Annual Report and Accounts

for the year ended 30 September 2020

Redx
Discovering Targeted Medicines

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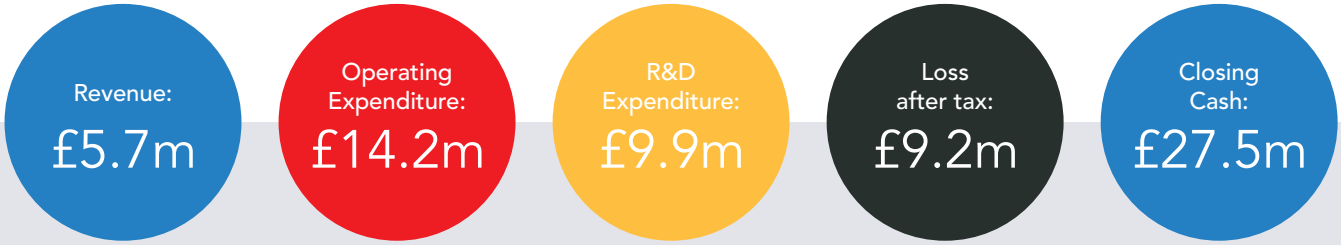
Redx is a biotech company focused on the discovery and development of novel targeted medicines for the treatment of cancer and fibrotic disease.

Key Events & Results



Research & Development

19 November 2019
The Group announces the award of Biomedical Catalyst funding to Redx and Medicines Discovery Catapult for the development and validation of a panel of translational biomarkers.

9 January 2020
RXC007, a ROCK2 inhibitor, is nominated as a drug development candidate.

30 June 2020
The Group announces the successful completion of the first two patient cohorts in the Phase 1 clinical trial of lead oncology asset RXC004 (Porcupine inhibitor), together with the initiation of the third cohort.

4 August 2020
The Group announces an out licensing agreement with AstraZeneca for its RXC006 programme, worth $17m in early stage payments by the time of a successful completion of a Phase 1 study.

9 August 2020
The Group announces a new research collaboration with Jazz Pharmaceuticals, and receives a $10m upfront payment.

Corporate

31 December 2019
The Group announces its plans to capitalise the £2.5m loan and accrued interest from Moulton Goodies Ltd ("MGL") and confirms that it is in discussion with Samuel D. Waksal and associates ("Yesod Bio-Sciences") in relation to a possible cash offer for the Group.

21 January 2020
Capitalisation of the MGL loan is approved by shareholders, and 52,030,789 new Ordinary shares are issued.

28 February 2020
The Group announces the termination of discussions with Yesod Bio-Sciences and confirms agreement of a funding package with Redmile Group, LLC via its vehicle RM Special Holdings 3, LLC ("Redmile"), including the subscription for 11,500,000 Ordinary shares by Redmile, raising £1.3m.

13 March 2020
A further private approach from Yesod Bio-Sciences is announced.

13 March 2020
Redmile announces it has purchased 39.5% of the share capital of the Group from MGL and makes a mandatory cash offer for the remainder of shares it does not already hold.

30 March 2020
A £5m short-term loan is agreed with Redmile.

30 April 2020
The mandatory cash offer closes, Redmile announces that it now owns 91.76% of the issued share capital of the Group.

18 May 2020
Sarah Gordon Wild is appointed as a Non-Executive Director as from 1 July 2020.

20 May 2020
SPARK Advisory Partners Limited is appointed as nominated adviser.

30 June 2020
The Group announces a proposed financing of $30m with Redmile and Sofinnova Crossover 1 SLP (" Sofinnova") via the issue of convertible loan notes and share subscription.

20 July 2020
The funding package is approved by shareholders, Sofinnova subscribes for 5,238,710 Ordinary shares raising £0.8m, £22.2m of loan notes are issued, and the £5m short term loan from Redmile is repaid.

4 August 2020
Dr Thomas Burt is appointed as a Non-Executive Director, joining the Board as a representative of Sofinnova.

Post Year-end Events

27 November 2020
The appointment of Dr Jane Robertson as Chief Medical Officer from 1 March 2021 is announced.

2 December 2020
The Group announces a Placing to raise £25.5m and Open Offer to raise up to £2.2m. Conversion of a portion of the loan notes by Redmile and Sofinnova is also announced.

21 December 2020
The Placing, Open Offer and conversion are approved by shareholders, raising £25.7m before costs.

Chairman's Statement

Dear Shareholder

Over the last 12 months, Redx has made substantial progress across all facets of its business, raised significant funding to support the development of its lead therapeutic programmes and concluded two significant commercial partnerships.

In light of the recent uncertainty arising from the COVID-19 pandemic, we have been quick to adapt to the changing circumstances and we have taken decisive steps to minimise the impact on our business. We have deployed our resources wisely, thereby allowing the management team to continue to pursue a clear and focused strategy under the excellent leadership of our Chief Executive Officer, Lisa Anson.

During the financial year ending 30 September 2020, despite the challenges of COVID-19, we saw good momentum in growing shareholder value, building on the strong foundational work of 2019 by delivering scientific progress, securing new investment and forging valuable partnership deals. Importantly, the Company has ended the period in a secure financial position, enabling it to progress its differentiated pipeline in oncology and fibrosis at pace in the coming periods.

Clear focused strategy

Redx's ambition is to become a leading biotech company focused on the discovery and development of targeted medicines in oncology and fibrotic diseases, by progressing prioritised programmes to deliver clinical proof of concept. We continue to leverage Redx's core, proven strengths in medicinal chemistry, designing molecules against validated targets in order to discover the next generation of clearly differentiated drug candidates for our pipeline.

2020 has seen significant delivery against this strategy with the following notable achievements:

- Clinical progress: In oncology, the Company has progressed its lead molecule, RXC004, in Phase 1 trials. Importantly, the first four patient cohorts (0.5mg, 1mg, 1.5mg, 2mg) have been successfully dosed such that the final cohort (3mg) was initiated in January 2021. As a result of a six month recruitment pause due to COVID-19, the completion of this study has been delayed and Redx anticipates that full safety and tolerability results from this Phase 1 study will now be available in H1 2021 [CY]. RXC004 is on track to move into Phase 2 clinical studies in 2021.
- New fibrosis drug candidate: In January 2020 Redx successfully nominated RXC007, a selective ROCK2 inhibitor, to be developed as a potential best-in-class drug to target fibrotic diseases, including life-threatening idiopathic pulmonary fibrosis (IPF) and more broadly for systemic fibrotic conditions such as liver fibrosis (NASH). The Company has progressed the necessary toxicology and manufacturing work to prepare for a Clinical Trial Application (CTA) with a view to initiating a Phase 1 study in H1 2021. This programme has strong commercial potential. It is in a challenging area of chemistry but Redx currently holds a competitive position in development.
- Commercial partnerships: The Company has once again demonstrated its ability to deliver commercial partnerships with the licensing of the preclinical stage Porcupine inhibitor programme, RXC006, to AstraZeneca, as announced on 4 August 2020. This was in return for $17 million in early payments by the time of a successful completion of a Phase 1 study and up to a further $360 million in deferred development, regulatory and commercial milestone payments as well as tiered royalties. This was quickly followed by a new two target research collaboration with Jazz Pharmaceuticals, as announced on 9 September 2020, with $10 million cash received on signing of the agreement and an expected further $10 million due in year 2 as well as up to a further $400 million in milestone payments, plus tiered royalties. Together with the sale of Redx's BTK inhibitor programme in 2017 to Loxo Oncology (now Eli Lilly), which is progressing well through clinical trials, and the July 2019 sale of Redx's pan-RAF programme to Jazz Pharmaceuticals, this makes four major partnership deals in recent years, further demonstrating the strength, depth and value of Redx's expertise in medicinal chemistry.

Strengthened financial position

During the period under review, the Board and management have continued to adopt a robust set of financial and governance controls to maintain the highest standards throughout the Company; more details on this can be found in the Corporate Governance Statement. A particular achievement during 2020 was delivery of the Board's commitment to strengthen the financial position of the Company by securing new investors. The Company gained the support of two established specialist healthcare and life sciences investors, Redmile Group LLC and Sofinnova Partners, which led to the receipt of a $30 million (fixed at £23 million) financing package which was approved at the general meeting on 20 July 2020, allowing the repayment of the £5 million short term loan from Redmile. This was followed by a further placing for £25.5 million (gross) in December 2020, which received strong support from existing investors and broadened the shareholder register with the addition of healthcare specialist, Polar Capital. The financing was approved at the General Meeting on 21 December 2020 and leaves the Company in a strong position with working capital until the end of 2022.

Outlook

The last 12 months have been very encouraging as we have continued to deliver on our strategy, consistently demonstrating our drug discovery and development capabilities underscored by forging further commercial deals. Importantly, we have successfully overcome the common funding challenge faced by many early stage listed biotech companies and have secured sufficient investment to further develop our pipeline with the addition of three well-established and well-funded investment partners, Redmile, Sofinnova Partners and Polar Capital. This strengthened financial position means we can continue to drive forward two promising clinical programmes and our preclinical research at pace.

On behalf of the Board, I would like to thank our CEO, Lisa Anson and CSO, Richard Armer, along with the rest of our management team and employees for their hard work and dedication this year. I would also like to thank our business partners and suppliers for their continued strong and invaluable support.

At the start of 2020 Redx was in an uncertain financial position. We therefore fully appreciate the support we have had from our new investors. However, we also recognise that without the patience and support of our long-term shareholders and resilience of our scientific foundation, we would not have been able to turn this business around over the last 3 years. 2020 has been a truly extraordinary year for all of us both personally and from a business perspective.

Redx now enters the next 12 months ready to deliver on our exciting plans.

Iain G Ross
Chairman of the Board of Directors

Strategic Report

Chief Executive's Report

When I took over as your CEO in 2018, I was convinced of the value inherent in the scientific capability of the Company. At that time, we put in place the strategy and organisation to create an exciting future focused on leveraging our differentiated medicinal chemistry capability and progression of selected drug development programmes.

I am pleased to report that the full year results for the 12 months to 30 September 2020 demonstrate the significant progress we have made in this journey. We have seen real momentum in shareholder value as our scientific progress was recognised with substantial new investment and valuable partnering deals.

Redx's key strengths remain its distinctive expertise in medicinal chemistry and target selection, setting it apart from many other small biotech companies. This world class capability underpins many of the operational highlights this year. We have made tangible progress with our pipeline. Our promising lead oncology asset, RXC004, is currently in Phase 1, and has generated encouraging early data. We also nominated an exciting new development compound, RXC007, for fibrosis during the year. We were successful in concluding two major business partnering deals with AstraZeneca and Jazz Pharmaceuticals, which further validate our science and bring in non-dilutive funding, aligning both us and our partners to the ongoing success of these programmes. Given the importance of our clinical portfolio in our strategy, I was particularly delighted to announce the appointment of Dr Jane Robertson as Chief Medical Officer who will join us on 1 March 2021. She will be instrumental in leading our key programmes through clinical development. I would like to that this opportunity to thank Dr Andrew Saunders for his significant contribution in leading the RXC004 Phase 1 programme.

Like many other early stage biotech companies, the most significant challenge we faced during the period was to secure sufficient investment capital in order to allow us to fully realise the potential of our programmes and innovative science. I am therefore pleased to report that in Redmile Group LLC, Sofinnova Partners and more recently Polar Capital, we have secured large, supportive and well-funded specialist healthcare and life science investors who allow us the financial stability to execute our business plan. I believe that this investment, coupled with our team of talented scientists and committed leaders, are the key ingredients to enable us to execute our strategy successfully and to achieve key clinical milestones over the next 12-18 months.

A clear and focused strategy

Redx's ambition is to become a leading biotech company focused on the development of novel targeted medicines that have the potential to transform the treatment of cancer and fibrosis. Within these areas of focus, the organisation's strategy is firstly to **progress our lead programmes to deliver clinical proof of concept**, a key value inflection milestone.

The second part of the strategy is to leverage Redx's core strength in medicinal chemistry expertise and proven ability to design molecules in order to generate value. We will therefore continue to invest our resources in **discovering the next generation of differentiated drug candidates** against biologically validated and commercially attractive targets in our areas of therapeutic focus.

Finally, **partnering** will remain a critical part of the Redx strategy to enable additional development and to drive further shareholder value.

Oncology: Clinical progress with Porcupine inhibitor, RXC004

Redx's lead programme, **RXC004**, is a potential best-in-class Porcupine inhibitor which is currently in Phase 1 clinical development to treat cancer (NCT03447470). Redx is developing RXC004 as a targeted oncology treatment for Wnt-driven tumours, both as a monotherapy (through direct tumour targeting and as an immuno-oncology action) and in combination (with other immuno-oncology agents). Each represent a large potential commercial opportunity. RXC004 has shown compelling animal efficacy data through its highly targeted impact on the Wnt pathway. Initial results from our open label clinical study are encouraging.

Chief Executive's Report continued

Redx has successfully completed dosing in four patient cohorts, with the drug being well tolerated and with no dose limiting toxicities (DLTs) reported to date. Measured pharmacokinetic parameters are compatible with once daily dosing and importantly there was strong target engagement detected in skin tissue markers. A final monotherapy patient cohort at 3mg has now been initiated. Due to a recruitment pause as a result of the COVID-19 pandemic, Redx anticipates full safety and tolerability results from this Phase 1 study will be available during H1 2021. Importantly, Redx is now also commencing the combination arm of the Phase 1 study with RXC004 and an anti-PD1 antibody to assess the tolerability of the combination and assess the dose for the proposed Phase 2 combination study.

Pending the results of this study, RXC004 is on track to move into Phase 2 clinical studies in 2021. We remain confident that this programme can unlock the potential of the Wnt pathway as a means to tackle unmet need in a number of cancers.

Oncology is a crowded area for drug development. However, it is also one where there remains significant unmet need. In particular, we believe that precision medicines are the key to unlocking the full potential of modulating critical pathways such as the Wnt pathway. Aberrations in this pathway have been shown to drive tumour growth and are increasingly implicated in shaping the immune environment around the tumour. In particular, the Wnt pathway is implicated in a range of hard-to-treat cancers with poor prognosis such as colorectal, pancreatic, biliary and gastric cancers. At the molecular level, the Wnt pathway has long been viewed as containing potentially "druggable" cancer targets. **Porcupine**, a key enzyme in the pathway, is one such target. It is very encouraging to see that the first-in-class drug that targets Porcupine (WNT974, Novartis), is in Phase 2 clinical development, and that the class overall apparently has a viable therapeutic window, with over 120 patients now treated across the class in clinical trials. We believe that the full potential of targeting Porcupine as an anticancer therapy will require the generation of efficacy data in **genetically selected patients** (those with upstream Wnt pathway aberrations driving tumour growth, whose tumours are addicted to Wnt) and understanding the tolerability of longer duration of treatment. The sustained inhibition of Porcupine provided by RXC004's longer half-life compared to WNT974 upon once daily oral dosing allows for this hypothesis to be fully tested in the clinical setting.

RXC004, is a potent and selective inhibitor of Porcupine, a key enzyme in the Wnt pathway, which results in strong **direct tumour growth inhibitory effect** in a variety of cancer models. When RXC004 is administered either alone or together with an anti-PD1 immune checkpoint inhibitor (ICI), RXC004 **enhances anti-tumour immune effects**. Redx data are in keeping with the external strong scientific evidence for a role of the Wnt pathway in resistance to ICI. This evidence supports Redx's view that **RXC004 has the potential to be used to treat Wnt driven cancers both as a monotherapy and in combination with immuno-oncology** treatments such as ICIs to enhance the response rate and overcome resistance.

