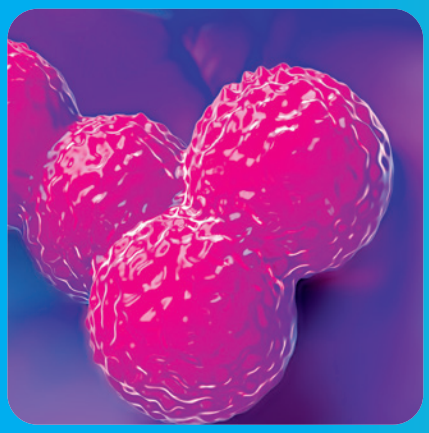
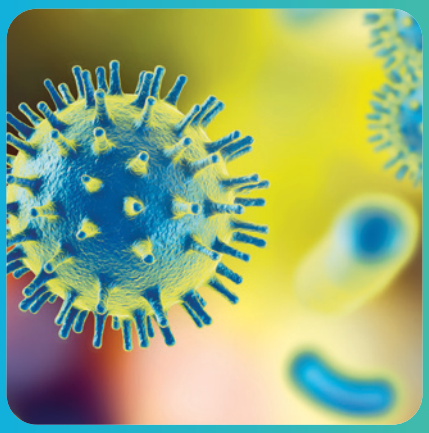
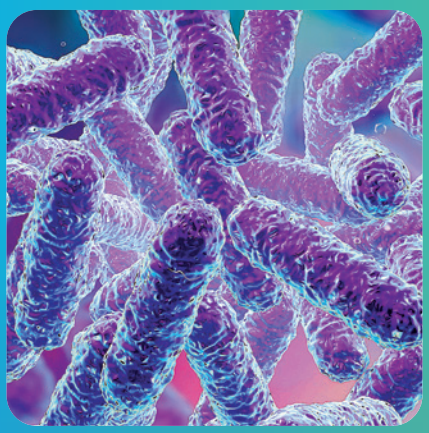
Destiny Pharma

Developing medicines that prevent serious infections

Annual Report and
Financial Statements 2020

About us

Destiny Pharma plc

Our aim is to become a world-leading anti-infective company with a vibrant clinical pipeline derived from several novel technologies.

We are a biotechnology company focused on the development of novel medicines that can prevent life-threatening infections. The most advanced programmes include NTCD-M3, a Phase 3 ready treatment for the prevention of *C. difficile* infection ("CDI") recurrence, which is the leading cause of hospital-acquired infection in the US, and also the XF-73 nasal gel, which announced excellent Phase 2b results in March 2021 targeting the prevention of post-surgical *Staphylococcal aureus* hospital infections including MRSA.

We are also co-developing SPOR-COV, a novel, biotherapeutic product for the prevention of COVID-19 and influenza through its pre-clinical work, and have five other grant-funded XF research projects.

In this report

Highlights

Destiny Pharma has expanded its pipeline in 2020 and reported positive Phase 2 data in Q1 2021

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

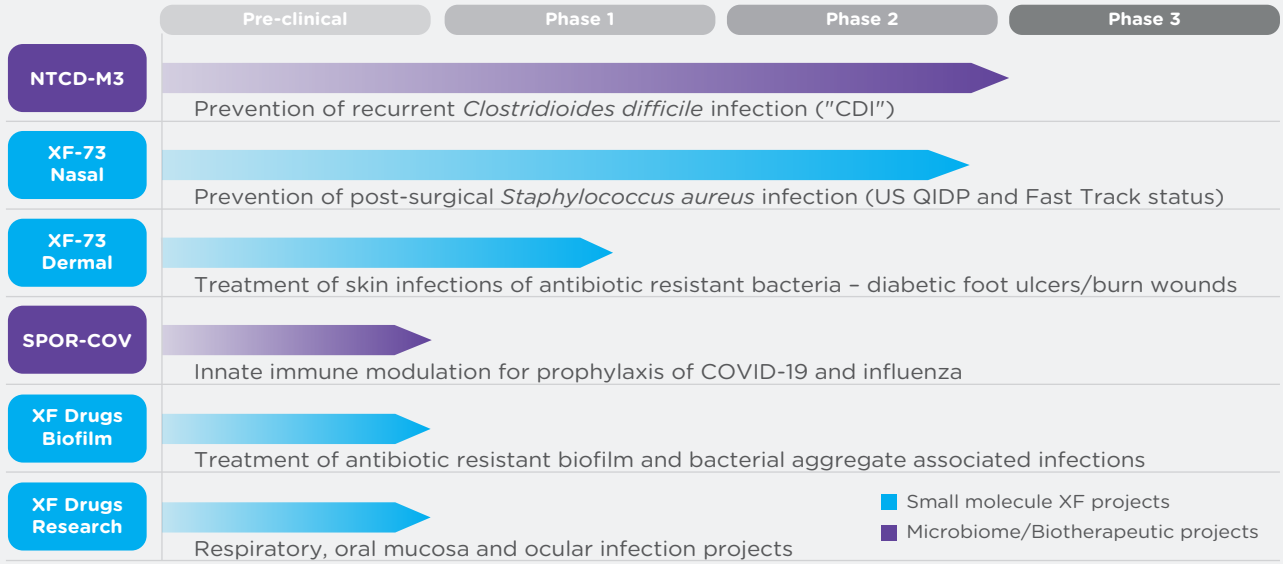
- **Positive Phase 2 results reported in March 2021 from XF-73 nasal gel study**
- **Successful fundraise of £10.4 million and acquisition of NTCD-M3, a Phase 3 ready asset for prevention of *C. difficile* infection recurrence**
- **SporeGen collaboration to co-develop a nasal spray to prevent COVID-19**
- **Appointed new CBO, Dr Stephanie Bewick**
- **Approval of XF-73 patent application in Brazil**
- **Awarded grant to fund a research collaboration with the University of Sheffield targeting ophthalmic bacterial and fungal infections**
- **Agreed NIAID collaboration to carry out pre-clinical studies for XF-73 dermal indication**
- **Awarded grant to fund collaboration with Cardiff University targeting XF activity against fungal infections**

At a glance

Our lead assets are focused on infection prevention.

- Global interest in infectious disease driven by rise of drug resistant superbugs/AMR and COVID-19
- Clear focus on infection prevention
- Two late-stage clinical assets under IND in US with Fast Track status
- Clinical programmes targeting >$1 billion global markets with clear differentiation to competition
- XF-73 to prevent post-surgical infections – excellent efficacy data in recent Phase 2 results
- NTCD-M3 to prevent *C. difficile* gut infections – 95% prevention of infection recurrence in Phase 2
- Earlier pipeline targeting COVID-19 and additional bacterial infections funded by grants
- Funded to Q4 2022 after £10.4 million raised in November 2020

Our drug product pipeline: Targeting unmet clinical needs.



Our partners: University collaborations:

CMS

Cardiff University
Prifysgol Caerdydd

Tianjin Medical University

Aston University
Birmingham

SporeGen

University of Southampton

The University Of Sheffield.

National Biofilms Innovation Centre

Chairman's statement

We have made excellent progress in developing our pipeline in 2020 and are very well positioned for the future.

Nick Rodgers
Chairman

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

Overview

2020 was a significant year for Destiny Pharma in many ways. We completed the acquisition of a clinical stage asset, raised further funding, completed the XF-73 Phase 2b trial and survived the disruption caused by the COVID-19 pandemic. I am delighted to say that this success has been reflected in the share price, particularly since the start of 2021.

Moreover, the COVID-19 pandemic has highlighted the importance of infection prevention for bacterial pathogens as well as the coronavirus itself. The global threat of serious, uncontrolled viral and bacterial infections has meant that governments, healthcare professionals, commercial interests and investors have increased their interest in anti-infectives. It is clear that our approach of infection prevention has the potential to deliver better clinical outcomes for patients as well as significant commercial returns and valuation gains for investors.

Acquisition of NTCD-M3

As the significant step on our strategy, we acquired a Phase 3 ready asset for prevention of *C. difficile* infection recurrence. This is a perfect fit with our focus on infection prevention and moves us into the exciting area of biotherapeutics and the human microbiome. Work has now started on preparing for a Phase 3 clinical trial in late 2022 and significant value has already been added by the Destiny Pharma team.

XF-73 nasal Phase 2b trial

Completing the Phase 2b clinical trial during a year of pandemic was a great achievement by the clinical team and I am delighted that we recently reported positive results from that trial. There is a clear 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.

SPOR-COV COVID-19 development

We also won a significant Innovate UK grant to support a COVID-19 prevention programme in collaboration with SporeGen Limited. Whilst initially focused on COVID-19, we believe the opportunity is much wider. This work is also in the human microbiome space, so complements our NTCD-M3 asset.

Employees

In a year of pandemic, the Destiny Pharma team, led by Neil Clark, have done an excellent job in transforming your company and the Board is very grateful for their hard work and dedication. At the start of 2021 we further strengthened the senior team with the appointment of our new Chief Business Officer, Dr Stephanie Bewick. This is a demonstration that Destiny Pharma has become much more commercially focused as we work towards the launch of our products in the next few years.

Strategy

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, and we demonstrated this in action through the acquisition of NTCD-M3 and our SPOR-COV collaboration. For 2021 our focus is very definitely on progressing our two lead clinical assets into Phase 3 studies. But we will continue to consider opportunities which enhance shareholder value by broadening our portfolio.

The Board of Destiny Pharma would like to thank our investors for their continuing support, and we welcome those new investors who supported our November 2020 fundraising.

