# REDX PHARMA PLC

## ANNUAL REPORT AND ACCOUNTS

## FOR THE YEAR ENDED 30 SEPTEMBER 2017

2017

**CONTENTS**

## KEY EVENTS & RESULTS

### Corporate

**21 March 2017** – Results for year ending 30 September 2016 announced including:

- A Strategic Refocus initiative and a consequential head-count reduction
- Completion of £12m headline funding round
- Notification that Non-Executive Director and Founder Dr Peter Jackson would be standing down on 31 March 2017 and that Non-Executive Chairman Frank Armstrong and Non-Executive Director Mr Peter McPartland, would be standing down at the AGM in April 2017

**1 May 2017** – Mr Iain Ross appointed as Non-Executive Chairman

**17 May 2017** – Interim Results for 6 months ending 31 March 2017

**24 May 2017** – Redx Pharma plc and subsidiary Redx Oncology are placed into Administration and shares suspended from trading on AIM

**31 July 2017** – Sale of Bruton's tyrosine kinase (BTK) programme to Loxo Oncology, Inc. (NASDAQ: LOXO) for US$40m in cash

**10 August 2017** – Joint Administrators announce their Proposals to creditors

**14 August 2017** – Director, Mr David Lawrence resigns

**24 August 2017** – Joint Administrators announce creditors distribution

### Research & Development

**23 June 2017** – MHRA approve the clinical trial application (CTA) for porcupine inhibitor RXC004, for a phase 1/2a clinical study in hard-to-treat cancers

**9 September 2017** – A poster is presented at the European Society for Medical Oncology (ESMO) identifying a specific gastric cancer patient sub-population sensitive to RXC004, which will allow targeting of specific patients for clinical trials

### Financial results – Year ending 30 September 2017

- Revenue: £30.5m
- Operating Expenditure: £15.8m
- R&D Expenditure: £8.2m
- Profit after tax: £1.5m
- Closing Cash: £23.8m

### Post year end events

**2/3 November 2017** – Exit from Administration and the Group (Redx Pharma plc and its subsidiaries), announces it has resumed trading under the control of the Directors.

**6 November 2017** – The Group updates the market on its revised strategy, share suspension from trading on AIM is lifted and the following changes in personnel are announced:

- CEO Dr Neil Murray resigned and left the board with immediate effect and Non-Executive Director Mr Norman Molyneux resigned from the Board;
- Mr Iain Ross appointed Interim Executive Chairman;
- Mr Dominic Jackson appointed CFO and Executive Director;

**KEY EVENTS & RESULTS (continued)**

- Mr Peter Presland appointed as a Non-Executive Director and Chairman of the Audit, Risk and Disclosure Committee; and
- A search for new CEO initiated

**14 November 2017** – Interim Executive Chairman buys 348,000 shares

**20 December 2017** – Group announces Preliminary Results for year ending 30 September 2017

**Balance Sheet at Exit from Administration 2 November 2017 – UNAUDITED**

| | **£'000** |
|---|---|
| **Assets** | |
| **Non-current assets** | |
| Property, plant and equipment | 190 |
| Intangible assets | 430 |
| | 620 |
| **Current assets** | |
| Trade and other receivables | 2,217 |
| Cash and cash equivalents | 13,866 |
| Current tax | 1,155 |
| | 17,238 |
| **Total assets** | 17,858 |
| | |
| **Current liabilities** | |
| Trade and other payables | 4,311 |
| **Net assets** | 13,547 |
| | |
| **Equity** | |
| Share capital | 1,265 |
| Share premium | 33,263 |
| Share based compensation | 880 |
| Capital redemption reserve | 1 |
| Retained deficit | (21,862) |
| **Equity attributable to shareholders** | 13,547 |

## CHAIRMAN'S STATEMENT

***"Re-focused; science based, commercially driven and financially sound"***

Dear Shareholder,

2017 has not been a good year for the shareholders of Redx Pharma plc and the value of your investment has reduced significantly. Having said this it has been an extraordinary year, which none of us working for, associated with, or invested in Redx Pharma plc will ever forget.

### *The art of the possible*

After being appointed Chairman on 1 May 2017, three weeks later, Redx Pharma plc was put into Administration by a major long-term creditor. I was as surprised as anybody at the turn of events. However, having worked our way through the five-month period in Administration, supported by a strong management team and excellent advisers, I am pleased to report that your Company has emerged from Administration stronger, leaner and 'fit for purpose' across all facets of the business. It is a very unusual situation whereby a public company goes into Administration and then emerges again as a viable entity and it is a testament to all those involved that we accomplished this and made "the impossible – possible".

This has not, however, been a pleasant experience. Sacrifices have had to be made and some tough decisions taken, and as a result, the Group, whilst under the control of the Administrators, had no choice but to sell off one of the internal development programmes to raise the necessary cash to allow the business to exit Administration as a going concern.

### *New leadership*

The Company exited Administration after the period under review, so in November 2017, the Board has been re-structured such that six of the seven directors who were in place at the start of the financial year under review are no longer with the business.

Upon exit from Administration, Dominic Jackson and Peter Presland joined the Board as Chief Financial Officer ("CFO") and independent Non-Executive Director respectively. Both bring strong financial and City experience.

Peter Presland will chair the Audit, Risk and Disclosure Committee and Bernd Kirschbaum, who remains on the Board, will continue to chair the Remuneration and Scientific committees.

Following the resignation of the former CEO, Dr Neil Murray, a search has been initiated for a new, suitably qualified CEO and until such time as the new incumbent is appointed, I will take on the role of Interim Executive Chairman and work with the senior management team to progress the development of the business as a whole.

### *A new modus operandi*

Over the period, there has been a fundamental shift in the way in which the business operates and I, along with the other Directors and the senior management team, have reviewed all facets of the business, including the financial systems, controls and procedures; reviewed and focused the Research & Development ("R&D") portfolio; and taken on advice from stakeholders and advisers. This has resulted in the adoption of a number of changes to the Group to ensure a more focused approach, with an emphasis on financial rigour, throughout the organisation.

During the year under review, the Group had already begun to focus the pipeline of development projects and to reduce the in-house headcount and resources. However, as a result of going into Administration, this process was further accelerated, and we now have a more focused research and development pipeline, which consists of two prioritised development programmes and five other programmes in research.

At the time of exit from Administration, the Group had £13.9m of cash, with no loan facilities nor liabilities – outside of those necessary for the normal course of business – which when coupled with a reduced cost base, provides a cash runway through to early 2019[1].

It should be noted that this does not include any potential income from partnering/collaborations and/or the sale or out-licensing of non-core assets. Therefore, with the reduction in the cost base already implemented,

[1] Independent working capital report prepared by Crowe Clark Whitehill for the Company and Administrators supports a minimum of 12 months working capital

coupled with making further progress in refining our discovery portfolio, I remain confident that our cash together with our partnering initiatives will enable us to achieve our medium-term objectives. In saying this, your Board fully recognises the obligation to take the utmost care in the use of shareholder funds, and we will not hesitate to extend the cash runway through realising further cost savings by eliminating unnecessary expenditure if the circumstances dictate.

During the period under review, Redx's lead programme, RXC004, a potential best-in-class porcupine inhibitor, progressed through pre-clinical development and in June 2017 the clinical trial application (CTA) was approved by the MHRA for a phase 1/2a clinical study that will include hard-to treat cancers such as gastric, pancreatic and biliary. This marked the culmination of a huge effort by the Redx team and our clinical development advisers, Novella Clinical, and as a result, it is anticipated that this drug will enter the clinic in Q1 2018. In addition, in September 2017 the Group presented a poster at the European Society for Medical Oncology (ESMO) identifying a specific gastric cancer patient sub-population sensitive to RXC004, which will allow us to target specific patients for the clinical trials.

In addition, over the last 12 months, Redx has developed considerable expertise in understanding the molecular mechanisms underlying fibrosis and the druggable targets on which to focus. The Group has several active programmes in this area with the lead programme being a potential first-in-class ROCK inhibitor where the targeted indication is fibrosis arising from Inflammatory Bowel Disease (IBD). A development candidate from this programme is due to be announced in mid 2018.

The Group intends to out-license its non-core assets and with the assets that we have prioritised, will have no hesitation in forming relevant collaborations to secure third party validation, thereby increasing the probability of success.

***Financial overview***

Redx's financial position has significantly improved with cash of £23.8m as at 30 September 2017 compared to £5.8m at the previous year end due to the successful sale of the BTK asset for £30.5m. In addition, the Group has no borrowings following settlement of the £2.0m loan to Liverpool City Council and agreements with all other creditors.

The Group generated operating income of £30.5m again due to the sale of the BTK asset. Other income of £1.3m for the year ended 30 September 2017 was down compared to £2.3m in the previous year due to the reduction in grants receivable following settlement of the RGF Grant funding (see note 3 to the Consolidated Financial Statements). The Company issued 32.9m shares pursuant to two share placings raising in total £12.4 million and the issue of share options.

Going forward, the Group will benefit from a better cash position with lower ongoing costs following a major reorganisation, active cost management as well as reduced ongoing financial costs. Redx is therefore well placed to invest in its ongoing and now proven R&D platform.

***Corporate governance***

The new Board of Directors is committed to maintaining the highest standards of transparency, ethics and corporate governance, whilst also providing leadership, controls and strategic oversight to ensure that the Group delivers value to all shareholders. Each Director brings independence of character and judgment to the role. Board and Committee meetings are characterised by robust constructive debate, based upon high-quality reporting from management, and the Board will keep its performance and core governance principles under regular review.

***Outlook – focus, realism and results***

In the next 12 to 18 months the Group expects to see further validation of its view of the pre-eminence of its discovery capability. The strategy will be to continue to focus on creating potentially 'first-in-class' or 'best-in-class' drugs. The intention is to ensure that the programmes will be highly valued by the market and pharmaceutical industry alike.

The Board will aim to create value through organic growth, but also will remain alert to external opportunities to accelerate the development of the business, including forming validating partnerships with third-parties. Currently Management is in discussions with third-parties in respect of partnerships and the licensing of non-core assets. However in the absence of value generating partnerships/collaborations being secured in a timely fashion your Board will not hesitate to seek to raise additional funds from shareholders and the investment community should they be required to take our programmes through to significant inflection points.

The mantra for business going forward must be **Focus**, **Realism** and **Results**.

The Group will **focus** on the key assets. Having made some tough decisions and having let a number of people leave the business, the cost base is under control. Prudent financial management will continue to be a key driver and accordingly, the Board will not hesitate to terminate programmes which prove to be non-viable, or to make further cost cuts should the need arise.

**Realism** and professionalism will be key to forming any validating partnerships and the way in which the business is managed going forward.

**Results** should be transparent, measurable and time-related and, as a consequence, the Board have established clear timelines for achieving partnering and pipeline objectives in order to achieve a sustainable increase in market value.

***Board commitment***

Recently, upon exiting Administration, I made the following statement, which I would like to re-iterate in this Annual Report on behalf of the Board.

"……….The new Board takes the view that the long-term success of the Company will depend on leveraging scientific excellence to build a diversified portfolio of high-quality, pre-clinical and clinical-stage pharmaceutical assets that will be prized by both potential investors and partners. Only by so doing can we reasonably hope to grow the long-term value of the business. We return to the market with multiple "shots on goal" with two prioritised development programmes and five other programmes in research.

We are not complacent and recognise that the Company's long-term future and viability will depend upon our ability to achieve timely and realistic goals. We do not underestimate the need to regain credibility and profile in the sector and with you, our shareholders. We have a scientifically and commercially experienced management team with a track record of success, working with Key Opinion Leaders to ensure we progress our programmes optimally.

We have defined a clear strategy for the Company and we recognise drug development is invariably a capital-intensive business, and any company that pursues new therapies for diseases as challenging as cancer and fibrosis is required to make significant investments boldly in order to have any chance of success. Your Board fully recognises the obligation this imposes upon us to take the utmost care in the use of shareholder funds, and we will not be afraid to terminate programmes that cease to be competitive and to realise further cost savings by eliminating unnecessary expenditure.…………"

On behalf of the Board I would like to thank Neil Murray, David Lawrence and Norman Molyneux for their significant and valuable contributions to the business over a number of years and to wish them success in the future.

Finally, I want to recognise the management and staff who are taking this business forward and congratulate them on their efforts and resilience during this time of change and transition. I would also like to thank the shareholders as a whole for their support and patience over what has been an extraordinary period in the Group's history.

At Redx we believe we have a world-beating discovery capability, and with a newly focused and committed team and a targeted commercial partnership strategy, we see the next few years as exciting ones for the Group and its shareholders. I look forward to reporting further progress over the next few months, including the appointment of a new CEO and further announcements in respect of the development of the pipeline.

Iain Ross
Executive Chairman

**STRATEGIC REPORT**

## Operational Review

The Directors present their Strategic Report on pages 8 to 13 for the year ended 30 September 2017. The Operational Review, Key Performance Indicators and Principal Risks and Uncertainties sections form the Strategic Report.

The principal activities of the business continue to be the discovery and development of proprietary, small molecule drugs to address areas of high, unmet medical need.

In March 2017 the Company completed a share placing and subscription to raise £12m gross. As part of this, Lanstead Capital LP agreed to subscribe for 11,500,000 subscription shares. Further information regarding this transaction can be found in note 5 to the Consolidated Financial Statements.

Again, in March 2017, a strategic refocusing and restructuring of the Group was announced. The restructuring was completed in May 2017. The costs associated with it have been separately disclosed in note 4 to the Consolidated Financial Statements.

Following the Company entering Administration in May 2017, the entire focus thereafter was to take the steps necessary to bring the Company out of Administration on a 'going concern' basis with a minimum of 12-months working capital. During this period, the Directors worked with the Administrators to resolve all creditor claims and as a consequence the BTK programme assets were sold to Loxo Oncology for US$40m on 31 July 2017. Concurrently the Group progressed the development of its pipeline assets as outlined within this report. The Group will continue to focus upon transitioning its programmes into the clinic as appropriate and balance its resources to enable a steady flow of projects through the research pipeline.

Entering Administration triggered a clawback claim for RGF grant funding previously received within the Group. This matter is further disclosed in note 3 to the Consolidated Financial Statements, and noted in the Key Performance indicators below.

At the year end the Directors reviewed the loan to Redag Crop Protection Limited and derecognised it as an asset as detailed in note 16.

Redx Pharma plc and Redx Oncology Limited exited Administration post year end on 2 November 2017.

### Key Performance Indicators

The Group's key performance indicators include a range of financial and non-financial measures. Details about the progress of our research programs (non-financial measures) are included elsewhere in this Operational Review, and below are the other indicators (financial) considered pertinent to the business.

| | **2017 £m** | **2016 £m** | **2015 £m** | **2014 £m** |
|---|---|---|---|---|
| **Cash at year end** | **23.8** | 5.8 | 9.4 | 2.9 |

In March 2017 the Company raised £12m (gross) from a share placing and subscription. In August 2017 the Group sold its BTK asset for $40m. Post year end £6.1m was used to settle RGF grant funding clawbacks. Full details of cash usage can be found in the Consolidated Statement of Cash Flows.

| | | | | |
|---|---|---|---|---|
| **Total operating expenditure** | **15.8** | 16.5 | 11.4 | 10.1 |

Expected to fall further in 2018 with a full year of benefit from the reduced headcount following the reorganisation and cost saving initiatives.

| | | | | |
|---|---|---|---|---|
| **R & D expenditure** | **8.2** | 8.1 | 5.1 | 4.0 |

The Group's continuing focus is to maximise the amount of operating expenditure spent on research and development activities.

| | | | | |
|---|---|---|---|---|
| **Cash Flow** | **18.0** | (3.7) | 6.5 | 1.9 |

Reflecting both the share issue and BTK programme sale within the year. Post year end £6.1m was used to settle RGF grant funding clawbacks.

## Pipeline Progress

The Redx pipeline has continued to advance over the last year. Its lead programme, RXC004, a potential best-in-class porcupine inhibitor, will enter the clinic in Q1 2018 following the recent approval by the MHRA and Ethics Review Committee for a phase 1/2a study that will include patients with hard-to-treat cancers. A dual ROCK1/2 inhibitor programme (acquired from the private Belgian company, Amakem in March 2017 for the treatment of fibrosis associated with inflammatory bowel disease (IBD) is in late stage Lead optimisation with a first in class development candidate due to be selected mid 2018. The Directors believe pipeline progress to be the most significant non-financial Key Performance indicator.