Fibrosis: new development compound, RXC007, heading into the clinic

Redx is targeting the **Rho-associated protein kinase (ROCK) signalling pathway**, where ROCK2 is a key enzyme isoform implicated in the development of tissue fibrosis. The Redx selective **ROCK2 inhibitor programme** is designed to overcome the systemic limitations of pan-ROCK inhibitors (which inhibit both ROCK1 and ROCK2 isoforms and can induce systemic hypotension), enabling potential use in the treatment of systemic fibrotic conditions such as liver fibrosis, idiopathic pulmonary fibrosis (IPF) and diseases with an element of fibrosis such as chronic graft versus host disease (cGVHD).

In January 2020, Redx reached an important milestone with the nomination of an exciting new development compound, **RXC007**. RXC007 is a selective inhibitor of ROCK2, aiming to enter clinical development in 2021 as a treatment for the orphan disease IPF, a life-threatening and progressive lung condition with a prognosis worse than many advanced cancers, and then more broadly as a systemic treatment for fibrotic conditions including potentially liver fibrosis known as Nonalcoholic Steatohepatitis (NASH). Developing a selective ROCK2 inhibitor is technically challenging as evidenced by the lack of competitor programmes behind Kadmon's ROCK2 inhibitor (KD025, belumosudil), which leads the field and is undergoing FDA review for cGVHD. Redx has developed a highly selective ROCK2 compound that has an improved profile compared to this competitor. RXC007 has demonstrated good pharmacokinetic and pharmacodynamic profiles in preclinical models and strong proof of concept data in a range of fibrosis disease models.

Preparations for a Clinical Trial Application (CTA) including toxicology and manufacturing are well advanced, with RXC007 expected to enter the clinic in H1 2021.

Significant commercial partnering deals with AstraZeneca and Jazz Pharmaceuticals

During the year, Redx expanded its partnered portfolio with two major deals.

On 4 August 2020, Redx announced an out licensing agreement with **AstraZeneca** for the development and commercialisation of **RXC006**, a Porcupine inhibitor, for fibrotic diseases. Under the terms of the exclusive global agreement, AstraZeneca will pay Redx several early milestones (up to successful commencement of a Phase 1 study) that amount to $17 million. In addition, Redx is eligible to receive up to a further $360 million from AstraZeneca in development, regulatory and commercial milestone payments throughout the course of the programme should it successfully reach these milestones. Redx is also eligible for tiered royalties of mid-single digit percentages, based on any future net sales.

AstraZeneca will take RXC006 forward into clinical development, targeting fibrotic diseases including IPF. RXC006 has demonstrated excellent anti-fibrotic activity in a range of fibrosis disease models including fibrosis of the kidney, liver and lung. Porcupine inhibition is a novel anti-fibrotic approach that suppresses Wnt ligand secretion from pro-fibrotic cells. Wnt ligands are known to be strong drivers of fibrotic mechanisms and are highly expressed in diseases such as IPF. Wnt ligands regulate multiple aspects of disease biology so Porcupine inhibition presents a potentially powerful anti-fibrotic approach. There is considerable evidence supporting a pathogenic role for Wnt signalling in IPF and increased Wnt pathway expression is associated with poor patient prognosis in IPF. RXC006 has progressed through preclinical manufacturing and safety studies in 2019 and handover to AstraZeneca has been completed.

On 9 September 2020, Redx announced a new **research collaboration** agreement with **Jazz Pharmaceuticals** to discover and develop drug candidates for two cancer targets on the Ras/Raf/MAP kinase (MAPK) pathway. Redx will be responsible for research and preclinical development activities up to Investigational New Drug (IND) submission. Under the terms of the agreement, Jazz Pharmaceuticals paid Redx an upfront payment of $10 million with another $10 million due to Redx in year two provided research work is continuing. Following delivery of an IND-ready molecule, Redx will be eligible to receive up to a further $200 million from Jazz Pharmaceuticals in development, regulatory and commercial milestone payments for each programme. The first milestone is payable upon successful IND submission and all subsequent milestones are contingent on successful completion of the relevant stages of development. In addition, for both programmes, Redx is eligible for tiered royalties in mid-single digit percentages, based on any future net sales. Jazz Pharmaceuticals will own all intellectual property as it is generated, and following a successful IND submission, will be responsible for further development, manufacturing, regulatory activities and commercialisation.

> “We are excited to report that the full year results for the 12 months to 30 September 2020 demonstrate the significant progress we have made in this journey”

This new research collaboration recognises Redx’s expertise in oncology drug design and follows the previous sale of Redx’s pan-RAF inhibitor programme to Jazz Pharmaceuticals in July 2019, as a potential treatment for RAF and RAS mutant tumours. The associated collaboration on the pan-RAF programme, under which Redx performs research and preclinical development services, with the goal of completing IND-enabling studies, continues to progress well, and has resulted in significant revenue generation of £2.1 million for the Company during the reporting period.

These transactions continue to underscore Redx’s excellence in drug design and its business partnering capability. There are few biotech companies of our size that have completed four major deals as Redx has done in the three years following the sale of our BTK inhibitor programme (RXC005) to Loxo Oncology in 2017. This molecule is now being successfully developed by Eli Lilly in the clinic as LOXO-305 and showing best-in-class potential in a range of B cell malignances including those resistant to first generation BTK inhibitors.

Chief Executive's Report continued

Discovery research into next generation therapies

Redx is committed to continuing research against biologically validated and commercially attractive targets in oncology and fibrosis to maintain the pipeline and has focused its research activities on highly selected targets in these areas. Our discovery approach is based on three steps:

1. Selecting biologically validated targets linked to high unmet medical needs, where we believe there is an opportunity to apply our drug discovery capabilities;
2. Applying Redx's molecule design framework, leveraging our strength and experience in medicinal chemistry to optimise a best-in-class molecule for the target and create novel patent claims;
3. Delivering high quality targeted small molecules with a clear line of sight to clinical and commercial success.

Oncology continues to be an area of high unmet need and our oncology research strategy is focused on discovery and development of highly selective small molecule drugs for **genetically defined cancers and immuno-oncology**.

Targeted therapies for genetically defined cancers prevent the growth of cancers by inhibiting specific proteins/genes required for tumour growth, with one major advantage being the reduced side effects compared to traditional chemotherapy. Recent advances in precision medicine have shown that drugs which target cancer at the genetic level often have the best timely outcomes, with the choice of treatment options based on the individual genetic alterations found in a patient's tumour. Early in the discovery process, our targeted therapy programmes involve discovering biomarkers to identify a defined/specific patient population that will benefit from our drugs. This includes the identification and targeting of newly emerging clinical resistance mechanisms. We believe this approach will increase our success in the clinic, reduce overall development costs and help to accelerate the delivery of medicines to patients.

Immuno-oncology is an approach that uses the patient's own immune system to identify and kill the tumour. Recent advances in immuno-oncology have been transformative, producing long-lasting, robust responses for certain patients. These advances include the immune checkpoint inhibitor class of therapies, such as anti-PD-1/PD-L1 antibodies. Despite these breakthroughs, there remains a significant proportion of patients whose tumours are unresponsive or develop resistance to such treatments, and therefore fail to benefit from these lifesaving therapies. Our programmes in immuno-oncology aim to combine our compounds with existing immune checkpoint inhibitors to improve response rates in these resistant patient populations.

Fibrosis is an area where there are few treatments and a large and growing unmet need. Redx's medicinal chemistry strengths combined with its depth of biology expertise, make it competitive to develop novel precision therapies to tackle the underlying fibrosis in major diseases of the lung, liver, kidney and bowel. 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 is a contributory factor in up to 45% of deaths in the developed world. Solid organ fibrosis can occur as a result of many different diseases and current therapeutic options are limited for these chronic and often life-threatening illnesses.

During the year Redx secured grant funding from Innovate UK in a joint project with the Medicines Discovery Catapult (MDC) to develop biomarkers in IPF, recognising Redx's scientific strength in this area.

In fibrosis research, the Company continues to progress its **gastrointestinal (GI) targeted ROCK inhibitor research project** aimed at treating intestinal fibrosis associated with Crohn's disease, which leads to strictures and resection surgery for patients. There is currently no pharmaceutical therapy available to treat this condition and we believe that Redx's compounds would be first-in-class agents. GI-targeted ROCK inhibitors are restricted to the gut due to their limited absorption profile and rapid enzymatic metabolism of any absorbed material. The compounds have demonstrated very strong anti-fibrotic effects in GI fibrosis disease models along with a good general and cardiovascular safety profile. Redx is now developing a full candidate nomination package to deliver a drug candidate in 2021.

Following a full review of our research portfolio, we have terminated a number of our early projects, including the SHP2 programme, in order to prioritise resources.

Significantly strengthened financial position

Throughout the year we have worked hard to secure sufficient investment to realise the full potential evident in our pipeline. The investment by Redmile Group and Sofinnova Partners has given us greater security from a cash perspective, allowing the Company to proceed with an ambitious, but measured, business plan going forward. The Company ended the year 30 September 2020 with a cash balance of £27.5 million (30 September 2019: £3.7 million) as a result of a number of financial transactions through the year.

Initially, the Company strengthened its balance sheet by fully capitalising a fixed rate £2.5 million short-term loan facility in January 2020. Thereafter, we entered a further period of uncertainty when the Company was the subject of a third-party approach, which concluded with the announcement that Redmile Group would provide funding, comprising an initial equity investment of £1.3 million in March followed by £5 million of short-term debt funding in April. Redmile subsequently acquired 91.76% of the issued share capital of the Company, partially through a mandatory offer for shares, in April 2020.

In July, the Company announced that Redmile and Sofinnova Partners would commit further investment as a result of which the Company issued $29 million (fixed at £22.2 million) convertible loan notes. In addition Sofinnova subscribed for £0.8 million ($1 million) of equity. The short-term loan due to Redmile, together with accrued interest, was repaid immediately on receipt of those investments.

The Company then added further to its financial security by generating new revenue from partnership deals including the receipt of an initial upfront payment from AstraZeneca in August 2020, followed by the receipt of a $10 million upfront payment from Jazz Pharmaceuticals in September 2020 in addition to the £2.1 million revenue earned from the ongoing pan-RAF collaboration.

Post period, the Company completed a gross fundraise of £25.7 million which was approved by shareholders on 21 December 2020 and served to add Polar Capital to our shareholder register and extend our cash runway through to the end of 2022.

Throughout the year we have continued to manage our costs carefully and ensure that optimal resources are allocated to maximum effect in line with our strategy. Our operating expenses of £14.2 million have risen (£10.2 million in 2019) as we continue to invest in and advance our pipeline and our programmes move into more cash intensive clinical stages. A slight increase in overall reported costs also arose after the adoption of IFRS16 and as a result of higher professional fees, driven by the significant corporate activity outlined below. Following an agreement with Alderley Park Limited in 2018 we have completed our financial commitments to return a historic long-term lease and resolve this legacy issue. Our accommodation footprint is now rightsized for the business going forward, although we continue to work with our landlord, Bruntwood SciTech, to find ways to reduce and mitigate our accommodation costs through sub-lease of excess space.

Outlook

During the period, whilst navigating our way through various financial scenarios and the COVID-19 global pandemic, we made tangible progress on advancing our pipeline. Our Phase 1 oncology study with RXC004 continued in the clinic. We nominated RXC007 as a development candidate for fibrosis indications and this is now progressing towards the clinic next year. Additionally, we completed two significant business development deals.

I continue to be really excited by the differentiated programmes in our pipeline and I believe that with the strength of our science, the proprietary position of our assets and their commercial potential now combined with strong investment partners, we are in a position to deliver meaningful results in the clinic which will drive benefits for patients and value for shareholders.

On a personal note, I want to thank the Board, management and shareholders for their support during what has been a challenging period in the Company's history. I look forward to continuing the job I came here to do, which is to build a world-class biotech company. Most importantly, I would like to thank our employees for their hard work, resilience and commitment to Redx and to congratulate them on the research and partnering progress achieved in this extraordinary year.

Lisa Anson
Chief Executive Officer

Directors' Duties – Section 172 Statement

The Directors acknowledge their duty under section 172 of the Companies Act 2006 and consider that they have, both individually and collectively, acted in the way that, in good faith, would be most likely to promote the success of the Company for the benefit of all shareholders. In doing so, the Directors have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relations with suppliers, customers and others;
- The impact of the Company's operations on the community and the environment;
- The Company's reputation for high standards of business conduct; and
- The need to act fairly as between members of the Company.

In 2018, the Group adopted the Corporate Governance Code for Small and Mid-Size Quoted Companies from the Quoted Companies Alliance (the "QCA Code"). The QCA code is an appropriate code of conduct for the Group's size and stage of development. Details of how the Group applies the ten principles of the QCA Code are set out on pages 26 to 31. The Chairman's and Chief Executive Officer's statements describe the Group's activities, strategy and future prospects including considerations for **long-term decision making** on pages 2 and 5. The Group's strategy, business model and approach to risk is also discussed within the corporate Governance Statement on page 26. The Board considers the Group's major stakeholders to be its shareholders, employees, suppliers, collaboration partners and those involved in clinical trials.

During the year, the Directors were involved in a number of significant decisions affecting the Company's stakeholders. Capitalisation of the MGL loan, detailed discussions with Yesod Bio-Sciences and Redmile with respect to a potential cash offer, and the final agreement of a funding package all had significant impact on shareholders and employees. The Board met frequently during this period, with 25 meetings in the first half of the financial year. In addition, there was close cooperation and frequent communication with advisors, principally brokers, lawyers and Nomad. Throughout, the Board was mindful of the need to act in the best interests of all shareholders, and to ensure full and accurate communication.

Later in the year, two important commercial decisions were taken regarding agreements with AstraZeneca on RXC004 and Jazz Pharmaceuticals on a new two target collaboration. The directors were mindful of the need to maintain a sufficiently diverse portfolio, balanced against taking value for shareholders at an appropriate time. Regular portfolio reviews take place, involving employees and outside experts, to ensure that directors are aware of all factors impacting such decisions. These were complicated discussions that remained uncertain until the final signature, and during the entire process the Directors were mindful of their fiduciary duties and responsibilities towards all stakeholders, taking appropriate professional advice where necessary.

Employees

The Group is a relatively small organisation and Executive Directors have regular day-to-day contact with employees at all levels, both formal and informal. The CEO regularly briefs employees on developments in the business and conducts question and answer sessions at these times.

Suppliers

The Board takes a close interest in relations with key suppliers whose performance is crucial to the Group's success. The Group endeavours to maintain good relationships with its suppliers and seeks to pay them promptly in accordance with the contracted terms. Where appropriate, the activities of suppliers are subject to audit.

Community and environment

The Board is mindful of the potential social and environmental impacts of the Group's activities. The Board is committed to minimising the environmental effect of the Group's activities wherever possible and seeks rigorous compliance with relevant legislation.

Business reputation

The Group operates in a highly regulated sector and the Board is committed to maintaining the highest standards of conduct and corporate governance. Further details of the group's rigorous approach can be found within the Corporate Governance Statement on page 26, and within the investor section of the group's website at www.redxpharma.com

The need to act fairly as between members of the Company

The Group's intention is to behave responsibly towards all its shareholders and treat them fairly and equally, so that they too may benefit from the successful delivery of the Company's strategic objectives. The Group's website www.redxpharma.com has a section dedicated to investor matters that details, amongst other things, all financial reports, press releases and other regulatory filings.