Nick Rodgers
Chairman

13 April 2021

Investment proposition

Targeted approach to develop medicines for significant global markets

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

Clear strategy to build a focused, world-leading company	Destiny Pharma's goal is to become a world-leading anti-infective development company with late-stage clinical assets and an earlier discovery pipeline derived from several technologies.
US market focus	Currently developing two late-stage clinical assets focused on the US market with additional global opportunities.
Increased global interest in anti-infectives and preventing infections	The COVID-19 pandemic has highlighted the global need for new anti-infective medicines – viral and bacterial. Destiny Pharma has been working in this sector for over a decade and its novel clinical assets and earlier platform are well placed to deliver much-needed new medicines.
Late stage clinical assets with clear commercial positioning	Two clinical assets heading towards Phase 3 clinical studies based on strong Phase 2 clinical trial results.
NTCD-M3 de-risked Phase 2 asset	NTCD-M3 programme is de-risked due to quality of Phase 2 data and recent FDA review of Phase 3 plans.
XF-73 delivered very positive Phase 2 data	XF-73 Phase 3 study preparation can also start following the good Phase 2 data.
Pipeline diversity	Our assets are based on several technologies with small molecule and biotherapeutic/microbiome programmes. Destiny Pharma moved into the exciting microbiome area through its acquisition of NTCD-M3 and its SPOR-COV collaboration in 2020.
Well funded	Funded through to Q4 2022.

Market opportunity

The company targets clinically important infections where there is a clear commercial opportunity.

CLOSTRIDIOIDES DIFFICILE INFECTIONS ("CDI")

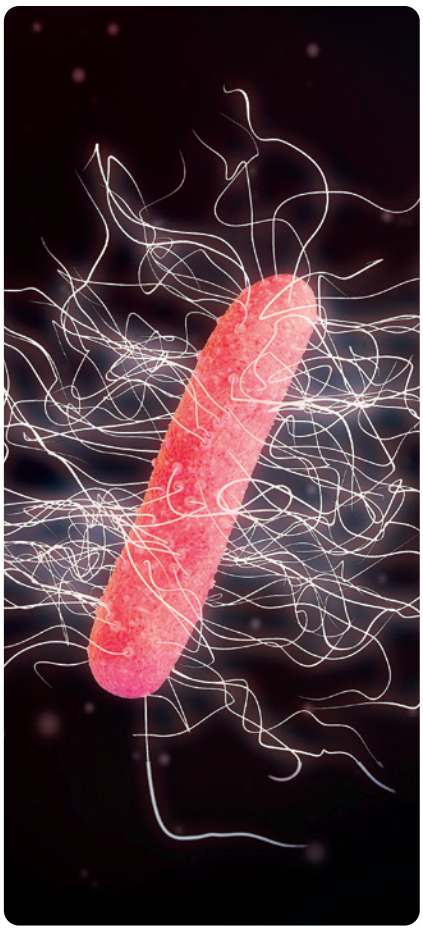
C. difficile bacteria are found in the environment, including the human gut and in faeces. Many strains of *C. difficile* produce toxins that cause infectious disease by attacking the gut lining, resulting in diarrhoea, abdominal pain, fever and nausea, known as *C. difficile* infections ("CDI"). Spores from toxic strains of *C. difficile* bacteria from those infected can rapidly spread to other patients in hospitals and care homes. CDI causes multiple diarrhoea events per day, which results in severe health implications, including a high hospital mortality rate of up to 25% in frail, elderly people. The current standard of care does not control recurrence.

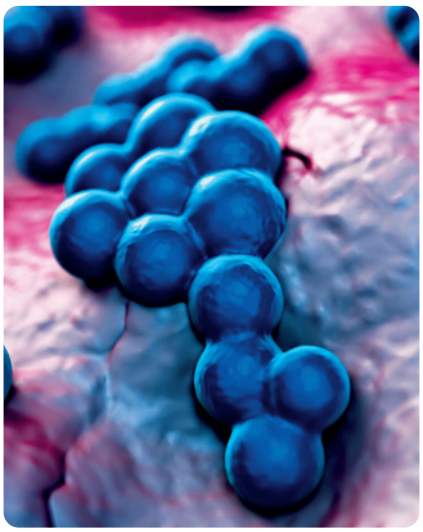
The use of antibiotics, such as generic vancomycin, as a first line therapy disrupts the patient's microbiome and enables toxic forms of *C. difficile* to flourish, leading to a recurrence of CDI.

CDI is a leading cause of hospital-acquired infection in the US and EU and current antibiotic treatments lead to recurrence of CDI. There are approximately 500,000 cases of CDI within the US each year and approximately 25% of these initial cases then recur within one to three weeks of completing an antibiotic course, resulting in around 29,000 deaths in the US per year alone.

The cost to the US healthcare system is a significant burden, costing approximately $6 billion each year. CDI is not only a US issue, and it is estimated that there are a similar number of CDI cases in Europe.

Retreatment of recurrent CDI is often done with the same or an alternative antibiotic which often leads to further CDI recurrence and a vicious cycle of re-infection. Our clinical asset NTCD-M3 is targeted at preventing the recurrence of CDI and is planned to enter Phase 3 studies in 2022.





DERMAL INFECTIONS

XF-73 is being developed as a new treatment for diabetic foot ulcer infections ("DFUs") to target a market which is estimated to be a $0.5 billion global sales opportunity based on the incidence of such infections, the costs of the associated medical care and a realistic product pricing of XF-73 in this new market. Driven by the growing number of diabetics and associated complications such as infected DFUs, this represents a significant market opportunity for XF-73. As with all anti-infectives, AMR is also a concern within this market.

There is no dominant treatment for DFUs and specialist physicians are therefore working to find better treatment options, including topical formulations. The target product profile of XF-73 tested favourably with dermal clinicians looking for better treatments for the smaller market for burns/wound infections and venous leg ulcers.

POST-SURGICAL INFECTIONS CAUSED BY STAPHYLOCOCCUS AUREUS

Destiny Pharma's lead product from its XF platform is exeporfinium chloride (XF-73) that focuses on addressing the medical and financial cost of infections due to one of the major Gram-positive bacteria, *Staphylococcus aureus* (*S. aureus*), a leading cause of post-surgical infection across the world. *S. aureus* is frequently found in the nose, respiratory tract, and on the skin. Each year, around 500,000 patients in hospitals of the United States contract a staphylococcal infection, chiefly caused by *S. aureus*. A third of the human population carry the bacteria *S. aureus* in the nose. *S. aureus* carriers are at a significantly higher risk of acquiring a post-surgical infection.

The main approach in *S. aureus* infection prevention has been to treat patients who carry the bacteria prior to surgery to reduce the risk of infection. This has been achieved predominantly by the use of intra-nasal antibiotics (eg mupirocin) and antiseptic (eg chlorhexidine) body washes.

Bode et al demonstrated that treatment of all *S. aureus*, (MRSA and all other strains of *S. aureus*) in higher risk surgeries led to a >60% reduction in post-surgical *S. aureus* infections. The recognition of the benefit of treatment of all *S. aureus* represents about a six-fold increase in the patient population benefiting, a figure of >20 million per year in the USA and Europe alone.

Destiny Pharma has undertaken independent market research that confirmed that XF-73's target product profile is superior when compared to mupirocin, with the potential to replace mupirocin as the preferred treatment. 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 as an issue with current products;
- US general, acute care and short-term hospitals with the highest MRSA infections can have 1% of their Medicare reimbursements withheld;
- US hospital administrators incentivised to reduce infection to ensure high ratings in rankings tables;
- XF-73 has QIDP and Fast Track regulatory status in the US and also benefits from five years of extra US market exclusivity; and
- XF-73 could be the first drug approved into a new US indication with first-to-market advantages.

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 drug more akin to vaccines than antibiotics.

WHO lists antibiotic resistance as a top global concern

UK and US governments started new initiatives in 2020 to support drug development addressing AMR

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

Market opportunity continued

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

ANTIMICROBIAL RESISTANCE

Infections caused by antimicrobial resistant ("AMR") strains of bacteria continue to rise at an alarming rate. They pose a threat to humanity. Antibiotics represent the foundation for all modern medicine. However, this has been taken for granted and now we find that bacteria have become resistant to almost every antibiotic developed by man and the vast majority of bacterial infections are now caused by AMR strains. These AMR bacteria, dubbed as "Superbugs", are harder to treat, cause greater mortality, and additional cost, to the healthcare system.

Unless action is taken to address this huge global issue, the Independent Review on Antimicrobial Resistance (Lord O'Neill) estimates that it will cost the world an additional 10 million lives a year by 2050, more than the number of people currently dying from cancer annually.

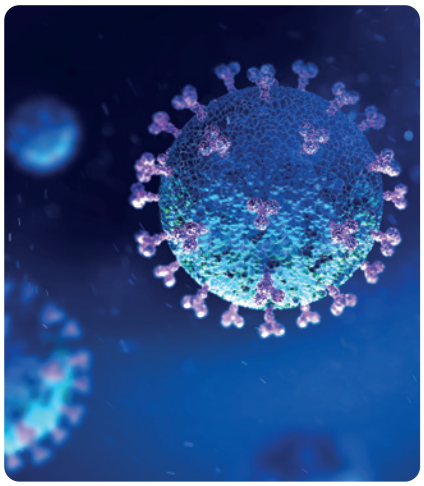
It will also have a cumulative cost of $100 trillion, more than one and a half times annual world GDP today.

New antibiotics will "buy time", however perhaps more importantly we need to adopt strategies that may reduce the emergence of AMR strains. At Destiny Pharma, one such strategy is being developed in the form of a new group of antibacterial drugs, "the XF Drug platform", whose novel, ultra-rapid mechanism endows them with the extraordinary ability to reduce the chance of bacteria becoming resistant to their action.

COVID-19

COVID-19 is a new respiratory virus affecting the lungs and airways that has caused a major global pandemic. There is an urgent need for new treatments for COVID-19 and related viral infections. Coronaviruses ("CoV") are a large family of viruses that cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome ("MERS-CoV") and Severe Acute Respiratory Syndrome ("SARS-CoV").

Our SPOR-COV™ prophylactic approach targets the innate immune system with the potential to develop COVID-19 protection within a few days of treatment.