## Oncology

### *Porcupine program*

During the financial year, the Group announced that the clinical trial application (CTA) for its lead asset, porcupine inhibitor RXC004, was approved by the MHRA and Ethics Review Committee for a phase 1/2a clinical study that will include hard-to-treat cancers such as gastric, pancreatic and biliary. This is one of the significant opportunities that Redx intends to target with this drug, and expects to start the 1a portion of the study (which will be in cancer “all comers”) in Q1 2018. On this timeline, the Group anticipates initial safety and tolerability results from the study during H2 2018, and believes RXC004 has the potential to be used as a biomarker-guided, targeted therapy in hard-to-treat cancers and as a combination partner in immuno-oncology treatment paradigms with checkpoint inhibitors. Together these are multi-billion-dollar addressable markets. Redx expects to see an increase in the number of potentially interested partners once safety data is available from the phase 1/2a trial.

Porcupine is a key enzyme in the oncogenic Wnt signalling pathway. This pathway is implicated in a range of hard-to-treat cancers with poor prognosis such as pancreatic, biliary and gastric cancers. The Group’s Porcupine inhibitor, RXC004, is a potent inhibitor of this enzyme and pathway, leading to strong tumour growth inhibitory effects in a variety of cancer models. Redx has also shown that RXC004, when administered together with an immune checkpoint inhibitor (anti-PD-1) has a synergistic immune system modifying effect. Initial clinical studies with RXC004 will be as a monotherapy, but we have included a combination therapy expansion arm together with a checkpoint inhibitor in our clinical study design.

### *Other Pipeline Projects*

Redx has several other compounds in pre-clinical profiling. The Group is in lead generation with its programme developing allosteric inhibitors of the protein tyrosine phosphatase, SHP2. Competitive phosphatase inhibitors that directly bind the catalytic site of the enzyme carry the risk of hitting too many vital phosphatases at the same time. Therefore, Redx is focused on this more indirect method of achieving inhibition in order to ensure specificity. As phosphatases are largely unexploited as pharmacological targets, Redx has an opportunity to be at the forefront of drug development in this area. The Group also has an on-going collaboration with AstraZeneca on an un-named target and a Pan-Raf inhibitor programme in Lead optimisation.

## Fibrosis

Fibrosis is an internal scarring process, which can occur in response to injury, where excess connective tissue is deposited in an organ or tissue, thereby impairing its function. Most chronic inflammatory diseases will result in fibrosis, with progressive injury resulting in organ failure. Fibrotic disease can occur in nearly any tissue in the body and contributes to 45%[1] of deaths in the developed world. Solid organ fibrosis can occur as a result of many different diseases, for example inflammatory bowel disease (IBD). Current therapeutic options are limited for these chronic and often life-threatening diseases.

Redx’s experienced team of scientists has considerable expertise in understanding the molecular mechanisms underlying fibrosis and hence which druggable targets to focus on. Redx are developing cutting edge therapies that aim to stop and reverse the formation of fibrotic tissue. By targeting pathways involved in the progression of these devastating diseases, these drugs are designed to be disease modifying rather than simply providing symptomatic relief.

[1] Bollong M. et al, Small molecule-mediated inhibition of myofibroblast transdifferentiation for the treatment of fibrosis (PNAS | May 2, 2017 | vol. 114 | no. 18 | 4683)

### *Developing the first drug specifically designed to treat fibrosis related to inflammatory bowel disease (IBD)*

The Group's lead programme is a potential first-in-class "soft" Rho Kinase (ROCK) 1/2 dual inhibitor where the targeted indication is fibrosis arising from IBD. The drug is designed to work only at the site of action in the gastrointestinal tract and degrades quickly, once absorbed, though enzyme-mediated metabolism in blood plasma avoiding systemic exposure, which we believe will provide a clean safety window over cardiovascular (CV) side effects seen in this target class. This differentiates Redx from other competitor dual ROCK 1/2 inhibitors which circulate in the bloodstream and have known CV safety risks. A development candidate is expected to be announced in mid 2018. It is estimated that the direct cost to the US healthcare system of IBD is up to $28bn [Mehta, F; Am. J. Manag. Care. 2016; 22: S51-60], suggesting that a drug for treating (or preventing) fibrosis for this condition could have blockbuster potential. Redx recognised the potential for this drug and acquired it from Amakem, a Belgian private company.

### *Other Fibrosis Projects*

Idiopathic pulmonary fibrosis (IPF) is the target indication for the Group's porcupine inhibitors, which are currently being profiled in animal models of this disease. Redx also have a ROCK2 selective inhibitor lead optimisation stage programme looking at kidney fibrosis associated with diabetes, and believe the identification of a selective ROCK2 inhibitor will avoid the cardiovascular effects seen with systemically acting dual ROCK1/2 inhibitors whilst retaining the beneficial anti-fibrotic effects of ROCK2 inhibition. This research complements the Group's lead 'soft' ROCK 1/2 inhibitor programme for IBD since both programmes exploit the anti-fibrotic potential of ROCK inhibition with complementary differentiated approaches to provide a favourable safety profile for the selected indication.

### Strategy

Redx's ambition is to continue to discover and develop proprietary, small molecule drugs to address areas of high, unmet medical need. In cancer, Redx will pursue targeted therapies (i.e. where a biomarker can potentially be used for selecting those patients that are most likely to benefit from therapy) and/or drugs that can potentially disrupt cancer resistance pathways. In fibrosis, Redx is focused on developing treatments that will potentially stop and reverse the formation of fibrotic tissue (i.e. the drugs are potentially disease modifying, rather than simply providing symptomatic relief). Fibrosis is a feature of the pathology of a number of devastating diseases with high unmet medical need. In both therapeutic areas Redx aims to develop drugs whose profile suggests they will be best-in-class, if not first in class.

The anti-infective research unit has been closed and the Group will look to partner the assets in the near term. With the re-focus on cancer and fibrosis, CARB-X has terminated the unused grant that was awarded to Redx in March 2017 for the NBTI programme.

Redx will continue to seek to maximise shareholder value by advancing selected programmes through to clinical development. The Group will aim to take products through to at least clinical proof of concept stage at which point they can be meaningfully assessed, allowing a proper valuation of the asset for potential partnering. Market data suggests success at this stage of development provides the most significant value inflection in the development of a new medicine, with a significant return on investment achievable [Cortellis Competitive Intelligence Database].

### Senior Management Team

Following **Dr Neil Murray's** resignation post year end when the Company came out of Administration, Iain Ross became Interim Executive Chairman and he will remain until such time as the Company has appointed a suitably qualified Chief Executive Officer (CEO) to lead the business. During this transition period, Iain Ross will work closely with the executive management team comprising: **Dr Richard Armer** (Chief Scientific Officer), **Dr Matilda Bingham** (Head of Research and Operations) and **Mr Nicholas Adams** (Chief Business Officer) all of whom have made a significant contribution to enable the Company to exit Administration.

## Financial Review

### *Financial position*

At 30 September 2017, whilst still in Administration, the Group had cash resources of £23.8m (2016: £5.8m). Borrowings of £2m had been repaid at the balance sheet date, and a £6.1m clawback of RGF funding was repaid post year end in October 2017. The Group exited Administration on 2 November 2017 with a remaining £13.9m in cash.

### *Impact of Administration*

As detailed elsewhere in the Annual Report, two Group companies, Redx Pharma plc and Redx Oncology Ltd were placed into administration on 24 May 2017. The principal financial impacts of this were:

- Costs of the Administration (note 1) £2.9m, including a penalty payment with regard to the derivative financial instrument of £510k;
- Crystallisation of contingent liabilities with regard to grant funding costing £6.1m; and
- The write off of the derivative financial instrument entered into at the time of the last share issue (note 5) costing £3.6m

### *Sale of BTK*

Redx Oncology raised £30.5m ($40m) from the sale of its BTK programme to Loxo Oncology Inc.

### *Share issue*

£12.4m (gross) was raised from the issue of shares during the year (2016: £10m).

### *Cashflows*

Overall positive net cash flow of £18m, (2016: £3.7m outflow), generated from the BTK sale and the share issue. No further grant income is expected.

### *Reorganisation*

A major reorganisation of the Group took place in spring 2017, resulting in a significant reduction in staff numbers. The cost of this was £0.8m. Average headcount reduced from 199 in 2016 to 131 over the year to 30 September 2017. Actual headcount at 30 September was 51.

### *Taxation*

The group continues to claim Research and Development expenditure credits, with £1.1m due at 30 September 2017 (2016: £0.6m).

## Principal Risks and Uncertainties

Redx is a biopharmaceutical company and, in common with other companies operating in this field, is subject to a number of risks and uncertainties. The principal risks and uncertainties identified by Redx for the year ended 30 September 2017 are below.

### Research and Development

The Group is at a relatively early stage of development and may not be successful in its efforts to use and to build a pipeline of product candidates and develop approved or marketable products. Technical risk is present at each stage of the discovery and development process with challenges in both chemistry (including the ability to synthesise novel molecules) and biology (including the ability to produce candidate drugs with appropriate safety, efficacy and usability characteristics). Additionally, drug development is a highly regulated environment which itself presents technical risk through the need for study designs and data to be accepted by regulatory agencies. Furthermore, there can be no guarantee that the Group will be able to, or that it will be commercially advantageous for the Group to, develop its intellectual property through entering into licensing deals with emerging, midsize and large pharmaceutical companies.

**Commercial**

The biotechnology and pharmaceutical industries are very competitive. The Group's competitors include major multinational pharmaceutical companies, biotechnology companies and research institutions. Many of its competitors have substantially greater financial, technical and other resources, such as larger numbers of research and development staff. The Group's competitors may succeed in developing, acquiring or licensing drug product candidates that are more effective or less costly than any product candidate which the Group is currently developing or which it may develop, and that competition may have a material adverse impact on the Group.

**Clinical Trials**

The Group does not know whether any future clinical trials with any of its product candidates will be completed on schedule, or at all, or whether its ongoing or planned clinical trials will begin or progress on the time schedule it anticipates. The commencement of future clinical trials could be substantially delayed or prevented by several factors, including:

- delays or failures to raise additional funding;
- results of future meetings with the MHRA, EMA, FDA and/or other regulatory bodies;
- a limited number of, and competition for, suitable patients with particular types of cancer for enrolment in our clinical trials;
- delays or failures in obtaining regulatory approval to commence a clinical trial;
- delays or failures in obtaining sufficient clinical materials;
- delays or failures in obtaining approval from independent institutional review boards to conduct a clinical trial at prospective sites; or
- delays or failures in reaching acceptable clinical trial agreement terms or clinical trial protocols with prospective sites.

The completion of the Group's clinical trials could be substantially delayed or prevented by several factors, including:

- delays or failures to raise additional funding;
- slower than expected rates of patient recruitment and enrolment;
- further protocol amendments;
- failure of patients to complete the clinical trial;
- delays or failures in reaching the number of events pre-specified in the trial design;
- the need to expand the clinical trial;
- delays or failures in obtaining sufficient clinical materials;
- unforeseen safety issues;
- lack of efficacy during clinical trials;
- inability or unwillingness of patients or clinical investigators to follow our clinical trial protocols; and
- inability to monitor patients adequately during or after treatment.

Additionally, the Group's clinical trials may be suspended or terminated at any time by the MHRA, other regulatory authorities, or by the Group itself. Any failure to complete or significant delay in completing clinical trials for the Group's product candidates could harm its financial results and the commercial prospects for its product candidates.

**Regulatory**

The Group's operations are subject to laws, regulatory approvals and certain governmental directives, recommendations and guidelines relating to, amongst other things, product health claims, occupational safety, laboratory practice, the use and handling of hazardous materials, prevention of illness and injury, environmental protection and human clinical studies. There can be no assurance that future legislation will not impose further government regulation, which may adversely affect the business or financial condition of the Group.

**Intellectual Property (IP)**

The Group's success depends largely on its ability to obtain and maintain patent protection for its proprietary technology and products in the United States, Europe and other countries. If the Group is unable to obtain or maintain patent protection for its technology and products, or if the scope of the patent protection is not sufficiently broad, competitors could develop and commercialise similar technology and products which would materially affect the Group's ability to successfully commercialise its technology and products. The Group is exposed to additional IP risks, including infringement of intellectual property rights, involvement in lawsuits and the inability to protect the confidentiality of its trade secrets which could have an adverse effect on its success.

**Financial**

The Group has a limited operating history, has incurred significant losses until the current year, and does not currently have any approved or revenue-generating products. The Group expects to incur losses for the foreseeable future, and there is no certainty that the business will generate future profits. The Group may not be able to raise additional funds that may be needed to support its product development programs or commercialisation efforts, and any additional funds that are raised could cause dilution to existing investors.

**Operational**

The Group's future development and prospects depend to a significant degree on the experience, performance and continued service of its senior management team, including the Directors. The Group has invested in its management team at all levels. The Directors also believe that the senior management team is appropriately structured for the Group's size and is not overly dependent upon any particular individual. The Group has entered into contractual arrangements with these individuals with the aim of securing the services of each of them. Retention of these services or the identification of suitable replacements, however, cannot be guaranteed. The loss of the services of any of the Directors or other members of the senior management team and the costs of recruiting replacements may have a material adverse effect on the Group and its commercial and financial performance and reduce the value of an investment in the Ordinary Shares.

The Board continually monitors these risks and uncertainties and take corrective action if considered necessary.

This report was approved by the Board on 19 December 2017 and signed on its behalf by

Iain Ross
Chairman

## Porcupine

Redx Pharma is developing a porcupine (PORCN) inhibitor drug candidate – RXC004. The Group's scientists have been able to demonstrate the potential for RXC004 as a cancer treatment using in vivo models of pancreatic and gastric cancer. Importantly, an acceptable therapeutic window has been achieved in pre-clinical models.

Since its nomination as a drug candidate in December 2015, RXC004 has successfully completed pre-clinical development activities and Redx remains on track to initiate a first-in-human clinical trial in Q1 2018. During this time Redx scientists have continued their research into the potential uses of RXC004 in cancer therapy.

The Wnt pathway is implicated in cancer initiation, its progression and the maintenance of cancer stem cells (CSCs). CSCs are a tiny population of cells that chemotherapy leaves behind which allow the cancer to come back at a later date. Similar to normal stem cells, CSCs undergo a process of self-renewal and are therefore associated with tumorigenesis, metastasis, recurrence and resistance in cancer. Emerging research also shows that the Wnt pathway plays a critical role in the development of fibrotic disease in different human organs, many of which currently lack satisfactory therapies.

Despite the importance of Wnt biology in cancer and other diseases, there are currently no approved drugs which target this pathway and there are only two other porcupine inhibitors in clinical trials. A key challenge in developing drugs which target important pathways in humans is safety. Scientists have struggled to identify components of the Wnt pathway that can be targeted to provide a therapeutic effect in cancer patients without causing toxicity associated with interfering with the target in healthy cells. Much research has focussed on different targets in the Wnt pathway but has been hindered due to the failure to demonstrate a suitable therapeutic window – the gap between the dose needed to see the desired effect and the dose at which toxicity is observed. Consequently, for a time it was felt that this critical pathway would be unsuitable for drug therapy.

### Targeted Therapy – Development of a predictive clinical response biomarker

Redx scientists have identified specific genetic alterations in the RNF43 gene in types of gastric, pancreatic and biliary cancer which can be used to predict which patients are most likely to benefit from treatment with RXC004. In order to translate these findings to the clinic, Redx scientists, working with diagnostic testing experts at NewGene Ltd., have developed a cutting edge clinical biomarker assay which will be used to guide patient selection during clinical trials. This test analyses small fragments of DNA released by tumour cells into the patient's blood to detect cancer-specific RNF43 mutations which are predictive of drug response. This technology, which only requires a simple blood sample from patients, allows a precision medicine approach to be taken for the RXC004 clinical programme, benefiting patients and also improving the efficiency with which studies can be carried out. Initial data describing aspects of test development were recently presented at the ESMO congress 2017.

### Enhancing immune-oncology drug response

Immune checkpoint inhibitors, such as anti-PD-1 and anti-PD-L1 antibodies, have revolutionised the treatment of cancer, but they do not work in all patients. Many tumours are "cold" in that the tumour-killing immune cells are not present at the tumour site. Evidence is emerging that the Wnt signalling pathway is relevant in this process such that inhibition of the pathway may make the tumours "hot" by facilitating tumour-killing immune cells into the tumour.

Redx scientists have demonstrated the ability of RXC004 to enhance the immune system response to cancer in pre-clinical models. These data suggest RXC004 in combination with checkpoint inhibitors (such as anti-PD-1, anti-PD-L1 antibodies) may enhance the already impressive results observed for this exciting class of therapies by increasing the response rates and the duration of the response. In line with these data, Redx is exploring clinical opportunities for a RXC004 combination approach with anti-PD-1 and anti-PD-L1, with the ultimate aim of increasing patient response rates to immuno-oncology therapy.