Operational Review

The Directors present this Operational Review for the year ended 30 September 2020 and cover issues not covered elsewhere in their Strategic review, namely: Key Performance Indicators, Financial Review and the Principal Risks and Uncertainties.

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.

Management Team

Lisa Anson (Chief Executive Officer), **Dr James Mead** (Chief Financial Officer), **Dr Richard Armer** (Chief Scientific Officer) and **Dr Andrew Saunders** (Chief Medical Officer) have continued in their positions throughout the year. In October 2020 the Group announced that **Dr Jane Robertson** will join as Chief Medical Officer from 1 March 2021, following the departure of Dr Saunders.

Key Performance Indicators (KPIs)

The Group's KPIs include a range of financial and non-financial measures. The Board considers pipeline progress, and in particular progress towards the clinic, to be the main KPI, and updates about the progress of our research programmes are included in the CEO's Report. Below are the Financial KPIs considered pertinent to the business.

	2020 £m	2019 £m	2018 £m	2017 £m
Cash at year end	27.5	3.7	6.5	23.8

Significant progress has been made during the year in securing the funding necessary to stabilise the financial position of the Group and provide funding for the business plan going forward, principally via £12.8m of cash income (not all of which has been recognised as revenue in the year), together with £22.2m of loan note and £2.1m of equity funding. Post year end a further £25.7m was raised via a Placing and Open Offer.

	2020 £m	2019 £m	2018 £m	2017 £m
Total operating expenditure	14.2	10.2	10.6	15.8

Expenditure has risen in line with expectations as programmes progress positively to clinical and pre clinical stages, which are cash intensive. The considerable amount of corporate activity during the year has led to some increases in associated costs, but management continues to maintain rigorous cost control, whilst seeking to prioritise resources for scientific programmes.

	2020 £m	2019 £m	2018 £m	2017 £m
Net cash flow (including certain one-off payments)	23.8	(2.8)	(17.3)	18.0

Positive cash flows have been achieved not only from financing activities, but also importantly from business development opportunities with AstraZeneca and Jazz Pharmaceuticals. The significant inflows, together with further funding raised post year end, ensure that the Group has a cash runway to Q4 2022 that allows it to fully fund its business plan during that period.

	2020 £m	2019 £m	2018 £m	2017 £m
R & D expenditure (as a proportion of total operating expenditure)	86	82	70	76

The Group's continuing focus is to maximise the amount of operating expenditure spent on research and development activities, defined as direct R&D expenditure (per note 6) plus scientific staff costs (excluding Board and key management). The above is prepared on a comparable basis to prior years, and as anticipated last year, the percentage has risen favourably.

Financial Review

Financial position

At 30 September 2020, the Group had cash resources of £27.5m (2019: £3.7m). The Group issued a further £1.5m of loan notes in November 2019 under the facility agreed with Moulton Goodies Ltd ("MGL"). All loan notes (£2.5m) and accrued interest under this facility were capitalised on 21 January 2020.

On 4 March 2020 RM Special Holdings 3 LLP ("Redmile") subscribed for £1.3m of Ordinary shares, and in April provided a short-term loan of £5m. A further £22.2m was raised in July 2020 from the issue of convertible loan notes to Redmile and Sofinnova Crossover 1 SLP ("Sofinnova"). The short-term loan from Redmile, together with accrued interest was repaid from the proceeds of this investment. In addition, Sofinnova subscribed for £0.8m of Ordinary shares.

Two significant partnership agreements were signed in the year, generating significant upfront payments, including $10m from Jazz Pharmaceuticals.

Post year end, in December 2020, a further £25.7m was raised via a Placing and Open Offer, giving the Group a cash runway to Q4 2022.

Revenue

During the year, revenue was derived from the RXC006 out-licensing agreement with AstraZeneca, and the existing and new collaboration agreements with Jazz Pharmaceuticals (see note 1). IFRS 15 "*Revenue from Contracts with Customers*" stipulates that where funds are received in advance for a collaboration, they are recognised as revenue as the obligations under the collaboration contract are performed. Accordingly, of the $10m (£7.6m) cash proceeds received from Jazz Pharmaceuticals during the year under review for the oncology collaboration announced in September, £0.5m has been recognised as revenue in the year, and the remaining £7.1m is disclosed as contract liabilities within the Consolidated Statement of Financial position (see note 17). The stage of completeness of the collaboration will be assessed at each future reporting date, and further revenue will be released accordingly, reducing the liability. The expected timings of this recognition, together with further expected milestone payments, are shown in note 17.

Cost management

Operating expenses continue to be tightly controlled. The external scientific cost element has risen by £2.8m as programmes progressed into more cost intensive clinical and preclinical stages.

Accommodation (Alderley Park)

The onerous lease provision created as the Group reduced its footprint at Alderley Park has now been extinguished, leaving no liabilities beyond those for occupied and utilised laboratory and office space.

The Group adopted IFRS 16 "*Leases*" from 1 October 2019 in common with all companies required to report under IFRS, which has significantly changed how leases for property are accounted for (see accounting policies on page 46 and note 19). Future liabilities for rent under the lease of Block 33 Mereside are now recognised as liabilities in the Consolidated Statement of Financial Position. A value is also ascribed to the "Right of use" associated with the lease.

Rent paid is now used to reduce the liability and replaced in the Consolidated Statement of Comprehensive Income by depreciation of the Right of use asset and finance costs. (please see the Consolidated Statement of Comprehensive Income on page 41 for a detailed breakdown of the effects).

Finance costs

Finance costs have risen considerably in comparison to the prior year at £1m (2019 £0.1m) with the increase largely due to "effective interest" calculated in valuing the lease liability and convertible loan notes under IFRS. Actual interest payable on loans was £0.4m, of which £0.2m was capitalised as part of the MGL loan and £0.2m paid in relation to short term borrowing.

Cash flows

Overall positive net cash flow for the year was £23.8m, (2019: £2.8m outflow). See KPI's (page 12) for details.

Taxation

The acquisition of a significant proportion of the Group's shares by Redmile has meant that the SME tax status previously enjoyed may no longer be appropriate. The Group is actively exploring its options, but has opted to take a prudent approach in these financial statements in assuming that it will be claiming Research and Development expenditure credits rather than R&D tax credits. Claims for prior years are not affected, and every effort will be made to ensure that the Group receives the maximum amounts to which it is entitled.

Principal Risks and Uncertainties

Redx is a biopharmaceutical Group 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 2020 are below.

Research and Development

The Group is at a relatively early stage of development and may not be successful in its efforts 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.

Operational Review continued

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.

Revenue from licensing and collaboration deals is dependent on future progression of programmes through development and into the market. Once these programmes transfer to a partner for progression, there is a risk that a licensing deal may not deliver all the indicated milestones and terms due to product failure or a partner de-prioritising a product.

There is a risk that parties with whom the Group trades or has other business relationships (including partners, customers, suppliers, subcontractors and other parties) may become insolvent. This may be as a result of general economic conditions or factors specific to that company. In the event that a party with whom the Group trades becomes insolvent, this could have an adverse impact on the revenues and profitability of 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 (including delays arising from COVID-19);
- 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;
- inability to monitor patients adequately during or after treatment; or
- the insolvency of a significant partner or sub-contractor in the running of the clinical trial.

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 the commercial prospects for its product candidates, and therefore, its financial results.

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, so that it can stop others from making, using or selling its inventions or proprietary rights. The Group owns a portfolio of patents and patent applications and is the authorised licensee of other patents and patent applications.

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.

Legal standards relating to patents covering pharmaceutical or biotechnological inventions and the scope of claims made under these patents are continuously evolving. The policy regarding the breadth of claims allowed in biotechnology and pharmaceutical patents is subject to changes as the law evolves. The Group's patent position is therefore highly uncertain and involves complex legal and factual issues.

Information Technology (IT) & Assets

The Group depends on the performance, reliability and availability of its plant, equipment and information technology systems. Any damage or unauthorised access to, or failure of, its equipment and/or systems could result in disruptions to the Group's operations. The Group's security and disaster recovery plans (which are currently in place for financial systems and IT systems) may not adequately address every potential event and its insurance policies may not cover any loss in full or in part (including losses resulting from business interruptions) or damage that it suffers fully or at all, which could have a material adverse effect on the Group's business, financial position or prospects.

Financial

The Group has incurred significant losses in previous years, and does not currently have any approved or marketed products, although it periodically generates revenue through asset sales, outlicensing and collaborations. 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 are needed to support its product development programmes 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.

Operational Review continued

United Kingdom exit from the European Union

Following the United Kingdom's exit from the European Union on 31 January 2020 ("Brexit") and the completion of the transition period, there are still many uncertainties regarding the United Kingdom's future relationship with the EU which could have a significant negative impact on the Group. The extent of the impact will depend in part on the arrangements now in place between the UK and the EU and the extent to which the UK continues to apply laws that are based on EU legislation from 1 January 2021. In addition, the macroeconomic effect of Brexit on the Group's business is unknown. As such, it is not yet possible to state the impact that Brexit will have on the Group. It could also potentially make it more difficult for the Group to operate its business in the EU as a result of more burdensome regulations being imposed on UK companies (such as changes in applicable legislation affecting the regulatory pathway of the Group's products, both in Europe and in the UK). This could restrict the Group's future prospects and adversely impact its financial condition.

COVID-19

The global economic outlook is facing uncertainty due to the current COVID-19 pandemic, which has been having, and will likely continue to have, a significant impact on global capital markets, commodity prices and foreign exchange.

To date, beyond the six-month delay in trial recruitment to RXC004, the COVID-19 pandemic has not had any direct material impact on the Group's ability to operate. However, any infections occurring on the Group's premises could result in the Group's operations being suspended, which may have an adverse impact on the Group's operations as well as adverse implications on the Group's future cash flows, profitability and financial condition. Supply chain disruptions resulting from the COVID-19 pandemic and measures implemented by governmental authorities around the world to limit the transmission of the virus (such as travel bans and quarantining) may, in addition to the general level of economic uncertainty caused by the COVID-19 pandemic, also adversely impact the Group's operations, financial position and prospects. The Group has implemented a COVID-19 mitigation plan in order to minimise the risk of infection for individuals and will continue to review and update its COVID-19 mitigation plan and update its plan based on the latest guidance from health professionals and the government as the situation develops.

The Board continually monitors these risks and uncertainties via regular reviews of its Risk Register and takes corrective action if considered necessary.

This report was approved by the Board on 26 January 2021 and signed on its behalf by

Lisa Anson
Chief Executive Officer

Governance

Introduction

It is the Chairman's responsibility, working with Board colleagues, to ensure that good standards of corporate governance are embraced throughout the Group. As a Board, we set clear expectations concerning the Group's culture, values and behaviours.

The Directors acknowledge the importance of high standards of corporate governance and, given the Group's size and the constitution of the Board, have decided to adopt the Corporate Governance Code for small and mid-sized companies published by the QCA in April 2018 ("QCA Code").

The Board comprises seven Directors: an independent Non-Executive Chairman, two full time Executive Directors and four Non-Executive Directors (three being independent, and Dr Thomas Burt representing Sofinnova Crossover 1 SLP), reflecting a blend of different experiences and backgrounds. The function of the Chairman is to supervise and manage the Board and to ensure its effective control of the business. The Board believes that the composition of the Board brings a desirable range of skills and experience in light of the Group's challenges and opportunities as a public company, while at the same time ensuring that no individual (or a small group of individuals) can dominate the Board's decision-making.

The Board meet regularly to review, formulate and approve the Group's strategy, budgets and corporate actions and oversee the Group's progress towards its goals. The Board has established the following committees to fulfil specific functions – Audit, Risk & Disclosure committee (the "Audit Committee") and a Remuneration committee (the "Remuneration Committee") with formally delegated duties and responsibilities. Each of these committees meets on a regular basis and at least twice a year, and are both chaired by independent Non-Executive Directors. The Board has elected not to constitute a dedicated nomination committee, instead retaining such decision-making with the Board as a whole. This approach is considered appropriate to enable all Board members to take an active involvement in the consideration of Board candidates and to support the Chair in matters of nomination and succession.

From time to time, separate committees may also be set up by the Board to consider specific issues when the need arises.

Board of Directors

Mr Iain Ross

(Chairman)

Iain was appointed Non-Executive Chairman of Redx in May 2017 assuming the role of Interim Executive Chairman in October 2017 which he held until the appointment of Lisa Anson as CEO on 1 June 2018, at which time he reverted to the role of Non-Executive Chairman. In addition currently he is Non-Executive Chairman of Silence Therapeutics plc (LON:SLN/ NASDAQ:SLN), and Kazia Therapeutics Ltd (ASX:KZA/ NASDAQ:KZIA).

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 2000. As Chairman and Chief Executive Officer at Allergy Therapeutics, 2001-2002, he re-structured the Company prior to its IPO and as Executive Chairman at Silence Therapeutics Plc (formerly SR Pharma Plc) 2004-2010, he turned the business around through M&A and established numerous big pharma collaborations. As Executive Chairman at Ark Therapeutics plc, 2010 – 2015, he successfully restructured the business and disposed of the manufacturing assets, and reversed into Premier Veterinary Group.

He is a qualified Chartered Director, and a Former Vice Chairman of the Council of Royal Holloway, London University. He sits on the boards of a number of private biotech companies and continues to consult for private equity groups on biotech and technology company turnarounds.

Mrs Lisa Anson

(CEO)

Lisa was appointed CEO of Redx in June 2018. Previously she was President of AstraZeneca UK since 2012 and has significant leadership experience in pharmaceuticals. Over a 20 year career at AstraZeneca Plc, Lisa has held a number of senior management roles in both the US and the UK including Global Vice President, Oncology and as Vice President of emerging brands where she worked closely with the Research and Development teams.

Lisa holds an MBA (awarded with distinction) from INSEAD, France and a First Class honours degree in Natural Sciences from Cambridge University in the UK. Upon graduating she joined KPMG in London as a management consultant and then moved to California where she worked for Salick Health Care (now Aptium), a California based cancer disease management company, prior to joining Zeneca Pharmaceuticals (USA) in 1998 as a business development manager. Lisa has also been President of the Association of the British Pharmaceutical Industry (ABPI), a position from which she stepped down in 2018 in order to assume her current role. She was a Board member of the ABPI from 2012 during which time she has chaired a number of UK industry committee's and worked closely with the UK Government. In 2018 she was elected to the Board of the UK Bio Industry Association (BIA).

Board of Directors continued

Dr James Mead

(CFO)

James was appointed CFO of Redx in February 2019. Previously James held a variety of highly relevant Finance leadership roles over a 16 year career with AstraZeneca Plc. As Chief Financial Officer of AstraZeneca Netherlands – a $200 million turnover business – he was a core member of a management team accountable for delivery of stretching annual P&L targets and other balanced scorecard objectives during a period of significant change. As R&D Portfolio Finance Director he was responsible for financial analysis of the entire R&D portfolio in order to support decision-making at the CEO-chaired AZ Portfolio Investment Board. He has been the Finance Director of multiple clinical development project teams, guiding assessment of the valuation impact of key decisions such as clinical trial design, commercial launch strategy and product lifecycle management. Additionally, James has gained capital markets experience through positions in AstraZeneca's Investor Relations and Corporate Finance teams. James holds a PhD in Molecular Biology and a First Class honours degree in Biochemistry, both awarded by Cardiff University. He is also an Associate Member of the Chartered Institute of Management Accountants.