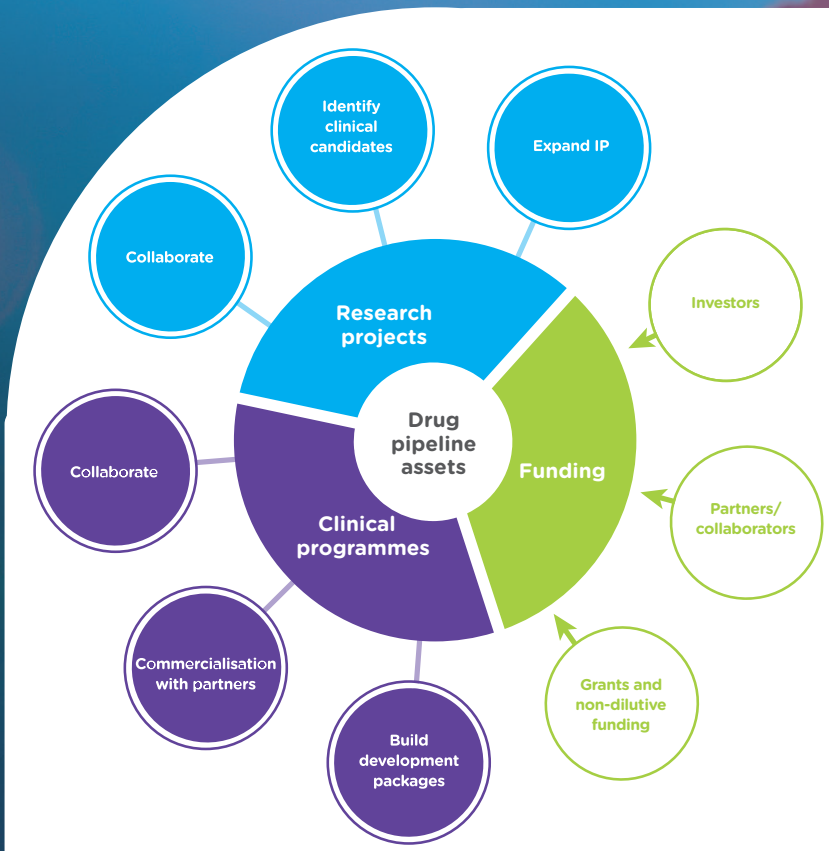
Many initiatives to spur the development and approval of new antibiotics/antibacterial drugs are under consideration. The US and UK governments are particularly active in this area. Key initiatives in recent years are set out below:

21st Century Cures Act, December 2016 (US)	Instructs the FDA to enable approval of QIDPs in limited patient populations which will allow more efficient clinical trial design and greater ease of drug approval for a limited label population.
G20 Declaration, May 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.
Davos announcement, February 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 23 partners from big pharma, academic institutions and public health organisations.
Five-year AMR Plan, January 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.
NHS England launch antibiotic subscription model, July 2019	NHS England is collaborating with the National Institute for Health and Care Excellence ("NICE") on a pilot project under which NHS England will buy two antibiotics on a delinked (volume- and usage-independent) subscription model basis. The new payment model is intended to incentivise pharmaceutical companies to develop new drugs for resistant infections. The first two drugs selected were announced in early 2021.
NTAP Reform, August 2019	The US government reformed the existing new technology add-on payments ("NTAPs") to include an alternative pathway for novel antibacterial drug payments. The changes increase the value of these payments to 75% for products that obtain Qualified Infectious Disease Product ("QIDP") status.
Developing an Innovative Strategy for Antimicrobial Resistant Microorganisms ("DISARM") Act, currently going through US legislative process	The DISARM Act is currently making its way through the US legislative process and is intended to improve critical Medicare reimbursement for antibiotics and promote their appropriate use. The legislation has the potential to stabilise the antibiotics market, spur the development of new infection-fighting drugs, and preserve the effectiveness of existing medicines.
The Pioneering Antimicrobial Subscriptions To End Upsurging Resistance ("PASTEUR") Act, introduced October 2020	The Pioneering Antimicrobial Subscriptions To End Upsurging Resistance ("PASTEUR") Act will support the development of new antibiotics and promote appropriate use of existing ones, helping to limit the increase and spread of resistant infections. PASTEUR would establish an innovative way to pay for critically needed new antibiotics, delinked from the sales or use of those antibiotics with a subscription model providing federal payment to companies that develop antibiotics.

Business model

Building shareholder value through drug development

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



Collaborations

Destiny Pharma 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 in-licensing deals such as NTCD-M3, business collaborations (SporeGen and CMS), grant-funded university research partnerships, formulation development and projects examining our drug candidates' interaction with other anti-infectives or potentiation mechanisms.

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.

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.

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. Five grants and other non-dilutive funding awards totalling over £2.5 million have been won since the IPO in September 2017. Destiny Pharma is funded through to Q4 2022 and will continue to seek non-dilutive funding and partnerships that may generate cash income and/or bring funding support to collaborative projects.

Our strategy in action

The company has made significant progress in 2020.

	Progress in period under review	Targets for 2021 and beyond
BUILD	The company expanded the pipeline with the addition of the NTCD-M3 and SPOR-COV programmes. These new assets also add two new biotherapeutic/ microbiome technologies alongside the existing XF platform. The SPOR-COV collaboration brings an anti-viral approach to add to the anti-bacterial programmes.	Continue to look at expanding the pipeline if suitable assets can be found. However, progressing the existing pipeline will also expand the research and development activity.
FOCUS	Retained focus on infection prevention and selecting new assets with a clear clinical need and clear commercial opportunity.	The new biotherapeutic assets add to the company's footprint but the plan is to remain focused on infection prevention and hospital/care home markets.
DEVELOP	The XF-73 nasal Phase 2b study completed recruitment against the backdrop of COVID-19. The earlier XF pipeline also progressed and additional grant awards have been won to help fund these projects.	We announced strong Phase 2b clinical trial results for XF-73 nasal and can now finalise the Phase 3 plan. Progress NTCD-M3 through 2021 so it is ready to start Phase 3 studies in 2022.
PARTNERSHIPS	The China Medical Systems collaboration has progressed and certain pre-clinical work is being carried out in China. An equal partnership was signed with SporeGen in 2020 to work on the SPOR-COV COVID-19 grant-funded collaboration.	Add new commercial and grant-funded collaborations in 2021.
VALUE CREATION	The progress made with the XF platform and the new biotherapeutic assets has been reflected in an increase in share price and company valuation in the period.	The expanded pipeline offers increased opportunities for future value creation. This will be driven by the two lead clinical programmes – XF-73 and NTCD-M3.

CEO's operational and strategic review

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

Neil Clark
Chief Executive Officer

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

We believe that XF-73, the lead drug candidate from our XF platform, 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 2020 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 company's recent acquisition of NTCD-M3 for the prevention of CDI is also focused on infection prevention and very well positioned as a targeted, naturally occurring bacterial therapy for these serious gut infections.

The NTCD-M3 programme also brings the company into the exciting area of the human microbiome and biotherapeutics, which is a fast developing area of medical science and investigation for new therapies.

Our biotherapeutic programmes and the human microbiome

The microbiome represents a paradigm shift that affects every aspect of biomedicine: our gut bacteria control health, disease and drug responses throughout the body, and can themselves be a novel type of medicine. The microbiome therefore has the potential to be a major new therapeutic modality.

NTCD-M3 *Clostridioides difficile* programme

NTCD-M3 was developed by GI infection physician Professor Dale Gerding, who is a world-leading specialist in *C. difficile*, with more than 400 peer-reviewed journal publications, book chapters and review articles in the area. NTCD-M3 has successfully completed Phase 1 and Phase 2b trials. The Phase 1 study demonstrated a strong safety/toxicology profile and the 95% prevention of CDI recurrence. Phase 2b NTCD-M3 data was published in the prestigious Journal of the American Medical Association (Gerding DN *et al* JAMA 2015;313:1719).

NTCD-M3 has also been awarded Fast Track status by the FDA. Destiny Pharma acquired global rights to the NTCD-M3 programme in November 2020.

NTCD-M3 mechanism of action harnesses the human microbiome

NTCD-M3 is a naturally occurring non-toxigenic strain of *C. difficile* bacteria, which lacks the genes that can express *C. difficile* toxins. It is an oral formulation of NTCD-M3 spores and patients who have taken NTCD-M3 were found to be protected from *C. difficile* infections. NTCD-M3 acts as a safe "ground cover" preventing toxic strains of *C. difficile* proliferating in the colon after antibiotic treatment. NTCD-M3 temporarily colonises the human gut without causing any symptoms and the gut microbiome returns to normal a few weeks after treatment.

The Phase 2 data from a completed study with NTCD-M3 was very promising. The study was a randomised, double-blind, placebo-controlled trial, among 173 patients aged >18 years, who were diagnosed as having CDI (either a first episode or first recurrence). The results were a strong, statistically significant data set showing rapid onset of colonisation which provided protection during the early post-treatment period, making it an ideal complement to a vaccine and other antibiotic treatments. The rate of recurrence ("RR") of CDI after treatment with the best dose of NTCD-M3 was only 5%, (placebo 30%) $p<0.01$. The company believes this is compelling efficacy compared with clinical trial data from other approaches.

Total annual CDI hospital management required nearly 2.4 million days of inpatient stay. This is a significant burden on the US healthcare system.

The company has held discussions with the FDA as part of Type C meetings and this has clarified certain manufacturing scale up activities that are important for such a late-stage clinical project and also the Phase 3 design. We are pleased that the FDA meeting confirmed that a single Phase 3 study is required as a randomised, double-blind, placebo-controlled trial.

It requires 800 patients in 2:1 randomisation (550 active, 250 placebo) and the primary endpoint would be the rate of recurrence of CDI at six weeks post-treatment in adult patients treated with antibiotics for a first episode or first recurrence of CDI.

The treatment regimen will be an oral capsule of an NTCD-M3 dose of 10^7 spores (or placebo) once daily for seven days starting after the last antibiotic course.

Sampling will take place to confirm NTCD-M3 colonisation, assess changes in the faecal microbiome during treatment with NTCD-M3 and the recurrence rate of CDI. The plan is to complete the manufacturing tech transfer and set up in 2021 and, subject to funding, start Phase 3 recruitment in 2022 and finish in 2024.

The company has undertaken market research to assess the US market size for prevention of recurrence indication. The only approved drug is Merck's Zinplava that is expensive and reimbursed at c.$3,700, which inhibits its uptake. It is expected that NTCD-M3 could be priced at $1,500, delivering estimated peak US sales of c.$200 million.

The market for Europe and the rest of the world is estimated by Destiny Pharma to be a similar size, so global sales per annum of c.$0.5 billion could be achieved.