**PORCUPINE (continued)**

***Phase 1 Trial of RXC004***

The trial will be conducted in patients with advanced cancer and the modular approach will allow Redx to:

– Investigate additional responsive patient populations from the all-comers Phase 1a cohort

– Evaluate combination therapies which have the potential to broaden the patient populations likely to benefit from therapy

| | |
|---|---|
| Module 1 Part a | To assess the safety and tolerability of RXC004 in an all-comers cohort of advanced cancer patients. |
| Module 1 Part b | To assess the efficacy of RXC004 in biomarker selected gastric and pancreatic cancer patient cohorts as well as a biliary cancer cohort. |
| Module 2 | To assess the safety tolerability and efficacy of RXC004 in combination with standard of care therapies including checkpoint inhibitors. |

***"I am delighted that Redx Pharma has chosen the University of Manchester/The Christie NHS Foundation Trust as the lead site for the first-in-man trial of their porcupine inhibitor RXC004. We look forward to working with Redx to advance this compound towards clinical studies in some of the hardest to treat cancers such as pancreatic (as a partner in the Precision-Panc initiative), gastric and biliary cancer."***

Juan Valle, Professor and Honorary Consultant in Medical Oncology, The Christie NHS Foundation Trust

***Fibrotic Disease***

Porcupine is a key enzyme in the Wnt signalling pathway. Wnt signalling has been implicated in fibrogenesis, and therefore inhibition of Wnt signalling is likely to prevent several mechanisms important for fibrotic disease progression.

Anti-inflammatory therapies have limited efficacy in the treatment of fibrosis. Several recent publications have shown that Porcupine inhibitors can be beneficial in the treatment of fibrotic indications, including renal, heart, lung and skin conditions. The Group's team of scientists have demonstrated efficacy in a mouse UUO model of kidney fibrosis with our novel agent, and are also exploring activity of a Porcupine inhibitor in models of IPF and NASH/ liver fibrosis.

## ROCK 1/2

Inflammatory bowel disease (IBD) is a chronic inflammatory condition of the colon and small intestine with an estimated addressable market of 3 million patients. It can be subdivided into two main conditions: ulcerative colitis and Crohn's disease. Both diseases are long-term conditions that involve inflammation of the gut.

Current drugs only target pathways involved in inflammation and are notoriously ineffective for longer-term treatment. As inflammation persists, over time, this damage results in fibrosis of the intestine. In the USA 30-40% of patients with IBD will develop fibrosis within ten years of diagnosis. There are currently no approved anti-fibrotic treatments. Fibrotic tissue can cause stricture formation and obstruction of the intestine often requiring invasive surgical intervention. Fibrosis commonly recurs in these patients, necessitating further surgery that ultimately results in short bowel syndrome.

ROCK1 and ROCK2 are intracellular kinase enzymes with multiple functions, and have shown to be implicated at various points in pathways leading to fibrosis. However, systemic ROCK1/2 inhibitors (known as systemic pan-Rock inhibitors) are known to induce hypotension, and are therefore unlikely to be tolerated. The Group's ROCK inhibitor is designed to only work at the site of action in the gastrointestinal tract and degrades quickly, once absorbed, through enzyme-mediated metabolism in the blood, deeming it a "soft" inhibitor.

Prophylactic and therapeutic effects on fibrosis by a soft ROCK inhibitor have been demonstrated in multiple animal models. A first in class development candidate is due to be selected 1H 2018 with first in man studies planned for 2H 2019.

## Board of Directors

***Mr Iain Ross*** *(Executive Chairman)*

Iain was appointed Non-Executive Chairman of Redx in May 2017 assuming the role of Interim Executive Chairman in October 2017. In addition, he is Chairman of e-Therapeutics plc (AIM:ETX) and Kazia Therapeutics Ltd (ASX: KZA/NASDAQ:KZIA) and also a Non-Executive Director of Anatara LifeSciences Ltd (ASX:ANR). He is a qualified Chartered Director, and a Former Vice Chairman of the Council of Royal Holloway, London University.

Previously, he has held significant roles in multi-national companies including Sandoz, Hoffman La Roche, Reed Business Publishing and Celltech Group plc. He has advised banks and private equity groups on numerous company turnarounds. These include, as CEO of Quadrant Healthcare, taking the Company public, signing numerous collaborations before selling the business to Elan in 2001. As Chairman and Chief Executive Officer, at Allergy Therapeutics, he re-structured the Company balance sheet to position Allergy Therapeutics as a virtually debt free cash generative company prior to its subsequent IPO. As Executive Chairman at Silence Therapeutics Plc (formerly SR Pharma plc), he turned the business around through M&A and established collaborations with Pfizer, AstraZeneca and Dainippon Sumitomo before completing a merger with Intradigm Inc.

***Mr Dominic Jackson*** *(CFO)*

Dominic has worked in private equity since 2007 (DIC Europe, Merrill Lynch Global Private Equity and latterly for multiple financial sponsors) and in M&A prior to that (Deutsche Bank, PricewaterhouseCoopers). He has been seconded into portfolio companies as CFO on numerous occasions to stabilise distressed core businesses and implement value initiatives.

Within the healthcare space, Dominic has completed a variety of deals as principal including the £450m sale of IDH to Carlyle, the carve-out and €485m sale of Euromedic's Dialysis division to Fresenius Medical Care (14x EBITDA), and the refinancing and syndication of €565m term debt tranches within Euromedic's diagnostic imaging business. Dominic has extensive situational distressed experience having acquired Peverel (UK's largest property manager, now Knight Square) for £65m out of Administration, following which his secondment into the business contributed to its successful turnaround and sequential refinancings with Electra Partners and RBS. He was also heavily involved in the private equity portfolio of a recent landmark bank work-out as well as the $8bn restructuring of a Middle Eastern sovereign wealth fund.

Dominic qualified as a Chartered Accountant with PricewaterhouseCoopers and is a member of the Chartered Institute of Securities and Investment and the Institute for Turnaround.

***Mr Peter Presland*** *(Non-Executive Director)*

Peter has nearly 45 years' experience in business, much of that at the highest levels of management within both public and private companies. A law graduate at King's College, London, he also qualified as a Chartered Accountant with Arthur Andersen. In 1980, he joined C E Heath plc, a major publicly quoted international insurance group, as Group Accountant/Treasurer and became in 1985 the youngest ever PLC Director when appointed Group Finance Director at the age of 34. He was promoted to become Heath's Group Chief Executive in 1990, and in 1996, he devised the demerger of C E Heath's computer services operations into a separate publicly listed company, Rebus Group plc, becoming its Chief Executive and in 1999 its Executive Chairman. Shareholders doubled their money in three years. Since 2001, Peter has pursued a portfolio non-executive career. These appointments include the Chairmanship in 2003 of LINK, the UK ATM network, where he led a major corporate governance change and completed the merger of LINK with Voca, the provider of the BACS service, becoming Chairman of VocaLink in 2007. From 2012 to 2015, he served as Chairman of the Audit and Governance Committee of East Kent Hospitals NHS Trust and has recently joined the Audit, Governance and Nominations Committee of The Lord's Taverners, a high-profile charity.

## GOVERNANCE (continued)

***Dr Bernhard Kirschbaum*** *(Non-Executive Director)*

Bernd joined the Board in January 2016. Bernd has over 25 years' experience in pharmaceutical research and drug development, having held leadership roles at Merck/Merck Serono, Sanofi-Aventis, Aventis and Hoechst Marion Roussel. He has expertise in a broad range of disease areas including oncology, immuno-oncology, immunology, neurological disorders and cardiometabolic diseases. In the eight years to 2013, he worked at Merck/Merck Serono, becoming a member of the Board and Executive Vice-President, Global Research & Early Development. He was responsible for a budget of 1 billion euros and a global team of over 2,500 associates. In his last three years at Merck Serono, he led the successful growth of the company's R&D portfolio, with over 70 programs, doubling the number of phase II assets in this period. Bernd is currently a board member of BioMedX, Protagen Diagnostics, OMEICOS Therapeutics and an advisor to the board of KAHR Therapeutics.

## Directors' Report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 30 September 2017.

### Directors

The Directors who were in office during the year and up to the date of signing the financial statements, unless stated, were:

### Executive

Dr Neil Murray – Resigned 3 November 2017

Dominic Jackson – Appointed 3 November 2017

### Non-Executive

Frank Armstrong – Resigned 20 April 2017

Dr Peter Jackson – Resigned 31 March 2017

Norman Molyneux – Resigned 3 November 2017

Peter McPartland – Resigned 20 April 2017

Dr Bernhard Kirschbaum

Iain Ross – Appointed 1 May 2017 *

David Lawrence – Resigned 14 August 2017

Peter Presland – Appointed 3 November 2017

* Mr Ross appointed Interim Executive Chairman on 3 November 2017

The Company maintained Directors' and officers' liability insurance cover throughout the year.

### Principal activities of the Group

Details of current and future trading as well as the principal risks and uncertainties are included in the Strategic Report.

### Business review

The review of the business and future developments is covered in the Strategic Report.

### Financial results and dividend

The Group's profit after tax for the year was £1.528m (2016 loss £15.521m). The Directors do not recommend the payment of a dividend. (2016 £Nil).

### Financial instruments

During the year the Group held a derivative financial instrument, details of which can be found in note 5.

Other information regarding Financial instruments can be found in note 21.

**GOVERNANCE (continued)**

**Directors' interest in share options**

Details of the Directors' interests, share options and service contracts are shown in the Directors' Remuneration report.

**Research and development**

The Group is continuing to research products within its chosen area of therapeutic focus.

**Employee involvement**

Employee involvement in the overall performance of the Group is encouraged through both formal and informal meetings which deal with a whole range of issues from the Group's financial performance and future developments to health and safety issues. Copies of both the Annual Report and Interim Report are made available to all employees.

**Information given to the Auditor**

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Group's Auditor is unaware, and
- The Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Auditor is aware of that information.

**Independent Auditor**

RSM UK Audit LLP have expressed their willingness to continue in office as Auditors for the financial year under review. A resolution to appoint Auditors will be proposed at the forthcoming Annual General Meeting.

**Annual General Meeting**

The Annual General Meeting of the Company will be held at the Company offices on 6 March 2018.

Approved by the board of Directors and signed on behalf of the board.

Iain Ross
Chairman

19 December 2017

Redx Pharma plc
Block 33
Mereside
Alderley Park
Macclesfield
SK10 4TG

Company registration number: 7368089

## Corporate Governance Report

The Board believes in the importance of corporate governance and is aware of its responsibility for overall corporate governance, and for supervising the general affairs and business of the Company and its subsidiaries.

The Company is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange and is subject to the continuing requirements of the AIM Rules. Although the Company is not required to comply with the UK Corporate Governance Code by virtue of being an AIM-listed company, the Board seeks to apply the QCA Corporate Governance Code (as devised by the QCA in consultation with a number of significant institutional small company investors) to the extent appropriate and practical for a Group of its nature and size. This section provides general information on the Group's adoption of the QCA Corporate Governance Code.

### The Board

At 30 September 2017, the Board comprised three Non-Executive Directors, and one Executive Director. At the date of this report it comprised two Executive Directors and two Non-Executive directors.

Directors' biographies are on pages 17 and 18.

The Board is responsible to the shareholders for the proper management of the Group and meets regularly to set the overall direction and strategy of the Group, to review scientific, operational and financial performance, and to advise on management appointments. The Board has also convened, when necessary, by telephone conference during the year to review the strategy and activities of the business. All key operational and investment decisions are subject to Board approval. The Company Secretary is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

In the short-term, the Group currently has an Interim Executive Chairman, but ordinarily there is a clear separation of the roles of Chief Executive Officer (CEO) and Non-Executive Chairman. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the Non-Executive Directors are properly briefed on matters. The Chief Executive Officer has the responsibility for implementing the strategy of the Board and managing the day-to-day business activities of the Group.

The Board considers it has sufficient independence on the Board and, that all the Non-Executive Directors are of sufficient competence and calibre to add strength and objectivity to the Board, and bring considerable experience in scientific, operational and financial development of biopharmaceutical products and companies.

All of the Directors are subject to election by shareholders at the first Annual General Meeting ('AGM') after their appointment to the Board. Executive Directors will continue to seek re-election at least once every three years.

Post period the CEO resigned and as a consequence the Non-Executive Chairman agreed to take on an interim executive role until such time as a new CEO is appointed. The intention is that following the appointment of the new CEO, the Chairman's role will revert to being non-executive.

### Performance evaluation

The Board has a process for evaluation of its own performance, that of its committees and individual Directors, including the Chairman. These evaluations are carried out at least annually.

### Board Committees

The Company has established committees with formally delegated duties and responsibilities as follows:

- Audit, Risk & Disclosure
- Remuneration
- Nomination and Corporate Governance

## GOVERNANCE (continued)

### Audit Risk & Disclosure Committee

During the year under review, the members of the Audit, Risk & Disclosure Committee were Mr Norman Molyneux, Mr Peter McPartland and Mr David Lawrence. Mr Norman Molyneux was the Chairman of the Committee. The responsibilities of the committee include the following:

- Monitoring the integrity of the financial statements of the Group
- Reviewing accounting policies, accounting treatment and disclosures in the financial reports
- Reviewing the Group's internal financial controls and risk management systems
- Overseeing the Group's relationship with external auditors, including making recommendations to the Board as to the appointment or re-appointment of the external auditors, reviewing their terms of engagement, and monitoring the external auditors' independence, objectivity and effectiveness

Post year end, following the resignation of Mr Norman Molyneux, Mr Peter Presland was appointed a Director of the Company and Chairman of the Audit, Risk & Disclosure Committee. The other members of the Audit, Risk & Disclosure Committee are Mr Iain Ross and Dr Bernd Kirschbaum.

### Remuneration Committee

During the year under review, the members of the Remuneration Committee were Mr Peter McPartland, Dr Frank Armstrong and Mr Norman Molyneux. Mr Peter McPartland was the Chairman of the Remuneration Committee. The responsibilities of the committee include the following:

- Determining and agreeing with the Board on the remuneration policy for all Directors.
- Within the terms of the agreed policy, determining the total individual remuneration package for Executive Directors.
- Overseeing the evaluation of executive officers.
- Determining bonuses payable under the Group's cash bonus scheme.
- Determining the vesting of awards under the Group's long-term incentive plans and exercise of share options.

The Directors' Remuneration Report is presented on pages 25 to 27.

Following the resignation of Mr Peter McPartland in April 2017, Dr Bernd Kirschbaum was appointed as Chairman of the Remuneration Committee and subsequently following the resignation of Dr Frank Armstrong, Mr Iain Ross was appointed a member of the Remuneration Committee in May 2017. Post period end, following the resignation of Mr Norman Molyneux, Mr Peter Presland was appointed a member of the Remuneration Committee.

### Nominations and Corporate Governance Committee

During the year under review, the members of the Nominations and Corporate Governance Committee were Dr Frank Armstrong, Mr Peter McPartland and Mr Norman Molyneux. Dr Frank Armstrong was the Chairman of the Nominations and Corporate Governance Committee. The responsibilities of the committee include the following:

- Identifying individuals qualified to become members of the Board of Directors.
- Recommending Directors to be appointed to the committees.
- Overseeing the annual evaluation of the Board and its committees.
- Reviewing and making recommendations to the Board on Board leadership structure.
- Reviewing and making recommendations to the Board on management succession planning.
- Developing and recommending to the Board appropriate corporate governance principles.

**GOVERNANCE (continued)**

In view of the events of the last year the Board Committees have been streamlined as follows in order to meet the needs of the business.

- The Audit, Risk & Disclosure Committee will continue and be chaired by Peter Presland, recently appointed independent director with Bernd Kirschbaum and Iain Ross as members.
- The Remuneration Committee will continue to be chaired by Dr Bernd Kirschbaum with Peter Presland and Iain Ross as members.
- The R&D Committee will be chaired by Bernd Kirschbaum with Richard Armer (CSO) and Iain Ross as members.

There will no longer be a separate Nominations and Corporate Governance Committee as these matters are deemed important such that the full Board will address these matters going forward.

**Attendance at Board meetings**

The Directors attended the following Board meetings during the year:

| | |
|---|---|
| Frank Armstrong | 4/9 (resigned 20 April 2017) |
| Dr Neil Murray | 10/10 |
| Dr Peter Jackson | 6/8 (resigned 31 March 2017) |
| Mr Norman Molyneux | 10/10 |
| Mr Peter McPartland | 7/9 (resigned 20 April 2017) |
| Dr Bernd Kirschbaum | 10/10 |
| Mr David Lawrence | 10/10 |
| Mr Iain Ross | 1/1 (appointed 1 May 2017) |

**Risk Management and Internal Control**

The Board is responsible for the systems of internal controls and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of these systems annually by considering the risks potentially affecting the Group.