Mr Peter Presland

(Independent Non-Executive Director)

Peter joined the Board in November 2017 and has over 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 in 2019 was asked to become Chairman of the Audit and Governance Committee of The Lord's Taverners, a high-profile charity.

Dr Bernhard Kirschbaum

(Independent 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 programmes, doubling the number of Phase II assets in this period. Bernd is currently Chairman of OMEICOS Therapeutics and a board member of BioMedX, Enlivex Therapeutics, Amarna Therapeutics as well as an advisor to the board of KAHR Medical.

Mrs Sarah Gordon Wild

(Independent Non-Executive Director)

Sarah joined Redx as a Non-Executive Director on 1st July 2020. She brings extensive investment experience in the biotechnology sector to her role at Redx. She currently also serves as a Non-Executive Director of Oxford Nanopore Technologies and Evox Therapeutics, as well as being a Board Member of Lone Pine Capital LLC's Offshore Funds.

Between 1998-2003 Sarah was Managing Director, Management Committee Member and Senior Healthcare Analyst at Lone Pine Capital LLC. Before this, for over 15 years, Sarah was a senior biotechnology/healthcare analyst on Wall Street at Amerindo Investments Advisors and Hambrecht & Quist and in London at the brokerage firms Kleinwort Grieveson and Greig Middleton. She graduated from Aberdeen University with a BSc (Hons) in Zoology and with an MSc from Imperial College, London in Social & Economic Aspects of Science and Technology in Industry.

Board of Directors continued

Dr Thomas Burt

(Non-Executive Director)

Tom joined Redx as a Non-Executive Director on 4th August 2020. He has been a Partner in the Crossover fund at Sofinnova Partners since its inception in 2017. Prior to this, he was a Research Analyst covering UK healthcare and life science equities at Peel Hunt, joining in 2015 after six years as an Investment Director at specialist life science investors, Ares Life Sciences and Novo Holdings. Before this, he spent four years in the Healthcare Investment Banking team at Piper Sandler & Co. Tom holds an Engineering Doctorate from UCL in Biochemical Engineering & Bioprocess Leadership, an MSc in Biochemical Engineering and a BSc in Biotechnology.

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 2020. The Corporate Governance Statement on pages 26 to 31 and the governance section on page 18 also form part of this report.

Directors

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

Executive
Lisa Anson
Dr James Mead

Non-Executive
Iain Ross
Dr Bernhard Kirschbaum
Peter Presland
Sarah Gordon Wild – appointed 1 July 2020
Dr Thomas Burt – appointed 4 August 2020

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 on pages 5 to 16.

Business review

The Strategic Report on pages 5 to 16 provides a review of the business, the Group's trading for the year ended 30 September 2020, key performance indicators and an indication of future developments and risks and forms part of this Directors' Report.

Financial results and dividend

The Group's loss after tax for the year was £9.2m (2019: loss £4.3m). The Directors do not recommend the payment of a dividend. (2019 £nil).

Financial instruments

Information regarding financial instruments can be found in note 22.

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 areas of therapeutic focus.

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.

Strategic report

The Company has chosen in accordance with the Companies Act 2006, section 414C (11) to set out in the Company's strategic report on pages 5 to 16 information required to be contained in the Directors' Report by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7, where not already disclosed in the Directors' Report.

Post year end events

See note 29 to the Consolidated Financial Statements.

Directors' Report continued

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.

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

Lisa Anson
Chief Executive Officer

26 January 2021

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

Company registration number: 07368089

Directors' Responsibilities Statement

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 Accounting Standards in conformity with the requirements of the Companies Act 2006 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 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.

Lisa Anson
Chief Executive Officer

James Mead
Chief Financial Officer

Corporate Governance Statement

The Board believes in the importance of good 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. The Board has adopted the principles set out in the Corporate Governance Code for small and mid-sized companies published by the QCA in April 2018 ("QCA Code"). This section provides general information on the Group's adoption of the QCA Corporate Governance Code.

Our Strategy, business model and approach to risk

The Group's strategy is the commercialisation of novel medicines for indications for which there are no existing or only inadequate therapies. The Group's current focus continues to be on indications in the field of oncology and fibrotic diseases.

The Group invests its efforts and financial resources into the process of identifying suitable pharmaceutical product candidates which it then intends to take through an extensive development process. The nature of this work is inherently risky. There is no certainty that any of its product candidates will progress successfully through preclinical and clinical trials and become marketable products. Redx's internal development expertise and unique knowledge of the therapeutic areas in which it operates should, however, allow it to identify and develop valuable products in a manner that will substantially reduce, but which cannot eliminate, this risk in the future. All of the Group's activities involve an ongoing assessment of risks and the Group seeks to mitigate such risks where possible.

The Board has undertaken an assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. In addition, the Board has considered the longer-term viability of the Group, including factors such as the prospects of the Group and its ability to continue in operation for the foreseeable future. The Board considers that the disclosures outlined in the Group's Strategic Report on pages 5 to 16 are appropriate given the stage of development of the business. The Board also considers that these disclosures provide the information necessary for shareholders to assess the Group's future viability and potential requirements for further capital to fund its operations.

Having carried out a review of the level of risks that the Group is taking in pursuit of its strategy, the Board is satisfied that the level of retained risk is appropriate and commensurate with the financial rewards that should result from achievement of its strategy.

Board of Directors

There were two changes to the composition of the Board during the year. Sarah Gordon Wild was appointed as an independent Non-Executive Director on 1 July 2020, and on 4 August 2020, in accordance with the subscription agreement with Sofinnova Crossover 1 SLP, Dr Thomas Burt was appointed as a Non-Executive Director. All other Directors remained throughout the period under review.

As of the date of this Report the Board comprises seven Directors in total: an independent Non-Executive Chairman, two Executive Directors and four Non-Executive Directors (three being independent), reflecting a blend of different experiences and backgrounds. The skills and experience of the Board are set out in their biographical details on pages 19 to 22. The experience and knowledge of each of the Directors give them the ability to challenge strategy constructively and to scrutinize performance.

The Board is responsible to the shareholders for the proper management of the Group and meets typically bi-monthly to set the overall direction and strategy of the Group, to review scientific, operational and financial performance, and to advise on management appointments. Whilst, as a result of restrictions caused by COVID-19 measures, the majority of these meetings have been held virtually via video conferencing, there has been no reduction in their frequency, nor, in the opinion of the Board, their effectiveness. 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. The number of meeting attended by each Director can be found on page 28.

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.

Time Commitments

On joining the Board, Non-Executive Directors receive a formal appointment letter, which identifies the terms and conditions of their appointment and, in particular, the time commitment expected of them. A potential Director candidate (whether an Executive Director or Non-Executive Director) is required to disclose all significant outside commitments prior to their appointment. The Board is satisfied that both the Chairman and the other Non-Executive Directors are able to devote sufficient time to the Group's business.

Independence of Directors

The Directors acknowledge the importance of the principles of the QCA Code which recommends that a company should have at least two independent Non-Executive Directors. 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. Specifically the Board has considered and determined that since the date of their respective appointments Bernhard Kirschbaum, Peter Presland and Sarah Gordon Wild are independent in character and judgement and that they:

- have not been employees of the Company within the last five years;
- have not, or have not had within the last three years, a material business relationship with the Group;
- have no close family ties with any of the Group's advisers, Directors or senior employees;
- do not hold cross directorships or have significant links with other Directors through involvement in other companies or bodies; and
- do not represent a significant shareholder.

Dr Thomas Burt represents Sofinnova Crossover 1 SLP on the Board of Directors under the terms of a share subscription agreement, and is not considered to be independent.

The Company Secretary maintains a register of outside interests and any potential conflicts of interest are reported to the Board. The Non-Executive Directors have regular opportunities to meet without Executive Directors being present (including time after Board and committee meetings).

Professional Development

Throughout their period in office, the Directors are continually updated on the Group's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Group and the industry it operates in as whole by written briefings and meetings with senior executives. Directors are also advised on appointment of their legal and other duties and obligations as a Director of an AIM-Listed company both in writing and in face to face meetings with the Company Secretary and Nominated Adviser ("NOMAD").

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

Board Committees

The Board does not maintain a separate Nominations Committee or Corporate Governance Committee as these matters are deemed sufficiently important such that the full Board will address these matters as required.

The full terms of reference of the Board committees are published on the Group's website at www.redxpharma.com.

Audit Risk & Disclosure Committee

There were two changes to the composition of the committee during the year under review. Following the enlargement of the Board, Mr Iain Ross stepped down from the committee on 4 August 2020 and was replaced by Mrs Sarah Gordon Wild. Mr Peter Presland and Dr Bernd Kirschbaum remained as members of the Audit, Risk & Disclosure Committee throughout the period under review. Mr Peter Presland is the Chairman of the

Corporate Governance Statement continued

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; and
- 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.

During the year, the committee met to review audit planning and findings with regard to the Annual Report, and planning and findings from the review of the interim Financial Statements. In addition it reviewed and updated the Group's Financial Reporting Procedures Manual and Risk Register.

Remuneration Committee

There were two changes to the composition of the committee during the year under review. Following the enlargement of the Board, Mr Iain Ross stepped down from the committee on 4 August 2020 and was replaced by Mrs Sarah Gordon Wild. Dr Bernd Kirschbaum and Mr Peter Presland remained as members of the Remuneration Committee throughout the period under review. Dr Bernd Kirschbaum is the Chairman of the Remuneration Committee. The responsibilities of the committee include the following:

- Determining and agreeing with the Board 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; and
- Determining the vesting of awards under the Group's long-term incentive plans and exercise of share options.

During the year it met to discuss staff remuneration, options packages, bonus schemes and remuneration packages for the Directors.

The Directors' Remuneration Report is presented on pages 32 to 34.

Attendance at meetings

The Board meets regularly on a bi-monthly basis, together with further meetings as required. The Audit and Remuneration Committees meet as required, but with a minimum of two meetings each year.

The Directors attended the following meetings during the year:

	Board	Audit	Remuneration
Mr Iain Ross	34/34	2/2	3/3
Mrs Lisa Anson	33/34		
Dr James Mead	33/34		
Dr Bernd Kirschbaum	33/34	2/2	3/3
Mr Peter Presland	31/34	2/2	3/3
Mrs Sarah Gordon Wild	3/3		
Dr Thomas Burt	2/2		

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.

Redx is an entrepreneurial company with strong financial and management controls within the business. Examples of control procedures include:

- an annual budget set by the Board with regular review of progress;
- monthly management accounts;
- dual bank signatories for all payments with pre-determined authority limits for specific Directors and employees;

- regular meetings of Executive Directors and senior management to review management information and follow up on operational issues or investigate any exceptional circumstances:
- a risk register;
- clear levels of authority, delegation and management structure;
- Board review and approval of significant contracts and overall project spend;
- a Quality Management System to support the clinical trial activities the Company conducts, ensuring compliance with clinical trial legislation and guidelines;
- annual audits and other contractor management procedures to ensure good vendor performance;
- restriction of user access to IT systems; and
- ongoing review of the need for IP protection of core assets and processes.

The Company's system of internal controls is designed to safeguard the Company's assets and to ensure the reliability of information used within the business. The system of controls manages appropriately, rather than eliminates, the risk of failure to achieve business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

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.

The Independent Auditor does not perform a comprehensive review of internal control procedures, but reports to the Audit Committee on the outcomes of its annual audit process. The Board confirms that the effectiveness of the system of internal controls, covering all material controls including financial, operational and compliance controls and risk management systems, has been reviewed during the year under review and up to the date of approval of the Annual Report.

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.

Board effectiveness and performance evaluation

The Redx Board is mindful that it needs to continually monitor and identify ways in which it might improve its performance and recognises that board evaluation is a useful tool for enhancing a board's effectiveness. Alongside the formal annual evaluation, the Chairman routinely assesses the performance of the Board and its members and discusses any problems or shortcomings with the relevant Directors. As a consequence, during the period, the Board has undertaken a rigorous and formal annual evaluation of its own performance, balance of skills, experience, independence, diversity (including gender diversity) and other factors relevant to its effectiveness (and also of that of its committees) and the performance of its individual Directors. During the review, the Chairman undertook a formal discussion with each of the Directors regarding the performance of the Board and its committees and the other Directors' own individual contributions and performance. In preparation, the Chairman solicited the views of the other Directors, including the completion by each Director of a confidential questionnaire.

With regard to the evaluation of the Board itself, the discussions focused in particular on:

- Board roles and responsibilities;
- the Board's contribution to developing and testing strategy and to risk management;
- the composition of the Board (i.e. mix of skills, experience and expertise);
- the effectiveness of internal and external relationships and communication;
- the effectiveness in anticipating and responding to challenges and crises;
- the effectiveness of Board committees; and
- the flexibility of the Board in dealing with a wide range of issues.

The evaluation of the performance of individual Directors encompassed:

- preparation and meeting attendance;

Corporate Governance Statement continued

- preparedness to understand key Company issues;
- quality of contribution at Board and committee meetings;
- contribution to the development of strategy and risk management;
- use of previous experience to contribute to key issues and strategy;
- effectiveness in challenging assumptions, in maintaining own views and opinions and in following up main areas of concern;
- building successful relationships with other Board members, management and advisers; and
- communication with and influence on other Board members, management and key shareholders.

In addition to the above, the Chairman was evaluated on his:

- effective leadership of the Board;
- management of relationships and communications with shareholders;
- identification of development needs of individual Directors with a view to enhancing the overall effectiveness of the Board as a team;
- promotion of the highest standards of corporate governance; and
- management of Board meetings and ensuring effective implementation of Board decisions.

Following the reviews, the Chairman shared his observations and any actions arising, where appropriate, with the other Directors. These individual evaluations aim to confirm that each Director continues both to contribute effectively and to demonstrate commitment to the role (including the allocation of necessary time for preparation and attendance at Board and committee meetings and any other duties).

The Chief Executive Officer reports to the Board and the Chairman reviews her performance on behalf of the Board. The Chief Executive Officer reviews the performance of the other Executive Director. The Executive Directors and the other Non-Executive Directors are responsible for evaluating the performance of the Chairman.

Following the 2020 evaluation process, the Company considers that the Board and its individual members continue to perform effectively, that the Chairman performs his role appropriately and that the process for evaluation of his performance has been conducted in a professional and rigorous manner.

Actions the Board intends to focus upon and where necessary strengthen in the next 12 months were identified as follows:

- **Contingency Planning** - In light of the recent COVID-19 pandemic and the ramifications thereof, it was agreed that in such circumstances the Board and its Committees should pro-actively consider, review and assess contingency scenarios on a regular basis.
- **Strategy** - as the Company's intention is to expand its assets and capabilities it was agreed that more emphasis at Board meetings should be put on strategic discussions and risk analysis and that in addition an Annual Strategy session for the Board should be held in addition to regular board meetings.
- **Succession Planning** - as the Company expands it was agreed that the Board needs to formalise its approach to Board & Management succession planning in terms of skills, geography and diversity.

Corporate Social Responsibility

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

Employment

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake and thereafter to develop and incentivise staff.

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.

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.

During the period under review the Board believes that the communication with the shareholders has been effective in that Mr Iain Ross and/or Mrs Lisa Anson have had meetings and/or calls with the, majority of institutional shareholders and high net worth shareholders and during the period there have been several shareholder briefing sessions involving Directors and senior managers.