There is also the potential for additional indications (prevention /multiple recurrence) that could double the peak sales to c.$1 billion per annum.

The extra costs of care in the US per CDI patient range from $10,000 to $20,000 and the total annual CDI-attributable cost in the US alone was estimated in 2016 at $6.3 billion.

Total annual CDI hospital management required nearly 2.4 million days of inpatient stay. This is a significant burden on the US healthcare system.

In summary, the key advantages of NTCD-M3 are:

- clinical data appears superior to all current treatments and drugs in development;
- can be used as an adjunct to any standard of care CDI antimicrobial /antibiotic therapy;
- strong safety profile, simple to administer as a solid capsule once daily and rapidly effective;
- first line therapy – not limited for use by the FDA to treat CDI "not responding to standard therapies" as is the case for Faecal Matter Transplants ("FMT") and their derivatives;
- avoids concern about the long-term safety of permanently altering the microbiota of patients who receive FMT since NTCD-M3 has a maximum detection period in the stool of 22 weeks, an indication that the patient's own microbiota has recovered; and
- low cost of goods – long shelf life – lower treatment costs.

CEO's operational and strategic review
continued

Our SPOR-COV collaboration is funded by an £800,000 Innovate UK grant.

UK Research and Innovation

SPOR-COV COVID-19 programme

The SPOR-COV prophylactic approach targets the innate immune system with the potential to develop COVID-19 protection within a few days of treatment. The product consists of a proprietary formulation of *Bacillus* bacteria that will be administered nasally as a spray. SPOR-COV has already been shown by SporeGen to provide complete (100%) protection in pre-clinical models of influenza.

SPOR-COV is different to vaccines in that it utilises the innate immune system with the aim of developing COVID-19 protection within a few days after dosing. As an "easy to use" first line of defence, it has the potential to reduce COVID-19 infection rates and transmission significantly. The final SPOR-COV product is planned to be straightforward to produce at both high volumes and at low cost.

Additional attributes are that it can be stockpiled almost indefinitely without the need for cold chain refrigeration as it is a very stable product. It could be made available globally as a cost-effective measure in the fight against COVID-19 as well as new COVID strains and other respiratory viral infections.

In September, Destiny Pharma announced that Innovate UK ("IUK") awarded a grant of £800,000 to fund the majority of the £1 million cost of the initial SPOR-COV programme.

The pre-clinical efficacy work is being performed in collaboration with Professor Aras Kadioglu, at the University of Liverpool, who is Professor of Bacterial Pathogenesis in the Department of Clinical Infection, Microbiology & Immunology, where he heads the Bacterial Pathogenesis and Immunity group and is a leading expert in respiratory infection models and host immunity to infection.

The manufacturing and formulation development work will be carried out by HURO, an experienced manufacturer of bacterial product formulations based in Vietnam and part of PAN Group.

The plan is to complete the required pre-clinical safety and efficacy studies and also develop the manufacturing process by early 2022 and be ready to commence the first human clinical studies thereafter.

Our XF platform

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 XF intellectual property is well established and is still being expanded. Currently, Destiny Pharma has 85 granted and two pending patents within three patent families, covering composition of matter, novel mechanism of action and bacterial biofilm action.

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 key potential benefits of the XF platform 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 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;
- 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*; and
- 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.

Clinical data underpinning the XF-73 nasal programme is strong

The recent announcement of positive Phase 2b results confirm the potential of XF-73 gel. XF-73 (exeporfinium chloride) was awarded Qualified Infectious Disease Product ("QIDP") status by the FDA in 2015. 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.

"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 2020

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

CEO's operational and strategic review
continued

Clinical data underpinning the XF-73 nasal programme is strong
continued

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 2019, recognising it as a priority drug for US development.

Destiny Pharma has now completed seven successful Phase 1/2 clinical trials in over 300 subjects with XF-73, which included measures of its efficacy in reducing nasal colonisation by *Staphylococcus aureus*.

The recently completed Phase 2b study was 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.

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.

Efficacy conclusion – very strong Phase 2b data supporting XF-73 target product profile ("TPP")

- XF-73 reduced the mean nasal burden of *S. aureus* in patients undergoing open chest open heart surgery by **2.5 log (99.5% reduction)** in the 24 hours immediately before surgery in the micro-ITT population. The effect was maintained during surgery, considered the period when the risk for infections is the highest.
- XF-73 showed 2.1 log (99.2%) greater reduction than placebo in the same patient population and this difference in reduction of nasal burden of *S. aureus* was **statistically significant (p<0.0001)** in both the micro-ITT and per protocol populations.
- A significantly higher reduction of burden of nasal *S. aureus* in XF-73 arm compared to placebo arm in the 24 hours before surgery was also observed when the data was analysed by AUC. This higher reduction was also seen when analysing the percentage of patients reaching a specific log value over time.

XF-73 on track to deliver compelling target product profile ("TTP")

Ideal nasal decolonisation product attributes	XF-73 TPP claims	Evidence	
Easy to apply, safe gel	Specifically designed for nose. Non-irritant, no side effects. Good compliance	Seven clinical studies including P1 dermal sensitivity/irritancy. Plus latest P2 safety data	✓
Fast acting, targeting all *S. aureus* strains and killing for period of risk	All antibiotic strains of *S. aureus* including MRSA/biofilms. Sub-15 minute kill. Novel MOA	Extensive microbiology updated on regular basis. Several published papers. Phase 2b shows high efficacy after four doses in 24 hours	✓
Easy to use in hospital environment	Fits into existing protocols with high patient/medical staff compliance	Phase 2b trial data and feedback. Market research studies	✓
Stable, low-cost product	Stable gel stored at room temperature. Mature production process	Multi-kg process established. Pricing tested by market research. Low COGS forecast	✓
Addresses AMR threat	Does not create resistance/ superbugs. *S. aureus*/MRSA not resistant to XF-73	Published "passage" studies supported by peer reviews and testing of clinical samples	✓

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) carriers 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 2020, 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 2020 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 2020).

Guidelines support need for XF-73 nasal product

"Perform topical intranasal decolonisation prior to surgery" (Highest level recommendation).

For enhanced recovery after surgery it is recommended that topical therapy be applied universally to all cardiac surgical patients, not only *S. aureus* carriers.

Guidelines for Perioperative Care in Cardiac Surgery: Enhanced Recovery After Surgery Society Recommendations (Engelman et al 2019)

New Asian guidelines recommend decolonisation of *S. aureus* in surgical patients to prevent surgical site infections.

Guidelines warn of issue of antibiotic resistance highlighting the need for new approaches.

APSIC Guidelines for the Prevention of Surgical Site Infections (Ling et al 2019)

Global mupirocin-resistant *S. aureus* prevalence has increased to 7.6% and mupirocin-resistant MRSAs significantly increased to 13.8%.

Monitoring of mupirocin-resistance development remains critical.

Mupirocin resistance in *Staphylococcus aureus*: A Systematic Review and Meta-analysis (Dadashi et al 2019)

JAMA The Journal of the American Medical Association

APSIC Asia Pacific Society of Infection Control

Journal of Global Antimicrobial Resistance

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 opportunity.

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.

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".

The most recent independent review carried out in 2019 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.

Outlook

The strong balance sheet will provide Destiny Pharma with working capital through to Q4 2022 enabling it to complete the preparation of NTCD-M3 for its single Phase 3 study. Following the recent positive Phase 2b clinical trial results for XF-73 nasal, Phase 3 preparation can now start and the successful Phase 2b results will enable us to deliver a strong package for potential partnering discussions and will assist in planning the further Phase 3 development with regulatory authorities.

Our cash resources are also being used to develop new clinical candidates from the preclinical XF pipeline, contribute to our COVID-19 SPOR-COV project and to capitalise on commercial opportunities including additional grant funding, partnering and licensing. Destiny Pharma will continue to establish discovery stage research programmes through existing and new collaborations and, where possible, seek additional non-dilutive funding support as it has done successfully in the period under review.

During the coming year we will also progress our financial strategy for funding the Phase 3 clinical studies for our two lead assets planned to start in 2022. This will include actively seeking partners as well as exploring alternative funding options.

Destiny Pharma now has a great opportunity as a focused UK biotechnology company with full control of two high quality clinical assets targeted at infection prevention and backed up by strong Phase 2 clinical data and clear commercial positioning. The Board and employees are excited about the next stage in the company's development and delivering on our strategy to build a world leading infection prevention company.

Neil Clark
Chief Executive Officer
13 April 2021

Financial review

We successfully advanced and expanded our development programmes whilst carefully managing our cash resources during 2020. Funds raised to acquire NTCD-M3 further strengthened the company's balance sheet at the year end.

Shaun Claydon
Chief Financial Officer

Our key focus during 2020 was on progressing our lead XF-73 nasal gel programme through a Phase 2b clinical trial, which accounts for the majority of our R&D spend during the year. Despite the impact of the COVID-19 pandemic on activity levels we successfully completed patient recruitment into the study during December and reported positive data at the end of March 2021. We also continued to develop our earlier programmes in conjunction with our research partners and were pleased to announce two further grant-funded collaborations, with Cardiff University and SporeGen Ltd, during the year.

In November we announced that we had successfully raised equity funding of £10.4 million to acquire the global rights to NTCD-M3, a Phase 3 ready asset for prevention of *C. difficile* infection ("CDI") recurrence. The initial acquisition cost of £2.3 million has been recognised as an intangible asset in the balance sheet at 31 December 2020. Future development milestones payable under the terms of the licence will be recognised within intangibles at the time they are paid. In addition to the initial acquisition cost, net funds are being used to complete the preparation of NTCD-M3 for its single Phase 3 clinical study and for general working capital purposes. We were very pleased to receive support from both existing and new investors in bringing this attractive late stage asset into our portfolio 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 £0.01 million (2019: £0.3 million) during the period.

Administrative expenses

Administrative expenses, which exclude the share-based payment charge of £0.1 million (2019: £0.2 million) during the period, amounted to £6.4 million (2019: £5.7 million). Included within this total are R&D costs totalling £4.5 million (2019: £3.8 million) which reflect, in particular, the increase in activity in relation to our Phase 2b clinical trial.