The Group does not consider it necessary to have an internal audit function due to the small size of the administrative function. Instead there is a detailed monthly review and authorisation of transactions by the Chief Financial Officer and Chief Executive Officer.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, compared with the budget, are reported to the Board on a monthly basis and discussed in detail.

The Group maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed on a periodic basis.

**Corporate Social Responsibility**

The Board recognises the growing awareness of social, environmental and ethical matters and it endeavours to take into account the interest of the Group's stakeholders, including its investors, employees, suppliers and business partners, when operating the business.

**Employment**

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

## GOVERNANCE (continued)

### Relations with shareholders

The Board recognises the importance of communication with its shareholders to ensure that its strategy and performance is understood and that it remains accountable to shareholders. The website, www.redxpharma.com, has a section dedicated to investor matters and provides useful information for the Company's shareholders. The Board as a whole is responsible for ensuring that a satisfactory dialogue with shareholders takes place, while the Chairman and Chief Executive Officer ensure that the views of the shareholders are communicated to the Board as a whole. The Board ensures that the Group's strategic plans have been carefully reviewed in terms of their ability to deliver long-term shareholder value. Fully audited Annual Reports are published, and Interim Results statements notified via Regulatory Information Service announcements. All financial reports and statements are available on the Company's website.

Shareholders are welcome to attend the Group's AGM, where they have the opportunity to meet the Board. All shareholders will have at least 21 days' notice of the AGM at which the Directors will be available to discuss aspects of the Group's performance and question management in more detail.

## Directors' Remuneration Report

This report sets out the remuneration policy operated by Redx in respect of the Executive and Non-Executive Directors. The remuneration policy is the responsibility of the Remuneration Committee, a sub-committee of the Board. No Director is involved in discussions relating to their own remuneration.

### Remuneration policy for Executive Directors

The Remuneration Committee sets a remuneration policy that aims to align Executive Directors' remuneration with shareholders' interests and attract and retain the best talent for the benefit of the Group.

The remuneration of the Executive Directors during the year 2016/17 is set out below.

### Basic salary

Basic salaries are reviewed annually. The review process is managed by the Remuneration Committee with reference to market salary data, and the Executive Directors' performance and contribution to the Company during the year.

### Bonuses

Annual bonuses are based on achievement of Group strategic and financial targets, and personal performance objectives.

The Non-Executive Directors believe that bonuses are an incentive to achieve the targets and objectives, and represent an important element of the total compensation awards to the Executive Directors.

### Longer term incentives

In order to further incentivise the Executive Directors and employees, and align their interests with shareholders, the Company has granted share options in previous years. The share options will vest at various future dates as described in the table on page 27. There are no conditions attached to vesting.

### Pension

The Group operates a defined contribution pension scheme which is available to all employees. The assets of the scheme are held separately from those of the Company in independently administered funds.

### Executive Directors service contracts and termination provisions

The service contracts of Executive Directors are approved by the Board. The service contract may be terminated by either party giving twelve months' notice to the other. The details of the Directors' contracts are summarised below:

| | Date of Contract | Notice period |
|---|---:|---:|
| **Dr Neil Murray** | 26 March 2015 | 12 months |

### Non-Executive Directors' service contracts and remuneration

The remuneration of the Non-Executive Directors is determined by the Remuneration Committee, with regard to market comparatives, and independent advice is sought to ensure parity is maintained with similar businesses.

The Non-Executive Directors do not receive any pension, bonus, benefits or option grants from the Company. The contracts of the Non-Executive Directors are reviewed by the Board annually.

## Directors' remuneration

The Directors received the following remuneration during the year:

| | Salaries, bonuses and fees £ | Pension contributions £ | **Total 2016/17 £** | Salaries, bonuses and fees £ | Compensation for loss of office £ | Pension contributions £ | Total 2015/16 £ |
|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | |
| Dr N Murray[1] | 200,000 | 10,000 | **210,000** | 165,625 | – | 9,271 | 174,896 |
| Dr D Lindsay[2] | – | – | **–** | 59,599 | – | 9,285 | 68,884 |
| P Tottey[3] | – | – | **–** | 149,132 | 30,000 | 7,762 | 186,894 |
| **Non-Executive** | | | | | | | |
| Iain Ross[4] | *83,333 | – | **83,333** | – | – | – | – |
| F Armstrong[5] | 33,000 | – | **33,000** | 66,000 | – | – | 66,000 |
| P Jackson[6] | 19,000 | – | **19,000** | 38,000 | – | – | 38,000 |
| N Molyneux[7] | *71,000 | – | **71,000** | 46,000 | – | – | 46,000 |
| P McPartland[8] | 23,000 | – | **23,000** | 46,000 | – | – | 46,000 |
| Dr B Kirschbaum[9] | 46,000 | – | **46,000** | 34,500 | – | – | 34,500 |
| D Lawrence[10] | 32,604 | – | **32,604** | 15,297 | – | – | 15,297 |
| | 507,937 | 10,000 | **517,937** | 620,153 | 30,000 | 26,318 | 676,471 |

[1] Dr N. Murray resigned post year end on 3 November 2017.
[2] Dr D. Lindsay resigned as a director on 6 May 2016.
[3] P. Tottey resigned as a director on 30 September 2016.
[4] I. Ross was appointed as a director on 1 May 2017.
[5] F. Armstrong resigned as a director on 20 April 2017.
[6] P. Jackson resigned as a director on 31 March 2017.
[7] N. Molyneux resigned post year end on 3 November 2017.
[8] P. McPartland resigned as a director on 20 April 2017.
[9] Dr B. Kirschbaum was appointed as a director on 1 January 2016.
[10] D. Lawrence was appointed as a director on 6 May 2016, and resigned as a director on 14 August 2017.
* In addition to their non-executive directors fees, post year end, Mr I Ross and Mr N Molyneux received one-off bonuses of £50,000 and £25,000 respectively to recognise the additional work undertaken whilst the Company was in Administration. These amounts are included in the remuneration table above.

In addition to Mr N. Molyneux's remuneration in 2015/16 and 2016/17 disclosed above, amounts were paid to Norman Molyneux Consulting Ltd. and Acceleris Capital Ltd, both related parties (note 27).

In addition to Dr F Armstrong's remuneration in 2015/16 and 2016/17 disclosed above, expenses were paid to Dr Frank M. Armstrong Consulting Ltd., a related party as detailed in note 27.

No compensation for loss of office was paid in the year ended 30 September 2017.

## Post-period events and consequential arrangements upon exiting Administration on 2 November 2017

Dr Neil Murray resigned from the Board and his contractual obligations were met. For the avoidance of doubt, he did not receive an annual bonus for 2016/17 nor did he receive any compensation for loss of office.

Mr Norman Molyneux resigned from the Board and did not receive any compensation for loss of office.

Mr Peter Presland was appointed as non-executive director and will be paid fees of £40,000 per annum.

Mr Dominic Jackson was appointed CFO and an executive director, on a service contract that may be terminated by either party giving six months' notice to the other. He will be paid £100,000 per annum and will qualify for employee benefits including participation in the annual performance bonus and option schemes.

On 3 November 2017 Iain Ross was appointed Interim Executive Chairman and will be paid an additional monthly fee of £15,000 up until the new CEO has been appointed and has been in office for 1 month. Mr Ross will then revert to being non-executive Chairman.

Mr Ross, Mr Presland and Dr Kirschbaum will not participate in the Group Option Scheme.

## GOVERNANCE (continued)

### Directors' shareholdings

The Directors who served during the year, together with their beneficial interest in the shares of the Company are as follows:

| Ordinary shares of 1p each | At 30 September 2017 | At 1 October 2016 |
|---|---|---|
| **Executive** | | |
| N Murray | 1,293,671 | 1,293,671 |
| | | |
| **Non-Executive** | | |
| Iain Ross | – | – |
| F Armstrong | 46,586 | 46,586 |
| P Jackson | 3,345,428 | 3,345,428 |
| B Kirschbaum | – | – |
| D Lawrence | – | – |
| N Molyneux | 283,436 | 283,436 |
| P McPartland | 80,782 | 80,782 |

### Directors Share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire Ordinary Shares in the Company granted to or held by the Directors. There are no performance conditions attached to the vesting of these options. Details of the options are as follows:

| Director | Date of grant | At 1 October 2016 | Granted during the period/ (exerc'd) | At 30 September 2017 | Price per share (p) | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|
| **N Murray** | 26-March 15 | 25,050 | – | **25,050** | 85.0 | 27-March 15 | 26-March-25 |
| | 26-March 15 | 24,975 | – | **24,975** | 85.0 | 27-March-16 | 26-March-25 |
| | 26-March 15 | 24,975 | – | **24,975** | 85.0 | 27-March-17 | 26-March-25 |
| | | 75,000 | – | **75,000** | | | |
| **F Armstrong** | 26-March-15 | 78,875 | – | **78,875** | 56.0 | 27-March-15 | 26-March-25 |
| | 26-March-15 | 78,875 | – | **78,875** | 56.0 | 1-Sept-15 | 26-March-25 |
| | 26-March-15 | 78,875 | – | **78,875** | 56.0 | 1-Sept-16 | 26-March-25 |
| | 26-March-15 | 78,875 | – | **78,875** | 85.0 | 27-March-15 | 26-March-25 |
| | 26-March-15 | 78,875 | – | **78,875** | 85.0 | 27-March-16 | 26-March-25 |
| | 26-March-15 | 78,875 | – | **78,875** | 85.0 | 27-March-17 | 26-March-25 |
| | | 473,250 | – | **473,250** | | | |
| **P Jackson** | 26-March-15 | 551,325 | – | **551,325** | 85.0 | 27-March-15 | 26-March-25 |
| | 26-March-15 | 24,975 | – | **24,975** | 85.0 | 27-March-16 | 26-March-25 |
| | 26-March-15 | 24,975 | – | **24,975** | 85.0 | 27-March-17 | 26-March-25 |
| | | 601,275 | – | **601,275** | | | |
| **N Molyneux** | 26-March-15 | 200,475 | – | **200,475** | 85.0 | 27-March-15 | 26-March-25 |
| | 26-March-15 | 24,975 | – | **24,975** | 85.0 | 27-March-16 | 26-March-25 |
| | 26-March-15 | 24,975 | – | **24,975** | 85.0 | 27-March-17 | 26-March-25 |
| | | 250,425 | – | **250,425** | | | |

The options held by F. Armstrong and P. Jackson remain for a period of 5 years from their date of resignation.

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 group and the company and of the profit or loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and accounting estimates that are reasonable and prudent;

(c) for the group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU and for the company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements;

(d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Redx Pharma plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent Auditor's report to the members of Redx Pharma plc

### Opinion

We have audited the financial statements of Redx Pharma plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2017 which comprise the consolidated statement of total comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and notes to the consolidated financial statements, including a summary of significant accounting policies, the company statement of financial position, the company statement of changes in equity and notes to the company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)."

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 group and the parent 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 as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

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

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Going concern**

(Refer to pages 39 and 40 regarding the accounting policy in respect of going concern.)

***The risk***

It is the responsibility of the directors to form an opinion on whether the Group is a going concern. The risk is that a material uncertainty may exist that casts doubts on group's or the parent company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue and such uncertainties have not been adequately disclosed.

***Our response***

We obtained and reviewed forecasts prepared by management which covered the period to July 2019. We considered whether these forecasts were consistent with the forecasts utilised in the CCW report referred to on page 40 of the financial statements. We considered the actual cash outflows that had occurred since the date the forecasts were prepared to determine whether the actual cashflows were in line with those budgeted. We identified the key assumptions supporting the forecasts, comparing them to historical costs incurred where appropriate. We also reviewed the costs incurred in the prior year and compared to forecasts to determine whether any recurring costs had been excluded. The rationale for the assumptions supporting the forecasts was challenged and considered in light of other evidence obtained during the course of the audit.

We identified those cash outflows that could possibly crystallise but were excluded from the cash flows and challenged management's rationale for excluding them, discussing the actions they would take should they crystallise and considered whether such actions could be realistically implemented.

We discussed with management their medium-term objectives and their strategy for achieving them. We challenged management as to the actions they would take if those strategies did not come to fruition in the estimated time frames.

In terms of the Group and Company's sensitivity analysis we reviewed the discretionary spend identified by management, challenged whether the spend could realistically be avoided and checked calculations where appropriate.

We also reviewed the disclosures surrounding the going concern basis of accounting in the financial statements to determine whether the information provided was sufficient to enable readers to understand the uncertainties that exist and the strategies that would be implemented to address those uncertainties should they crystallise.

In terms of the Group and Company's sensitivity analysis we reviewed the discretionary spend and challenged whether the spend could realistically be avoided. Management's judgement in relation to the likelihood of the income arising was also challenged and the cash position reviewed to assess the impact should it not materialise. We also considered the appropriateness of the disclosures surrounding going concern in the financial statements.

**Carrying value of intra-group balances**

*(Refer to page 39 regarding the accounting policy in respect of goodwill, page 44 in respect of critical judgements and estimates applied by the Directors and note 14 to the financial statements on page 50)*

***The risk***

The Company has material receivables from subsidiary undertakings that are currently loss making. As a consequence, there is a significant risk that these are impaired and need to be written down. At the 30 September 2017, the carrying value of amounts due from group undertakings amounted to £4,330k (2016: £29,509k) in the Company Statement of Financial Position.

***Our response***

We identified amounts due from each subsidiary undertaking and discussed with management whether each balance was recoverable taking into account the strategic plans established by the board in respect of each subsidiary undertaking.

We also obtained management's impairment review and underlying calculations prepared to support the carrying value of the financial assets. We reviewed forecasts and considered whether they were consistent with the forecasts prepared by management in relation to going concern. In addition, we reviewed the assumptions utilised in the model and as many of these were based on publicly available information, we agreed a sample of these back to supporting information.

**Our application of materiality**

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning, we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £349,000, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £10,000 as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

**An overview of the scope of our audit**

The audit was scoped to ensure that the audit team obtained sufficient and appropriate audit evidence in relation to significant operations of the Group during the year ended 30 September 2017 and the appropriateness of the going concern assumption used in the preparation of the financial statements. This included the performance of full statutory audits on each of the subsidiary undertakings. As part of our planning we assessed the risk of material misstatement including those that required significant auditor consideration at the component and group level. Procedures were designed and performed to address the risk identified and for the most significant assessed risks of material misstatement, the procedures performed are outlined above in the key audit matters section of this report.

**Other information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the 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 Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the group and the parent company and their 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 directors**

As explained more fully in the directors' responsibilities statement set out on page 28, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

RSM UK Audit LLP

Graham Bond FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

19 December 2017

## Consolidated Statement of Comprehensive Income
**For the year ended 30 September 2017**

| | Note | | Year ended 30 September 2017 £'000 | Year ended 30 September 2016 £'000 |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Revenue | 2 | | **30,474** | – |
| Operating expenses | 9 | | **(15,768)** | (16,527) |
| Non-recurring relocation costs | 9 | | **–** | (556) |
| RGF clawback | 3 | | **(6,086)** | – |
| Costs of Administration | | | | |
| Write-off of derivative instrument | 5 | **(3,560)** | | |
| Other Administration costs | 1 | **(2,930)** | | |
| | | | **(6,490)** | – |
| Non-recurring reorganisation costs | 4 | | **(791)** | – |
| Derecognition of non-current asset | 16 | | **(641)** | – |
| Share based compensation | 6 | | **(13)** | (245) |
| Other operating income | 7 | | **1,291** | 2,380 |
| **Profit/(loss) from operations** | | | **1,976** | (14,948) |
| Finance costs | 8 | | **(368)** | (526) |
| Finance income | 8 | | **38** | 67 |
| **Profit/(loss) before taxation** | | | **1,646** | (15,407) |
| Income tax | 10 | | **(118)** | (114) |
| **Total comprehensive profit/(loss) for the year attributable to owners of Redx Pharma plc** | | | **1,528** | (15,521) |
| **Earnings/(loss) per share (pence)** | | | | |
| **From continuing operations** | | | | |
| Basic | 11 | | **1.4** | (19.8) |
| Diluted | 11 | | **1.4** | (19.8) |

## Consolidated Statement of Financial Position

**At 30 September 2017** **Company No. 7368089**

| | Note | **2017 £'000** | 2016 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **222** | 533 |
| Intangible assets | 14 | **430** | 309 |
| Other receivables | 16 | **–** | 605 |
| **Total non-current assets** | | **652** | 1,447 |
| **Current assets** | | | |
| Trade and other receivables | 17 | **2,588** | 1,553 |
| Cash and cash equivalents | 18 | **23,806** | 5,758 |
| Current tax | | **643** | 637 |
| **Total current assets** | | **27,037** | 7,948 |
| **Total assets** | | **27,689** | 9,395 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **13,362** | 5,675 |
| Borrowings | 20 | **–** | 2,000 |
| **Total liabilities** | | **13,362** | 7,675 |
| **Net assets** | | **14,327** | 1,720 |
| **Equity** | | | |
| Share capital | 23 | **1,265** | 936 |
| Share premium | 24 | **33,263** | 22,526 |
| Share-based compensation | | **880** | 867 |
| Capital redemption reserve | | **1** | 1 |
| Retained deficit | | **(21,082)** | (22,610) |
| **Equity attributable to shareholders** | | **14,327** | 1,720 |

The financial statements were approved and authorised for issue by the Board on 19 December 2017 and were signed on its behalf.