Normally shareholders are welcome to attend the Group's AGM, where they have the opportunity to meet the Board. Due to the restrictions surrounding COVID-19 measures, shareholder meetings are currently being conducted as closed meetings. However, all shareholders will have at least 21 days' notice of the AGM and are encouraged to vote by proxy. The Board is committed to continued engagement with its shareholders, and contact details can be found on the website.

The Board believes that the Group has a strong governance culture and this is re-enforced by the adoption of the QCA Code and recognition of the 10 principles of corporate governance set out in the QCA Code, which the Board continually considers in a manner appropriate for a company of its size.

Further details of how we comply with the Corporate Governance Code for small and mid-sized companies can be found on our website, www.redxpharma.com

Iain G. Ross
Chairman of the Board of Directors

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 2019/20 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 Group 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 the current and previous years. The share options will vest at various future dates as described in the table on page 34. Certain of the options as detailed below have performance conditions relating to the vesting of these options based on scientific, clinical and commercial milestones. The remaining options have no conditions attached to vesting other than service conditions.

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 Group 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 notice to the other. The details of the Directors' contracts are summarised below:

	Date of Contract	Notice period
Lisa Anson	1 June 2018	6 months
James Mead	1 February 2019	6 months

Mrs Lisa Anson was appointed CEO and an Executive Director on 1 June 2018. She is paid £320,000 per annum and qualifies for employee benefits including participation in the annual performance bonus and option schemes.

Dr James Mead was appointed CFO and an Executive Director, on 1 February 2019. He is paid £152,250 per annum and qualifies for employee benefits including participation in the annual performance bonus and option schemes.

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. No remuneration is paid to Non-Executive Directors who are not considered to be independent.

The Non-Executive Directors have not received any pension, bonus, benefits or option grants from the Group. Their Letters of Appointment are reviewed by the Board annually.

Directors' remuneration

The Directors received the following remuneration during the year:

	Salaries, bonuses and fees £	Pension contributions £	Share based payments £	Total 2019/20 £	Salaries, bonuses and fees £	Pension contributions £	Share based payments £	Total 2018/19 £
Executive								
L Anson	481,133	27,241	110,733	619,107	390,000	26,362	22,644	439,006
Dr J Mead[1]	188,500	7,431	41,723	237,654	96,667	4,833	5,220	106,720
D Jackson[2]	-	-	-	-	33,333	1,667	4,929	39,929
Non-Executive								
Iain Ross	80,000	-	-	80,000	80,000	-	-	80,000
Dr B Kirschbaum	46,000	-	-	46,000	46,000	-	-	46,000
P Presland	45,000	-	-	45,000	45,000	-	-	45,000
S Gordon Wild[3]	10,000	-	-	10,000	-	-	-	-
Dr T Burt[4]	-	-	-	-	-	-	-	-
	850,633	34,672	152,456	1,037,761	691,000	32,862	32,793	756,655

[1]J. Mead was appointed as a Director on 1 February 2019.
[2]D. Jackson resigned as a Director on 31 January 2019.
[3]S. Gordon Wild was appointed as a Director on 1 July 2020.
[4]T. Burt was appointed as a Director on 4 August 2020 under the terms of the subscription agreement with Sofinnova Crossover 1 SLP, he is considered to be a non-independent Director and receives no remuneration.

No compensation for loss of office was paid in the years ended 30 September 2020 or 30 September 2019.

Mr Ross, Mr Presland, Dr Kirschbaum, Mrs Gordon Wild and Dr Burt do not participate in the Group Option Scheme.

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 2020	At 1 October 2019
Executive		
L Anson	-	-
J Mead	-	-
Non-Executive		
I Ross	215,870	600,000
P Presland	118,849	120,000
B Kirschbaum	-	50,000

Directors' Remuneration Report continued

Directors Share options

All share options previously granted to the directors were surrendered on the introduction of a new option scheme. Of the new options granted during the year, a number have performance conditions relating to the vesting of these options based on scientific, clinical and commercial milestones. There are no performance conditions attached to the vesting of the remaining options other than service conditions. Details of the options are as follows:

Director	Date of grant	At 1 October 2019	Granted during the period/ (surrendered)	At 30 September 2020	Price per share (p)	Date from which exercisable	Expiry date
L Anson	1-Jun-18	600,000	(600,000)	-	13.75	2-Jun-20	1-Jun-28
	1-Jun-18	600,000	(600,000)	-	20.0	2-Jun-20	1-Jun-28
	1-Jun-18	600,000	(600,000)	-	27.0	2-Jun-20	1-Jun-28
	1-Jun-18	600,000	(600,000)	-	35.0	2-Jun-20	1-Jun-28
	1-Jun-18	600,000	(600,000)	-	42.5	2-Jun-20	1-Jun-28
	1-Jun-18	600,000	(600,000)	-	50.0	2-Jun-20	1-Jun-28
	1-Jul-20	-	1,000,000	1,000,000	15.5	1-Jul-21	1-Jul-30
	1-Jul-20	-	1,000,000	1,000,000	15.5	1-Jul-22	1-Jul-30
	1-Jul-20	-	1,000,000	1,000,000	15.5	1-Jul-23	1-Jul-30
	1-Jul-20	-	5,300,000*	5,300,000	15.5	1-Jul-23	1-Jul-30
		3,600,000	4,700,000	8,300,000			
J Mead	13-Feb-19	200,000	(200,000)	-	13.75	14-Feb-21	13-Feb-29
	13-Feb-19	200,000	(200,000)	-	20.0	14-Feb-21	13-Feb-29
	13-Feb-19	200,000	(200,000)	-	27.0	14-Feb-21	13-Feb-29
	13-Feb-19	200,000	(200,000)	-	35.0	14-Feb-21	13-Feb-29
	13-Feb-19	200,000	(200,000)	-	42.5	14-Feb-21	13-Feb-29
	13-Feb-19	200,000	(200,000)	-	50.0	14-Feb-21	13-Feb-29
	1-Jul-20	-	333,333	333,333	15.5	1-Jul-21	1-Jul-30
	1-Jul-20	-	333,333	333,333	15.5	1-Jul-22	1-Jul-30
	1-Jul-20	-	333,334	333,334	15.5	1-Jul-23	1-Jul-30
	1-Jul-20	-	750,000*	750,000	15.5	1-Jul-23	1-Jul-30
		1,200,000	550,000	1,750,000			

*vesting subject to performance conditions

Dr Bernd Kirschbaum
Chairman of the Remuneration Committee

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 2020 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated Statement of Cash Flows and notes to the 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 Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- 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.

Independent Auditor's report to the members of Redx Pharma Plc continued

Summary of our audit approach

Key audit matters	**Group** • Convertible loan accounting **Parent Company** • Impairment of intercompany receivables
Materiality	**Group** • Overall materiality: £340,000 • Performance materiality: £255,000 **Parent Company** • Overall materiality: £265,000 • Performance materiality: £198,000
Scope	Our audit procedures covered 100% of revenue, total assets and loss before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company 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 group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

Convertible loan accounting

Key audit matter description	As set out in Note 18 to the financial statements and the critical accounting estimates on page 54, during the year the Group entered into a convertible loan agreement with a value of £22.2m. The loan agreement contains conversion rights which are exercisable by the loan note holder at any point in time over the life of the loan note. The existence of the conversion rights and also clauses with regards to the interest rates applicable makes this a complex financial instrument whereby specific consideration is required to the valuation of the separate elements identified under the agreement. Valuation of the individual elements involves the use of a number of judgements and estimates which increases the risk of material error arising.
How the matter was addressed in the audit	We obtained the consideration made by management together with the detailed calculations supporting the valuation applied to the separate elements. The calculations were based on a number of assumptions. We challenged management on the assumptions made within the calculations and considered the reasonableness of the judgements made based on other areas of the financial statements and additionally in relation to other publicly available information where relevant. We agreed the mechanical accuracy of the calculations provided and reviewed the disclosures made.
Key observations	Note 18 sets out Management's accounting of the convertible loan notes and the sensitivity of the valuation of the debt element to changes in a key assumption.

Impairment of intercompany receivables	
Key audit matter description	As set out in Note 6 to the Parent Company Financial Statements, 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 2020, the carrying value of amounts due from group undertakings amounted to £19,513k (2019: £14,911k) in the Company Statement of Financial Position.
How the matter was addressed in the audit	We identified amounts due from each subsidiary undertaking and discussed with management whether each balance is recoverable taking into account the strategic plans established by the Board in respect of each subsidiary undertaking. We also obtained management's impairment reviews and underlying calculations prepared to support the carrying value of the financial assets. We reviewed the forecasts and challenged the assumptions therein and considered whether they were consistent with other forecasts prepared by management.
Key observations	No impairment of amounts due from subsidiaries was identified by management.

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. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£340,000	£265,000
Basis for determining overall materiality	2.2% of total expenses	2.3% of total expenses
Rationale for benchmark applied	The Group is an early revenue bioscience business where the ongoing research expenditure is currently expensed and hence the level of this expenditure reflects the performance of the Group.	
Performance materiality	£255,000	£198,000
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £17,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £13,200 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's report to the members of Redx Pharma Plc continued

An overview of the scope of our audit

The group consists of 4 components, all of which are based in the UK.

	Number of components	Revenue	Total assets	Loss before tax
Full scope audit and Total	4	100%	100%	100%

Full scope audits were undertaken for all components.

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 25, 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.

Use of our report

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

RSM UK Audit LLP

Andrew Allchin (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Central Square, Fifth Floor
29 Wellington Street
Leeds
LS1 4DL
26 January 2021

Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2020

	Note	IFRS 16 Year ended 30 September 2020 £'000	IAS 17 Year ended 30 September 2019 £'000
Continuing operations			
Revenue	1	5,685	3,131
Costs of sale of programme	1	-	(350)
Operating expenses	6	(14,203)	(10,170)
Onerous lease credit	21	6	146
Derivative financial instrument	20	67	(67)
Recovery of derecognised asset	2	-	869
Share based compensation	3	(568)	(45)
Other operating income	4	812	241
Loss from operations		**(8,201)**	**(6,245)**
Finance costs	5	(974)	(102)
Finance income	5	7	12
Loss before taxation		**(9,168)**	**(6,335)**
Income tax	7	(45)	2,017
Total comprehensive loss for the year attributable to owners of Redx Pharma Plc		**(9,213)**	**(4,318)**
Loss per share (pence) from continuing operations			
Basic	8	(5.4)	(3.4)
Diluted	8	(5.4)	(3.4)

IFRS 16 was adopted on 1 October 2019 for our statutory reporting without restating prior year figures. As a result the primary statements are shown on an IFRS 16 basis for 2020 and an IAS 17 basis for 2019. Note 19 provides a reconciliation of the two measures. The adoption of IFRS 16 in the year ended 30 September 2020 resulted in an increase in depreciation of £602k and finance costs of £325k. Other operating expenses, excluding depreciation, relating to accommodation, decreased by £788k.

Consolidated Statement of Financial Position

At 30 September 2020 Company No. 07368089

	Note	IFRS 16 2020 £'000	IAS 17 2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	136	134
Right of use asset – property lease	11	3,573	-
Intangible assets	12	411	417
Total non-current assets		**4,120**	**551**
Current assets			
Trade and other receivables	14	1,923	1,232
Current tax		32	871
Cash and cash equivalents	15	27,513	3,704
Total current assets		**29,468**	**5,807**
Total assets		**33,588**	**6,358**
Liabilities			
Current liabilities			
Trade and other payables	16	3,362	3,445
Contract liabilities	17	7,069	-
Borrowings	18	-	468
Lease liabilities	19	503	-
Derivative financial instrument	20	-	648
Provisions	21	-	306
Total current liabilities		**10,934**	**4,867**
Non-current liabilities			
Borrowings	18	16,758	-
Lease liabilities	19	3,209	-
Total liabilities		**30,901**	**4,867**
Net assets		**2,687**	**1,491**
Equity			
Share capital	24	1,952	1,265
Share premium	25	37,184	33,263
Share-based compensation		1,191	1,104
Capital redemption reserve		1	1
Convertible note reserve	18	4,572	-
Retained deficit		(42,213)	(34,142)
Equity attributable to shareholders		**2,687**	**1,491**

The financial statements were approved and authorised for issue by the Board on 26 January 2021 and were signed on its behalf by:

Lisa Anson
Chief Executive Officer

Consolidated Statement of Changes in Equity

For the year ended 30 September 2020

	Share capital £'000	Share premium £'000	Share based payment £'000	Capital Redemption Reserve £'000	Convertible Note Reserve £'000	Retained Deficit £'000	Total Equity £'000
At 1 October 2018	**1,265**	**33,263**	**1,162**	**1**	**-**	**(29,927)**	**5,764**
Loss and total comprehensive income for the year	-	-	-	-	-	(4,318)	(4,318)
Transactions with owners in their capacity as owners							
Share based compensation	-	-	45	-	-	-	45
Release of share options lapsed in the year	-	-	(103)	-	-	103	-
Movement in year	-	-	(58)	-	-	(4,215)	(4,273)
At 30 September 2019	**1,265**	**33,263**	**1,104**	**1**	**-**	**(34,142)**	**1,491**
IFRS 16 transition	-	-	-	-	-	661	661
Loss and total comprehensive income for the year	-	-	-	-	-	(9,213)	(9,213)
Transactions with owners in their capacity as owners							
Share issues	687	4,144	-	-	-	-	4,831
Share issue costs	-	(223)	-	-	-	-	(223)
Recognition of equity element of loan notes	-	-	-	-	4,572	-	4,572
Share based compensation	-	-	568	-	-	-	568
Release of share options lapsed in the year	-	-	(481)	-	-	481	-
Movement in year	687	3,921	87	-	4,572	(8,071)	1,196
At 30 September 2020	**1,952**	**37,184**	**1,191**	**1**	**4,572**	**(42,213)**	**2,687**

Consolidated Statement of Cash Flows

For the year ended 30 September 2020

	Note	IFRS 16 Year ended 30 September 2020 £'000	IAS 17 Year ended 30 September 2019 £'000
Net cash flows from operating activities			
Loss for the year		(9,213)	(4,318)
Adjustments for:			
Income tax		45	(2,017)
Finance costs		974	102
Finance income		(7)	(12)
Depreciation and amortisation		665	91
Share based compensation		568	45
Derivative financial instrument		(67)	67
Onerous lease provision		(6)	(146)
Recovery of derecognised asset		-	(869)
Profit on disposal of assets		(4)	(60)
Movements in working capital			
(Increase)/decrease in trade and other receivables		(905)	446
Increase/(decrease) in trade and other payables and provisions		7,330	(711)
Cash used in operations		**(620)**	**(7,382)**
Tax credit received		1,008	2,701
Interest received		7	13
Net cash generated by/(used in) operations		**395**	**(4,668)**
Cash flows from investing activities			
Sale of property, plant and equipment		4	60
Purchase of property, plant and equipment		(59)	(28)
Net cash (used in)/generated by investing activities		**(55)**	**32**
Cash flows from financing activities			
Proceeds of share issues		2,099	-
Share issue costs		(223)	-
Derecognised asset recovered		-	869
Short term loan		5,000	-
Loan notes issued		23,680	1,000
Loan note costs		(1,117)	-
Repayment of short term loan		(5,000)	-
Payment of lease liabilities		(788)	-
Interest paid		(182)	-
Net cash generated by financing activities		**23,469**	**1,869**
Net increase/(decrease) in cash and cash equivalents		**23,809**	**(2,767)**
Cash and cash equivalents at beginning of the year		3,704	6,471
Cash and cash equivalents at end of the year (See note 15 for details of restrictions on certain accounts)	15	**27,513**	**3,704**

Reconciliation of changes in liabilities arising from financing activities

	IFRS 16 2020 £'000	IAS 17 2019 £'000
MGL loan		
Balance b/fwd	1,116	-
Cash flows	1,500	1,000
Fair value adjustment of derivative element	(67)	67
Accrued interest	183	49
Amount capitalised into Ordinary shares	(2,732)	-
Balance c/fwd (disclosed as current borrowings, note 18 and derivative financial instrument, note 20)	-	1,116
IFRS 16 Lease liability		
Recognised on adoption of IFRS 16	4,175	-
Cash flows	(788)	-
Interest on lease liabilities	325	-
Balance c/fwd (disclosed as current and non-current lease liabilities, note 19)	3,712	-
Convertible loan notes		
Cash flows	22,180	-
Recognised as equity	(4,572)	-
Interest	267	-
Transaction expenses	(1,117)	-
Balance c/fwd (disclosed as non-current borrowings, note 18)	16,758	-
Short term loan		
Received	5,000	-
Repaid	(5,000)	-
	-	-

Notes to the Financial Statements

For the year ended 30 September 2020

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 Accounting Standards in conformity with the requirement of the Companies Act 2006.

