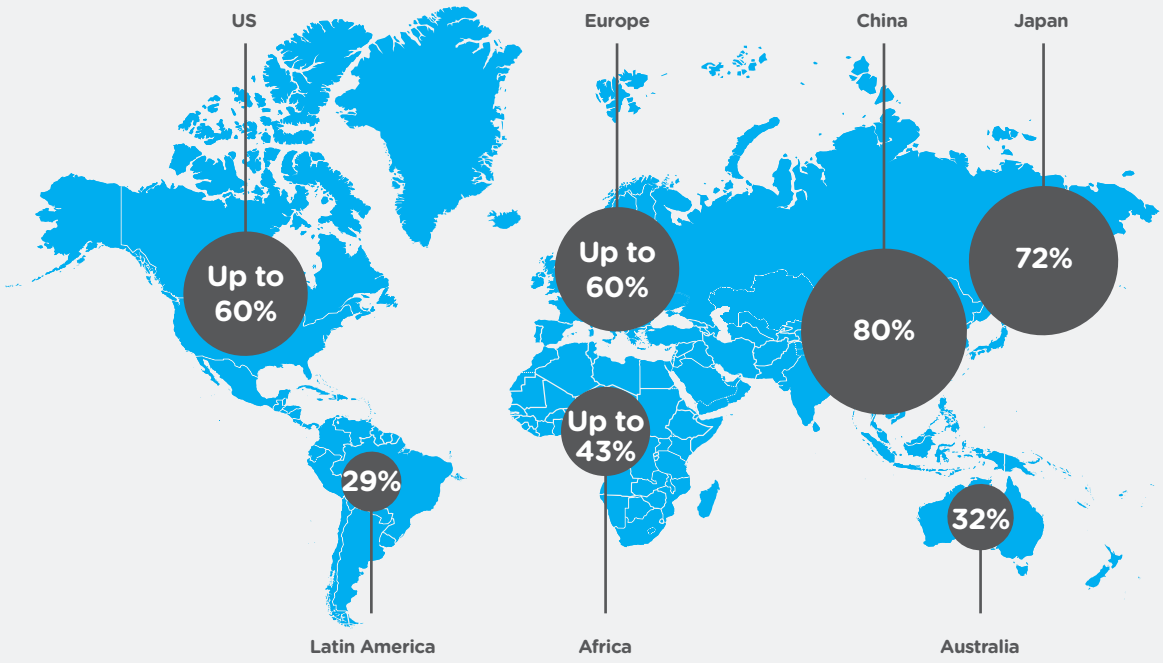
"It is highly recommended that US surgeons perform nasal decolonisation prior to surgery on all cardiac surgical patients. Rating 1A – the highest possible."

Guidelines for Perioperative Care in Cardiac Surgery: Enhanced Recovery After Surgery Society Recommendations – Daniel T. Engelman, MD; Walid Ben Ali, MD; Judson B. Williams, MD, MHS; et al 2019

JAMA The Journal of the American Medical Association

There are 41 million surgeries per year in the US, half of which are at a high risk of infection

Percentage of *Staphylococcus aureus* infection caused by MRSA



The commercial opportunity for XF-73 is over a billion dollars

There is a significant market for a new drug that can assist in the "prevention of post-surgical staphylococcal infections", particularly in the US. There are approximately 41 million surgeries per year in the US alone, all of which expose patients to the risk of post-surgical infections.

Of these patients, Destiny Pharma estimates that 14 million are at a higher risk of infection as a result of the nature of their surgery and the environment in which they are treated.

An additional market is the potential use of XF-73 within intensive care units ("ICUs") which the company estimates could be at least 20 million patients per annum in the US alone.

The market analysis undertaken by Destiny Pharma and its specialist consultants supports the view that XF-73 could achieve annual peak sales in the US alone of over $1 billion and peak sales in Europe and the rest of the world could be $500 million for the initial indication of "prevention of post-surgical staphylococcal infections" alone.

The most recent independent review carried out in 2018 updated the company's understanding of current US clinical practice, the competitor environment for the proposed XF-73 nasal gel formulation, pricing sensitivities and the payers' assessment of the target product profile ("TPP") of XF-73.

The study conclusions were very encouraging and reported that the sample of US treaters (surgeons, infectious disease specialists and ICU specialists) and payers (hospital medical directors, pharmacy services directors, microbiologists and clinical directors) who were consulted confirmed that XF-73's target product profile is superior when compared to existing treatments. This included off-label use of the antibiotic mupirocin, with the conclusion being that XF-73 has the potential to replace mupirocin as the preferred treatment. There was also strong support for a pricing strategy that could be at the higher end of previous assumptions.

The research also shows that XF-73 nasal will have the advantage of being included in the relevant surgical procedure reimbursement cost code and so will be a clear hospital product that will help with its marketing and take up on launch.

The XF platform is delivering additional clinical and pre-clinical projects.

Destiny Pharma believes that there is significant demand for the XF-73 product and has identified the following additional drivers for adoption:

- current practice guidelines have identified patient populations that can benefit, while highlighting that antibiotic resistance is an issue with current products;
- US general, acute-care and short-term hospitals with the highest MRSA infections will have 1% of their Medicare reimbursements withheld;
- the UN General Assembly has called for new drugs to tackle antibiotic resistance;
- US hospital administrators are keen to reduce infection to ensure high ratings in rankings tables;
- XF-73, having QIDP approval, benefits from five years of extra US market exclusivity;
- XF-73 could be the first drug approved into a new US indication with first-to-market advantages; and
- XF-73 has both QIDP and Fast Track regulatory status in the US.

As XF-73 is differentiated from antibiotics due to its superior bacterial resistance profile, it is likely that its use can be widespread, preserving antibiotic use, and could potentially be used without the need for bacterial screening. In this respect, XF-73 can be viewed as a preventative pharmaceutical more akin to vaccines than antibiotics.

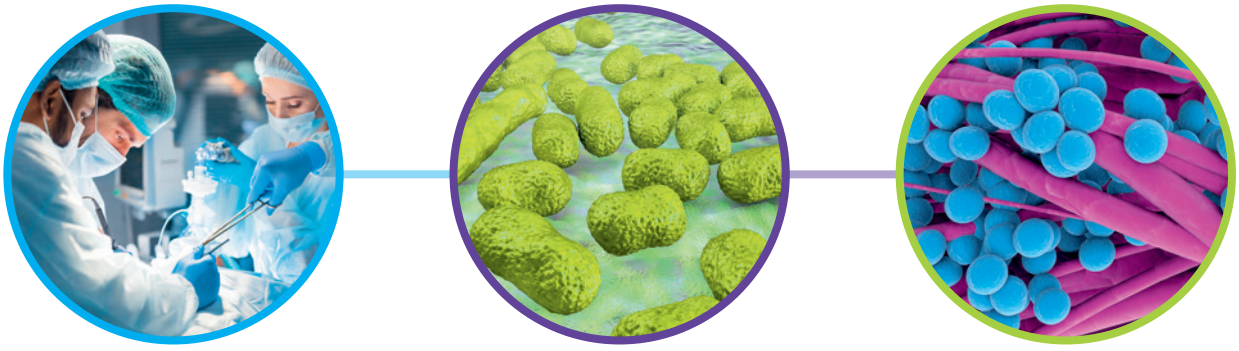
XF-73 has the opportunity to become the first drug approved in the US for the new indication "prevention of post-surgical staphylococcal infections" and could become the benchmark against which all future would-be competitors will be measured. This is a major advantage and will help drive the clinical programme and the commercialisation of XF-73 in the US. The company is also developing an easy-to-use single-use plastic tube nasal dispenser that would improve compliance, reduce wastage and enable accurate tracking of patient dosing that remains a key component of any drug regimen.

XF-73 for the treatment of antibiotic resistant Gram-positive and Gram-negative bacterial burn wound infections

The global topical anti-bacterial market has been estimated to be valued at approximately $6 billion.

The company has a strong Phase 1 clinical, pre-clinical, *in vitro* and *in vivo* infection model data set which demonstrates the efficacy of topically applied XF drugs against Gram-positive and Gram-negative bacteria, including MRSA, *Pseudomonas aeruginosa* and *Acinetobacter baumannii*. In some cases, unformulated XF drugs have been shown to be as active as existing, marketed antibiotics.