Iain Ross
Director

## Consolidated Statement of Changes in Equity
### For the year ended 30 September 2017

| | Share capital £'000 | Share premium £'000 | Share based payment £'000 | Capital Redemption Reserve £'000 | Retained Deficit £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| **At 1 October 2015** | **650** | **13,516** | **622** | **1** | **(7,089)** | **7,700** |
| Share issue | 286 | 9,714 | – | – | – | 10,000 |
| Share issue costs | – | (704) | – | – | – | (704) |
| **Transactions with owners in their capacity as owners** | 286 | 9,010 | – | – | – | 9,296 |
| Loss and total comprehensive income for the year | – | – | – | – | (15,521) | (15,521) |
| Share based compensation | – | – | 245 | – | – | 245 |
| Movement in year | 286 | 9,010 | 245 | – | (15,521) | (5,980) |
| **At 30 September 2016** | **936** | **22,526** | **867** | **1** | **(22,610)** | **1,720** |
| Share options exercised | 1 | 69 | – | – | – | 70 |
| Share issue | 328 | 11,966 | – | – | – | 12,294 |
| Share issue costs | – | (1,298) | – | – | – | (1,298) |
| **Transactions with owners in their capacity as owners** | 329 | 10,737 | – | – | – | 11,066 |
| Profit and total comprehensive income for the period | – | – | – | – | 1,528 | 1,528 |
| Share based compensation | – | – | 13 | – | – | 13 |
| Movement in year | 329 | 10,737 | 13 | – | 1,528 | 12,607 |
| **At 30 September 2017** | **1,265** | **33,263** | **880** | **1** | **(21,082)** | **14,327** |

## Consolidated Statement of Cash Flows
**For the year ended 30 September 2017**

| | Note | **Year ended 30 September 2017 £'000** | Year ended 30 September 2016 £'000 |
|---|---|---|---|
| **Net cash flows from operating activities** | | | |
| Profit/(loss) for the year | | **1,528** | (15,521) |
| **Adjustments for:** | | | |
| Income tax | | **118** | 114 |
| Finance costs | | **368** | 526 |
| Finance income | | **(38)** | (67) |
| Depreciation and amortisation | | **327** | 262 |
| Share based compensation | | **13** | 245 |
| Derecognition of non-current asset | | **641** | – |
| Write-off of derivative asset | | **3,560** | – |
| Profit on disposal of assets | | **(107)** | – |
| **Movements in working capital** | | | |
| Increase in trade and other receivables | | **(1,185)** | (124) |
| Increase in trade and other payables | | **8,871** | 1,272 |
| **Cash generated by/(used in) operations** | | **14,096** | (13,293) |
| Tax credit received | | **–** | 750 |
| Interest received | | **2** | 36 |
| **Net cash generated by/(used in) operations** | | **14,098** | (12,507) |
| **Cash flows from investing activities** | | | |
| Purchase of Intangible assets | | **(121)** | – |
| Sale of property, plant and equipment | | **124** | 2 |
| Purchase of property, plant and equipment | | **(33)** | (444) |
| **Net cash (used in) investing activities** | | **(30)** | (442) |
| **Cash flows from financing activities** | | | |
| Proceeds from share issue | | **12,364** | 10,000 |
| Share issue costs | | **(1,298)** | (704) |
| Purchase of derivative financial instrument | | **(3,666)** | – |
| Receipt from derivative financial instrument | | **106** | – |
| Interest paid | | **(1,551)** | – |
| Loan repaid/(granted) | | **25** | (25) |
| LCC loan repaid (see note 20) | | **(2,000)** | – |
| **Net cash from financing activities** | | **3,980** | 9,271 |
| **Net increase/(decrease) in cash and cash equivalents** | | **18,048** | (3,678) |
| Cash and cash equivalents at beginning of the year | | **5,758** | 9,436 |
| **Cash and cash equivalents at end of the year** | 18 | **23,806** | 5,758 |

As at 30 September 2017, £23.7m of the above amount was held in bank accounts operated by FRP Advisory LLP. (2016: Nil). All cash from these accounts was returned to the control of the directors of the relevant companies on exit from Administration.

**Notes to the Financial Statements**

## Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

Redx Pharma plc ("Redx" or "the Company") is a public limited company incorporated in the UK as Redx Pharma Ltd on 7 September 2010, and domiciled in the UK. Its shares are listed on AIM, a market operated by The London Stock Exchange. The principal activity of the Group is drug discovery, pre-clinical development and licensing.

The Group financial statements are presented in pounds Sterling, which is the Group's presentational currency, and all values are rounded to the nearest thousand (£000) except where indicated otherwise.

They have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and with those parts of the Companies Acts 2006 applicable to entities reporting under IFRS.

**New standards, amendments and interpretations adopted during the year ended 30 September 2017.**

The IASB and IFRIC have issued the following standards and interpretations which the directors consider relevant to the group and have been adopted during the year. The adoption of these standards and interpretations has not had a material impact on the Group.

| Standard | Key requirements |
|---|---|
| Annual Improvements to IFRSs 2012-14 cycle | The 2014 Annual improvements cycle covered amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting. |
| Amendments to IAS 1: Disclosure initiatives | The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. |

**New standards, amendments and interpretations issued but not effective for the financial year beginning 1 October 2016 and not early adopted.**

The IASB and IFRIC have issued the following standards and interpretations with effective dates as noted below:

| Standard | Key requirements | Effective date (for annual periods beginning on or after) |
|---|---|---|
| IFRS 9, Financial Instruments | This standard replaces IAS 39. Whilst the standard changes the basis of measurement of financial assets, introduces a new impairment model and changes the hedge accounting provisions the directors do not expect the implementation of the new standard to have a material impact on our reported results or financial position. | 1 January 2018 |
| Annual IFRS Improvements Process (2015-17) | The 2017 Annual improvements cycle covered amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 28 Investments in Associated and Joint Ventures and IFRS 12 Disclosure of Interests in Other Entities. | 1 January 2019 |

## Accounting Policies (continued)

| Standard | Key requirements | Effective date (for annual periods beginning on or after) |
|---|---|---|
| IFRS 15, Revenue from Contracts with Customers | The standard specifies how and when a company will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based, five-step model to be applied to all contracts with customers. Having considered the impact of the new standard on the recognition of the income from the sale of the BTK programme, the directors do not expect the implementation of the new standard to have a material impact on how it is recognised and measured revenue in the current period. | 1 January 2018 |
| IFRS 16, Leases | The standard requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right of use asset. The group is still assessing the impact of this standard on the financial statements and have not yet quantified this. | 1 January 2019 |
| Amendments to IAS 7, Disclosure Initiative | The amendments require additional disclosures to be made regarding changes in liabilities arising from financing activities to enable users of financial statements to better understand changes in the Group's debt. Having reviewed the Group's liabilities, the Directors do not expect adoption of these amendments to have a material impact on the Group. | 1 January 2017 |
| Amendments to IAS 12, Recognition of Deferred Tax | The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of unrealised losses on debt instruments measured at fair value. As the Group currently has no debt instruments measured at fair value, the Directors do not expect adoption of these amendments to have an impact on the Group. | 1 January 2017 |
| IFRIC 22, Foreign Currency Transactions and Advance Consideration | The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of a related asset, expense or income on the derecognition of a non-monetary asset or liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration. As the Group has not been involved in any transactions including advance consideration in foreign currencies, the Directors do not expect adoption of this interpretation to have an impact on the Group. | 1 January 2018 |

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## Notes to the Financial Statements

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable return from its involvement with the investee; and, has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statement of Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary. During the period of Administration, Redx Pharma plc retained control of all its' subsidiary undertakings within the elements of control listed above.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

### Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

– deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 '*Income Taxes*' and IAS 19 '*Employee Benefits*' respectively; and
– assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

### Going concern

As part of their going concern review the Directors have followed the guidelines published by the Financial Reporting Council entitled "Guidance on Risk Management and Internal Control and Related Financial and Business Reporting".

The Group made a net profit of £1.5m during the year, following the sale of its BTK programme, and after taking into account all the costs associated with two Group companies, Redx Pharma Plc and Redx Oncology Limited, entering Administration in May 2017. The Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient working capital is available to meet the Group's needs as they fall due, and at least 12 months from the date of signing the accounts.

**Notes to the Financial Statements**

## Accounting Policies (continued)

The detailed cash flow assumptions are based on the Group’s working capital projections, prepared and approved by the Board, which reflects a number of key assumptions in respect of project costs, overheads and discretionary spend, underpinned by the current pipeline. As detailed in the Chairman’s statement the Group’s internal projections and assumptions were subject to an independent review by Crowe Clark Whitehill and the forecasts provide a cash runway to early 2019.

No revenue has been assumed in the forecasts, save for that generated from subletting unused space. As detailed in the Chairman’s Statement, the Group is already in discussions with third-parties in respect of partnerships and the licensing of non-core assets. In addition, no corporation tax expense has been accrued in respect of the disposal of the BTK Program because, as detailed in the announcement of the completion of administration on 3 November 2017 various reliefs are thought to be available. This is on the basis that the Administrators and CCW took tax counsel’s opinion that the methodology applied is correct and the reliefs utilised are available. The forecasts indicate that the Group has a cash runway through to February 2019 and its ability to continue to develop its programmes thereafter is dependent on entering a partnership agreement or an additional fund raise. The Group is already in discussions with third-parties in respect of partnerships and the licensing of non-core assets and furthermore, the Group continues to have the ability to seek to raise additional funds on capital markets.

In the absence of such opportunities in relation to partnerships and the licensing of non-core assets coming to fruition, the ability to raise additional funds on capital markets before February 2019 or the unlikely event of the Group becoming liable to pay tax on the disposal of the BTK Program, management has identified further discretionary spending areas which can be reduced to allow the Group to extend its cash runway to early May 2019. These can be made without impinging on the ability of key programmes to reach value inflection points, such as data from clinical trials which are expected to be completed in late 2018.

On the basis of the above review, the Directors are confident that the Group has sufficient working capital to honour all of its obligations to creditors as and when they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

### Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Board of Directors and the Chief Financial Officer are together considered the chief operating decision-maker and as such are responsible for allocating resources and assessing performance of operating segments.

The Directors consider that there are no identifiable business segments that are subject to risks and returns different to the core business. The information reported to the Directors, for the purposes of resource allocation and assessment of performance is based wholly on the overall activities of the Group. Therefore, the Directors have determined that there is only one reportable segment under IFRS8.

### Currencies

***(a) Functional and presentational currency***

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Group operates (“the functional currency”) which is UK sterling (£). The Financial Statements are accordingly presented in UK sterling.

***(b) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at an average rate for a period if the rates do not fluctuate significantly. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## Notes to the Financial Statements

### Revenue

Revenue is measured at the fair value of the consideration received or receivable.

Revenues from the sale of intellectual property, where there are no obligations subsequent to delivery, are recognised when significant risks and rewards have transferred which is considered to be the point at which all patents and other information in accordance with the substance of the agreement are handed over.

Income received as a contribution to on-going costs, together with grant income, is treated as Other operating income within the Consolidated Statement of Comprehensive income.

### Government grants

Government grants are recognised as Other operating income on a systematic basis over the periods in which the associated expenses are recognised. Grants that are receivable as compensation for expenses or losses previously incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the period in which they become receivable.

### Current and deferred tax

The tax expense or credit represents the sum of the tax currently payable or recoverable and the movement in deferred tax assets and liabilities.

***(a) Current tax***

Current tax is based on taxable income for the period and any adjustment to tax from previous periods. Taxable income differs from net income in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods or that are never taxable or deductible. The calculation uses the latest tax rates for the period that have been enacted by the reporting date.

***(b) Deferred tax***

Deferred tax is calculated at the latest tax rates that have been substantially enacted by the reporting date that are expected to apply when any deferred tax assets or liabilities are settled. It is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items credited or charged directly to equity, in which case it is also dealt with in equity.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable income, and is accounted for using the liability method. It is not discounted.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future accounting periods against which the asset can be utilised. Such assets are reduced to the extent that it is no longer probable that the asset can be utilised.

Deferred tax assets and liabilities are offset when there is a right to offset current tax assets and liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### Impairment of non-current assets

At each reporting date, the Directors review the carrying amounts of property, plant and equipment assets, Intellectual property (IP) and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Directors estimate the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. Furthermore, the Directors review at each reporting date the carrying value of Goodwill in accordance with IAS 36.

**Notes to the Financial Statements**

## Accounting Policies (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

**Property, plant and equipment**

Property, plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Such assets acquired in a business combination are initially recognised at their fair value at acquisition date.

Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on a straight-line basis starting from the month they are first used, as follows:

– Laboratory Equipment – 2 or 3 years
– Computer Equipment – 2 or 3 years
– Leasehold improvements – over the term of the lease

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Comprehensive Income.

**Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the relevant lease.

The minimum term of the lease is estimated if it is not clear.

**Intangible assets**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

All on-going development expenditure is currently expensed in the period in which it is incurred. Due to the regulatory and other uncertainties inherent in the development of the Group's programmes, the criteria for development costs to be recognised as an asset, as prescribed by IAS 38, *'Intangible assets'*, are not met until the product has been submitted for regulatory approval, such approval has been received and it is probable that future economic benefits will flow to the Group. The Group does not currently have any such internal development costs that qualify for capitalisation as intangible assets.

Development costs are capitalised when the related products meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

– technical feasibility of the completed intangible asset has been established;
– it can be demonstrated that the asset will generate probable future economic benefits;
– adequate technical, financial and other resources are available to complete the development;
– the expenditure attributable to the intangible asset can be reliably measured; and
– the Group has the ability and intention to use or sell the asset.

Expenses for research and development include associated wages and salaries, material costs, depreciation on non-current assets and directly attributable overheads.

**Notes to the Financial Statements**

All research and development costs, whether funded by third parties under licence and development agreements or not, are included within operating expenses and classified as such.

The cost of a purchased intangible asset is the purchase price plus any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Purchased intangible assets are capitalised even if they have not yet demonstrated technical feasibility. The intangible asset relating to intellectual property rights for the programme purchased from Amakem is estimated to have a useful life of 20 years, and will be amortised over this period.

**Pension costs**

The Group operates a defined contribution pension scheme for the benefit of its employees. The Group pays contributions into an independently administered fund via a salary sacrifice arrangement. The costs of providing these benefits are recognised in the Consolidated Statement of Comprehensive Income and consist of the contributions payable to the scheme in respect of the period.

**Share-based compensation**

The Group issues share-based payments to certain employees and directors. Equity-settled share-based payments are measured at fair value at the date of grant and, if material, are expensed immediately or on a straight-line basis over any vesting period, along with a corresponding increase in equity.

At each reporting date, the Directors revise their estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of any revision is recognised in the Consolidated Statement of Comprehensive Income, with a corresponding adjustment to equity reserves.

The fair value of share options is determined using a Black-Scholes model, taking into consideration the best estimate of the expected life of the option and the estimated number of shares that will eventually vest. The cost of each option is spread evenly over the period from grant to expected vesting.

When options expire or are cancelled, a corresponding credit is recognised.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

***(a) Other receivables***

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the Consolidated Statement of Comprehensive Income when there is objective evidence that the assets are impaired. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

***(b) Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand and at bank, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

***(c) Trade and other payables***

Trade and other payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the "effective interest rate" to the carrying amount of the liability.

**Notes to the Financial Statements**

## Accounting Policies (continued)

### Critical accounting estimates and judgements

Details of significant accounting judgements and critical accounting estimates are set out in the Financial Information and include:

***(a) Share based compensation***

The Group has issued a number of share options to certain employees. The Black-Scholes model was used to calculate the appropriate charge for the period of issue and subsequent periods.