New standards, amendments and interpretations adopted during the year ended 30 September 2020.

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, except for IFRS 16 which is documented further in these accounting policies.

Standard	Key requirements
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.
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.
Amendments to IFRS 9: Prepayment Features with Negative Compensation	The amendment will enable entities to measure at amortised cost some prepayable financial assets with so called negative compensation.
IFRIC 23 Uncertainty over Income Tax Treatment	The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 October 2019 and not early adopted.

A number of other new standards, amendments to standards and interpretations are effective for the annual periods commencing on or after 1 October 2020. None of these are expected to have a material impact on the Group.

Adoption of IFRS 16 "*Leases*"

This standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model that replaces the current model where leases are either recognised as a finance or operating lease.

Accounting Policies – continued

The Group has adopted IFRS 16 from 1 October 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 October 2019. The standard permits a choice on initial adoption, on a lease-by-lease basis, to measure the right of use asset at either its carrying amount as if IFRS 16 had been applied since the commencement of the lease, or an amount equal to the lease liability, adjusted for accruals or prepayments. The Group's only right-of-use asset, which was in relation to property, was measured at an amount equal to the lease liability, adjusted for the rent free period, held within accruals at 1 October 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 October 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 8.5%.

The Group is using practical expedients on transition to leases previously classified as operating leases, including:

– accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short-term leases; this includes the lease subject to an onerous lease provision; and

– excluding initial direct costs from the initial measurement of the right-of-use asset.

Estimates include calculating the discount rate which is based on the incremental borrowing rate.

On transition to IFRS 16, the following adjustments were made:

	£'000
Right-of-use assets	4,175
Accruals	661
Lease liability	(4,175)
Retained earnings	(661)

The adoption of IFRS 16 in the year to 30 September 2020 resulted in an increase in depreciation of £602k and finance costs of £325k. Operating expenses, excluding depreciation, relating to accommodation decreased by £780k. There is no effect on overall cash flows from implementing IFRS 16, however, there is a presentational change in that £788k of cash outflows are now disclosed under financing whereas under IAS 17 these would have been shown as operating cash outflows.

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.

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.

Notes to the Financial Statements – continued
For the year ended 30 September 2020

Accounting Policies – continued

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 or to 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 the Going Concern Basis of Accounting and Reporting on Solvency Risks – Guidance for directors of companies that do not apply the UK Corporate Governance Code".

The Group and parent company are subject to a number of risks similar to those of other development stage pharmaceutical companies. These risks include, amongst others, generation of revenues in due course from the development portfolio and risks associated with research, development, testing and obtaining related regulatory approvals of its pipeline products. Ultimately, the attainment of profitable operations is dependent on future uncertain events which include obtaining adequate financing to fulfil the Group's commercial and development activities and generating a level of revenue adequate to support the Group's cost structure.

The Group made a net loss of £9.2 million during the year, and at 30 September 2020 had total equity of £2.7 million including an accumulated deficit of £42.2 million. As at that date, the Group had cash and cash equivalents of £27.5 million.

On 21 December 2020, a general meeting authorised the issue of 45.6 million Ordinary shares by way of a Placing, and 0.2 million Ordinary shares via an Open Offer to existing shareholders, raising a further £25.7 million (gross) of funds to be used to further support and augment the Group's research pipeline. In addition, £5.1 million of the loan notes issued to Redmile and Sofinnova were converted into equity at their request.

The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of the approval of these financial statements. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that are expected to prevail over the forecast period. In particular, assessment has been made of likely milestone payment receipts, further contributions from collaboration agreements and the quantum of future tax refunds. Based on these forecasts, the Directors estimate that the cash held by the Group and expected receivables will be sufficient to support the current and proposed levels of activity to the end of Q4 2022. They have therefore prepared the financial statements on a going concern basis.

Accounting Policies – continued

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 IFRS 8.

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 Company and its subsidiaries operate ("the functional currency") which is UK sterling (£). Some elements of revenue are received in US Dollars, and whilst these are not currently sufficiently large to be material, the Directors periodically review the situation. 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.

Revenue

Revenue from contracts with customers is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred goods or services to the customer. Contract assets are recognised when the consolidated entity has transferred goods or services to the customer but where the consolidated entity is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

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.

Notes to the Financial Statements – continued
For the year ended 30 September 2020

Accounting Policies – continued

Provisions

Where, at the reporting date, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will settle the obligation, a provision is made in the statement of financial position. Provisions are made using best estimates of the amount required to settle the obligation and are discounted to present values using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Changes in estimates are reflected in profit or loss in the period they arise.

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.

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, right of use assets, Intellectual property and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. Goodwill is assessed annually regardless of any indication of impairment. 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 "*Impairment of assets*".

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.

Accounting Policies – continued

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

Under IAS 17 in the year ended 30 September 2019, leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Rentals payable under operating leases (net of any incentives received from the lessor) were charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the relevant lease.

From 1 October 2019, the Group adopted IFRS 16 "*Leases*", please see the revised accounting policy on page 46.

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.

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.

It is considered the above criteria are usually met when a drug has passed all stages of clinical trials and is ready for commercial development.

Notes to the Financial Statements – continued
For the year ended 30 September 2020

Accounting Policies – continued

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

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 in 2017 is estimated to have a useful life of 20 years, and is amortised over this 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 and performance based 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 are vested and expire, a corresponding credit is recognised through reserves. Where they are unvested, an acceleration of charge occurs.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Consolidated 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 (see note 18).

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for expected credit losses. Appropriate provisions for estimated irrecoverable amounts are recognised in the Consolidated Statement of Comprehensive Income for any expected credit losses, as detailed in the impairment of financial assets policy below. 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.

Accounting Policies – continued

(d) Derivative financial instrument

Derivative financial instruments are recognised initially at fair value. They are subsequently remeasured at fair value at each reporting date using an option pricing model, with any change in value recognised in the Consolidated Statement of Comprehensive Income.

(e) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the Statement of Financial Position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate of an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. Where it meets the definition of equity, the remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders' equity as a convertible note reserve, net of transaction costs. The calculation of interest on the convertible notes by reference to the USD prime rate gives rise to a potential derivative financial instrument, however in accordance with IFRS 9 *Financial instruments*, as this cannot be quantified, no amount is recognised. The carrying amount of the equity component of the conversion option is not remeasured in the subsequent years. The corresponding interest on the liability component of convertible notes is expensed to profit or loss.

Impairment of financial assets

The Group recognised a loss allowance for expected credit losses on financial assets. The expected credit losses are estimated by reference to an analysis of the debtors' current financial position. The loss allowance recognised at the end of the year was £nil (2019: £nil).

Critical accounting estimates and judgements

The Directors believe that the correct allocation between debt and derivative financial instrument of the capitalisable loan from Moulton Goodies Ltd is a significant accounting judgement. In calculating the split in accordance with IAS 32, the Directors have employed an option pricing model to value the derivative element, with the balance of the amount received being treated as debt (see note 20).

Critical accounting estimates 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, assessment of the satisfaction of performance criteria, 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 3 and 26.

Notes to the Financial Statements – continued
For the year ended 30 September 2020

Accounting Policies – continued

(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 as detailed in note 12.

(c) Valuation of derivative liability

The issuing of a £1m loan note to Moulton Goodies Ltd has, as a result of its terms allowing capitalisation into a variable number of shares, led to the recognition of the conversion feature as an embedded derivative financial instrument (see note 20), rather than an equity instrument. In arriving at a fair value for this liability an option pricing model was used. The use of this model to calculate a fair value involves using a number of estimates and judgements to establish the appropriate inputs to be entered into the model, covering areas such as interest rates, the measurement of the volatility of the Company's share price and dividend rate, exercise restrictions and behavioural considerations. A significant element of judgement is therefore involved in the calculation of the fair value.

(d) Lease liability

In valuing the lease liability on implementation of IFRS 16 Leases, the Directors were required to use their judgement in setting an appropriate interest rate at 8.5% (see note 19 and the specific accounting policy on page 46).

(e) Convertible loan notes

The issuing of £22.2m of loan notes to Redmile and Sofinnova led to the recognition of a compound financial instrument. In arriving at the value of the loan notes, and in turn the equity element to be recognised, the Directors were required to make certain assumptions regarding repayment of the notes, together with judgements in setting an appropriate interest rate for the calculation of 8.5% (see note 18).

1. Revenue

In August 2020 the Group completed an outlicensing agreement with AstraZeneca and in September 2020, the Group agreed a further collaboration agreement with Jazz Pharmaceuticals plc for the development of two cancer targets. Revenue is recognised over the course of the research collaboration in accordance with the Group's accounting policies and IFRS 15.

	2020 £'000	2019 £'000
Sale & outlicensing of scientific programmes	3,142	2,790
Revenue from research collaboration	516	-
Revenue from research and preclinical development services	2,027	341
	5,685	**3,131**

2. Recovery of derecognised asset

At 30 September 2017, the Group derecognised as an asset a loan due from Redag Crop Protection Ltd ("Redag"), on the grounds of the conditionality attached to repayment. The loan was in the sum of £715k and accrued interest at 5% per annum. In February 2019, a sale of assets by Redag triggered the conditions necessary for the repayment of the loan, and an amount of £869k was recovered, representing the full amount of the original loan and all interest due up to the date of repayment.

3. 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. 12,600,000 of the options granted on 1 July 2020 are subject to performance conditions based on scientific, clinical and commercial milestones. There are no further conditions attached to the vesting of other options other than employment service conditions. Further information on options is given in Note 26.

	2020 Number	2019 Number
Outstanding at the beginning of the year	10,888,963	10,149,563
Options granted and vested in period	-	650,000
Options exercised in period	-	-
Options surrendered and lapsed in period	(8,924,894)	(1,210,600)
Options granted and vesting in future periods	21,966,731	1,300,000
Outstanding at the end of the year	**23,930,800**	**10,888,963**

Weighted average exercise price information is given in Note 26.

	£'000	£'000
Charge to Statement of Comprehensive Income in period	**568**	**45**

Assumptions used were an option life of 5 years, a risk free rate of 0.6%-2% and no dividend yield. Other inputs were as follows:

Volatility (based on historic information)	40% – 124%	40%
	£	£
Assumed share price at grant date	0.1375 to 0.85	0.1375 to 0.85
Exercise price	0.1375 to 0.85	0.1375 to 0.85

Of the variable assumptions, volatility is considered to be the most important. An increase in volatility by 10% would increase the balance required on the share based payments reserve by £66k, and a decrease of 10% would decrease the balance required by £70K.

4. Other operating income

	2020 £'000	2019 £'000
Reimbursement of costs	263	231
RDEC income	422	(15)
Other grant income	90	-
Other income	37	25
	812	**241**

There is no contingent liability attaching to repayment of other grant income.

Notes to the Financial Statements – continued
For the year ended 30 September 2020

5. Finance expense and finance income

	2020 £'000	2019 £'000
Finance expense		
Loan interest	620	49
Interest on lease liabilities	325	-
Unwind of discount on onerous lease provision	17	53
Other interest and similar charges	12	-
	974	**102**
Finance income	7	12
Bank and other short term deposits	**7**	**12**

6. Operating expenses

	2020 £'000	2019 £'000
The following items have been included in arriving at loss before taxation		
Research and development	9,941	6,166
Staff costs – Note 9 (excluding share based compensation, reorganisation & relocation costs)	3,598	3,458
Establishment and general:		
Depreciation of owned property, plant and equipment	57	85
Depreciation of right of use asset	602	-
Amortisation of intangible assets	6	6
Operating leases on land and buildings	-	389
Exchange (gains)/losses on translation	(51)	16
Amounts payable to RSM UK Audit LLP and their associates by the Company and its subsidiaries amounted to:		
Audit of subsidiaries	15	15
Audit of parent company and consolidation	24	24
Other services – interim review	11	11
	14,203	**10,170**

7. Income tax

	2020 £'000	2019 £'000
Current income tax		
Corporation tax	78	(819)
Adjustment in respect of previous periods	(33)	(1,198)
Income tax charge/(credit) per the Consolidated Statement of Comprehensive Income	**45**	**(2,017)**

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

	2020 £'000	2019 £'000
Loss before tax	(9,168)	(6,335)
Loss before tax multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	(1,742)	(1,203)
Effects of:		
R&D expenditure credits	78	28
Expenses not deductible for tax purposes	353	158
Additional deduction for R&D expenditure	-	(725)
Surrender of tax losses for R&D tax credit refund	-	263
Adjustment in respect of previous periods	(33)	(1,198)
Deferred tax losses not recognised	1,389	660
Total taxation	**45**	**(2,017)**

8. Loss per share

Basic loss per share is calculated by dividing the total comprehensive loss 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:

	2020 £'000	2019 £'000
Loss for the period attributable to the owners of the Company	(9,213)	(4,318)

	Number	Number
Weighted average number of shares – basic	170,050,369	126,447,914
Weighted average number of shares – diluted	170,050,369	126,447,914

	Pence	Pence
Loss per share – basic	(5.4)	(3.4)
Loss per share – diluted	(5.4)	(3.4)

The loss and the weighted average number of shares used for calculating the diluted loss per share 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 – continued
For the year ended 30 September 2020

9. Employees and key management

	2020 £'000	2019 £'000
Staff costs (including Directors) comprise		
Wages and salaries	3,119	3,034
Social security costs	352	279
Pension costs	127	145
Share based compensation	568	45
Total employee related costs	**4,166**	**3,503**

	2020 Number	2019 Number
Number of employees		
Average number of employees (including Directors)		
Management & Admin	14	15
R&D – Chemistry	13	17
R&D – Biology	11	14
R&D – Analytical	2	6
	40	**52**

	2020 £'000	2019 £'000
Directors' remuneration		
Short term remuneration	851	691
Pension costs	35	33
	886	**724**

Retirement benefits are accruing to 2 Directors (2019: 3)

Of the total balance on the share option reserve of £1.19m, £0.24m relates to options granted to Directors. Further information relating to Directors' remuneration can be found in the Remuneration Report on page 32.