Destiny Pharma is developing XF-73 as a new dermal drug for the prevention/treatment of infections associated with diabetic foot ulcers. The data that is being generated from this programme over the next twelve months could also support a wide range of indications, including impetigo, acne, atopic dermatitis, bacterial infected skin lacerations, candida skin/vaginal infection and treatment of serious bacterial burn wound infections.



"Bacterial resistance to existing agents is a barrier to preventing post-operative infections."

US hospital infections expert, 2018 XF-73 market research report

Work on earlier pre-clinical programmes targeting respiratory and ocular infections and biofilms carries on as research projects, including academic and/or commercial collaborations and grant funded programmes. Destiny Pharma has been awarded around £2 million in such grant funding over the last two years.

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

A second project with the University of Southampton is a National Biofilms Innovation Centre ("NBIC") funded research collaboration. The project is examining the use of the company's novel XF compounds to prevent, control and eradicate chronic clinical infections with underlying biofilm involvement, such as those in diabetic foot ulcers and cystic fibrosis.

A third grant awarded in 2019 under the UK-China AMR fund is investigating the potential for XF drugs to treat dermal and ocular infections and involves expert groups at Cardiff and Tianjin Universities.

A fourth grant with Sheffield University was also a NBIC funded research collaboration and is focusing more on ocular bacterial and fungal infections.

Research programmes and biofilms

Destiny Pharma has a US biofilm patent and both XF-73 and XF-70 have shown the ability to act against *Staphylococcus aureus* and *Staphylococcus epidermis* within formed biofilms.

A biofilm is an extra-cellular matrix of exopolysaccharides, which bacteria form when in contact with a host tissue or indwelling medical device.

Biofilms are notoriously resistant to antibiotic therapy; they form an impenetrable barrier to antibiotics.

Slower growth rate of bacteria in biofilms is fundamental to antibiotic resistance.

Bacterial biofilms are implicated in chronic and recurring infections, and there is a growing understanding of their role and the value in developing treatments that can address this issue in tissue and medical device related infections.

Destiny Pharma has generated preliminary data on the potential for XF drugs to enhance existing antibiotic activity by co-administration and plans to extend these studies through research collaborations to determine if important antibiotic life can be reinvigorated and bacterial resistance combated. The company is also looking at the evidence generated from patients suffering in the COVID-19 pandemic and how XF drugs could be targeted to help in the prevention and management of the associated serious bacterial infections.

20% of diabetes patients experience DFU infections, leading to a target market of 350,000 patients in the US alone.

https://www.ncvh.org/pdf/2015%20NCVH/5-27-Wed/Podiatry/1330_John%20Labovitz_revised.pdf

Outlook

The company's funds will provide Destiny Pharma with working capital through to Q4-2021, enabling it to complete the Phase 2b clinical trial of its lead drug asset XF-73 in 2020 subject to the impact of the COVID-19 pandemic on patient recruitment. A successful Phase 2b result will deliver a strong package for partnering and the further development into Phase 3, which is the final stage of clinical development. The funds are also being used to develop new clinical candidates from the pre-clinical XF pipeline and to capitalise on commercial opportunities including additional grant funding, partnering and licensing.

In the Board's opinion, XF-73 has the potential to break the commercial paradigm which besets antibiotics. Its "no resistance" characteristic enables widespread use (unlike antibiotics where use is restricted due to the fear of AMR). As about one-third of the population carry the infection-causing bacteria *Staphylococcus aureus* asymptomatically, and XF-73 is designed to kill these bacteria in the patient ahead of surgery (preventing post-surgical infection), a large market exists.

The potential of the XF-73 nasal gel has been recognised by the FDA through the QIDP status award which acknowledges the novelty in our approach and the need for improved treatments in hospitals.

Destiny Pharma believes that XF-73's preventative disease indication is similar to a vaccine approach and could eventually lead to most patients being treated prior to surgery. There are several drivers for the adoption of this approach, including new guidelines and financial penalties for US hospitals with high MRSA infection rates.

There is also wide support for approaches that adopt the strategy where "prevention is better than cure" in preventing the incidence of infections, especially in hospitals.

Earlier stage assets from the XF drug platform will be progressed in the areas of prevention and treatments for diabetic foot ulcers, staphylococcal pneumonia, serious bacterial burn wound infections and bacterial biofilm associated infections. Destiny Pharma will continue to establish discovery stage research programmes through existing and new collaborations and, where possible, seek additional non-dilutive funding support including projects related to the impact of COVID-19.

As noted earlier on page 3, there is uncertainty in predicting accurately when the Phase 2b clinical trial will restart. However, we are still hopeful that the company's lead asset XF-73 will be able to complete its Phase 2b clinical trial in 2020. The outlook for Destiny Pharma is strong and our team is committed to delivering our strategy and building value.

Neil Clark
Chief Executive Officer
28 April 2020

Investment proposition

Targeted approach targeting billion-dollar global markets

The Directors believe Destiny Pharma has the following key strengths which underpin the company's strategy.

Significant opportunities in existing and new indications – targeted at serious infections

The resistance-breaking profile means that XF drug products have the potential for a long product lifetime. The company is developing sensibly priced medicines that will deliver clear clinical and financial benefits to healthcare providers, thereby maximising their sales potential.

New US disease indication in a very large preventative market

The FDA's award of QIDP and Fast Track status is confirmation of a new US indication for XF-73 for the "prevention of post-surgical staphylococcal infections". Updated market research has confirmed the clinical need and a $1 billion US peak sales opportunity.

Novel patented technology

The XF drug platform represents a new range of antimicrobial drug products which kill bacteria rapidly via a novel mechanism of action against which bacteria appear to be unable to build resistance.

Expert partner in place for China/Asia markets

China Medical Systems collaboration signed in December 2017 shows that the company can negotiate valuable commercial agreements. Other partnerships may be completed after the Phase 2b clinical trial results are available later in 2020.

Lower risk, Phase 2b clinical stage lead asset

Anti-infective drugs have a high probability of approval following a successful Phase 1 trial compared to many other drug classes. Lead asset XF-73 reports Phase 2b results in 2020 subject to delays due to COVID-19.

Experienced team

The executive team responsible for the management of Destiny Pharma has extensive experience appropriate for an AIM-listed development phase biotechnology company.
The Board was strengthened further on 1 January 2020 with the appointment of Dr Debra Barker as a Non-executive Director, who brings extensive experience as a medical director in large pharma and biotech companies specialising in anti-infectives.

XF platform can deliver other clinical assets

The XF-73 dermal project has progressed in 2019, formulation work is underway and grants are funding work on earlier research projects involving XF-70 and DPD-207 drug assets.

The company is also looking at XF projects related to respiratory infections caused by COVID-19.

Access to non-dilutive funding

Destiny Pharma has already benefited from the alternative sources of funding available for the development of new anti-infective drugs, as an earlier Phase 1 US clinical trial was funded by the US government (NIAID). Four grants have been received since our IPO in September 2017 from expert UK and UK-China funds.

Funded to deliver strategy to Q4 2021

Destiny Pharma can focus on delivering its key clinical targets in 2020.

Financial review

We efficiently managed our cash resources during 2019, ending the year with a strong balance sheet to support our key objectives in 2020.

Shaun Claydon
Chief Financial Officer

We increased activity across our scientific and clinical programmes during 2019, particularly during the second half of the year. Our key focus was on progressing our lead programme through a Phase 2b clinical trial, which commenced during the year and which accounts for the majority of our R&D spend. We also continued to develop our earlier programmes in conjunction with our research partners and were pleased to announce our fourth collaboration, with Sheffield University, during the year.

Revenue

Destiny Pharma is a clinical stage research and development company, and is yet to commercialise and generate sales from its current programmes. The company received grant income of £0.3 million during the period.

Administrative expenses

Administrative expenses, which exclude the share-based payment charge of £0.2 million (2018: £0.7 million) during the period, amounted to £5.7 million (2018: £5.3 million). Included within this total are R&D costs totalling £3.8 million (2018: £3.5 million) which reflect the increase in activity with regard to our scientific and clinical programmes, in particular our Phase 2b clinical trial during the period.

Other administrative costs marginally increased from £1.8 million to £1.9 million due to an increase in foreign exchange losses during the period, which were partly offset by a reduction in other operating costs.