Other administrative costs remained flat at £1.9 million (2019: £1.9 million) reflecting a reduction in overhead costs due to reduced activity levels brought about by COVID-19, which were offset by one-off corporate costs in relation to the NTCD-M3 acquisition.

Taxation

The company received a repayment of £0.8 million in respect of the R&D tax credit claimed during the year ended 31 December 2019. The R&D tax credit receivable in the balance sheet of £1.1 million is an estimate of the cash repayment the company expects to qualify for in respect of activities during the year ended 31 December 2020.

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 12.0 pence (2019: 10.7 pence).

Cash, cash equivalents and term deposits

The company's cash, cash equivalents and term deposits at the year end totalled £9.7 million (2019: £7.5 million).

The net cash outflow from operating activities in 2020 was £5.5 million (2019: £4.6 million) against an operating loss of £6.5 million (2019: £5.5 million), with the major reconciling items being the non-cash charge for share-based payments of £0.1 million, the R&D credit received of £0.8 million and other net movements in working capital of £0.1 million.

Net proceeds (after expenses) from the equity fundraise of £9.6 million were applied to the initial upfront payment of £2.3 million to acquire NTCD-M3, with the balance included in the company's year-end cash reserves.

Outlook

The company remains financially robust and well positioned to advance the development of its lead assets and earlier pipeline during 2021 with an estimated cash runway to Q4 2022.

Shaun Claydon
Chief Financial Officer

13 April 2021

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 management of risk is a key responsibility of the Board of Directors. The Board ensures all risks are understood and appropriately managed and that a robust risk management process is maintained to identify, quantify, minimise and manage important risks. The company operates a comprehensive risk register, overseen by the Audit Committee, 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.

Operational risk management

To effectively manage the business, including risks, the company regularly reviews the progress of key activities as follows:

- the Board of Directors meets regularly and reviews operational progress against the company's strategy and key objectives;
- the Audit Committee meets regularly and reviews the risk register and mitigation plans to ensure these remain appropriate; and
- senior management and quality teams meet on a monthly basis to discuss operational progress and, during these meetings, identify and discuss areas of risk and communicate these to the Board as appropriate.

The principal risks and uncertainties identified by Destiny Pharma in the year ended 31 December 2020 are set out below:

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 and in-licence a range of products to reduce reliance on its lead asset. During the year we acquired NTCD-M3, a Phase 3 ready asset for the treatment of recurrence of *Clostridioides difficile* infections. Clinical trials are designed to ensure that meaningful and relevant data is produced. Trials are closely monitored to manage timelines and cash requirements.

Principal risk	Category	Mitigation
Inability to raise sufficient capital when needed may lead to delays, reduction or abandoning development programmes.	F	The company successfully raised £10.4 million via a Placing and Open Offer in November 2020 to fund the acquisition and development of NTCD-M3 and provide additional working capital through to Q4 2022. 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.
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. The company has recently recruited a full-time Chief Business Officer and 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 a small number of CMC suppliers, the loss of whom through contractual disputes or supplier bankruptcy may cause programme delays, increase costs and limit partnering potential.	O	The company is developing additional CMC supplier relationships to expand the breadth of its supplier base and enable the scale up of its processes.

Our stakeholders

Striving for high standards.

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.

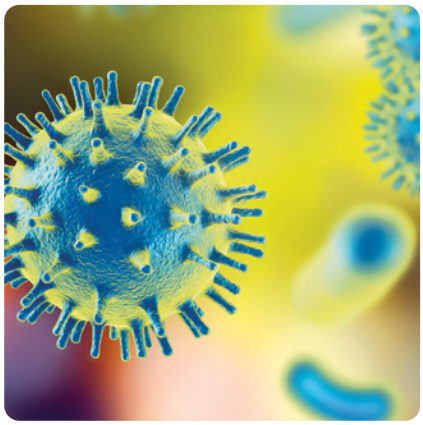
Our understanding of stakeholders is then factored into boardroom discussions, regarding the potential long-term impacts of our strategic decisions on each group, and how we might best address their needs and concerns.

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 24 to 35.

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



Stakeholder	Their interests	How we engage
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 • Presentations at investor conferences and via online platforms
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

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

Neil Clark
Chief Executive Officer
13 April 2021

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 page 35 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 ten 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. The Board considers Dr Debra Barker to be independent.

The QCA 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 appointment of Dr Debra Barker as Chair of the Remuneration Committee, replacing Nick Rodgers.

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 10.**
2.	Seek to understand and meet shareholder needs and expectations. **See the "corporate governance" section of our website www.destinypharma.com and "our stakeholders" on pages 22 and 23.**
3.	Take into account wider stakeholder and social responsibilities and their implications for long-term success. **See the "corporate governance" section of our website and "our stakeholders" on pages 22 and 23.**
4.	Embed effective risk management, considering both opportunities and threats, throughout the organisation. **See "risks and uncertainties" on pages 20 and 21.**
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 28 and 29.**
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.**
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 and "our stakeholders" on pages 22 and 23.**
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, the "corporate governance" section of our website and "our stakeholders" on pages 22 and 23.**

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. The composition of the Board is regularly discussed by the Board and Nomination Committee. 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 convenes at least one strategy meeting each year and other ad hoc meetings, where appropriate, to discuss the activities of the business or other matters. Non-executive Directors are required to devote sufficient time and commitment to fulfil their Board duties, including attending strategy meetings, shareholder meetings and discussions about specific aspects of the business where appropriate. The Board is kept appraised of developments in governance and regulations as appropriate, including regular updates and presentations from the company's Nomad and legal advisers.

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 2020 was as follows:

Director	Board meeting	Audit Committee	Remuneration Committee	Nomination Committee
Neil Clark	10/10	—	—	—
Dr William Love	10/10	—	—	—
Shaun Claydon	10/10	4/4	—	—
Peter Morgan	10/10	4/4	7/7	1/1
Dr Huaizheng Peng	10/10	—	—	—
Nick Rodgers	10/10	4/4	7/7	1/1
Dr Debra Barker	10/10	—	7/7	1/1

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 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. The performance of these committees is reviewed by the Chair of the Committee and the Chairman of the Board on a regular basis.

Audit Committee

The Audit Committee comprises two members, who are both Non-executive Directors: Peter Morgan (Chair) and Nick Rodgers.

The Audit Committee, which meets at least twice a year, is responsible for considering the financial reporting, accounting policies and annual statement as well as keeping under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor. In particular any major accounting issues, judgements or changes are discussed by the Committee. 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 three members, all of whom are Non-executive Directors: Nick Rodgers (Chair), Peter Morgan and Dr Debra Barker. Since the year end, Dr Barker has replaced Mr Rodgers as Chair of 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 three members, all of whom are Non-executive Directors: Nick Rodgers (Chair), Peter Morgan and Dr Debra Barker.

The Nomination Committee meets at least once a year, is responsible for considering the composition and efficacy of the Board as a whole, and for making recommendations as appropriate. The Committee also considers succession planning for Directors and senior executives to ensure that the requisite skills are available to the Board. The Nomination Committee also seeks to promote diversity of gender, social and ethnic background.

Share Dealing Code

The Board has adopted a code on dealings in relation to the securities in the company. Directors and other relevant employees are required to comply with the Share Dealing Code and the Board takes proper and reasonable steps to secure compliance.

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. The internal control system includes controls covering financial, operational and regulatory compliance areas together with risk management. The principal risks and uncertainties for the company are set out on pages 20 and 21. The company maintains a risk register which is reviewed and updated regularly.

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. A report on how we engage with our stakeholders and consider environmental factors is detailed on pages 22 and 23.

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 and latest presentations. The company also presents regularly at private investor events and is increasing its use of video presentations via online private shareholder platforms to reach a wider audience. This ensures that smaller shareholders are able to engage with senior management. 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, its community and the environment and endeavours to consider the interests of shareholders and other stakeholders, such as employees, suppliers and business partners, when operating its business. A report on how we engage with our stakeholders and consider environmental factors is detailed on pages 22 and 23.

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
13 April 2021

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 head of life sciences and as 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.

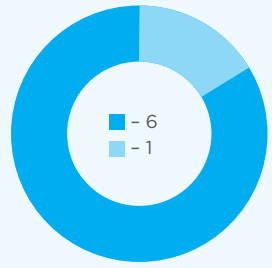
Mr Morgan has advised many of the world's top pharmaceutical companies, including Amgen, Bayer, GSK, Novartis, Novo Nordisk, Pfizer and Roche, as well as Quintiles, the world's largest clinical research organisation. He has a BSc from the University of Nottingham and an MBA from London Business School.

Dr Debra Barker
Non-executive Director

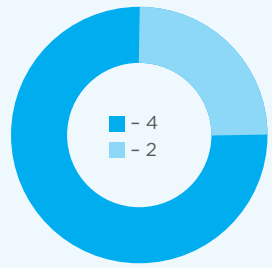
Dr Barker has worked at Novartis, Roche, GSK (then SmithKline Beecham) and most recently at Polyphor as Chief Medical and Development Officer. Dr Barker is currently on the board of Hutman Diagnostics, a molecular diagnostic company specialising in antimicrobial resistance, and BerGenBio, an oncology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

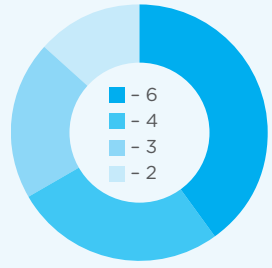
Board diversity:



Board tenure:



Board skills:



Directors' remuneration report

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the Executive Directors and Chairman of the company.

The Remuneration Committee comprises Dr Debra Barker (Chair), Nick Rodgers and Peter Morgan. Dr Barker replaced Mr Rodgers as Chair on 1 January 2021.

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.

Components of the remuneration package of Executive Directors

The principal components of the Executive Directors' remuneration packages are base salary, a performance-related bonus in the form of cash and share options, and medium and long-term incentives in the form of share options, pension contributions and other benefits.

Base salary

Base salaries are reviewed annually, taking account of increases awarded to employees as a whole, the performance of the company and the individual's, skills and experience, and external factors such as salaries in comparable companies and inflation. For the 2021 financial year the Board considered it appropriate to award an inflation-only increase to the Executive Directors and, in addition, the Chief Financial Officer's salary was increased to reflect the change in his commitment to full time.