	2020 £'000	2019 £'000
Key management (including Directors)		
Short term remuneration	1,095	1,100
Social security costs	144	138
Pension costs	44	54
Share based compensation	102	(17)
	1,385	**1,275**

Key management (2020: 8 people, 2019: 7 people) are considered to be the Directors and other members of the Executive Management Team. Payments to Directors consist of basic salaries, fees and pension.

9. Employees and key management – continued

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

	2020 £'000	2019 £'000
Short term employment benefits	481	390
Pension contributions	27	26
Share based payments	111	23
	619	**439**

10. Property, plant and equipment

	Leasehold Improvements £'000	Laboratory equipment £'000	Computer equipment £'000	Total £'000
Cost				
At 1 October 2018	114	1,006	272	1,392
Additions	-	28	-	28
Disposals	-	(133)	(10)	(143)
At 30 September 2019	114	901	262	1,277
At 1 October 2019	114	901	262	1,277
Additions	-	8	51	59
Disposals	-	(8)	-	(8)
At 30 September 2020	**114**	**901**	**313**	**1,328**
Depreciation				
At 1 October 2018	25	909	267	1,201
Charge for the year	11	70	4	85
Disposals	-	(133)	(10)	(143)
At 30 September 2019	36	846	261	1,143
At 1 October 2019	36	846	261	1,143
Charge for the year	11	34	12	57
Disposals	-	(8)	-	(8)
At 30 September 2020	**47**	**872**	**273**	**1,192**
Net book value				
At 30 September 2020	**67**	**29**	**40**	**136**
At 30 September 2019	78	55	1	134

Notes to the Financial Statements – continued
For the year ended 30 September 2020

11. Right of use asset

	2020 £'000	2019 £'000
Property lease		
Recognised at 1 October 2019	4,175	-
Less: Accumulated depreciation	(602)	-
	3,573	**-**

The right of use asset relates to the lease of laboratories and offices, for a term of ten years, of which 6 years remain.

12. Intangible Assets

	Intellectual property £'000	Goodwill £'000	Total £'000
Cost			
At 1 October 2018, 30 September 2019 and 30 September 2020	**121**	**309**	**430**
Accumulated amortisation			
At 1 October 2018	7	-	7
Amortisation	6	-	6
At 30 September 2019	13	-	13
At 1 October 2019	13	-	13
Amortisation	6	-	6
At 30 September 2020	**19**	**-**	**19**
Net carrying value			
At 30 September 2020	**102**	**309**	**411**
At 30 September 2019	108	309	417

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 up to September 2021 and estimates thereafter. The key variables that were used included: a terminal growth rate thereafter of 2%; and a pre-tax discount rate of 12%, which the Directors believe to be appropriate given the Group's historic capital costs.

The value in use suggested by the modelling was compared to the carrying value of both intangible fixed assets, property plant and equipment and right of use assets. 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.

13. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 5 to the Company's separate financial statements.

14. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	83	256
VAT recoverable	261	110
Other receivables	408	143
Accrued income	55	46
Prepayments	1,116	677
	1,923	**1,232**

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

The Group measures the loss allowance for trade and other receivables at lifetime or 12 month expected credit losses ("ECL"). The ECL is estimated using a probability-weighted analysis of all possible outcomes with reference to the debtors' financial position and forecasts of future economic conditions. The resultant estimated ECL is not considered material to the financial statements, therefore the Group has recognised a loss allowance of £nil (2019: £nil) against these receivables.

Details of the Group's credit risk management policies are shown in Note 22. The Group does not hold any collateral as security for its other receivables.

15. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	27,513	3,704
	27,513	**3,704**

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. At 30 September 2019 £500k of the above was held as security for the MGL loan in an account with restricted access. On the capitalisation of the loan on 21 January 2020, all restrictions were removed.

16. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	1,845	1,490
Employee taxes and social security	142	78
Other payables	5	54
Accruals	1,370	1,823
	3,362	**3,445**

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.

Notes to the Financial Statements – continued
For the year ended 30 September 2020

17. Contract liabilities

	2020 £'000	2019 £'000
Contract liabilities	7,069	-
	7,069	-
Reconciliation		
Brought forward	-	-
Recognised in the year (net)	7,585	-
Transfer to revenue	(516)	-
Carried forward	7,069	-

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was £14.65m as at 30 September 2020 (2019: £Nil) and is expected to be recognised as revenue in future periods as follows:

	2020 £'000	2019 £'000
Within 1 year	3,594	-
In the second to fifth years	11,060	-
	14,654	**-**

The contract liability (net of contract asset) relates to a single research collaboration contract.

18. Borrowings

	2020 £'000	2019 £'000
Current		
MGL loan due within one year (after recognition of embedded derivative)	-	468
	-	**468**

In June 2019 a capitalisable loan note facility of up to £2.5m was agreed with Moulton Goodies Ltd ("MGL"). As of 30 September 2019, £1m had been drawn down with associated further liabilities of £116k. The loan was secured by fixed and floating charges over all assets of the Group and its subsidiaries, with the exception of the pan-RAF research programme. Interest was payable at 10 per cent. per annum, with such interest to be paid at the same time as the loan was repaid. A further £1.5m was drawn down in November 2019.

As a result of the terms of capitalisation, the number of shares issued might vary, leading to the recognition of an embedded derivative liability in respect of the capitalisation element in line with IFRS 9 (see note 20). The remainder of the original loan note of £1m plus the new loan note of £1.5m was classified as borrowings.

18. Borrowings – continued

The loan, together with all associated interest, was capitalised at the request of the lender on 21 January 2020.

	2020 £'000	2019 £'000
Non-current		
Convertible loan notes	16,758	-
	16,758	**-**

On 4 August 2020 Redx Pharma plc issued convertible loan notes with a value of £22.2m. No interest is payable during the first 3 years, thereafter it is payable at a maximum rate equal to the US prime rate at that time. The notes are convertible into Ordinary shares of Redx Pharma plc, at any time at the option of the holder, or repayable on the third anniversary of the issue. The conversion rate is 1 Ordinary share for each £0.155 of loan note held. Total transaction costs of £0.88m (2019: £nil) have been offset against the convertible notes payable liability. In accordance with IAS 32 *Financial instruments, presentation* the notes have been assessed as compound instruments using a discount rate of 8.5%, and the value of the conversion feature (£4.57m) has been recognised as an Equity component (see the Consolidated Statement of Changes in Equity, and the reconciliation on page 45). The loan notes are secured by a fixed and floating charge over all the assets of the Group. An increase in discount rate to 9.5% would decrease the debt element by £0.44m and a decrease to 7.5% would increase the debt element by £0.46m.

19. Lease liabilities

	2020 £'000	2019 £'000
Recognised at 1 October 2019	4,175	-
Related interest expense	325	-
Repayment of lease liabilities	(788)	-
	3,712	**-**
Current	503	-
Non-current	3,209	-
	3,712	**-**

Reconciliation of IAS 17 operating lease commitments at 30 September 2019 to lease liability recognised on adoption of IFRS 16

	£'000
Operating lease commitments at 30 September 2019	5,164
Effect of discounting[1]	(1,279)
Other[2]	290
Lease liability recognised on adoption of IFRS 16	**4,175**

1 The previously disclosed lease commitments were undiscounted, whilst the IFRS 16 obligations have been discounted based on Redx's incremental borrowing rate specific to the leased asset.

2 Other reconciling items relate principally to the offsetting of rent free period credits in the disclosure of operating lease commitments in the 2019 financial statements.

Notes to the Financial Statements – continued
For the year ended 30 September 2020

20. Derivative financial liability

	2020 £'000	2019 £'000
Current		
Brought forward	648	-
Fair value at recognition	-	581
Fair value (gain)/loss in the year	(67)	67
Amount capitalised along with amounts disclosed as borrowings	(581)	-
Carried forward	**-**	**648**

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into three levels based on the degree to which the fair value is observable as defined by IFRS 13:

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The derivative financial instrument included in the Statement of Financial Position in the prior year, which was classified as a Level 3 derivative financial instrument, was the fair value of the conversion option of the £1m loan note issued to Moulton Goodies Ltd.

The fair value has been determined using an option pricing model and is determined at the initial recognition of the liability and then at each subsequent reporting date, using an estimated volatility of 125% and a risk-free rate of 1%. Changes to the fair value are recognised in the Consolidated Statement of Comprehensive Income.

The loan giving rise to the derivative financial instrument, together with all associated interest, was capitalised at the request of the lender on 21 January 2020 (see note 24). At this point the derivative financial liability was extinguished.

21. Onerous lease provision

	2020 £'000	2019 £'000
Brought forward	306	752
Released in the year	(6)	(146)
Unwinding of discount	17	53
Amount utilised	(317)	(353)
Carried forward	**-**	**306**

Current	-	306
	-	**306**

As at 30 September 2018, the Group no longer occupied the premises at Block 3 Alderley Park, Macclesfield, having relocated all its activities to Block 33. On this basis the Directors believe the lease for Block 3 fulfilled the criteria to be regarded as onerous under IAS 37 "*Provisions, Contingent liabilities and Contingent assets*".

21. Onerous lease provision – continued

Total potential costs relating to the remaining portion of this lease (rent & service charges) amounted to £1.47m. The Directors estimated that £0.72m of this expenditure could be recovered via existing sub-leases and licenses. Accordingly a provision of £0.75m was recognised. At 30 September 2019 the Directors estimated that the total potential costs remaining were £0.31m. There is no contractual liability beyond 30 September 2020 and accordingly the provision at that date was £nil.

22. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, and various items such as other receivables, loan notes 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 2020 £'000	Carrying value 2019 £'000
Financial assets		
Trade receivables	83	256
Other receivables	66	9
Cash and cash equivalents	27,513	3,704
	27,662	**3,969**
Financial liabilities measured at amortised cost		
Current borrowings	-	468
Non-current borrowings	16,758	-
Trade payables	1,845	1,490
Other payables	5	54
	18,608	**2,012**
Financial liabilities measured at fair value		
Derivative financial instrument	**-**	**648**

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. There are some transactions denominated in US Dollars, however this currency is not classed as volatile and any risk is classed as low. Accordingly, no sensitivity analysis is presented in this area as it is considered immaterial. The Directors regularly review the situation.

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.

Notes to the Financial Statements – continued
For the year ended 30 September 2020

22. Financial instruments – continued

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.

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, with the exception of non-current borrowings, which have a maturity date of three years (2019: all within one year).

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2019:17%). Deferred tax assets in relation to losses carried forward of £9.2m (2019: £6.9m), 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.

24. Share Capital

	2020 Numbers	2019 Numbers
Number of shares in issue		
Ordinary shares of £0.01	195,247,413	126,477,914
	£'000	£'000
Share Capital at par, fully paid		
Ordinary shares of £0.01	1,952	1,265
Movement in year		
Ordinary shares of £0.01	687	-
Total movement in year	**687**	**-**

Share issues

On 22 January 2020, following approval at a general meeting, the Company issued 52,030,789 Ordinary shares at £0.0525 pursuant to the capitalisation of the entire outstanding loan and accrued interest due to Moulton Goodies Ltd of £2.73m, and admission to trading on AIM.

On 4 March 2020, the Company issued 11,500,000 Ordinary shares at £0.112 each pursuant to a subscription by RM Special Holdings 3 LLC, and admission to trading on AIM. The gross amount raised was £1.29m.

On 21 July 2020, the Company issued 5,238,710 Ordinary shares at £0.155 each pursuant to a subscription by Sofinnova Crossover 1 SLP, and admission to trading on AIM. The gross amount raised was £0.81m.

25. Share premium

	2020 £'000	2019 £'000
Brought forward	33,263	33,263
Share issue	4,144	-
Share issue costs	(223)	-
	37,184	**33,263**

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.
Convertible note reserve	The convertible note reserve recognises the equity component of convertible loan notes issued by the Group.
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 – continued
For the year ended 30 September 2020

26. Share based payments

Movements on share options during the year were as follows:

Exercise Price per share	30 September 2019	Granted	Exercised	Lapsed/ Cancelled	30 September 2020	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	101,650	-	-	(71,650)	30,000	26.03.2016	26.03.2025
50p	101,650	-	-	(71,650)	30,000	26.03.2017	26.03.2025
50p	101,650	-	-	(71,650)	30,000	26.03.2018	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	1,223,300	-	-	(25,050)	1,198,250	27.03.2015	26.03.2025
85p	187,100	-	-	(24,975)	162,125	27.03.2016	26.03.2025
85p	178,775	-	-	(24,975)	153,800	27.03.2017	26.03.2025
33.2p	208,188	-	-	(208,188)	-	01.05.2019	26.02.2026
22p	963,322	-	-	(796,656)	166,666	22.12.2019	22.12.2027
33p	963,338	-	-	(796,671)	166,667	22.12.2019	22.12.2027
50p	963,340	-	-	(796,673)	166,667	22.12.2019	22.12.2027
13.75p	600,000	-	-	(600,000)	-	02.06.2020	01.06.2028
20p	600,000	-	-	(600,000)	-	02.06.2020	01.06.2028
27p	600,000	-	-	(600,000)	-	02.06.2020	01.06.2028
35p	600,000	-	-	(600,000)	-	02.06.2020	01.06.2028
42.5p	600,000	-	-	(600,000)	-	02.06.2020	01.06.2028
50p	600,000	-	-	(600,000)	-	02.06.2020	01.06.2028
13.75p	200,000	-	-	(200,000)	-	13.02.2021	12.02.2029
20p	200,000	-	-	(200,000)	-	13.02.2021	12.02.2029
27p	200,000	-	-	(200,000)	-	13.02.2021	12.02.2029
35p	200,000	-	-	(200,000)	-	13.02.2021	12.02.2029
42.5p	200,000	-	-	(200,000)	-	13.02.2021	12.02.2029
50p	200,000	-	-	(200,000)	-	13.02.2021	12.02.2029
9.2p*	125,000	62,788*	-	(187,788)	-	27.02.2021	26.02.2029
13.3p*	125,000	62,789*	-	(187,789)	-	27.02.2021	26.02.2029
18p*	125,000	62,788*	-	(187,788)	-	27.02.2021	26.02.2029
23.3p*	125,000	62,789*	-	(187,789)	-	27.02.2021	26.02.2029
28.3p*	125,000	62,788*	-	(187,788)	-	27.02.2021	26.02.2029
33.3p*	125,000	62,789*	-	(187,789)	-	27.02.2021	26.02.2029
15.5p	-	2,996,666	-	-	2,996,666	01.07.2021	30.06.2030
15.5p	-	2,996,667	-	-	2,996,667	01.07.2022	30.06.2030
15.5p	-	2,996,667	-	-	2,996,667	01.07.2023	30.06.2030
15.5p**	-	12,600,000	-	-	12,600,000	01.07.2023	30.06.2030
Total	10,888,963	21,966,731	-	(8,924,894)	23,930,800		
Weighted average exercise price	39.48p	15.05p	-	32.24p	20.84p		

* Under the terms of the warrant agreement with Alderley Park Ltd, the share issues on 21 January 2020 and 28 February 2020 were adjustment events, and the exercise price and number of options were adjusted accordingly.