Taxation

The company's research and development activities are eligible for the UK research and development small or medium-sized enterprise ("R&D tax credit") scheme, which provides additional taxation relief for qualifying expenditure on R&D activities, with an option to surrender a portion of tax losses arising from qualifying activities in return for a cash payment from HM Revenue and Customs ("HMRC"). The company received a repayment of £0.8 million in respect of the R&D tax credit claimed in respect of the year ended 31 December 2018, and the R&D tax credit receivable in the balance sheet of £0.8 million is an estimate of the cash repayment the company expects to qualify for in respect of activities during the year ended 31 December 2019. However, as at the date of this report, these amounts have not yet been agreed with HMRC.

Loss per share

Basic and diluted loss per share for the year was 10.7 pence (2018: 11.9 pence).

Cash, cash equivalents and term deposits

The company's cash, cash equivalents and term deposits at the year end totalled £7.5 million (2018: £12.1 million).

The net cash outflow from operating activities in 2019 was £4.6 million against an operating loss of £5.5 million, with the major reconciling items being the non-cash charge for share-based payments of £0.2 million, the R&D credit received of £0.8 million and other net movements in working capital of £(0.1) million.

Outlook

The Board believes the company remains well funded to execute on its business strategy and to progress its lead and follow-on programmes in 2020 and 2021.

Shaun Claydon
Chief Financial Officer

28 April 2020

Risks and uncertainties

Destiny Pharma's business is subject to a number of risks and uncertainties in common with other biotechnology companies operating in the field of drug research and development.

The Board manages such risks by maintaining a risk register which identifies risks, prioritises them by likelihood and impact, and records the actions needed to mitigate and monitor those risks.

The Board is also prepared to act swiftly to formulate contingency plans to manage the situation if any risk materialises.

Key risks are monitored by senior management on an ongoing basis and the risk register is reviewed regularly at Board meetings.

The principal risks and uncertainties identified by Destiny Pharma in the year ended 31 December 2019 are set out below:

Risk category	Description
COMMERCIAL C	Commercial risks which may have an impact on the company's ability to commercialise its products and deliver value to shareholders.
OPERATIONAL O	Operational risks which may impact on the company's ability to deliver on its objectives.
FINANCIAL F	Financial risks which may impact on the sustainability or liquidity of the company – affected by internal or external risks.

Principal risk	Category	Mitigation
Technical, clinical or regulatory milestones may not be delivered successfully, leading to delays, changes or the abandonment of development programmes. There may also be changes in the regulatory environment that can impact the approval of clinical trials and product filings.	O	These are inherent risks in drug development. To mitigate the risks, the Scientific Advisory Board, expert consultants and management will regularly review project progress, industry guidelines and manage any issues. The company also works with expert regulatory consultants to monitor the latest regulations and planned changes to the regulatory environment.
Clinical studies may not give the expected results, leading to a requirement to run additional clinical trials (at additional, unexpected cost), or programmes being delayed or abandoned.	O	The company plans to develop a range of products to reduce reliance on its lead asset. Clinical trials are designed to ensure that meaningful and relevant data is produced. Trials are closely monitored to manage timelines and cash requirements.
Inability to raise sufficient capital when needed may lead to delays, reduction or abandoning development programmes.	F	The AIM flotation in September 2017 provides a good cash runway through to Q4 2021. The Board has put in place investor relations and partnering strategies that should support future cash requirements. The virtual business model maintains a low overhead base which allows some flexibility in managing spending commitments.

Risks and uncertainties continued

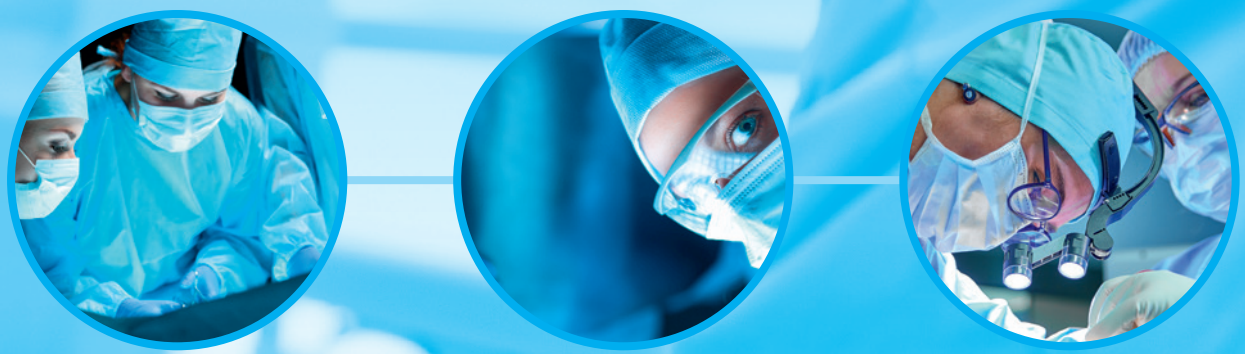
Principal risk	Category	Mitigation
Changes to tax legislation may reduce the availability of tax credits on R&D expenditure. This could reduce R&D tax refunds on eligible expenditure and adversely affect the company's cash flow and cash runway.	F	The company, in conjunction with its tax advisers, continually reviews any proposed changes to the UK R&D tax credit regime. The virtual model maintains a low overhead base which allows some flexibility in managing spending commitments.
Destiny Pharma may not be able to enter into partnering relationships for the commercialisation of its drug pipeline assets.	C	A partnering strategy is in place to locate potential partners. The relationship with China Medical Systems represents the first such relationship. Other partnering activities are planned to enable Destiny Pharma to complete the right deal at the right time to deliver shareholder value.
Destiny Pharma's products may not generate market acceptance from the purchasers and decision makers who are the eventual users and buyers of the products and/or more effective and cheaper competing products may enter the market.	C	Destiny Pharma conducts commercial market analysis to ensure that development activities are directed towards viable markets. Destiny Pharma also has a network of key opinion leaders who assist with this ongoing review.
Dependence on key personnel, the loss of whom through departure, ill health or death may cause delays in delivering company strategy.	O	The Board is working to ensure that there is no single point of failure, and that the team has some capacity to provide resilience in such an eventuality.

The strategic report has been approved by the Board and is signed on its behalf by:

Neil Clark
Chief Executive Officer
28 April 2020

Corporate governance

Financial statements



Introduction to corporate governance

The Directors support high standards of corporate governance and consider strong governance to be a key element in the development and success of the company.

Board of Directors

The Board is responsible for the direction and overall performance of the company with emphasis on policy and strategy, financial results and major operational issues.

During the year, the Board comprised three Executive Directors and the Non-executive Chairman, and at least two other Non-executive Directors who are independent of management. A full list of the Directors who served during the year, together with their skills and experience, is set out in the Directors' report on pages 30 and 31 of this Annual Report. Dr Huaizheng Peng is an appointee of CMS, a shareholder and strategic partner of the company, and therefore he cannot be regarded as an independent Director. In addition, as a minor shareholder and having served on the Board for in excess of nine years, Peter Morgan cannot be regarded as independent. Notwithstanding these factors, the Board considers that both Dr Peng and Mr Morgan offer a diverse range of skills and experience and use their independent judgement to challenge all matters, whether strategic or operational, helping the Board to discharge its duties and responsibilities effectively.

On 1 December 2019, we announced the appointment of Dr Debra Barker as a Non-executive Director, effective 1 January 2020. The Board considers Dr Barker to be independent.

Adoption of the QCA Code

Recent changes in the AIM Listing Rules now require companies to formally adopt a corporate governance code. Destiny Pharma considers that the QCA Corporate Governance Code (the "QCA Code") is the most suitable framework for smaller listed companies and, consequently, formally adopted the QCA Code during the 2018 financial year, having informally followed its principles since its IPO in September 2017.

The Board considers that the company complies with the QCA Code so far as it is practicable having regard to its size, nature and current stage of development. The Board understands that the application of the QCA Code supports the company's medium to long-term success whilst simultaneously managing risks and provides an underlying framework of commitment and transparent communications with stakeholders. Governance changes during the year included the resignation of Joe Eagle, a Non-executive Director, and the appointment of Nick Rodgers as Chair of the Remuneration Committee.