The use of this model to calculate a charge involves using a number of estimates and judgements to establish the appropriate inputs to be entered into the model, covering areas such as the use of an appropriate interest rate and dividend rate, exercise restrictions and behavioural considerations. A significant element of judgement is therefore involved in the calculation of the charge.

The total charge recognised and further information on share options can be found in Notes 6 and 25.

***(b) Goodwill***

The goodwill arose on the original purchase of the business and assets of Bradford Pharma in 2012. The Directors consider the goodwill to be intrinsic to the whole Group's on-going business. Goodwill is not amortised but each year the directors undertake a review for potential impairment, which requires them to make assumptions about key variables and forecasts.

### 1. Administration

On 24 May 2017, two companies within the Group, Redx Pharma plc and Redx Oncology Limited were placed into Administration as a result of the default on repaying a loan from Liverpool City Council detailed in note 20. FRP Advisory LLP were appointed as Administrators. Dealing in the shares of the Group on the AIM market was suspended on 24 May 2017. As at 30 September 2017 those companies remained in Administration. As detailed in note 30 [PBSE], those Group companies exited Administration on 2 November 2017, when control was returned to the Directors. The costs directly associated with the Administration (including a provision for costs up to the end of the Administration), principally Administrators' costs, legal costs and taxation costs, have been separately disclosed on the face of the Consolidated Statement of Comprehensive income, and total £2.93m. (2016: Nil).

### 2. Revenue

In August 2017, the Group sold its BTK inhibitor drug development programme and related IP to Loxo Oncology Inc. for $40m. The sale included certain patents, intellectual property, contracts for product manufacture, and physical materials relating to that program.

| | **2017**<br>**£'000** | 2016<br>£'000 |
|---|---|---|
| Sale of scientific programme and related IP | **30,474** | – |

### 3. Clawback of Regional Growth Fund grant funding

The Group has, in both the current and past years, received Regional Growth Funds (RGF) grants administered by the Department of Business, Energy and Industrial Strategy of the UK Government. At the end of the year the Group had received total grants as follows:

| | **2017**<br>**£'000** | 2016<br>£'000 |
|---|---|---|
| RGF 2 | **5,920** | 5,920 |
| RGF 3 | **4,700** | 4,700 |
| RGF 5 | **3,007** | 2,630 |
| | **13,627** | 13,250 |

## Notes to the Financial Statements

Under the terms of the grant awards, clawback amounts totalling £9.7m became repayable on Redx Pharma plc entering Administration. During the course of the Administration, a full and final settlement was reached in the sum of £6.1m. This amount is disclosed within Trade and other payables, Note 19. It was repaid in October 2017, as part of the exit from Administration.

### 4. Reorganisation costs

In March 2017, the Board of directors agreed a proposal to undertake a restructuring of the Group, leading to a significant reduction in headcount across all areas of operation. The non- recurring costs incurred in implementing this proposal were £791,000 (2016: Nil).

### 5. Write off of Derivative financial instrument

On 1 March 2017 the Company issued 11,500,000 new ordinary shares of 0.1p each ("Ordinary Shares") at a price of 37.5p per share to Lanstead Capital for £4,312,500. The Company simultaneously entered into an equity swap with Lanstead for 85 per cent of these shares with a reference price of 50p per share (the "Reference Price"). The equity swap was for an 18-month period ending in October 2018. All 11,500,000 Ordinary Shares were allotted with full rights on the date of the transaction.

Of the subscription proceeds of £4,312,500 received from Lanstead, £3,665,625 (85 per cent) was invested by the Company in the equity swap.

Investment in the equity swap was a condition of the placing with Lanstead.

In the period to 24 May 2017, which was the date of Redx Pharma plc entering Administration, £106,000 had been received by the Group under the terms of the swap.

As a consequence of entering Administration, the terms of the equity swap were such that it terminated with no further benefit to the Company. The remaining balance of £3.56m has therefore been written off. (2016: £Nil).

### 6. Share-based compensation

Share options have been issued to certain Directors and staff, and the charge arising is shown below. The fair value of the options granted has been calculated using a Black-Scholes model. There are no further conditions attached to the vesting of the options. Further information on options is given in Note 25.

| | **2017 Number** | 2016 Number |
|---|---|---|
| Outstanding at the beginning of the year | **3,907,784** | 2,735,775 |
| Options granted and vested in period | **–** | 35,294 |
| Options exercised in period | **(145,319)** | – |
| Options forfeited in period | **(799,048)** | (226,282) |
| Options granted and vesting in future periods | **–** | 1,362,997 |
| Outstanding at the end of the year | **2,963,417** | 3,907,784 |

Weighted average exercise price information is given in Note 25.

The weighted average share price at the date of exercise of options was 56.43p

| | **£'000** | £'000 |
|---|---|---|
| Charge to Statement of Comprehensive Income in period | **13** | 245 |

**Notes to the Financial Statements**

**6. Share-based compensation (continued)**

Assumptions used were an option life of 5 years, a risk free rate of 2% and no dividend yield. Other inputs were as follows:

| | | |
|---|---|---|
| Volatility | 40% | 40% |
| | £ | £ |
| Assumed share price at grant date | 0.415 to 0.85 | 0.415 to 0.85 |
| Exercise price | 0.33 to 0.85 | 0.33 to 0.85 |

**7. Other operating income**

| | **2017** **£'000** | 2016 £'000 |
|---|---|---|
| Reimbursement of costs | **278** | 162 |
| Government grants receivable | **377** | 2,218 |
| RDEC income | **636** | – |
| | **1,291** | 2,380 |

**8. Finance expense and finance income**

| | **2017** **£'000** | 2016 £'000 |
|---|---|---|
| **Finance expense** | | |
| Loan interest | **319** | 346 |
| Adjustment to non-current asset | **–** | 180 |
| Other interest and similar charges | **49** | – |
| | **368** | 526 |
| **Finance income** | | |
| Bank and other short term deposits | **2** | 32 |
| Loan interest | **36** | 35 |
| | **38** | 67 |

**9. Profit/(loss) before taxation**

| | **2017** **£'000** | 2016 £'000 |
|---|---|---|
| The following items have been included in arriving at profit/(loss) before taxation | | |
| Research and development | **8,168** | 8,067 |
| Staff costs – Note 12 (excluding share based compensation, reorganisation & relocation costs) | **5,321** | 7,120 |
| Establishment and general: | | |
| Depreciation of owned property, plant and equipment | **327** | 262 |
| Operating leases on land and buildings | **1,423** | 824 |
| Operating leases – other | **143** | 212 |
| Exchange losses on translation | **329** | – |
| Amounts payable to RSM UK Audit LLP and their associates by the Company and its subsidiaries amounted to: | | |
| Audit of subsidiaries | **13** | 15 |
| Audit of parent Company and consolidation | **34** | 17 |
| Other services – interim review | **10** | 10 |
| | **15,768** | 16,527 |

During the prior year, the Group relocated certain aspects of its operations from Liverpool to Alderley Park in Cheshire. The total non-recurring costs (which included staff benefit packages and site removal costs) associated with this move were £556,000.

**Notes to the Financial Statements**

## 10. Income tax

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| **Current income tax** | | |
| Corporation tax | **124** | – |
| Research and Development Expenditure credit | **–** | (637) |
| Prior year adjustment | **(6)** | 751 |
| Income tax charge per the Consolidated Statement of Change in Income | **118** | 114 |

The difference between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Profit/(loss) before tax | **1,646** | (15,407) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.5% (2016: 20%) | **321** | (3,081) |
| Effects of: | | |
| R&D expenditure credits | **124** | 159 |
| Expenses not deductible for tax purposes | **1,015** | 94 |
| Adjustment in respect of previous periods | **(6)** | 751 |
| RDEC recognised in tax account | **–** | (637) |
| Deferred tax losses (utilised)/not recognised | **(1,336)** | 2,828 |
| Total taxation | **118** | 114 |

## 11. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the net income for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

In the case of diluted amounts, the denominator also includes ordinary shares that would be issued if any dilutive potential ordinary shares were issued following exercise of share options.

The basic and diluted calculations are based on the following:

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Profit/(loss) for the period attributable to the owners of the Company | **1,528** | (15,521) |
| | **Number** | Number |
| Weighted average number of shares – basic | **113,022,840** | 78,360,552 |
| Weighted average number of shares – diluted | **113,046,401** | 78,360,552 |
| | **Pence** | Pence |
| Earnings/(loss) per share – basic | **1.4** | (19.8) |
| Earnings/(loss) per share – diluted | **1.4** | (19.8) |

The loss and the weighted average number of shares used for calculating the diluted loss per share in 2016 are identical to those for the basic loss per share. This is because the outstanding share options would have the effect of reducing the loss per share and would therefore not be dilutive under IAS 33 *Earnings per Share*.

**Notes to the Financial Statements**

## 12. Employees and key management

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Staff costs (including directors) comprise** | | |
| Wages and salaries | **4,538** | 6,591 |
| Social security costs | **467** | 641 |
| Pension costs | **231** | 296 |
| | **5,236** | 7,528 |
| Non-recurring reorganisation costs | **791** | – |
| Total employee related costs | **6,027** | 7,528 |

| **Number of employees** | 2017 Number | 2016 Number |
|---|---|---|
| Average number of employees (including directors) | | |
| Management & Admin | **23** | 29 |
| R&D – Chemistry | **57** | 85 |
| R&D – Biology | **36** | 52 |
| R&D – Analytical | **15** | 33 |
| | **131** | 199 |

| **Directors' remuneration** | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Short term remuneration | **508** | 620 |
| Compensation for loss of office | **–** | 30 |
| Pension costs | **10** | 26 |
| | **518** | 676 |

Retirement benefits are accruing to 1 director (2016: 1).

| **Key management (including directors)** | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Short term remuneration | **1,243** | 1,069 |
| Compensation for loss of office | **–** | 30 |
| Social security costs | **154** | 128 |
| Pension costs | **61** | 53 |
| Share based compensation | **18** | 20 |
| | **1,476** | 1,300 |

Key management are considered to be the Directors and other members of the Executive Management Team. Payments to directors consist of basic salaries, fees and pension.

The amounts in respect of the highest paid director are as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Short term employment benefits | **200** | 149 |
| Compensation for loss of office | **–** | 30 |
| Pension contributions | **10** | 8 |
| | **210** | 187 |

**Notes to the Financial Statements**

## 13. Property, plant and equipment

| | Leasehold Improvements £'000 | Laboratory equipment £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 October 2015 | – | 879 | 179 | 1,058 |
| Additions | 114 | 199 | 131 | 444 |
| Disposals | – | (6) | – | (6) |
| At 30 September 2016 | 114 | 1,072 | 310 | 1,496 |
| At 1 October 2016 | 114 | 1,072 | 310 | 1,496 |
| Additions | – | 32 | 1 | 33 |
| Disposals | – | (191) | (22) | (213) |
| **At 30 September 2017** | **114** | **913** | **289** | **1,316** |
| **Depreciation** | | | | |
| At 1 October 2015 | – | 562 | 143 | 705 |
| Charge for the year | 2 | 228 | 32 | 262 |
| Disposals | – | (4) | – | (4) |
| At 30 September 2016 | 2 | 786 | 175 | 963 |
| At 1 October 2016 | 2 | 786 | 175 | 963 |
| Charge for the year | 11 | 243 | 73 | 327 |
| Disposals | – | (174) | (22) | (196) |
| **At 30 September 2017** | **13** | **855** | **226** | **1,094** |
| **Net book value** | | | | |
| **At 30 September 2017** | **101** | **58** | **63** | **222** |
| At 30 September 2016 | 112 | 286 | 135 | 533 |
| At 1 October 2015 | – | 317 | 36 | 353 |

**Notes to the Financial Statements**

## 14. Intangible Assets

| | Intellectual property £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 October 2015 | – | 309 | 309 |
| At 30 September 2016 | – | 309 | 309 |
| **Cost** | | | |
| At 1 October 2016 | – | 309 | 309 |
| Additions | 121 | – | 121 |
| **At 30 September 2017** | **121** | **309** | **430** |
| **Accumulated impairment** | | | |
| At 1 October 2015 | – | – | – |
| Impairment | – | – | – |
| At 30 September 2016 | – | – | – |
| At 1 October 2016 | – | – | – |
| Impairment | – | – | – |
| **At 30 September 2017** | **–** | **–** | **–** |
| **Net carrying value** | | | |
| **At 30 September 2017** | **121** | **309** | **430** |
| At 30 September 2016 | – | 309 | 309 |

The goodwill arose on the original purchase of the business and assets of Bradford Pharma in 2012. The Directors consider the goodwill to be intrinsic to the whole Group's on-going business, and as such the calculations have been made based on forecasts and predictions relating to the Group as a single entity.

The Directors undertook a detailed review by preparing a discounted cash flow model, using the agreed budgets and forecasts for the coming years. The key variables that were used included:

A terminal growth rate thereafter of 2%.

A pre-tax discount rate of 11.5%, which the Directors believe to be prudent.

Based on the results of the above detailed testing, the Board do not believe that any impairment under IAS 36 is required.

Purchased intellectual property is estimated to have a useful life of 20 years. Because of the date of purchase, and the sums involved, the Directors have decided to commence amortisation from 1 October 2017.

## 15. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 8 to the Company's separate financial statements.

**Notes to the Financial Statements**

## 16. Other non-current receivables

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Loan | **641** | 605 |
| Derecognition | **(641)** | – |
| | **–** | 605 |

The loan of £714k was granted to Redag Crop Protection Ltd as part of the sale of the former subsidiary. It bears interest at 5% repayable with the principal sum. The loan is unsecured, and is only repayable on the sale, listing, or change of control of Redag Crop Protection Ltd.

At 30 September 2017, the total amount outstanding (including accrued interest), was £821k. At 30 September 2016, that amount was £785k before a fair value adjustment was made to reflect the non-current nature of the asset, amounting to £180k. Following review, and as a result of the conditionality attached to the repayment of the loan, the Directors have derecognised it as an asset in accordance with International Accounting Standards.

Whilst the loan has been de-recognised as an asset, the Directors do not consider it to be extinguished and will continue to seek full repayment under its terms.

## 17. Trade and other receivables

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| VAT recoverable | **915** | 132 |
| Other receivables | **712** | 151 |
| Accrued income | **–** | 469 |
| Prepayments | **961** | 801 |
| | **2,588** | 1,553 |

The Directors believe that the carrying value of other receivables represents their fair value.

Details of the Group's credit risk management policies are shown in Note 21. The Group does not hold any collateral as security for its other receivables.

## 18. Cash and cash equivalents

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Cash at bank and in hand | **23,806** | 5,758 |
| | **23,806** | 5,758 |

No interest is earned on immediately available cash balances. Short term deposits are made for varying periods of up to 90 days, and earn interest at the respective short-term deposit rates.

As at 30 September 2017, £23.7m of the above amount was held in bank accounts operated by FRP Advisory LLP. All cash from these accounts was returned to the control of the Directors of the relevant companies on exit from Administration.

**Notes to the Financial Statements**

## 19. Trade and other payables

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Trade payables | **3,991** | 1,632 |
| Employee taxes and social security | **201** | 235 |
| Other payables | **151** | 180 |
| RGF Clawback (see Note 3) | **6,085** | – |
| Accruals | **2,934** | 3,628 |
| | **13,362** | 5,675 |

Trade and other payables principally consist of amounts outstanding for trade purchases and on-going costs. They are non-interest bearing and are normally settled on 30 to 45 day terms.

## 20. Financial liabilities – borrowings

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Current** | | |
| Convertible loan due within one year | **–** | 2,000 |
| | **–** | 2,000 |

A convertible loan facility of £2m was agreed with Liverpool City Council in June 2012. The maturity date of the loan was 31 March 2017. Interest was charged at 12% per annum and was payable upon repayment of the loan. As a result of the default in repaying the loan, Redx Pharma plc and Redx Oncology Limited were placed in Administration by the Council on 24 May 2017. The loan together with accrued interest of £1.551m was repaid in full by the Administrators in August 2017.

The loan was secured by a fixed and floating charge over the assets of the business and was denominated in sterling.

## 21. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, and various items such as other receivables and trade and other payables arising directly from the Group's operations. The main purpose of these financial instruments is to finance the Group's operations.

Classes and fair values of financial instruments are as follows:

| | Carrying value 2017 £'000 | Carrying value 2016 £'000 |
|---|---|---|
| **Loans and receivables** | | |
| Loans | **–** | 605 |
| Other receivables | **200** | 620 |
| Cash and cash equivalents | **23,806** | 5,758 |
| | **24,006** | 6,983 |
| **Financial liabilities measured at amortised cost** | | |
| Current borrowings | **–** | 2,000 |
| Trade payables | **3,991** | 1,632 |
| Other payables | **151** | 180 |
| RGF clawback | **6,085** | – |
| | **10,227** | 3,812 |

**Notes to the Financial Statements**

The principal financial risks faced by the Group are:

***Currency risk***

The Group's exposure to foreign currency risk is limited; as most of its invoicing and payments are denominated in Sterling. Accordingly, no sensitivity analysis is presented in this area as it is considered immaterial. Revenue generated from the disposal of the BTK programme was originally denominated in US$. It was converted to Sterling by the Administrators at the rate ruling on the day of receipt.