Performance-related bonus

The Remuneration Committee, in discussion with the Executive Directors, establishes performance criteria at the beginning of each financial year that are aligned with the company's strategic objectives and are designed to be challenging. Annual bonuses are payable at the discretion of the Remuneration Committee.

For the 2020 financial year the Remuneration Committee decided the following:

- bonuses of up to a maximum of 50% of base salary for the Executive Directors could be earned for performance against annual operational, financial and personal objectives;
- 75% of the annual bonus would be by reference to corporate objectives and 25% to individual objectives; and
- any annual bonus for the Executive Directors is payable in cash and share option awards in the following proportions: 50% cash and 50% share option awards.

The 2020 financial year corporate objectives were weighted as follows:

Objective	Weighting	Achievement
Complete Phase 2b clinical study for XF-73 nasal	27%	13%
Complete in-licensing of NTCD-M3	20%	20%
Complete equity financing for NTCD-M3	20%	20%
Secure partnering deal	20%	—
Complete Phase 3 preparation/commercialisation plans	13%	7%
Total	**100%**	**60%**

The Executive Directors were awarded 60% of the maximum bonus achievable for the 2020 financial year.

For the 2021 financial year, the Remuneration Committee decided the following:

- bonuses of up to a maximum of 75% of base salary for the Executive Directors could be earned for performance against annual operational, financial and personal goals;
- 75% of the annual bonus would be by reference to corporate objectives and 25% to individual objectives; and
- any annual bonus for the Executive Directors is payable in cash and share option awards in the following proportions: 50% cash and 50% share option awards.

The 2021 financial year corporate objectives are weighted as follows:

Objective	Weighting
Announce successful XF-73 nasal Phase 2b data	7%
Finalise achievable plan for XF-73 Phase 3 clinical study	13%
Progress NTCD-M3 project in line with agreed development plan	13%
Secure financing to support development plans	27%
Secure partnering deal	40%
Total	**100%**

The number of share options comprised within the deferred bonus award is set on grant at such number equal in value to the portion of bonus being deferred. Such share option awards to Executive Directors will ordinarily vest after two years, subject to continued employment.

Long-term incentive plan ("LTIP")

The primary long-term incentive arrangements for Executive Directors are performance share option awards under the LTIP established by the Board on 22 December 2020. Performance share option awards will ordinarily be granted on an annual basis and will vest three years from award subject to the participant's continued service and to the extent to which the performance conditions for the awards are satisfied.

Performance awards are set at a maximum of 100% of base salary for the Chief Executive Officer and 80% for other Executive Directors. Performance awards to Executive Directors under the LTIP were made on 22 December 2020 and are detailed in the table on page 33.

Recovery and withholding provisions may be operated at the discretion of the Remuneration Committee in respect of share option awards under the performance-related bonus plan and the LTIP in certain circumstances (including where there has been a material misstatement of the company's financial statements or in the event of misconduct by a participant).

The company has adopted shareholding guidelines to encourage Executive Directors to build or maintain a shareholding in the company of at least 200% of base salary. Executive Directors will be required to retain 50% of shares from the exercise of deferred bonus awards and LTIP awards (on a net of tax basis) until the shareholding guideline is met.

Pension arrangements

Pension is provided to Executive Directors via a cash contribution to the individual's personal pension scheme. The level of pension contribution for Executive Directors is 10% of base salary.

Other benefits

Other benefits for Executive Directors include life assurance, private medical insurance and income protection.

Directors' remuneration report continued

Remuneration of the Chairman and Non-executive Directors

It is the company's policy to provide fees that attract and retain skilled individuals with appropriate experience who can add value to the Board. Fees are reviewed on an annual basis to ensure they remain competitive and adequately reflect the time commitments and overall contribution to the role. The Remuneration Committee is responsible for making recommendations to the Board on the fees payable to the Chairman. The Board is responsible for determining the fees payable to the company's Non-executive Directors.

The Non-executive Director fees, including the fees of the Chairman, were reviewed during the 2020 financial year and were increased by 3% to £41,200 and £82,400 respectively with effect from 1 January 2021. In addition, the Chairman was awarded a bonus for the 2020 financial year of £8,000, payable in Destiny Pharma shares (on a net of tax basis). The shares are payable in two tranches following the announcement of the company's 2020 annual and 2021 interim results, subject to the Chairman remaining in post.

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 2020 are as follows:

	Short-term employee benefits £'000	Bonus £'000	Post-employment benefits £'000	Other benefits £'000	**Total[1] 2020 £'000**	Total 2019 £'000
Neil Clark	233	69	20	3	**325**	300
Dr William Love	197	59	15	4	**275**	250
Shaun Claydon	170	51	17	2	**240**	128
Peter Morgan	40	—	—	—	**40**	40
Dr Huaizheng Peng	40	—	—	—	**40**	40
Nick Rodgers	80	—	—	—	**80**	80
Dr Debra Barker	40	—	—	—	**40**	—
Total	800	179	52	9	**1,040**	838

(1) Total emoluments include the bonus payable in relation to the year ended 31 December 2020, of which 50% was settled in cash and 50% in deferred share option awards after the end of the financial year.

Directors' share options and awards

Options in the company's shares held by the Directors holding office at 31 December 2020 are set out below:

Date of grant/award	Exercise price	At 1 January 2020	Granted in the year	Cancelled	At 31 December 2020	Latest vesting date
Executive						
Neil Clark						
16 May 2017 option grant	£0.01	172,152	—	—	**172,152**	Vested
2 June 2017 option grant	£0.01	172,152	—	—	**172,152**	Vested
4 June 2018 option grant	£0.01	200,000	—	—	**200,000**	4 June 2021
22 Dec 2020 option grant	£0.01	—	205,695	—	**205,695**	22 Dec 2023
22 Dec 2020 performance share option award	£0.01	—	353,692	—	**353,692**	22 Dec 2023
		544,304	559,387	—	**1,103,691**	
Dr William Love						
1 Sep 2012 option grant	£0.2484	406,500	—	—	**406,500**	Vested
2 June 2017 option grant	£0.01	358,894	—	—	**358,894**	Vested
22 Dec 2020 option grant	£0.01	—	125,000	—	**125,000**	22 Dec 2023
22 Dec 2020 performance share option award	£0.01	—	240,511	—	**240,511**	22 Dec 2023
		765,394	365,511	—	**1,130,905**	
Shaun Claydon						
25 Oct 2018 option grant	£0.765	150,000	—	(150,000)	**—**	n/a
25 Oct 2018 option grant	£0.01	150,000	—	—	**150,000**	Vested
16 June 2020 option grant	£0.01	—	125,000	—	**125,000**	25 Oct 2021
22 Dec 2020 option grant	£0.01	—	125,000	—	**125,000**	22 Dec 2023
22 Dec 2020 performance share option award	£0.01	—	261,538	—	**261,538**	22 Dec 2023
		300,000	511,538	(150,000)	**661,538**	
Non-executive						
Peter Morgan						
2 June 2017 option grant	£0.01	719,962	—	—	**719,962**	Vested
		719,962	—	—	**719,962**	

The options are exercisable at various dates up to December 2030.

Directors' remuneration report continued

Directors' interests

The interests of the Directors holding office at 31 December 2020 in the shares of the company are set out below:

Ordinary shares of £0.01 each	31 December 2020	31 December 2019
Neil Clark	**38,462**	—
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	**47,462**	—
Dr Debra Barker	**38,461**	—

(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.

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 68.5 pence (2019: 44.0 pence) and the range during the period from admission to the end of the reporting period was 30.4 pence to 235.0 pence (2019: 36.5 pence to 235.0 pence) per share.

On behalf of the Board.

Dr Debra Barker
Remuneration Committee Chair
13 April 2021

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;
- **Peter Morgan,** Non-executive Director;
- **Dr Huaizheng Peng,** Non-executive Director; and
- **Dr Debra Barker,** Non-executive Director.

Results and dividends

The loss after taxation for the year ended 31 December 2020 was £5.4 million (2019: £4.7 million).

Directors' interests

Directors' interests at 31 December 2020 in the shares and share options of the company are shown in the Directors' remuneration report on pages 30 to 34.

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 15 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 24 to 35.

Annual General Meeting

The Annual General Meeting will be held on 3 June 2021 as stated in the notice that accompanies this Annual Report.

By order of the Board.

Shaun Claydon
Company Secretary
13 April 2021

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 2020, which comprise:

- the statement of comprehensive income for the year ended 31 December 2020;
- the statement of financial position as at 31 December 2020;
- the statement of cash flows and statement of changes in equity for the year ended 31 December 2020; 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 2020 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included as assessment of the appropriateness of the approach, assumptions and arithmetic accuracy of the model used by management when performing their going concern assessment for a period of at least twelve months from the date of the approval of the financial statements. We challenged the underlying data and key assumptions used to make the assessment and the results of management's stress testing, to assess the reasonableness of economic assumptions.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 £330,000 (2019: £200,000) based on approximately 5% (2019: 4%) of loss before tax. Loss before tax is the most relevant measure in assessing the performance of the company, and is a generally accepted auditing benchmark.

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 £10,000 (2019: £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 performed a full scope audit on the company.

Independent auditor's report continued

to the shareholders of Destiny Pharma plc

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 contained within the Annual Report. 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.