The table below shows how the company addresses the ten principles underpinning the QCA Code:

Deliver growth

1. Establish a strategy and business model which promote long-term value for shareholders. **See "business model" on page 8.**
2. Seek to understand and meet shareholder needs and expectations. **See the "corporate governance" section of our website, www.destinypharma.com.**
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success. **See the "corporate governance" section of our website, www.destinypharma.com.**
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation. **See "risks and uncertainties" on pages 23 and 24.**

Maintain a dynamic management framework

5. Maintain the Board as a well-functioning, balanced team led by the Chair. **See this section.**
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities. **See this section and "Board of Directors" on pages 30 and 31.**
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement. **See this section.**
8. Promote a corporate culture that is based on ethical values and behaviours. **See this section and the "corporate governance" section of our website, www.destinypharma.com.**
9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board. **See the "corporate governance" section of our website, www.destinypharma.com.**

Build trust

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders. **See this section and the "corporate governance" section of our website, www.destinypharma.com.**

The Board

Audit Committee | **Remuneration Committee** | **Nomination Committee**

The Board considers there to be sufficient independence on the Board given the size and stage of development of the company and that all the Non-executive Directors are of sufficient competence and calibre to add strength and objectivity to its activities and bring considerable experience in scientific, operational and financial development of biopharmaceutical products and companies. Appropriate Directors' and officers' liability insurance has been arranged by the company.

There is a clear separation of the roles of Chief Executive Officer and Chairman. The Chairman is responsible for overseeing the running of the Board and ensuring its effectiveness.

The Chairman ensures members of the Board receive timely and appropriate information and that effective communication occurs with institutional and other shareholders. The Chief Executive Officer has the responsibility for implementing the strategy of the Board and managing the day-to-day business activities of the company.

The Board, led by the Chairman, is responsible to stakeholders for the proper management of the company and meets at least six times a year. All relevant information is circulated in good time together with a formal scheduled agenda covering key areas of the company's affairs, including research and development, strategy, and operational and financial performance, which allows the Board to review and discuss the activities of the business.

The Board also convenes after ad hoc meetings, where appropriate, to discuss strategy and activities of the business. Non-executive Directors are required to devote sufficient time and commitment to fulfil their Board duties. The Board is kept appraised of developments in governance and regulations as appropriate, including updates and presentations from the company's Nomad.

All Directors are subject to re-election by shareholders at least once every three years. Directors appointed during any year are subject to re-election at the first Annual General Meeting following their appointment.

Attendance at Board meetings

The Directors' attendance at Board and committee meetings over the course of 2019 was as follows:

Director	Board meeting	Audit Committee	Remuneration Committee	Nomination Committee
Neil Clark	6/6	—	—	—
Dr William Love	6/6	—	—	—
Joe Eagle[1]	5/5	2/2	2/2	—
Peter Morgan	6/6	3/3	2/2	3/3
Dr Huaizheng Peng	5/6	—	—	—
Nick Rodgers	6/6	3/3	2/2	3/3
Shaun Claydon	6/6	—	—	—

(1) Resigned during the year. Please refer to the Directors' report on page 34 for further details.

Introduction to corporate governance continued

Board performance evaluation

The Directors consider that the company and Board are not yet of a sufficient size for an external Board evaluation to make commercial and practical sense. However, the Board does carry out a thorough internal annual review of its performance and that of its committees, individual Directors and the Chairman.
The Directors are encouraged to suggest changes that they feel would benefit the Company and the company's advisers provide updates on best practice where they think that appropriate. Concerns can also be directed towards the Chairman, who seeks to act as a sounding board for any concerns that Directors may have. As the company grows, the Board will keep under review the need for more formal evaluation processes.

Board committees

The Board has established Audit, Remuneration and Nomination Committees, each with formally delegated duties, responsibilities and written terms of reference.

Audit Committee

The Audit Committee comprises two members, who are both Non-executive Directors: Peter Morgan (Chair) and Nick Rodgers. Joe Eagle stood down from the Audit Committee on 23 September 2019.

The Audit Committee, which meets at least twice a year, is responsible for keeping under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor. Due to the size of the company, there is currently no internal audit function, although the Audit Committee has oversight responsibility for public reporting, overall good governance and the company's internal controls.

Other members of the Board, as well as the auditor, are invited to attend the Audit Committee meetings as and when appropriate, and the Chair of the Committee also has a direct line of communication with the auditor.

Remuneration Committee

The Remuneration Committee comprises two members, both of whom are Non-executive Directors: Nick Rodgers (Chair) and Peter Morgan. Joe Eagle was replaced as Chair of the Remuneration Committee by Nick Rodgers on 23 September 2019. Since the year end, Debra Barker has joined the Remuneration Committee.

The Remuneration Committee, which meets at least twice a year, is responsible for considering the remuneration packages for Executive Directors and the bonus and share option strategy for the company and making recommendations as appropriate. The Remuneration Committee works within the framework of a compensation policy approved by the Board.

The Remuneration Committee is also responsible for reviewing the performance of the Executive Directors and ensuring that they are fairly and responsibly rewarded for their individual contributions to the company's overall performance. The Committee's scope extends to all remuneration of Directors, including bonus and share options.

None of the Committee members has any day-to-day responsibility for running the company and no Director participates in discussions about his or her own remuneration.

Nomination Committee

The Nomination Committee comprises two members, both of whom are Non-executive Directors: Nick Rodgers (Chair) and Peter Morgan. Joe Eagle stepped down from the Nomination Committee on 23 September 2019 and, since the year end, Debra Barker has joined the Committee.

The Nomination Committee meets at least twice a year, is responsible for considering the composition and efficacy of the Board as a whole, and for making recommendations as appropriate. During the year, the Nomination Committee approved the appointment of Nick Rodgers as Chair of the Remuneration Committee and processed the selection of, and appointment of Debra Barker as a Non-executive Director, effective 1 January 2020.

Internal control

The Board is responsible for the effectiveness of the company's internal control and quality systems and is supplied with information to enable it to discharge its duties. Internal control and quality systems are designed to meet the particular needs of the company and to manage rather than eliminate the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Employment and corporate culture

The company seeks to maintain the highest standards of integrity and probity in the conduct of its operations. These values are embodied in the written policies and working practices adopted by all employees of the company. An open culture is actively encouraged with regular communications to staff regarding progress and staff feedback is regularly sought. The Executive Directors regularly monitor the company's cultural environment and seek to address any concerns that may arise, escalating these to Board level as necessary.

The Board recognises its legal responsibility to ensure the wellbeing, safety and welfare of its employees and to maintain a safe and healthy working environment for them and for its visitors.

Investor relations

The Board places a high priority on regular communications with its shareholders. The Board as a whole is responsible for ensuring that effective dialogue with shareholders takes place, while the Chairman and Chief Executive Officer ensure that the views of shareholders are communicated to the Board as a whole. The Board communicates with shareholders through one-to-one meetings, the announcement of half-year and full-year results, presentations to analysts and through regular updates to the company's website, which contains copies of all financial reports and statements. Shareholders are able to attend the company's AGM, which provides an excellent opportunity to engage directly with the Board and discuss the company's strategy and performance in more detail.

Corporate social responsibility

The Board recognises the importance of assessing the impact and benefits of the company's activities on society and the environment and endeavours to consider the interest of shareholders and other stakeholders, including employees, suppliers and business partners, when operating its business.

UK Bribery Act 2010

The Board has established a bribery policy to achieve compliance with the UK Bribery Act 2010, which came into effect on 1 July 2011. A training programme is in place for all Directors, staff and contractors. Agreements with third parties contain statements that the company and its associates are required to adhere at all times to the UK Bribery Act 2010.

Nick Rodgers
Chairman
28 April 2020

Board of Directors

Strong leadership

The Board has a broad range of experience from senior leadership roles in life science, investment and listed companies.

Nick Rodgers
Chairman

Mr Rodgers has considerable board experience in both public and private growth companies, particularly those in the life science sector, as well as a background as a successful corporate financier and investment banker.

Mr Rodgers is currently chairman of SEHTA, one of the largest health technology networking organisations in the UK, and a director of three private companies.

He was a non-executive director and then chairman of fully listed Oxford Biomedica plc, a leading gene and cell therapy company, from 2004 until 2016.