***Market risk***

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. In the year, both these risks are considered to have been minimal.

***Credit risk***

The Group gives careful consideration to which organisations it uses for banking in order to minimise credit risk. The Group holds cash with one large bank in the UK, an institution with an A credit rating (long term, as assessed by Moody's). The amounts of cash held with that bank at the reporting date can be seen in the financial assets table. All of the cash and cash equivalents held with the bank were denominated in Sterling.

***Liquidity risk and capital management***

*Liquidity risk*

The Directors manage liquidity risk by regularly reviewing the Group's cash requirements by reference to short term cash flow forecasts and medium term working capital projections. In view of the Administration, the directors have also commissioned an independent working capital review by Crowe Clark Whitehill to further strengthen management in this area.

*Capital management*

The Group considers capital to be its equity. The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern. The Group is currently meeting this objective. In order to maintain or adjust the capital structure the Group may issue new shares or sell assets to reduce debt.

***Financial risk factors***

Accounts receivable and accounts payable, arising from normal trade transactions, are expected to be settled within normal credit terms.

All of the Group's financial liabilities have a contractual maturity within one year. (2016: all within one year).

## 22. Deferred tax

| | **Accelerated capital allowances £'000** | **Other £'000** | **Total £'000** |
|---|---|---|---|
| **Liabilities** | | | |
| At 30 September 2016 and 2017 | – | – | – |

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2016:17%).

Deferred tax assets in relation to losses carried forward of £5.1m, (2016: £6.1m) which represent trading losses carried forward, have not been recognised on the grounds that there is insufficient evidence of sufficient taxable trading profits arising in the future to allow recovery.

**Notes to the Financial Statements**

## 23. Share Capital

| | **2017 Numbers** | 2016 Numbers |
|---|---|---|
| **Number of shares in issue** | | |
| Ordinary Shares of £0.01 | **126,477,914** | 93,552,638 |

| | **£'000** | £'000 |
|---|---|---|
| **Share Capital at par, fully paid** | | |
| Ordinary Shares of £0.01 | **1,265** | 936 |
| **Movement in year** | | |
| Ordinary shares of £0.01 | **329** | 286 |
| Total movement in year | **329** | 286 |

***Share issues***

On 11 October 2016, pursuant to the exercise of options, 145,319 Ordinary shares were issued (110,025 at £0.50 each and 35,294 at £0.425 each). The weighted average share price on this date was £0.56.

On 15 February 2017, the Company issued 5,999,999 Ordinary shares at £0.375 each pursuant to a placing and admission to trading on AIM. On 1 March 2017, the Company issued a further 26,779,958 Ordinary shares pursuant to a placing and open offer, and admission to trading on AIM. The gross amount raised being £12.36m.

## 24. Share premium

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Brought forward | **22,526** | 13,516 |
| Share issue | **11,966** | 9,714 |
| Share issue costs | **(1,298)** | (704) |
| Exercise of share options | **69** | – |
| | **33,263** | 22,526 |

**Description of other reserves:**

| | |
|---|---|
| Share premium | Amount subscribed for share capital in excess of nominal value. |
| Share based payment | The share based payment reserve arises as the expense of issuing share-based payments is recognised over time (share option grants). |
| Capital redemption reserve | A statutory, non-distributable reserve into which amounts are transferred following the redemption or purchase of a company's own shares. |
| Retained deficit | The retained deficit records the accumulated profits and losses less any subsequent elimination of losses, of the Group since inception. |

## Notes to the Financial Statements

### 25. Share based payments

Movements on share options during the period were as follows:

| Exercise Price per share | 30 September 2016 | Granted | Exercised | Lapsed/ Cancelled | 30 September 2017 | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|
| 50p | 36,675 | – | – | – | 36,675 | 27.03.2015 | 26.03.2025 |
| 50p | 36,675 | – | – | – | 36,675 | 17.06.2015 | 26.03.2025 |
| 50p | 36,675 | – | – | – | 36,675 | 17.06.2016 | 26.03.2025 |
| 50p | 191,650 | – | – | (60,000) | 131,650 | 26.03.2016 | 26.03.2025 |
| 50p | 161,650 | – | – | (30,000) | 131,650 | 26.03.2017 | 26.03.2025 |
| 50p | 161,650 | – | – | (30,000) | 131,650 | 26.03.2018 | 26.03.2025 |
| 50p | 110,025 | – | (110,025) | – | – | 26.03.2015 | 26.03.2025 |
| 56p | 78,875 | – | – | – | 78,875 | 27.03.2015 | 26.03.2025 |
| 56p | 78,875 | – | – | – | 78,875 | 01.09.2015 | 26.03.2025 |
| 56p | 78,875 | – | – | – | 78,875 | 01.09.2016 | 26.03.2025 |
| 85p | 1,239,950 | – | – | (16,650) | 1,223,300 | 27.03.2015 | 26.03.2025 |
| 85p | 187,100 | – | – | – | 187,100 | 27.03.2016 | 26.03.2025 |
| 85p | 178,775 | – | – | – | 178,775 | 27.03.2017 | 26.03.2025 |
| 33.2p | 1,095,040 | – | – | (662,398) | 432,642 | 01.05.2019 | 26.02.2026 |
| 42.5p | 66,666 | – | – | – | 66,666 | 01.04.2017 | 26.03.2025 |
| 42.5p | 66,667 | – | – | – | 66,667 | 01.04.2018 | 26.03.2025 |
| 42.5p | 66,667 | – | – | – | 66,667 | 01.04.2019 | 26.03.2025 |
| 42.5p | 35,294 | – | (35,294) | – | – | 01.04.2016 | 26.03.2025 |
| Total | 3,907,784 | – | (145,319) | (799,048) | 2,963,417 | | |
| Weighted average exercise price | 59.59p | – | 48.18p | 36.80p | 66.29p | | |

The number of exercisable share options at 30 September 2017 was 2,265,791, their weighted average exercise price was 74.95p. The weighted average share price at the date of exercise of options was 56.43p.

Movements on share options during the period were as follows:

During the prior year:

| Exercise Price per share | 30 September 2015 | Granted | Exercised | Lapsed/ Cancelled | 30 September 2016 | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|
| 50p | 36,675 | – | – | – | 36,675 | 27.03.2015 | 26.03.2025 |
| 50p | 36,675 | – | – | – | 36,675 | 17.06.2015 | 26.03.2025 |
| 50p | 36,675 | – | – | – | 36,675 | 17.06.2016 | 26.03.2025 |
| 50p | 221,650 | – | – | (30,000) | 191,650 | 26.03.2016 | 26.03.2025 |
| 50p | 221,650 | – | – | (60,000) | 161,650 | 26.03.2017 | 26.03.2025 |
| 50p | 221,650 | – | – | (60,000) | 161,650 | 26.03.2018 | 26.03.2025 |
| 50p | 110,025 | – | – | – | 110,025 | 26.03.2015 | 26.03.2025 |
| 56p | 78,875 | – | – | – | 78,875 | 27.03.2015 | 26.03.2025 |
| 56p | 78,875 | – | – | – | 78,875 | 01.09.2015 | 26.03.2025 |
| 56p | 78,875 | – | – | – | 78,875 | 01.09.2016 | 26.03.2025 |
| 85p | 1,239,950 | – | – | – | 1,239,950 | 27.03.2015 | 26.03.2025 |
| 85p | 187,100 | – | – | – | 187,100 | 27.03.2016 | 26.03.2025 |
| 85p | 187,100 | – | – | (8,325) | 178,775 | 27.03.2017 | 26.03.2025 |
| 33.2p | – | 1,145,350 | – | (50,310) | 1,095,040 | 01.05.2019 | 26.02.2026 |
| 42.5p | – | 66,666 | – | – | 66,666 | 01.04.2017 | 26.03.2025 |
| 42.5p | – | 66,667 | – | – | 66,667 | 01.04.2018 | 26.03.2025 |
| 42.5p | – | 66,667 | – | – | 66,667 | 01.04.2019 | 26.03.2025 |
| 42.5p | – | 35,294 | – | – | 35,294 | 01.04.2016 | 26.03.2025 |
| 42.5p | – | 17,647 | – | (17,647) | – | 01.04.2017 | 26.03.2025 |
| Total | 2,735,775 | 1,398,291 | – | (226,282) | 3,907,784 | | |
| Weighted average exercise price | 71.17p | 34.88p | – | 51.03p | 59.59p | | |

The number of exercisable share options at 30 September 2016 was 2,110,669, their weighted average exercise price was 74.21p.

**Notes to the Financial Statements**

## 25. Share based payments (continued)

The Group has accounted for the charge arising from the issue of share options as below:

The total charge recognised in the year to 30 September 2017 is £13,000 (2016: £245,000). The fair values of the options granted have been calculated using a Black-Scholes model.

Assumptions used were an option life of 5 years, a risk free rate of 2 per cent, a volatility of 40 per cent and no dividend yield. Other inputs are shown in Note 6.

The share options are exercisable with no further conditions to be met.

## 26. Operating lease arrangements – minimum lease payments

| | **Property** | | **Plant and equipment** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Outstanding commitments for future minimum lease payments under non-cancellable operating leases expiring: | | | | |
| Within one year | **2,027** | 1,000 | **–** | 160 |
| In the second to fifth years | **5,137** | 5,512 | **–** | – |
| In greater than five years | **4,386** | 5,413 | **–** | – |
| | **11,550** | 11,925 | **–** | 160 |

## 27. Related Parties

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below:

***Trading transactions***

The Group has purchased services in the normal course of business from the following companies related to individuals who are or were Directors of the Group:

Acceleris Capital Ltd – of which Mr N. Molyneux is a Director

Norman Molyneux Consultancy Ltd – owned by Mr N. Molyneux

Dr Frank M Armstrong Consulting Ltd – owned by Dr F. Armstrong

The Group has also purchased administration services from Mrs. J. Murray, who is the wife of Dr N. Murray.

The Group has purchased other services, and has paid deal fees and commissions, in connection with external fundraising from Acceleris Capital Ltd. These are also set out below, and were charged to the share premium account.

The Group has provided services in the normal course of business to the following companies related to individuals who are or were Directors of the Group:

Redag Crop Protection Ltd – of which Mr N. Molyneux is a Director. A loan has also been granted as part of the sale of this company (See Note 16).

AMR Centre Ltd – of which P Jackson is a Director.

The amounts outstanding are unsecured.

As detailed in Note 16 the Group has a loan of £821k due from Redag Crop Protection Ltd. Mr N. Molyneux, Dr N. Murray, Dr P. Jackson and Mr P. McPartland are all shareholders in Redag Crop Protection Ltd.

Whilst the loan has been de-recognised as an asset, the Directors do not consider it to be extinguished and will continue to seek full repayment under its terms.

**Notes to the Financial Statements**

On 10 June 2016, a short term, interest free loan of £25,000 was made to AMR Centre Ltd, of which P. Jackson is a Director. This loan was repaid on 18 August 2017.

| Purchases from/(charges to) related parties | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Redag Crop Protection Ltd | **(257)** | (163) |
| Acceleris Capital Ltd | **90** | 88 |
| Acceleris Capital Ltd (fundraising items) | **139** | 309 |
| Norman Molyneux Consultancy Ltd | **–** | 10 |
| Dr Frank M Armstrong Consulting Ltd (expenses) | **2** | 5 |
| AMR Centre Ltd | **(110)** | – |
| Mrs J Murray | **24** | 24 |
| | **(112)** | 273 |

| Amounts owed to/(by) related parties | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Redag Crop Protection Ltd | **(71)** | (33) |
| Redag Crop Protection Ltd – loan | **–** | (605) |
| Acceleris Capital Ltd | **77** | 18 |
| AMR Centre Ltd – short term loan | **–** | (25) |
| AMR Centre Ltd | **(16)** | – |
| Norman Molyneux Consultancy Ltd | **–** | – |
| Dr Frank M Armstrong Consulting Ltd | **–** | 1 |
| Mrs J Murray | **12** | 2 |
| | **2** | (642) |

Amounts owed to/by related parties are disclosed in other receivables (Note 17), other non-current receivables (Note 16), and within trade payables (Note 19).

## 28. Capital Commitments

At 30 September 2017, the Group had no capital commitments (30 September 2016: £Nil).

## 29. Contingent liabilities

The Group has previously disclosed a contingent liability with regard to Regional Growth Fund grants administered by the Department of Business, Energy and Industrial Strategy of the UK Government in support of its research programs around early stage proprietary small molecule therapeutics. As a result of the entry into Administration of Redx Pharma plc, this liability crystallised. A full description of the outcome of this can be found in Note 3.

As at 30 September 2017, the Group had no contingent liabilities.

**Notes to the Financial Statements**

## 30. Events after the reporting period

**2/3 November 2017 –** Exit from Administration and the Group (Redx Pharma plc and its subsidiaries), announces it has resumed trading under the control of the Directors.

**6 November 2017 –** the Group updates the market on its revised strategy, share suspension from trading on AIM is lifted and the following changes in personnel are announced:

- CEO Dr Neil Murray resigned and left the board with immediate effect and Non-Executive Director Mr Norman Molyneux resigned from the Board;
- Mr Iain Ross appointed Interim Executive Chairman;
- Mr Dominic Jackson appointed CFO and Executive Director;
- Mr Peter Presland appointed as a Non-Executive Director and Chairman of the Audit, Risk and Disclosure Committee; and
- A search for new CEO initiated.

**14 November 2017 –** Interim Executive Chairman buys 348,000 shares.

**20 December 2017 –** Group announces Preliminary Results for year ending 30 September 2017.

## Company Statement of Financial Position

**At 30 September 2017**
**Company registration number 7368089**

| | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 6 | **322** | 217 |
| Tangible assets | 7 | **150** | 207 |
| Investments | 8 | **225** | 206 |
| | | **697** | 630 |
| **Current assets** | | | |
| Debtors | 9 | **6,490** | 30,388 |
| Cash at bank and in hand | | **23,065** | 5,472 |
| **Total current assets** | | **29,555** | 35,860 |
| **Creditors: amounts falling due within one year** | 10 | **(12,288)** | (6,197) |
| **Net current assets** | | **17,267** | 29,663 |
| **Net assets** | | **17,964** | 30,293 |
| **Capital and reserves** | | | |
| Share capital | 11 | **1,265** | 936 |
| Share premium | 12 | **33,263** | 22,526 |
| Capital redemption reserve | | **1** | 1 |
| Share based payments reserve | | **880** | 867 |
| Profit and loss account | 12 | **(17,445)** | 5,963 |
| **Shareholders' funds** | 13 | **17,964** | 30,293 |

The Company has taken advantage of s408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's result for the year was a loss of £23,408,000 (2016 loss: £180,000).

The financial statements were approved and authorised for issue by the board and signed on its behalf by:

Iain Ross
Director
19 December 2017

**Notes to the individual Financial Statements of Redx Pharma plc**

## 1. Accounting Policies

### (i) Basis of preparation

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

***Financial Reporting Standard 102 – reduced disclosure exemptions***

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirement of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
- the requirement of Section 33 Related Party Disclosures paragraph 33.7.

### (ii) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profit from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

### (iii) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the relevant lease.

The minimum term of the lease is estimated if it is not clear.

### (iv) Goodwill

Goodwill, being the amount paid in connection with the acquisition of a business in 2010, is being amortised evenly over its estimated useful life of twenty years. It is reviewed annually by the Directors for potential impairment.

**Purchased intangible assets**

The cost of a purchased intangible asset is the purchase price plus any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Purchased intangible assets are capitalised even if they have not yet demonstrated technical feasibility. The intangible asset relating to intellectual property rights for the programme purchased from Amakem is estimated to have a useful life of 20 years, and it will be amortised over this period, commencing on 31 October 2017.

### (v) Going Concern

As part of their going concern review the Directors have followed the guidelines published by the Financial Reporting Council entitled "Guidance on Risk Management and Internal Control and Related Financial and Business Reporting".

**Notes to the individual Financial Statements of Redx Pharma plc**

The Group made a net profit of £1.5m during the year, following the sale of its BTK programme, and after taking into account all the costs associated with two Group companies, Redx Pharma Plc and Redx Oncology Limited, entering Administration in May 2017. The Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient working capital is available to meet the Group's needs as they fall due, and at least 12 months from the date of signing the accounts.