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 this gives rise to a material misstatement in the financial statements themselves. 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

We obtained an understanding of the legal and regulatory frameworks within which the company operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Companies Act 2006 and taxation legislation. Technical, clinical or regulatory laws and regulations which are inherent risks in drug development are mitigated and managed by the Scientific Advisory Board and management in conjunction with expert regulatory consultants in order to monitor the latest regulations and planned changes to the regulatory environment.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be the override of controls by management. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for biases.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

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

13 April 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £	Year ended 31 December 2019 £
Continuing operations			
Other operating income	6	**12,450**	305,906
Administrative expenses	7	**(6,425,471)**	(5,687,003)
Share-based payment expense		**(139,491)**	(203,655)
Loss from operations		**(6,552,512)**	(5,584,752)
Finance income	3	**71,611**	63,478
Loss before tax		**(6,480,901)**	(5,521,274)
Taxation	5	**1,069,824**	813,250
Loss and total comprehensive loss for the year from continuing operations		**(5,411,077)**	(4,708,024)
Loss per share – pence			
Basic	8	**(12.0)p**	(10.7)p
Diluted	8	**(12.0)p**	(10.7)p

Statement of financial position

As at 31 December 2020

	Notes	As at 31 December 2020 £	As at 31 December 2019 £
Assets			
Non-current assets			
Property, plant and equipment	9	**18,141**	32,922
Intangible assets	10	**2,261,435**	—
Non-current assets		**2,279,576**	32,922
Current assets			
Trade and other receivables	11	**1,172,403**	911,198
Cash and cash equivalents	12	**9,744,217**	7,479,642
Prepayments		**508,363**	133,702
Current assets		**11,424,983**	8,524,542
Total assets		**13,704,559**	8,557,464
Equity and liabilities			
Equity			
Share capital	13	**598,169**	438,652
Share premium		**27,085,506**	17,296,337
Accumulated losses		**(15,247,250)**	(9,975,664)
Shareholders' equity		**12,436,425**	7,759,325
Current liabilities			
Trade and other payables	14	**1,268,134**	798,139
Current liabilities		**1,268,134**	798,139
Total equity and liabilities		**13,704,559**	8,557,464

The financial statements, accompanying policies and notes 1 to 19 (forming an integral part of these financial statements), were approved and authorised for issue by the Board on 13 April 2021 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 2020

	Share capital £	Share premium £	Accumulated losses £	Total £
1 January 2019	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
Comprehensive loss for the year				
Total comprehensive loss	**—**	**—**	**(5,411,077)**	**(5,411,077)**
Total comprehensive loss for the year	**—**	**—**	**(5,411,077)**	**(5,411,077)**
Contributions by and distributions to owners				
Issue of share capital	**159,517**	**10,209,105**	**—**	**10,368,622**
Costs of share issue	**—**	**(419,936)**	**—**	**(419,936)**
Share-based payment expense	**—**	**—**	**139,491**	**139,491**
Total contributions by and distributions to owners	**159,517**	**9,789,169**	**139,491**	**10,088,177**
31 December 2020	**598,169**	**27,085,506**	**(15,247,250)**	**12,436,425**

Statement of cash flows

For the year ended 31 December 2020

	Year ended 31 December 2020 £	Year ended 31 December 2019 £
Cash flows from operating activities		
Loss before income tax	**(6,480,901)**	(5,521,274)
Depreciation of property, plant and equipment	**16,881**	18,440
Share-based payment expense	**139,491**	203,655
Finance income	**(71,611)**	(63,478)
	(6,396,140)	(5,362,657)
Increase in trade and other receivables and prepayments	**(379,293)**	(79,800)
Increase in trade and other payables	**469,995**	(3,653)
Cash used in operations	**(6,305,438)**	(5,446,110)
Tax received	**813,250**	815,316
Net cash used in operating activities	**(5,492,188)**	(4,630,794)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2,099)**	(20,942)
Purchase of intangible assets	**(2,261,435)**	—
Sale of other financial assets	**—**	5,000,000
Interest received	**71,611**	63,478
Net cash inflow from investing activities	**(2,191,923)**	5,042,536
Cash flows from financing activities		
New shares issued net of issue costs	**9,948,686**	7,079
Net cash inflow from financing activities	**9,948,686**	7,079
Net increase/(decrease) in cash and cash equivalents	**2,264,575**	418,821
Cash and cash equivalents at the beginning of the year	**7,479,642**	7,060,821
Cash and cash equivalents at the end of the year	**9,744,217**	7,479,642

Notes to the financial statements

For the year ended 31 December 2020

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 novel medicines that prevent serious infections.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 company 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.

Leases

The company has elected not to adopt IFRS 16. Lease payments are treated as an expense in the period in which they are incurred. Adopting IFRS 16 would not have a material impact on the financial statements.

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
  - either has transferred substantially all the risks and rewards of the asset; or
  - 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 or a Monte Carlo 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.

Intangible assets

Intangible assets relating to intellectual property rights acquired through licensing agreements are carried at historical cost less accumulated amortisation and any provision for impairment. The company is expected to incur future contractual milestone payments linked to the intellectual property rights it holds. Milestone payments associated with these rights are capitalised when incurred.

Amortisation will commence when the product or products underpinned by the intellectual property become available for commercial use.

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.

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. 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.

Notes to the financial statements continued

For the year ended 31 December 2020

1. Accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty continued

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 accounting 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 2020	31 December 2019
Research and development	**9**	7
Corporate and administration	**5**	5
	14	12
Non-executive Directors	**3**	4
	17	16

Their aggregate remuneration, including Directors, comprised:

	31 December 2020 £	31 December 2019 £
Wages and salaries	**1,740,274**	1,529,854
Social security costs	**183,595**	149,833
Other benefits	**87,636**	74,927
Pension costs	**94,561**	83,061
Share-based payment expense	**139,491**	187,410
	2,245,557	2,025,085

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

	31 December 2020 £	31 December 2019 £
Directors' remuneration	**986,525**	910,594
Pension costs	**51,528**	53,315
Other benefits	**8,422**	7,887
Share-based payment expense	**80,717**	170,432

Included in the above Directors' remuneration are amounts paid to third parties for Directors' services which are disclosed in note 18.

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

	31 December 2020	31 December 2019
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 2020 was £8,265 (2019: £4,141).

3. Net finance income

	31 December 2020 £	31 December 2019 £
Finance income		
Deposit account interest	**71,611**	63,478

4. Auditor's remuneration

	31 December 2020 £	31 December 2019 £
Fees payable to the company's auditor for:		
Audit of the company's annual accounts	**25,500**	24,250
Audit-related assurance services	**2,900**	4,600
Tax services	**3,500**	2,500
Total	**31,900**	31,350

5. Income tax

	31 December 2020 £	31 December 2019 £
Research and development tax credits based on costs in the financial year	**(1,069,824)**	(839,079)
Non-recoverable tax credit in prior year	**—**	25,829
	(1,069,824)	(813,250)

Tax reconciliation

	31 December 2020 £	31 December 2019 £
Loss before tax	**(6,480,901)**	(5,521,274)
Loss before tax multiplied by the UK corporation tax rate of 19% (2019: 19%)	**(1,231,371)**	(1,049,042)
Effects of:		
Non-deductible expenditure	**29,738**	38,911
Employee share acquisition relief	**(26,503)**	(43,860)
R&D enhanced expenditure	**(792,343)**	(621,447)
Lower tax rate on R&D losses	**332,014**	260,404
Tax losses carried forward	**618,641**	575,955
Total tax credit on loss	**(1,069,824)**	(839,079)

There were no tax charges in the period. There are tax losses available to carry forward amounting to approximately £20.2 million (2019: £16.9 million), which includes £nil (2019: £0.2 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.

Notes to the financial statements continued

For the year ended 31 December 2020

6. Other operating income

	31 December 2020 £	31 December 2019 £
Government grants received during the year	**12,450**	269,216
Government grants accrued at 31 December	**—**	36,690
	12,450	305,906
Included in trade and other receivables (note 11)	**—**	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 2020 £	31 December 2019 £
Staff costs – research and development	**1,273,908**	973,772
– other	**832,158**	829,625
Research and development costs	**3,221,707**	2,851,672
Depreciation	**16,881**	18,440
Foreign exchange differences	**11,488**	45,787

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 2020 £	31 December 2019 £
Loss for the year attributable to shareholders	**(5,411,077)**	(4,708,024)
Weighted average number of shares	**45,219,999**	43,799,945
Loss per share – pence		
– Basic and diluted	**(12.0)p**	(10.7)p

9. Property, plant and equipment

	Plant and machinery £
Cost	
At 1 January 2019	97,147
Additions	20,942
At 31 December 2019	118,089
Additions	**2,099**
At 31 December 2020	**120,188**
Depreciation	
At 1 January 2019	66,726
Charge for the year	18,440
At 31 December 2019	85,167
Charge for the year	**16,881**
At 31 December 2020	**102,048**
Net book value	
At 1 January 2019	30,421
At 31 December 2019	32,922
At 31 December 2020	**18,141**

10. Intangible assets

	Acquired development programmes £
Cost	
At 31 December 2019	—
Additions	2,261,435
At 31 December 2020	**2,261,435**

In November 2020, the company acquired NTCD-M3, a development stage programme for preventing toxic strains of *C. difficile* proliferating in the colon after antibiotic treatment. The asset has not been amortised in the year as the programme has not yet generated products available for commercial use.

The programme has been assessed for impairment. The company considers the future development costs, the probability of successfully progressing to product approval and the likely commercial returns, among other factors. The result of this assessment did not indicate any impairment in the year.

The key sensitivity for all development programmes is the probability of successful completion of clinical trials in order to obtain regulatory approval for sale. Should trials be unsuccessful, the programme will be fully impaired.

Notes to the financial statements continued

For the year ended 31 December 2020

11. Trade and other receivables

	31 December 2020 £	31 December 2019 £
Other receivables	**102,579**	72,119
Research and development tax repayment	**1,069,824**	839,079
	1,172,403	911,198

12. Cash and cash equivalents

	31 December 2020 £	31 December 2019 £
Cash and bank balances	**9,744,217**	7,479,642

13. Share capital

Ordinary shares of £0.01 each	31 December 2020 Number	31 December 2019 Number
Authorised(1)	**n/a**	n/a
Allotted and fully paid		
At 1 January	**43,865,195**	43,562,598
Issued for cash during the year	**15,951,726**	302,597
At 31 December	**59,816,921**	43,865,195

(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 2020 £	31 December 2019 £
Authorised	**n/a**	n/a
Allotted and fully paid	**598,169**	438,652

	31 December 2020 £	31 December 2019 £
Share premium account	**27,085,506**	17,296,337

15,951,726 ordinary shares were issued during the year at a premium of £10,209,105. Transactional costs associated with the issue of shares in the year totalling £419,936 have been charged against share premium.