Previously, Mr Rodgers headed up both the Life Science and Corporate Finance departments at Evolution Beeson Gregory (now Investec), advising many listed life science companies from 1989 until 2003.

Dr William Love
Founder and
Chief Scientific Officer

Dr Love was a senior scientist at Ciba Geigy/Novartis, focused on novel drug delivery technologies and involved in the development of the world's leading eye-care pharmaceutical, Visudyne. In 1997, Dr Love founded Destiny Pharma and he is the co-inventor of the XF drug platform.

Dr Love was a founding member of the BEAM Alliance, an EU SME group focused on promoting antimicrobial drug development. He is an expert advisory board member of Global AMR Innovation Fund, appointed by Professor Dame Sally Davies in October 2016. Dr Love is the named inventor in more than 70 patents. He has experience in drug R&D from discovery and lead identification, through pre-clinical development and into Phase 1/2 clinical development in the UK, EU and US.

Neil Clark
Chief Executive Officer

Mr Clark qualified as an accountant with PwC in Cambridge, UK and worked for over ten years on a variety of national and international assignments in audit, corporate finance and consultancy.

In 1997, Mr Clark joined CeNeS Pharmaceuticals plc, a venture capital backed private UK biotech company. Following the successful flotation of CeNeS in 1999, he was appointed CFO. In 2005, he became CEO and led the company through to its sale in 2008.

Mr Clark then joined Ergomed in January 2009 and was CFO during its IPO in July 2014 until his move to be full-time CEO of PrimeVigilance (Ergomed's successful drug safety business) in January 2016.

Mr Clark is a Fellow of the Institute of Chartered Accountants in England and Wales and has a BSc in Bioscience from the University of Nottingham.

Shaun Claydon
Chief Financial Officer and Company Secretary

Mr Claydon is an accomplished corporate financier and qualified Chartered Accountant with over 16 years' board-level experience, including within the biotechnology sector. He has extensive experience of delivering financial and operating results, and from 2015 served as CFO of Creabilis, a venture backed clinical stage specialty pharmaceutical company focused on dermatology treatments, during which he led the $150 million sale of the business to Sienna Biopharmaceuticals.

From 2009 to 2014, Mr Claydon was CFO and chief operating officer of Orteq Sports Medicine, a medical device company and world leader in the field of biodegradable polymer technologies.

Prior to these positions Mr Claydon held a number of senior financial consultancy and corporate finance roles, including at PwC, Evolution Beeson Gregory (now Investec) and HSBC Investment Banking.

Dr Huaizheng Peng
Non-executive Director

Dr Peng serves as general manager of International Operations for China Medical System Holdings, a specialty pharmaceutical company listed on the Hong Kong Stock Exchange. He also served as an independent non-executive director of China Medical System Holdings Ltd between 2007 and 2010.

Dr Peng was a partner of Northland Bancorp, a private equity firm. Before that, he worked as a head of life sciences and as a director of corporate finance at Seymour Pierce, a London-based investment bank and stockbroker. Earlier in his career Dr Peng was a senior portfolio manager, specialising in global life science and Asian technology investment at Reabourne Technology Investment Management Limited.

Peter Morgan
Non-executive Director

Mr Morgan's early career was spent in the pharmaceutical industry, working as a product manager in the UK before moving to become managing director of a Ciba-Geigy (now Novartis) subsidiary in Scandinavia.

Mr Morgan was a founding director of Beaufort Group Limited, a business services company which provided support to pharmaceutical companies.

From 2007 until 2015, Mr Morgan was a non-executive director of Oncimmune Limited, a cancer diagnostics company which floated on AIM in 2016.

Mr Morgan has advised many of the world's top pharmaceutical companies, including Amgen, Bayer, GSK, Novartis, Novo Nordisk, Pfizer and Roche, as well as Quintiles, the world's largest clinical research organisation. He has a BSc from the University of Nottingham and an MBA from London Business School.

Dr Debra Barker
Non-executive Director

Dr Barker has worked at Novartis, Roche, GSK (then SmithKline Beecham) and most recently at Polyphor as Chief Medical and Development Officer. Dr Barker is currently on the board of Hutman Diagnostics, a molecular diagnostic company specialising in antimicrobial resistance, and BerGenBio, an oncology company targeting immune-evasive and therapy resistant cancers.

At Novartis Dr Barker held several senior roles including Head of Development for Anti-Infectives, Immunology and Transplantation. Dr Barker was also the medical lead for Swiss-based anti-infective specialist Polyphor's highly successful IPO on the SIX Swiss Exchange.

Directors' remuneration report

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for all key management personnel, regarded as the Executive Directors and officers of the company.

Introduction

The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis and is guided by an approved remuneration policy and takes into account relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality Board and executive team. The Remuneration Committee additionally links part of key management remuneration to the company's financial and operational performance.

Emoluments of Directors

Details of the nature and amount of each element of the emoluments of each Director who served during the year ended 31 December 2019 are as follows:

	Short-term employee benefits £	Post-employment benefits £	Other benefits £	**Total 2019 £**	Total 2018 £
Neil Clark	274,443	22,990	3,000	**300,433**	232,900
Dr William Love	228,724	18,892	2,618	**250,234**	198,616
Joe Eagle[1]	30,000	—	—	**30,000**	40,000
Peter Morgan	40,000	—	—	**40,000**	40,000
Dr Huaizheng Peng	40,000	—	—	**40,000**	40,000
Nick Rodgers	80,000	—	—	**80,000**	21,231
Shaun Claydon	114,330	11,433	2,268	**128,031**	22,911
Total	807,497	53,315	7,886	**868,698**	808,868

(1) Resigned during the 2019 financial year. Please refer to the Directors' report on page 34 for further details.

Directors' interests

The interests of the Directors holding office at 31 December 2019 in the shares of the company are set out below:

Ordinary shares of £0.01 each	31 December 2019	31 December 2018
Neil Clark	—	—
Dr William Love[1]	6,859,500	6,859,500
Shaun Claydon	—	—
Peter Morgan	1,025,500	1,025,500
Dr Huaizheng Peng	—	—
Nick Rodgers	—	—

(1) 3,667,700 of these ordinary shares are held by Dr Love directly and 3,191,800 are held by his wife, Carole Love.

Options in the company's shares held by the Directors holding office at 31 December 2019 are set out below:

Share options	31 December 2019	31 December 2018
Neil Clark	544,305	344,305
Dr William Love	765,394	765,394
Shaun Claydon	300,000	300,000
Peter Morgan	719,962	719,962
Dr Huaizheng Peng	—	—
Nick Rodgers	—	—

The options are exercisable at various dates up to June 2029.

The company's shares were admitted to trading on AIM on 4 September 2017. The market price of the company's shares at the end of the reporting period was 44.0 pence (2018: 62.0 pence) and the range during the period from admission to the end of the reporting period was 36.5 pence to 235.0 pence (2018: 61.5 pence to 235.0 pence) per share.

Directors' report

The Directors present their report together with the audited accounts of Destiny Pharma plc.

Directors

Those who served as Directors during the year are:

- **Nick Rodgers,** Non-executive Chairman;
- **Neil Clark,** Chief Executive Officer;
- **Dr William Love,** Founder and Chief Scientific Officer;
- **Shaun Claydon,** Chief Financial Officer;
- **Joe Eagle,** Non-executive Director (resigned 23 September 2019);
- **Peter Morgan,** Non-executive Director; and
- **Dr Huaizheng Peng,** Non-executive Director.

Results and dividends

The loss after taxation for the year ended 31 December 2019 was £4.7 million (2018: £5.2 million).

Directors' interests

Directors' interests at 31 December 2019 in the shares and share options of the company are shown in the Directors' remuneration report on page 33.

Financial instruments

The company's principal financial instruments comprise cash balances, term deposits, and other payables and receivables that arise in the normal course of business. The risks associated with these financial instruments are disclosed in note 14 to the financial statements.

Research and development

For details of the company's research and development, please refer to the strategic report, which forms part of this Annual Report.

Future developments

Further information regarding the future developments of the company is contained in the strategic report, which forms part of this Annual Report.

Directors' liabilities

Subject to the conditions set out in the Companies Act 2006, the company has arranged appropriate Directors' and officers' liability insurance to indemnify the Directors against liability in respect of proceedings brought by third parties. Such provisions remain in force at the date of this report.