The detailed cash flow assumptions are based on the Group's working capital projections, prepared and approved by the Board, which reflects a number of key assumptions in respect of project costs, overheads and discretionary spend, underpinned by the current pipeline. As detailed in the Chairman's Statement the Group's internal projections and assumptions were subject to an independent review by Crowe Clark Whitehill and the forecasts provide a cash runway to early 2019.

No revenue has been assumed in the forecasts, save for that generated from subletting unused space. As detailed in the Chairman's Statement, the Group is already in discussions with third-parties in respect of partnerships and the licensing of non-core assets. In addition, no corporation tax expense has been accrued in respect of the disposal of the BTK Program because, as detailed in the announcement of the completion of Administration on 2 November 2017 various reliefs are thought to be available. This is on the basis that the Administrators and CCW took tax counsel's opinion that the methodology applied is correct and the reliefs utilised are available. The forecasts indicate that the Group has a cash runway through to February 2019 and its ability to continue to develop its programmes thereafter is dependent on entering a partnership agreement or an additional fund raise. The Group is already in discussions with third-parties in respect of partnerships and the licensing of non-core assets and furthermore, the Group continues to have the ability to seek to raise additional funds on capital markets.

In the absence of such opportunities in relation to partnerships and the licensing of non-core assets coming to fruition, the ability to raise additional funds on capital markets before February 2019 or the unlikely event of the Group becoming liable to pay tax on the disposal of the BTK Programme, management has identified further discretionary spending areas which can be reduced to allow the Group to extend its cash runway to early May 2019. These can be made without impinging on the ability of key programmes to reach value inflexion points, such as data from clinical trials which are expected to be completed in late 2018.

On the basis of the above review, the Directors are confident that the Group has sufficient working capital to honour all of its obligations to creditors as and when they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

(vi) **Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the assets to its working condition for its intended use. Finance costs are not included.

Depreciation is calculated on the straight-line method to write off the cost of assets to their residual values over their estimated useful lives as follows.

Laboratory equipment – 2 or 3 years

Computer equipment – 2 or 3 years

Leasehold improvements – Over the term of the lease

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

**Notes to the individual Financial Statements of Redx Pharma plc**

**1. Accounting Policies (continued)**

(vii) **Financial instruments**

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the company becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

(a) ***Trade and other receivables and group debtors***

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the Statement of Comprehensive Income when there is objective evidence that the assets are impaired. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(b) ***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand and in bank, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(c) ***Trade and other payables and group creditors***

Trade and other payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the "effective interest rate" to the carrying amount of the liability.

(viii) **Investments**

Investments in subsidiaries are stated at cost less provision for impairment in value, and are detailed in Note 8.

(ix) **Share-based compensation**

The Company issues share-based payments to certain employees and Directors. Equity-settled share-based payments are measured at fair value at the date of grant and if material are expensed immediately or on a straight-line basis over any vesting period, along with a corresponding increase in equity.

Where such payments are made to employees of subsidiary undertakings, but relate to the shares of the parent, they are recognised as additional capital contributions to the subsidiary, along with a corresponding increase in equity.

At each reporting date, the Directors revise their estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of any revision is recognised in Statement of Comprehensive Income, with a corresponding adjustment to equity reserves.

The fair value of share options is determined using a Black-Scholes model, taking into consideration the best estimate of the expected life of the option and the estimated number of shares that will eventually vest. The cost of each option is spread evenly over the period from grant to expected vesting.

When options expire or are cancelled, a corresponding credit is recognised.

(x) **Critical accounting estimates and judgements**

Details of significant accounting judgements and critical accounting estimates are set out in this Financial Information and include:

(a) ***Share-based compensation***

The Company has issued a number of share options to certain employees. The Black-Scholes model was used to calculate the appropriate charge for the period of issue and subsequent periods.

**Notes to the individual Financial Statements of Redx Pharma plc**

The use of this model to calculate a charge involves using a number of estimates and judgements to establish the appropriate inputs to be entered into the model, covering areas such as the use of an appropriate interest rate and dividend rate, exercise restrictions and behavioural considerations. A significant element of judgement is therefore involved in the calculation of the charge.

The total charge recognised and further information on share options can be found in Notes 6 and 25 to the Consolidated Financial Statements.

(b) ***Group balances***

The directors are required to make judgements regarding the recoverability of balances due from subsidiary companies and decide if any impairment is appropriate. In making these judgements they review potential revenue streams and other information.

(c) ***Loan to Redag Crop Protection Limited***

The decision on whether to derecognise the loan requires the Directors to make judgements regarding the future timings of repayments and likelihood of repayment criteria being met.

## 2. Administration

On 24 May 2017, Redx Pharma plc was placed into Administration as a result of the default on repaying a loan from Liverpool City Council ("LCC") by its subsidiary undertaking Redx Oncology Limited. FRP Advisory LLP were appointed as Administrators by LCC. Dealing in the shares of the Company on the AIM market was suspended on 24 May 2017. As at 30 September 2017 the Company remained in Administration. As detailed in Note 15 [PBSE], the Company exited Administration on 2 November 2017, when control was returned to the Directors. Those costs directly associated with the Administration (including a provision for costs up to the end of the Administration), principally Administrators costs, legal costs and taxation costs are included in the Company's loss for the year, and total £2,814,000. (2016: Nil).

## 3. Clawback of Regional Growth Fund grant funding

The Group has, in both the current and past years, received Regional Growth Funds grants administered by the Department of Business, Energy and Industrial Strategy of the UK Government. At the end of the year the Group had received total grants as follows:

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| RGF 2 | **5,920** | 5,920 |
| RGF 3 | **4,700** | 4,700 |
| RGF 5 | **3,007** | 2,630 |
| | **13,627** | 13,250 |

Under the terms of the grant awards, clawback amounts totalling £9.7m became repayable by the Company on entering Administration. During the course of the Administration, a full and final settlement was reached in the sum of £6.1m. This amount is disclosed within Creditors – amounts falling due within one year, Note 10. It was repaid in October 2017, prior to the exit from Administration.

## 4. Write off of derivative financial instrument

In March 2017 the Company issued 11,500,000 new ordinary shares of 0.1p each ("Ordinary Shares") at a price of 37.5p per share to Lanstead for £4,312,500. The Company simultaneously entered into an equity swap with Lanstead for 85 per cent of these shares with a reference price of 50p per share (the "Reference Price"). The equity swap was for an 18-month period ending in October 2018. All 11,500,000 Ordinary Shares were allotted with full rights on the date of the transaction.

Of the subscription proceeds of £4,312,500 received from Lanstead, £3,665,625 (85 per cent) was invested by the Company in the equity swap.

**Notes to the individual Financial Statements of Redx Pharma plc**

## 4. Write off of derivative financial instrument (continued)

Investment in the equity swap was a condition of the placing with Lanstead.

In the period to 24 May 2017, £106,000 had been received under the terms of the swap.

As a consequence of entering Administration, the terms of the equity swap were such that it terminated with no further benefit to the company. The remaining balance of £3.56m has therefore been written off. (2016: £Nil)

## 5. Staff Costs

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| **Staff costs (including directors) comprise** | | |
| Wages and salaries | **1,043** | 1,021 |
| Social security costs | **126** | 118 |
| Pension costs | **51** | 49 |
| | **1,220** | 1,188 |
| Non-recurring reorganisation costs | **10** | – |
| Total employee related costs | **1,230** | 1,188 |

| | **2017 Number** | 2016 Number |
|---|---|---|
| **Number of employess** | | |
| Average number of employees (including directors) | | |
| Management & Admin | **10** | 10 |

## 6. Intangible fixed assets

| | **Intellectual property £'000** | **Goodwill £'000** | **Total £'000** |
|---|---|---|---|
| **Cost** | | | |
| At 1 October 2016 | – | 309 | 309 |
| Additions | 121 | – | 121 |
| **At 30 September 2017** | **121** | **309** | **430** |
| **Amortisation** | | | |
| At 1 October 2016 | – | 92 | 92 |
| Charge for the year | – | 16 | 16 |
| **At 30 September 2017** | **–** | **108** | **108** |
| **Net book value** | | | |
| **At 30 September 2017** | **121** | **201** | **322** |
| At 30 September 2016 | – | 217 | 217 |

**Notes to the individual Financial Statements of Redx Pharma plc**

## 7. Tangible fixed assets

| | Laboratory equipment £'000 | Computer equipment £'000 | Leasehold Improvements £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 October 2016 | 79 | 95 | 114 | 288 |
| Additions | 8 | – | – | 8 |
| **At 30 September 2017** | **87** | **95** | **114** | **296** |
| **Depreciation** | | | | |
| At 1 October 2016 | 66 | 13 | 2 | 81 |
| Charge for the year | 11 | 43 | 11 | 65 |
| **At 30 September 2017** | **77** | **56** | **13** | **146** |
| **Net book value** | | | | |
| **At 30 September 2017** | **10** | **39** | **101** | **150** |
| At 30 September 2016 | 13 | 82 | 112 | 207 |

## 8. Investments in subsidiaries

During the year the Company made additional capital contributions to subsidiary undertakings by way of share based compensation to employees of those companies.

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| At 1 October | **206** | 118 |
| Additional capital contribution – Redx Oncology Ltd | **19** | 20 |
| Additional capital contribution – Redx Anti-Infectives Ltd | **–** | 50 |
| Additional capital contribution – Redx Immunology Ltd | **–** | 18 |
| At 30 September | **225** | 206 |

At 30 September 2017 the Company held share capital in the following subsidiaries:

| Name | Country of incorporation | Percentage held | Nature of business | Direct/ Indirect holding |
|---|---|---|---|---|
| **Redx Oncology Limited** Block 33, Mereside, Alderley Park, Macclesfield SK10 4TG | England & Wales | 100% | Pre-clinical drug development licensing | Direct |
| **Redx Anti-Infectives Limited** Block 33, Mereside, Alderley Park, Macclesfield SK10 4TG | England & Wales | 100% | Pre-clinical drug development licensing | Direct |
| **Redx Immunology Limited** Block 33, Mereside, Alderley Park, Macclesfield SK10 4TG | England & Wales | 100% | Pre-clinical drug development licensing | Direct |
| **Redx MRSA Limited** Block 33, Mereside, Alderley Park, Macclesfield SK10 4TG | England & Wales | 100% | Dormant | Indirect |

**Notes to the individual Financial Statements of Redx Pharma plc**

## 9. Debtors

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Amounts falling due within one year: | | |
| VAT recoverable | **644** | 22 |
| Amounts due from Group undertakings | **5,578** | 29,509 |
| Other debtors | **184** | 147 |
| Prepayments | **84** | 105 |
| | **6,490** | 29,783 |
| Amounts falling due after more than one year | | |
| Other Debtor – Loan | **–** | 605 |
| Total | **6,490** | 30,388 |

Amounts due from Group undertakings: Following a review by the Directors of the forecasts of one of its Group undertakings, it was considered that the balance owed is unlikely to be recovered in the foreseeable future due to a decision to focus on oncology and immunology assets, as such they have decided to impair the balance owed in relation to this undertaking in the sum of £10,307,000. (2016: £Nil).

The loan of £714k was granted to Redag Crop Protection Ltd as part of the sale of the former subsidiary. It bears interest at 5% repayable with the principal sum. The loan is unsecured, and is only repayable on the sale, listing, or change of control of Redag Crop Protection Ltd.

At 30 September 2017, the total amount outstanding (including accrued interest), was £821k. At 30 September 2016, that amount was £785k before an adjustment was made to reflect the non-current nature of the asset, amounting to £180k. Following review, and as a result of the conditionality attached to the repayment of the loan, the Directors have derecognised it as an asset.

Whilst the loan has been de-recognised as an asset, the Directors do not consider it to be extinguished and will continue to seek full repayment under its terms.

## 10. Creditors: Amounts falling due within one year

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Trade creditors | **2,399** | 394 |
| Social security and other taxes | **64** | 84 |
| Amounts owed to Group undertakings | **2,953** | 5,226 |
| Other creditors | **127** | 151 |
| RGF Clawback (see Note 3) | **6,085** | – |
| Accruals | **660** | 342 |
| | **12,288** | 6,197 |

**Notes to the individual Financial Statements of Redx Pharma plc**

## 11. Share Capital

| | 2017 Number | 2016 Number |
|---|---|---|
| **Number of shares in issue** | | |
| Ordinary Shares of £0.01 | **126,477,914** | 93,552,638 |
| | **£'000** | £'000 |
| **Share Capital at par, fully paid** | | |
| Ordinary Shares of £0.01 | **1,265** | 936 |
| **Movement in year** | | |
| Ordinary shares of £0.01 | **329** | 286 |
| Total movement in year | **329** | 286 |

***Share issues***

On 11 October 2016, pursuant to the exercise of options, 145,319 Ordinary shares were issued (110,025 at £0.50 each and 35,294 at £0.425 each) for a total consideration of £70,262.

On 15 February 2017, the Company issued 5,999,999 Ordinary shares at £0.375 each pursuant to a placing and admission to trading on AIM. On 1 March 2017, the Company issued a further 26,779,958 Ordinary shares pursuant to a placing and open offer, and admission to trading on AIM. The gross amount raised was £12.36m.

## 12. Reserves

| | Share premium £'000 | Profit & loss account £'000 | Share based payments reserve £'000 | Capital redemption reserve £'000 | Total £'000 |
|---|---|---|---|---|---|
| As at 1 October 2016 | 22,526 | 5,963 | 867 | 1 | 29,357 |
| Loss for the year | – | (23,408) | – | – | (23,408) |
| On issue of shares | 10,737 | – | – | – | 10,737 |
| Share-based compensation | – | – | 13 | – | 13 |
| **As at 30 September 2017** | **33,263** | **(17,445)** | **880** | **1** | **16,699** |

## 13. Reconciliation in movement in equity shareholders' funds

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Opening shareholders' funds | **30,293** | 20,932 |
| Loss for the year | **(23,408)** | (180) |
| On issue of shares | **10,996** | 9,296 |
| Exercise of share options | **70** | – |
| Share-based payments | **13** | 245 |
| Closing shareholders' funds | **17,964** | 30,293 |

**Notes to the individual Financial Statements of Redx Pharma plc**

## 14. Operating lease arrangements – minimum lease payments

| | Property | | Plant and equipment | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Outstanding commitments for future minimum lease payments under non-cancellable operating leases expiring: | | | | |
| Within one year | **1,026** | – | **–** | 38 |
| In the second to fifth years | **4,480** | 4,480 | **–** | – |
| In greater than five years | **4,387** | 5,413 | **–** | – |
| | **9,893** | 9,893 | **–** | 38 |

## 15. Post Balance sheet events

**2/3 November 2017 –** Exit from Administration and the Company announces it has resumed trading under the control of the Directors.

**6 November 2017 –** The Company updates the market on its revised strategy, share suspension from trading on AIM is lifted and the following changes in personnel are announced:

- CEO Dr Neil Murray resigned and left the board with immediate effect and Non-Executive Director Mr Norman Molyneux resigned from the Board;
- Mr Iain Ross appointed Interim Executive Chairman;
- Mr Dominic Jackson appointed CFO and Executive Director;
- Mr Peter Presland appointed as a Non-Executive Director and Chairman of the Audit, Risk and Disclosure Committee; and
- A search for new CEO initiated.

**14 November 2017 –** Interim Executive Chairman buys 348,000 shares.

**20 December 2017 –** Group announces Preliminary Results for year ending 30 September 2017.

## 16. Contingent liabilities

The Company has agreed to support its subsidiary undertakings for 12 months from the signing of these financial statements.

## 17. Ultimate controlling party

There is no ultimate controlling party.

## COMPANY INFORMATION

| | |
|---|---|
| **Directors** | Iain G Ross (Executive Chairman)<br>Dominic Jackson (Chief Financial Officer)<br>Dr Bernhard Kirschbaum (Non-Executive Director)<br>Peter Presland (Non-Executive Director) |
| **Secretary** | Andrew Booth |
| **Company number** | 7368089 |
| **Principal place of business & registered office** | Block 33<br>Mereside<br>Alderley Park<br>SK10 4TG |
| **Auditor** | RSM UK Audit LLP<br>3 Hardman Street<br>Manchester<br>M3 3HF |
| **Nomad** | Cantor Fitzgerald Europe<br>One Churchill Place<br>Canary Wharf<br>London<br>E14 5RB |
| **Broker** | W G Partners LLP<br>85 Gresham Street<br>London<br>EC2V 7NQ |

**Annual General Meeting**

The Annual General Meeting of the Company will be held at Alderley Park, Macclesfield, SK10 4TG on 6 March 2018.

Perivan Financial Print 248060