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

Share options

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

Unapproved Scheme 2000

Established on 15 November 2000. 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 and 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 2000

Established on 15 November 2000. 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 2017 (EMI and non-tax advantaged options)

Established on 18 April 2017. Options are granted at the discretion of the Directors to eligible employees. The price per share to be paid on exercise 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 2017 (non-tax advantaged options)

Established on 18 April 2017. 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.

Employee LTIP 2018 (EMI and non-tax advantaged options)

Established on 25 January 2018. Options are granted at the discretion of the Directors to eligible employees. The exercise price per share is determined by the Directors, such price being not less than the nominal value of a share. 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.

Employee LTIP 2020 (EMI and non-tax advantaged options)

Established on 22 December 2020. Options are granted at the discretion of the Directors to eligible employees and may be subject to one or more performance conditions. The exercise price per share is determined by the Directors, such price being not less than the nominal value of a share. Options subject to performance conditions will lapse at the end of the performance period (typically three years) if the applicable performance conditions are not met. Options where there are no performance conditions or where performance conditions are met during the performance period 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.

Grants of options

On 19 June 2020, 165,000 Employee LTIP 2018 options were granted to two employees at an exercise price of £0.01 per ordinary share. The fair value per option was £0.39.

On 22 December 2020, 340,000 Employee LTIP 2018 options were granted to seven employees at an exercise price of £0.65 per ordinary share, the fair value per option was £0.52, 570,695 Employee LTIP 2018 options were granted to four employees at an exercise price of £0.01 per ordinary share, the fair value per option was £0.66, and 1,074,925 2020 Performance targeted LTIP options were granted to four employees at an exercise price of £0.01 per ordinary share, the fair value per option was £0.35.

Notes to the financial statements continued

For the year ended 31 December 2020

13. Share capital continued

IFRS 2 valuation

The estimated fair value of share options granted during the period without performance conditions has been calculated by applying a Black-Scholes option pricing model. The fair value of options with performance conditions has been estimated using Monte Carlo modelling. The weighted average exercise price of options granted in the period was £0.11 (2019: £0.01).

Measurement assumptions were as follows:

	2020	**2020**	2019
Share price	**£0.665**	**£0.400 – £0.665**	£0.785
Exercise price	**£0.01**	**£0.01 – £0.65**	£0.01
Expected volatility	**76%**	**49% – 76%**	49%
Expected option life	**3 years**	**10 years**	10 years
Risk-free rate	**0.38%**	**0.28% – 0.38%**	0.92%
Expected dividends	**£nil**	**£nil**	£nil
Model used	**Monte Carlo**	**Black-Scholes**	Black-Scholes

Prior to the year ended 31 December 2020, historical volatility was measured using a composite basket of listed entities in similar operating environments, given the limited trading history of the company following its IPO in 2017; with effect from the year ended 31 December 2020, historical volatility is measured using the company's share price only.

The number and weighted average exercise prices of share options were as follows:

	31 December 2020		31 December 2019	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance outstanding at beginning of the year	**7,090,226**	**£0.068**	7,098,823	£0.075
Granted during year	**2,150,620**	**£0.111**	335,000	£0.010
Exercised during year	**—**	**—**	(302,597)	£0.023
Cancelled during year	**(150,000)**	**£0.765**	—	—
Lapsed during year	**—**	**—**	(41,000)	£1.066
Options outstanding at end of the year	**9,090,846**	**£0.067**	7,090,226	£0.068
Options exercisable at the end of the year	**6,555,226**	**£0.056**	6,455,226	£0.068

The expense arising from share-based payment transactions recognised in the year was as follows:

	31 December 2020 £	31 December 2019 £
Share-based payment expense	**139,491**	203,655

14. Trade and other payables

	31 December 2020 £	31 December 2019 £
Trade payables	**725,593**	513,508
Social security and other taxes	**49,015**	45,761
Accrued expenses	**485,261**	234,729
Pension contributions payable	**8,265**	4,141
	1,268,134	798,139

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 2020 £	31 December 2019 £
Financial assets measured at amortised cost		
– Cash	**9,744,217**	7,479,641
– Other financial assets	**–**	–
– Other receivables	**102,579**	72,119
Financial liabilities		
– Financial liabilities measured at amortised cost	**1,210,854**	748,237

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.

The maturity profile of the company's financial liabilities, including estimated interest payments, is set out below.

31 December 2020	Carrying amount £	Contractual cash flows £	1 year or less £	1 to 2 years £	2 to 5 years £	>5 years £
Trade payables	**725,593**	**725,593**	**725,593**	**–**	**–**	**–**
Social security and other taxes	**49,015**	**49,015**	**49,015**	**–**	**–**	**–**
Accrued expenses	**485,261**	**485,261**	**485,261**	**–**	**–**	**–**
Pension contributions payable	**8,265**	**8,265**	**8,265**	**–**	**–**	**–**
	1,268,134	**1,268,134**	**1,268,134**	**–**	**–**	**–**

31 December 2019	Carrying amount £	Contractual cash flows £	1 year or less £	1 to 2 years £	2 to 5 years £	>5 years £
Trade payables	513,508	513,508	513,508	–	–	–
Social security and other taxes	45,761	45,761	45,761	–	–	–
Accrued expenses	234,729	234,729	234,729	–	–	–
Pension contributions payable	4,141	4,141	4,141	–	–	–
	798,139	798,139	798,139	–	–	–

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.

Notes to the financial statements continued

For the year ended 31 December 2020

15. Financial instruments – risk management continued

Foreign exchange risk continued

The company's exposure to foreign currency risk at 31 December 2020 and 31 December 2019 was as follows:

31 December 2020	Sterling £	US dollar £	Euros £	Total £
Cash and cash equivalents	**8,494,309**	**1,246,336**	**3,572**	**9,744,217**
Trade and other payables	**(803,286)**	**(451,086)**	**(13,762)**	**(1,268,134)**
Net exposure	**7,691,023**	**795,250**	**(10,190)**	**8,476,083**

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

The following table considers the impact of a change to the pounds sterling/euro and US dollar exchange rates of +/– 10% at 31 December 2020 and 31 December 2019, 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 2020 £	31 December 2019 £
10% increase in US dollar	**(72,295)**	(60,114)
10% decrease in US dollar	**88,361**	69,885
10% increase in euro	**926**	(22,480)
10% decrease in euro	**(1,132)**	24,151

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. Financial commitments

In November 2020, the company entered into an exclusive licence agreement to obtain intellectual property rights and materials relating to NTCD-M3 from NTCD, LLC. Upon entering into the agreement, the company made a payment of $3 million to NTCD, LLC. The company has agreed to use commercially reasonable efforts to develop and commercialise NTCD-M3. The company has agreed to make further payments under the agreement based on specified clinical, regulatory and commercial milestones and, following commencement of commercial sales, to pay royalties on future revenue generated from licensed products. Because of the uncertainties inherent in estimating the probability and timing of future milestone events, possible future cash outflows under the agreement cannot be reliably measured. At the date of approval of the financial statements, the Directors consider that it is more likely than not that the company will be required to pay an additional milestone payment of $2 million on dosing the first patient in a Phase 3 clinical trial, further milestone payments being obligations which will be confirmed only by uncertain future events that are not wholly within the control of the company.

18. Related party transactions

During the year £40,319 (2019: £nil) was paid to Barker BioMedical GmbH for the services of Dr Debra Barker as a Non-executive Director of the company. The amount due to Barker BioMedical GmbH at 31 December 2020 was £10,000 (2019: £nil). The balance is included in trade payables.

19. 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

AHRQ
Agency for Healthcare Research and Quality

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

AMR
Antimicrobial resistance

ASHP
American Society of Hospital Pharmacists

BARDA
Biomedical Advanced Research and Development Authority

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 and Prevention

CDI
Clostridioides difficile infections

CMS
China Medical System Holdings Limited

The Code/Corporate Governance Code
The UK Corporate Governance Code published by the Financial Reporting Council, as the same may be varied or amended

The company
Destiny Pharma plc

EMA
European Medicines Agency

EMI
Enterprise Management Incentive

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

HAP
Hospital-acquired pneumonia

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 LTIP Employee Schemes

LTIP Employee Schemes
The LTIP (EMI and non-tax advantaged (non-EMI)) share option schemes adopted by the company on 18 April 2017, 25 January 2018 and 22 December 2020 for the benefit of Directors and employees

Glossary continued

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

NTAP
New Technologies Add-on Payment

NTCD-M3
Non-toxigenic *Clostridium difficile* strain M3

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

QIDP
Qualified Infectious Disease Product status granted by the FDA

R&D
Research and development

SHEA
Society for Hospital Epidemiologists of America

SIS
Surgical Infection Society

SPOR-COV
A biotherapeutic product for the prevention of COVID-19 and other viral respiratory infections

UD
Universal decolonisation

UN
United Nations

VAP
Ventilator-associated pneumonia

WHO
World Health Organization

WT
Wellcome Trust

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*
	Novel Coronavirus
	Staphylococcus aureus
	Bacterium Enterobacteriaceae
Page 4	*Staphylococcus aureus*
Page 6	*Clostridioides difficile*
	MRSA
Page 7	*Staphylococcus aureus*
Page 8	*Staphylococcus aureus*
	Novel Coronavirus
Pages 10 and 11	SARS-CoV-2 virus
Page 13	*Bacterium Enterobacteriaceae*
Page 23	SARS-CoV-2 virus

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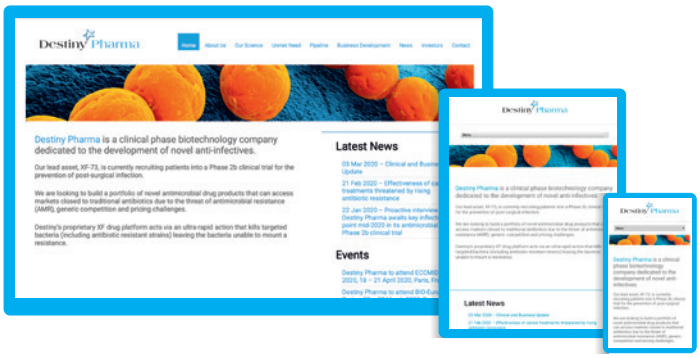

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