Disclosure of information to the auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors, each Director has taken all the steps that he ought to have taken as a Director in order to have made himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of the auditor

In accordance with section 489 of the Companies Act 2006, a resolution to re-appoint Crowe U.K. LLP will be proposed at the next Annual General Meeting.

Board committees

Information on the Audit, Remuneration and Nomination Committees is included in the corporate governance section of the Annual Report on pages 26 to 34.

Annual General Meeting

The Annual General Meeting will be held on 10 June 2020 as stated in the notice that accompanies this Annual Report.

By order of the Board.

Shaun Claydon
Company Secretary
28 April 2020

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and applicable law.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

They are further responsible for ensuring that the strategic report and Directors' report, and other information included in the Annual Report and Financial Statements, are prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the Destiny Pharma plc website is the responsibility of the Directors; the work carried out by the auditor does not involve the consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Independent auditor's report

to the shareholders of Destiny Pharma plc

Opinion

We have audited the financial statements of Destiny Pharma plc for the year ended 31 December 2019, which comprise:

- the statement of comprehensive income for the year ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of cash flows and statement of changes in equity for the year ended 31 December 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of the company's loss for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date the financial statements are authorised for issue.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the company financial statements as a whole to be £200,000 based on 4% of loss before tax (2018: £300,000).

We use a different level of materiality ("performance materiality") to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate, performance materiality may be reduced to a lower level, such as for related party transactions and Directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £7,500. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The company's operations are based in the UK at one central operating location. The audit team visited this location and performed a full scope audit on the company.

Key audit matters

There were no matters which we consider should be separately reported as key audit matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Stephen Bullock
(Senior Statutory Auditor)
for and on behalf of
Crowe U.K. LLP
Statutory Auditor, London

28 April 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £	Year ended 31 December 2018 £
Continuing operations			
Other operating income	6	**305,906**	—
Administrative expenses	7	**(5,687,003)**	(5,346,170)
Share-based payment expense		**(203,655)**	(737,687)
Loss from operations		**(5,584,752)**	(6,083,857)
Finance income	3	**63,478**	75,999
Loss before tax		**(5,521,274)**	(6,007,858)
Taxation	5	**813,250**	841,144
Loss and total comprehensive loss for the year from continuing operations		**(4,708,024)**	(5,166,714)
Loss per share – pence			
Basic	8	**(10.7)p**	(11.9)p
Diluted	8	**(10.7)p**	(11.9)p

Statement of financial position

As at 31 December 2019

	Notes	As at 31 December 2019 £	As at 31 December 2018 £
Assets			
Non-current assets			
Property, plant and equipment	9	**32,922**	30,421
Non-current assets		**32,922**	30,421
Current assets			
Trade and other receivables	10	**911,198**	930,759
Cash and cash equivalents	11	**7,479,642**	7,060,821
Other financial assets	12	**—**	5,000,000
Prepayments		**133,702**	36,406
Current assets		**8,524,542**	13,027,986
Total assets		**8,557,464**	13,058,407
Equity and liabilities			
Equity			
Share capital	13	**438,652**	435,626
Share premium		**17,296,337**	17,292,284
Accumulated losses		**(9,975,664)**	(5,471,295)
Shareholders' equity		**7,759,325**	12,256,615
Current liabilities			
Trade and other payables	14	**798,139**	801,792
Current liabilities		**798,139**	801,792
Total equity and liabilities		**8,557,464**	13,058,407

The financial statements, accompanying policies and notes 1 to 17 (forming an integral part of these financial statements), were approved and authorised for issue by the Board on 28 April 2020 and were signed on its behalf by:

Neil Clark
Chief Executive Officer

Shaun Claydon
Chief Financial Officer

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £	Share premium £	Accumulated losses £	Total £
1 January 2018	435,626	17,292,284	(1,042,268)	16,685,642
Comprehensive loss for the year				
Total comprehensive loss	—	—	(5,166,714)	(5,166,714)
Total comprehensive loss for the year	—	—	(5,166,714)	(5,166,714)
Contributions by and distributions to owners				
Share-based payment expense	—	—	737,687	737,687
Total contributions by and distributions to owners	—	—	737,687	737,687
31 December 2018	435,626	17,292,284	(5,471,295)	12,256,615
Comprehensive loss for the year				
Total comprehensive loss	**—**	**—**	**(4,708,024)**	**(4,708,024)**
Total comprehensive loss for the year	**—**	**—**	**(4,708,024)**	**(4,708,024)**
Contributions by and distributions to owners				
Issue of share capital	**3,026**	**4,053**	**—**	**7,079**
Share-based payment expense	**—**	**—**	**203,655**	**203,655**
Total contributions by and distributions to owners	**3,026**	**4,053**	**203,655**	**210,734**
31 December 2019	**438,652**	**17,296,337**	**(9,975,664)**	**7,759,325**

Statement of cash flows

For the year ended 31 December 2019

	Year ended 31 December 2019 £	Year ended 31 December 2018 £
Cash flows from operating activities		
Loss before income tax	**(5,521,274)**	(6,007,858)
Depreciation of property, plant and equipment	**18,440**	9,663
Share-based payment expense	**203,655**	737,687
Finance income	**(63,478)**	(75,999)
	(5,362,657)	(5,336,507)
Increase in trade and other receivables and prepayments	**(79,800)**	(23,162)
Decrease in trade and other payables	**(3,653)**	404,317
Cash used in operations	**(5,446,110)**	381,155
Tax received	**815,316**	233,908
Net cash used in operating activities	**(4,630,794)**	(4,721,444)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(20,942)**	(17,771)
Sale of other financial assets	**5,000,000**	–
Interest received	**63,478**	75,999
Net cash inflow from investing activities	**5,042,536**	58,228
Cash flows from financing activities		
New shares issued	**7,079**	–
Net cash inflow from financing activities	**7,079**	–
Net increase/(decrease) in cash and cash equivalents	**418,821**	(4,663,216)
Cash and cash equivalents at the beginning of the year	**7,060,821**	11,724,037
Cash and cash equivalents at the end of the year	**7,479,642**	7,060,821

Notes to the financial statements
For the year ended 31 December 2019

1. Accounting policies

General information

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

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

Basis of preparation

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

The company's financial statements have been presented in pounds sterling ("GBP"), being the functional and presentation currency of the company.

Standards and interpretations issued

a) New standards, interpretations and amendments effective from 1 January 2019

IFRS 16: Leases became applicable to the company on 1 January 2019. The company has elected not to apply the requirements of paragraphs 22 to 49 of IFRS 16 in relation to short-term leases and has no material leases which are other than short term. The adoption of IFRS 16 therefore had no impact on the financial statements and no adjustments were required as a consequence of its adoption.

b) New standards, interpretations and amendments not yet effective

At the date of authorisation of the company's financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board but are not yet effective and have not been adopted early by the company. The most significant of these are as follows, which are both effective for the period beginning 1 January 2020:

- IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material); and
- revised Conceptual Framework for Financial Reporting.

All relevant standards, amendments and interpretations to existing standards will be adopted in the company's accounting policies in the first period beginning on or after the effective date of the relevant pronouncement.

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

Segment reporting

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

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

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. The company currently does not use derivative financial instruments to manage or hedge financial exposures or liabilities.

Cash and cash equivalents

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

Financial assets

Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. The group holds the financial assets with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Trade and other payables

Trade and other payables are initially recognised at fair value. Fair value is considered to be the original invoice amount, discounted where material, for short-term payables. Long-term payables are measured at amortised cost using the effective interest rate method.

Derecognition of financial assets and liabilities

a) Financial assets

A financial asset is derecognised where:

- the right to receive cash flows from the asset has expired;
- the company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the company has transferred the rights to receive cash flows from the asset; and
  - i) either has transferred substantially all the risks and rewards of the asset; or
  - ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. The company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate.

For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next twelve months (a "twelve-month ECL"). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a "lifetime ECL").

Share-based payments

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

- plant and machinery – between two and ten years.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the statement of financial position date. R&D tax credits are recognised on an accruals basis and are included as a current asset within trade and other receivables.

Research and development

Development costs and expenditure on pure and applied research are charged to the profit and loss account in the year in which they are incurred. Expenditure incurred on the development of internally generated products will be capitalised from when Phase 3 trials are completed and regulatory approval is obtained.

Government grants

Government grants are included within other operating income and are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Government grants comprise amounts from the UK-China AMR grant fund, set up by Innovate UK and the Department of Health and Social Care, with the Chinese Ministry of Science and Technology. This grant funding is being used to support a research programme which seeks to extend the knowledge base and activity profile of the company's novel XF drugs. There are no unfulfilled conditions or contingencies relating to grant income recognised in the income statement.

Foreign currency

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

Pension costs

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

1. Accounting policies continued

Going concern

The company has not yet recorded any revenues and funds its operations through periodic capital issues and research grants. Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. Cash flow forecasts and projections take into account sensitivities on receipts, and costs. In their assessment of going concern the directors have considered the possible impact on the business of the COVID-19 pandemic. As noted in the Strategic Report this has to date had no significant impact on the company's operations other than an anticipated short-term delay to the existing Phase 2b clinical study's timetable. Having made relevant and appropriate enquiries, including consideration of the company's current cash resources and the working capital forecasts, the Directors have a reasonable expectation that the company will have adequate cash resources to continue to meet the requirements of the business for at least the next twelve months. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Critical accounting judgements and key sources of estimation uncertainty

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

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

The following critical judgements have been made by the Directors.

Share-based payments

The Directors have to make judgements when deciding on the variables to apply in arriving at an appropriate valuation of share-based compensation and similar awards including appropriate factors for volatility, risk-free interest rate and applicable future performance conditions and exercise patterns. Further details of these factors can be found in note 13.

2. Directors and employees

The average number of persons employed by the company, including Executive and Non-executive Directors, during the year was as follows:

	31 December 2019	31 December 2018
Research and development	**7**	5
Corporate and administration	**5**	5
	12	10
Non-executive Directors	**4**	5
	16	15

Their aggregate remuneration, including Directors, comprised:

	31 December 2019 £	31 December 2018 £
Wages and salaries	**1,529,854**	1,287,907
Social security costs	**149,833**	149,274
Other benefits	**74,927**	53,704
Pension costs	**83,061**	90,660
Share-based payment expense	**187,410**	696,573
	2,025,085	2,278,118

Details of Directors' remuneration can be found in the Directors' remuneration report and are summarised below:

	31 December 2019 £	31 December 2018 £
Directors' remuneration	**910,594**	746,866
Pension costs	**53,315**	51,801
Other benefits	**7,887**	10,201
Share-based payment expense	**170,432**	591,171

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

	31 December 2019	31 December 2018
Defined contribution schemes	**3**	3

The company defines key management personnel as the Directors of the company.

The company makes payments into both occupational pension and personal pension funds held by staff. The pension cost charge represents contributions payable by the company to the funds. The amount due to the funds at 31 December 2019 was £4,141 (2018: £3,091).

3. Net finance income

	31 December 2019 £	31 December 2018 £
Finance income		
Deposit account interest	**63,478**	75,999

4. Auditor's remuneration

	31 December 2019 £	31 December 2018 £
Fees payable to the company's auditor for:		
Audit of the company's annual accounts	**24,250**	23,500
Audit-related assurance services	**4,600**	2,750
Tax services	**2,500**	2,500
Total	**31,350**	28,750

5. Income tax

	31 December 2019 £	31 December 2018 £
Research and development tax credits based on costs in the financial year	**(839,079)**	(841,144)
Non-recoverable tax credit in prior year	**25,829**	—
	(813,250)	(841,144)

5. Income tax continued

Tax reconciliation

	31 December 2019 £	31 December 2018 £
Loss before tax	**(5,521,274)**	(6,007,858)
Loss before tax multiplied by the UK corporation tax rate of 19% (2018: 19%)	**(1,049,042)**	(1,141,493)
Effects of:		
Non-deductible expenditure	**38,911**	148,637
Employee share acquisition relief	**(43,860)**	—
R&D enhanced expenditure	**(621,447)**	(622,976)
Lower tax rate on R&D losses	**260,404**	261,044
Tax losses carried forward	**575,955**	513,644
Total tax credit on loss	**(839,079)**	(841,144)

There were no tax charges in the period. There are tax losses available to carry forward amounting to approximately £16.8 million (2018: £13.7 million), which includes £0.2 million (2018: £0.7 million) in respect of tax deductions on share options. A deferred tax asset on losses is not recognised in the accounts due to the uncertainty of future profits against which they will be utilised.

6. Other operating income

	31 December 2019 £	31 December 2018 £
Government grants received during the year	**269,216**	—
Government grants accrued at 31 December	**36,690**	—
	305,906	—
Included in trade and other receivables (note 10)	**36,690**	—

Grant funding has been received to support research and development activities which seek to extend the knowledge base and activity profile of the Company's novel XF drugs. There are no unfulfilled conditions or contingencies attached to these grants.

7. Administrative expenses

Administrative expenses include:

		31 December 2019 £	31 December 2018 £
Staff costs	– research and development	**973,772**	724,678
	– other	**829,625**	856,867
Research and development costs		**2,851,672**	2,749,034
Depreciation		**18,440**	9,663
Foreign exchange differences		**45,787**	(122,305)

8. Loss per ordinary share

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

	31 December 2019 £	31 December 2018 £
Loss for the year attributable to shareholders	**(4,708,024)**	(5,166,714)
Weighted average number of shares	**43,799,945**	43,562,598
Loss per share – pence		
– Basic and diluted	**(10.7)p**	(11.9)p

9. Property, plant and equipment

	Plant and machinery £
Cost	
At 1 January 2018	79,376
Additions	17,771
At 31 December 2018	97,147
Additions	**20,942**
At 31 December 2019	**118,089**
Depreciation	
At 1 January 2018	57,063
Charge for the year	9,663
At 31 December 2018	66,726
Charge for the year	**18,440**
At 31 December 2019	**85,167**
Net book value	
At 1 January 2018	22,313
At 31 December 2018	30,421
At 31 December 2019	**32,922**

10. Trade and other receivables

	31 December 2019 £	31 December 2018 £
Other receivables	**72,119**	89,615
Research and development tax repayment	**839,079**	841,144
	911,198	930,759

11. Cash and cash equivalents

	31 December 2019 £	31 December 2018 £
Cash and bank balances	**7,479,642**	7,060,821

Notes to the financial statements continued

For the year ended 31 December 2019

12. Other financial assets

	31 December 2019 £	31 December 2018 £
Term deposits with maturities greater than three months	—	5,000,000

13. Share capital

Ordinary shares of £0.01 each	31 December 2019 Number	31 December 2018 Number
Authorised[1]	**n/a**	n/a
Allotted and fully paid		
At 1 January	**43,562,598**	43,562,598
Issued for cash during the year	**302,597**	—
At 31 December	**43,865,195**	43,562,598

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

	31 December 2019 £	31 December 2018 £
Authorised	**n/a**	n/a
Allotted and fully paid	**438,652**	435,626

	31 December 2019 £	31 December 2018 £
Share premium account	**17,296,337**	17,292,284

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

Share options

The expense arising from share-based payment transactions recognised in the year ended 31 December 2019 was £203,655 (year ended 31 December 2018: £737,687).

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

Share option schemes

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

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

Unapproved Scheme

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

EMI Scheme

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

Employee LTIP Scheme

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

Non-Employee LTIP Scheme

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

	31 December 2019		31 December 2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance outstanding at beginning of the year	**7,098,823**	**£0.075**	6,748,823	£0.062
Granted during year	**335,000**	**£0.010**	350,000	£0.334
Exercised during year	**(302,597)**	**£0.023**	—	—
Lapsed during year	**(41,000)**	**£1.066**	—	—
Options outstanding at end of the year	**7,090,226**	**£0.068**	7,098,823	£0.075
Options exercisable at the end of the year	**6,455,226**	**£0.068**	6,585,823	£0.035

Modification of existing share option schemes

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

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

After adjusting for the bonus issue on 23 January 2017, 7,848,000 share options had been issued prior to the modification at adjusted weighted average exercise prices of between £0.2484 and £1.4522.

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

Grants of options

On 4 June 2019, 135,000 Employee LTIP Options were granted to certain senior employees at an exercise price of £0.01 per ordinary share and 200,000 Employee LTIP Options were granted to Neil Clark at an exercise price of £0.01 per ordinary share. These options are exercisable on or after the third anniversary of the date of grant.

The estimated fair value of share options granted during the period has been calculated by applying a Black-Scholes option pricing model. In the absence of a liquid market for the share capital of the company, the expected volatility of its share price is difficult to calculate. Therefore, the Directors have considered the expected volatility used by listed entities in similar operating environments to calculate the expected volatility. The weighted average fair value of options granted in the period was £0.78 (2018: £0.68).

The model inputs were:

	2019	2018
Share price	**£0.785**	£0.765/£1.115
Exercise price	**£0.01**	£0.01/£0.765
Expected volatility	**49%**	49%
Expected option life	**10 years**	10 years
Risk-free rate	**0.92%**	1.5%/1.55%
Expected dividends	**£nil**	£nil

14. Trade and other payables

	31 December 2019 £	31 December 2018 £
Trade payables	**513,508**	403,552
Social security and other taxes	**45,761**	50,874
Accrued expenses	**234,729**	344,275
Pension contributions payable	**4,141**	3,091
	798,139	801,792

15. Financial instruments – risk management

The company is exposed through its operations to credit risk, liquidity risk and foreign exchange risk. In common with all other businesses, the company is exposed to risks that arise from its use of financial instruments. This note describes the Directors' objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Financial instruments

Categories of financial instruments

	31 December 2019 £	31 December 2018 £
Financial assets measured at amortised cost		
– Cash	**7,479,641**	7,060,821
– Other financial assets	**—**	5,000,000
– Other receivables	**72,119**	89,615
Financial liabilities		
– Financial liabilities measured at amortised cost	**748,237**	747,827

Credit risk

The company's credit risk arises from cash and cash equivalents with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating A-/A3 or equivalent are accepted.

Liquidity risk

Liquidity risk arises from the Directors' management of working capital and is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due. Further details on the going concern basis of preparation are provided in note 1.

Foreign exchange risk

Foreign exchange risk arises when the company enters into transactions denominated in a currency other than its functional currency. The main trading currencies of the company are pounds sterling, the US dollar and the euro. The exposure to foreign exchange is monitored by the company's finance function and exposures are generally managed through hedging via the currency denomination of cash and any realised impact currently is not material to the company.

The company's exposure to foreign currency risk at 31 December 2019 and 31 December 2018 was as follows:

31 December 2019	Sterling £	US dollar £	Euros £	Total £
Cash and cash equivalents	**6,460,328**	**674,559**	**344,754**	**7,479,641**
Trade and other payables	**(655,191)**	**(29,449)**	**(113,499)**	**(798,139)**
Net exposure	**5,805,137**	**645,110**	**231,255**	**6,681,502**

31 December 2018	Sterling £	US dollar £	Euros £	Total £
Cash and cash equivalents	11,123,132	937,042	647	12,060,821
Trade and other payables	(764,133)	(36,869)	(790)	(801,792)
Net exposure	10,358,999	900,173	(143)	11,259,029

The following table considers the impact of a change to the pounds sterling/euro and US dollar exchange rates of +/– 10% at 31 December 2019 and 31 December 2018, assuming all other variables, in particular other exchange rates and interest rates, remain constant. If these changes were to occur, the figures in the table below reflect the impact on loss before tax. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

	31 December 2019 £	31 December 2018 £
10% increase in US dollar	**(60,114)**	(81,834)
10% decrease in US dollar	**60,114**	81,834
10% increase in euro	**(22,480)**	13
10% decrease in euro	**22,480**	(13)

16. Capital risk management

The Directors' objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. At the date of these financial statements, the company had been financed from shareholders. In the future, the capital structure of the company is expected to consist of equity attributable to equity holders of the company, comprising issued share capital and reserves.

The company is not subject to any externally imposed capital requirements.

17. Ultimate controlling party

As no shareholder owns in excess of 50% of the total share capital of the company, the Directors consider there to be no ultimate controlling party.

Glossary

AIM
The market of that name operated by the London Stock Exchange

AMR
Antimicrobial resistance

ASHP
American Society of Hospital Pharmacists

Carb-X
A biopharmaceutical accelerator created as a partnership between a number of governmental and non-governmental organisations, to spur product development in the anti-bacterial field

CDC
Centers for Disease Control

CMS
China Medical System Holdings Limited

The company
Destiny Pharma plc

EMI
Enterprise Management Incentive

Employee LTIP Scheme
The LTIP (EMI and non-tax advantaged (non-EMI)) share options scheme adopted by the company on 18 April 2017 for the benefit of Directors and employees

EU
The European Union

FAO
The Food and Agriculture Organization of the United States

FDA
US Food and Drug Administration

G20
The G20 is an international forum for the governments and central bank governors which includes the EU and 19 other countries

GAAP
UK Generally Accepted Accounting Practice as published by the FRC, applicable for periods prior to 1 January 2015

GAIN
Generating Antibiotics Incentives Now

GAMRIF
The Global Antimicrobial Resistance Innovation Fund

GBP
Pounds sterling

HMRC
Her Majesty's Revenue and Customs

ICU
Intensive care unit

IDSA
Infectious Disease Society of America

IFRS
International Financial Reporting Standards (including International Accounting Standards)

IMI
The Innovative Medicines Initiative

IND
Investigational new drug – a temporary exemption from the FDA's requirement that a drug be the subject of an approved marketing application before being shipped across state lines

IPO
Initial public offering

London Stock Exchange
London Stock Exchange plc

LTIP
Long-term incentive plan

LTIP EMI Options
The EMI approved options granted pursuant to the Employee LTIP Scheme

LTIP (NTA) Employee Options
The non-tax advantaged options granted pursuant to the Employee LTIP Scheme

MRSA
Methicillin-resistant *Staphylococcus aureus*

MSSA
Methicillin-sensitive *Staphylococcus aureus*

NHS
National Health Service

NIAID
National Institute of Allergy and Infectious Diseases

NICE
National Institute for Health and Care Excellence

OECD
The Organisation for Economic Co-operation and Development, an intergovernmental economic organisation with 35 member countries

OIE
Office Internationale des Epizooties, also known as the World Organisation for Animal Health

ONS
Office for National Statistics

Ordinary shares
The ordinary shares of £0.01 each in the capital of the company

The QCA Code
The Quoted Companies Alliance Code of Corporate Governance

QIDP
Qualifying Infectious Disease Product status granted by the FDA

R&D
Research and development

SHEA
Society for Hospital Epidemiologists of America

SIS
Surgical Infection Society

UD
Universal Decolonisation

UN
United Nations

WHO
World Health Organization

XF-70
A molecule from the XF drug platform, distinct from XF-73

XF-73
Exeporfinium chloride

Corporate information

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Imagery throughout

Cover	*Staphylococcus aureus* (MRSA)
IFC	*Streptococcus*
Page 3	Novel Coronavirus (2019-nCoV), Flu or SARS virus
Page 6	*Bacterium Enterobacteriaceae* *Acinetobacter baumannii*
Page 7	*Staphylococcus aureus* (MRSA) *Staphylococcus aureus* (MRSA)
Pages 8 and 9	*Staphylococcus aureus* (MRSA)
Pages 10 and 11	*Enterobacteriaceae*
Page 13	*Enterobacteriaceae*
Page 18	*Bacterium Acinetobacter baumannii* *Staphylococcus*

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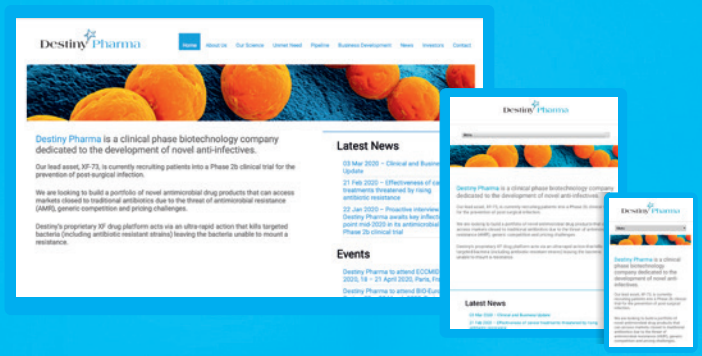

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