** These options are subject to performance conditions as detailed in note 3.

26. Share based payments – continued

The number of exercisable share options at 30 September 2020 was 2,340,800 and their weighted average exercise price was 70.04p

During the prior year:

Exercise Price per share	30 September 2018	Granted	Exercised	Lapsed/ Cancelled	30 September 2019	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	131,650	-	-	(30,000)	101,650	26.03.2016	26.03.2025
50p	131,650	-	-	(30,000)	101,650	26.03.2017	26.03.2025
50p	131,650	-	-	(30,000)	101,650	26.03.2018	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	1,223,300	-	-	-	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	318,788	-	-	(110,600)	208,188	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
22p	1,233,320	-	-	(269,998)	963,322	22.12.2019	22.12.2027
33p	1,233,339	-	-	(270,001)	963,338	22.12.2019	22.12.2027
50p	1,233,341	-	-	(270,001)	963,340	22.12.2019	22.12.2027
13.75p	600,000	-	-	-	600,000	02.06.2020	01.06.2028
20p	600,000	-	-	-	600,000	02.06.2020	01.06.2028
27p	600,000	-	-	-	600,000	02.06.2020	01.06.2028
35p	600,000	-	-	-	600,000	02.06.2020	01.06.2028
42.5p	600,000	-	-	-	600,000	02.06.2020	01.06.2028
50p	600,000	-	-	-	600,000	02.06.2020	01.06.2028
13.75p	-	200,000	-	-	200,000	13.02.2021	12.02.2029
20p	-	200,000	-	-	200,000	13.02.2021	12.02.2029
27p	-	200,000	-	-	200,000	13.02.2021	12.02.2029
35p	-	200,000	-	-	200,000	13.02.2021	12.02.2029
42.5p	-	200,000	-	-	200,000	13.02.2021	12.02.2029
50p	-	200,000	-	-	200,000	13.02.2021	12.02.2029
13.75p	-	125,000	-	-	125,000	27.02.2021	26.02.2029
20p	-	125,000	-	-	125,000	27.02.2021	26.02.2029
27p	-	125,000	-	-	125,000	27.02.2021	26.02.2029
35p	-	125,000	-	-	125,000	27.02.2021	26.02.2029
42.5p	-	125,000	-	-	125,000	27.02.2021	26.02.2029
50p	-	125,000	-	-	125,000	27.02.2021	26.02.2029
Total	10,149,563	1,950,000	-	(1,210,600)	10,888,963		
Weighted average exercise price	42.90p	31.46p	-	37.19p	39.48p		

Notes to the Financial Statements – continued
For the year ended 30 September 2020

26. Share based payments – continued

The number of exercisable share options at 30 September 2019 was 2,448,963 and their weighted average exercise price was 71.86p.

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 2020 is £568,000 (2019: £45,000). 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 0.6 – 2 per cent, a volatility of 40 – 124 per cent and no dividend yield. Other inputs are shown in Note 3. Other than as previously noted, the share options are exercisable with no further conditions to be met.

27. Operating lease arrangements – minimum lease payments

	Property	
	2020 £'000	2019 £'000
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, recognised as liabilities, expiring:		
Within one year	-	747
In the second to fifth years	-	2,986
In greater than five years	-	1,431
	-	**5,164**

All leases are now accounted for under IFRS 16 (see note 19).

28. 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:

As a result of the divestment of its entire shareholding in the Group in March 2020, Moulton Goodies Ltd ceased to be a related party at that date. Transactions have been disclosed to the date that the criteria ceased to be met.

On the same date, as a result of the purchase of shares by RM Special Holdings 3, LLC ("Redmile"), it became a significant shareholder and related party. Redmile provided loan funding during the year, which was repaid together with accrued interest on 5 August 2020. Further the Group issued £14.5 million convertible loan notes to Redmile on 4 August 2020.

Under the terms of the agreement for its subscription for shares on 20 July 2020, Sofinnova Crossover 1 SLP ("Sofinnova") appointed a director to the Board of Redx Pharma plc. The Board believes that this satisfies the criteria for Sofinnova to be considered a related party. On 4 August 2020 the Group issued £7.6 million convertible loan notes to Sofinnova.

	2020 £'000	2019 £'000
Charges from related parties		
Moulton Goodies Ltd – loan interest (to 13 March 2020)	183	49
RM Special Holdings 3 LLC – loan interest	171	-
	354	**49**

28. Related Parties – continued

	2020 £'000	2019 £'000
Amounts owed to related parties		
Moulton Goodies Ltd	-	1,116
RM Special Holdings 3 LLC – loan note	14,532	-
Sofinnova Crossover 1 SLP – loan note	7,648	-

Amounts owed to/by related parties are disclosed in borrowings (see note 18), derivative financial instruments (see note 20) and the convertible note reserve.

29. Events after the reporting period

On 2 December 2020, the Group announced that it had conditionally raised £25.5m by way of a Placing of Ordinary shares at 56p per share, and up to a further £2.2m by way of an Open Offer at the same price. All resolutions required to accomplish this were passed at a general meeting of Shareholders on 21 December 2020. The final gross amount raised was £25.7m and accordingly 45,833,641 new Ordinary shares were issued and admitted to trading on AIM on 22 December 2020.

On the same date the Group announced that, subject to successful admission of the above shares, RM Special Holdings 3 LLC and Sofinnova Crossover 1 SLP would convert £3.33m and £1.75m respectively of the principal amount of the convertible loan notes into Ordinary shares. Under the terms of the loan notes, the conversion took place at 0.155p per new Ordinary share. Accordingly 32,806,159 new Ordinary shares were issued and admitted to trading on AIM on 22 December 2020.

Company Statement of Financial Position

At 30 September 2020 Company No. 07368089

	Note	2020 £'000	2019 £'000
Fixed assets			
Intangible assets	3	258	279
Tangible assets	4	109	80
Investments	5	411	368
		778	**727**
Current assets			
Debtors	6	20,234	15,508
Cash at bank and in hand		27,326	3,390
Total current assets		**47,560**	**18,898**
Creditors: amounts falling due within one year	7	**(8,322)**	**(2,390)**
Net current assets		**39,238**	**16,508**
Creditors: amounts falling due in more than one year	9	**(16,758)**	**-**
Net assets		**23,258**	**17,235**
Capital and reserves			
Share capital	10	1,952	1,265
Share premium		37,184	33,263
Capital redemption reserve		1	1
Share based payments reserve		1,191	1,104
Convertible note reserve		4,572	-
Profit and loss account		(21,642)	(18,398)
Shareholders' funds		**23,258**	**17,235**

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 £3,244,000 (2019 profit: £901,000).

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

Lisa Anson
Executive Director

26 January 2021

Company Statement of Changes in Equity

For the year ended 30 September 2020

	Share capital £'000	Share premium £'000	Share based payment £'000	Capital Redemption Reserve £'000	Convertible Note Reserve £'000	Profit & loss account £'000	Total Equity £'000
At 1 October 2018	**1,265**	**33,263**	**1,162**	**1**	**-**	**(19,299)**	**16,392**
Profit and total comprehensive income for the year	-	-	-	-	-	901	901
Transactions with owners in their capacity as owners							
Share based compensation	-	-	45	-	-	-	45
Release of share options lapsed in the year	-	-	(103)	-	-	-	(103)
Movement in year	-	-	(58)	-	-	901	843
At 30 September 2019	**1,265**	**33,263**	**1,104**	**1**	**-**	**(18,398)**	**17,235**
Loss and total comprehensive income for the period	-	-	-	-	-	(3,244)	(3,244)
Transactions with owners in their capacity as owners							
Share issues	687	4,144	-	-	-	-	4,831
Share issue costs	-	(223)	-	-	-	-	(223)
Recognition of equity element of loan notes	-	-	-	-	4,572	-	4,572
Share based compensation	-	-	568	-	-	-	568
Release of share options lapsed in the year	-	-	(481)	-	-	-	(481)
Movement in year	687	3,921	87	-	4,572	(3,244)	6,023
At 30 September 2020	**1,952**	**37,184**	**1,191**	**1**	**4,572**	**(21,642)**	**23,258**

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 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 the Going Concern Basis of Accounting and Reporting on Solvency Risks – Guidance for directors of companies that do not apply the UK Corporate Governance Code''.

The Group and parent company are subject to a number of risks similar to those of other development stage pharmaceutical companies. These risks include, amongst others, generation of revenues in due course from the development portfolio and risks associated with research, development, testing and obtaining related regulatory approvals of its pipeline products. Ultimately, the attainment of profitable operations is dependent on future uncertain events which include obtaining adequate financing to fulfil the Group's commercial and development activities and generating a level of revenue adequate to support the Group's cost structure.

1. Accounting Policies – continued

The Group made a net loss of £9.2 million during the year, and at 30 September 2020 had total equity of £2.7 million including an accumulated deficit of £42.2 million. As at that date, the Group had cash and cash equivalents of £27.5 million. As Redx Pharma Plc as an individual company acts in a treasury function for the whole Group, going concern deliberations are considered to be the same as at Group level.

On 21 December 2020, a general meeting authorised the issue of 45.6 million Ordinary shares by way of a Placing, and 0.2 million Ordinary shares via an Open Offer to existing shareholders, raising a further £25.7 million (gross) of funds to be used to further support and augment the Group's research pipeline. In addition, £5.1 million of the loan notes issued to Redmile and Sofinnova were converted at their request.

The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of the approval of these financial statements. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that are expected to prevail over the forecast period. In particular, assessment has been made of likely milestone payment receipts, further contributions from collaboration agreements and the quantum of future tax refunds. Based on these forecasts, the Directors estimate that the cash held by the Group and expected receivables will be sufficient to support the current and proposed levels of activity to the end of Q4 2022. They have therefore prepared the financial statements on a going concern basis.

(vi) Tangible fixed assets

All tangible fixed assets 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.

(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.

Notes to the individual Financial Statements of Redx Pharma Plc – continued

1. Accounting Policies – continued

(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.

(d) Derivative financial instrument

Derivative financial instruments are recognised initially at fair value. They are subsequently remeasured at fair value at each reporting date using an option pricing model, with any change in value recognised in the profit and loss account. Mechanisms specific to individual instruments are considered, and an appropriate classification is made between equity and debt on a case by case basis.

(viii) Investments

Investments in subsidiaries are stated at cost less provision for impairment in value, and are detailed in Note 5.

(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 and performance based conditions. The impact of any revision is recognised in the 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) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the Statement of Financial Position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate of an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. Where it meets the definition of equity, the remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders' equity as a convertible note reserve, net of transaction costs. The calculation of interest on the convertible notes by reference to the USD prime rate gives rise to a potential derivative financial instrument, however in accordance with IFRS 9 Financial instruments, as this cannot be quantified, no amount is recognised. The carrying amount of the equity component of the conversion option is not remeasured in the subsequent years. The corresponding interest on the liability component of convertible notes is expensed to profit or loss.

(xi) 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.

1. Accounting Policies – continued

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, assessment of the satisfaction of performance criteria, 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 3 and 26 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, including net present value calculations.

(c) Derivative financial instruments

The Directors believe that the correct allocation between debt and derivative financial instrument of the capitalisable loan from Moulton Goodies Ltd is a significant accounting judgement.

In calculating the split in accordance with FRS 102 section 22 "*liabilities and equity*", the Directors have employed a Black Scholes model to value the derivative element, with the balance of the amount received being treated as debt (see note 7). The use of this model to calculate a fair value involves using a number of estimates and judgements to establish the appropriate inputs to be entered into the model, covering areas such as interest rates, the measurement of the volatility of the Company's share price and dividend rate, exercise restrictions and behavioural considerations. A significant element of judgement is therefore involved in the calculation of the fair value.

(d) Convertible loan notes

The issuing of £22.2 million of loan notes to Redmile and Sofinnova led to the recognition of a compound financial instrument. In arriving at the value of the loan notes, and in turn the equity element to be recognised, the Directors were required to make certain assumptions regarding repayment of the notes, together with judgements in setting an appropriate interest rate for the calculation of 8.5% (see note 9).

2. Staff Costs

	2020 £'000	2019 £'000
Staff costs (including Directors) comprise		
Wages and salaries	1,644	1,093
Social security costs	196	130
Pension costs	65	53
Total employee related costs	**1,905**	**1,276**

	2020 Number	2019 Number
Number of employees		
Average number of employees (including Directors)		
Management & Admin	8	6
R&D – Chemistry	3	-
R&D – Biology	3	-
R&D – Analytical	1	-
	15	**6**

Directors remuneration is disclosed in note 9 of the Group accounts and the Directors' Remuneration Report beginning on page 32.

Notes to the individual Financial Statements of Redx Pharma Plc – continued

3. Intangible fixed assets

	Intellectual property £'000	Goodwill £'000	Total £'000
Cost			
At 1 October 2019	121	309	430
Additions	-	-	-
At 30 September 2020	**121**	**309**	**430**
Amortisation			
At 1 October 2019	12	139	151
Charge for the year	6	15	21
At 30 September 2020	**18**	**154**	**172**
Net book value			
At 30 September 2020	**103**	**155**	**258**
At 30 September 2019	109	170	279

4. Tangible fixed assets

	Laboratory equipment £'000	Computer equipment £'000	Leasehold Improvements £'000	Total £'000
Cost				
At 1 October 2019	80	99	114	293
Additions	1	50	-	51
Disposals	(4)	-	-	(4)
At 30 September 2020	**77**	**149**	**114**	**340**
Depreciation				
At 1 October 2019	80	97	36	213
Charge for the year	-	11	11	22
Disposals	(4)	-	-	(4)
At 30 September 2020	**76**	**108**	**47**	**231**
Net book value				
At 30 September 2020	**1**	**41**	**67**	**109**
At 30 September 2019	-	2	78	80

5. 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.

	2020 £'000	2019 £'000
At 1 October	368	357
Additional capital contribution – Redx Oncology Ltd	43	11
At 30 September	**411**	**368**

At 30 September 2020 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

6. Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade debtors	83	256
VAT recoverable	90	66
Amounts due from Group undertakings	19,513	14,911
Other debtors	190	70
Prepayments and accrued income	358	205
	20,234	**15,508**

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 further impair the balance owed in relation to this undertaking in the sum of £433,000 taking the total impairment to £12,570,000 (2019: £12,137,000).

Notes to the individual Financial Statements of Redx Pharma Plc – continued

7. Creditors: Amounts falling due within one year

	2020 £'000	2019 £'000
Financial liability at fair value (see note 8)	-	1,116
Trade creditors	547	723
Deferred income (see note 17 to the Consolidated Financial Statements)	7,069	-
Social security and other taxes	102	38
Other creditors	5	28
Accruals	599	485
	8,322	**2,390**

8. Financial liability at fair value

	2020 £'000	2019 £'000
Current		
Brought forward	1,116	-
Fair value at recognition	1,500	1,000
Fair value movement in the year	(67)	67
Accrued interest	183	49
Extinguished on capitalisation	(2,732)	-
Carried forward	**-**	**1,116**

In June 2019 a capitalisable loan note facility of up to £2.5m was agreed with Moulton Goodies Ltd. As of 30 September 2019, £1m had been drawn down with associated further liabilities of £116k. The loan was secured by fixed and floating charges over all assets of the Group and its subsidiaries, with the exception of the pan-RAF research programme. Interest was payable at 10 per cent. per annum, with such interest to be paid at the same time as the loan was repaid. A further £1.5m was drawn down in November 2019.

The loan giving rise to the financial instrument, measured at fair value, was capitalised at the request of the lender on 21 January 2020. At this point the financial liability was extinguished.

The fair value has been determined using an option pricing model and is determined at the initial recognition of the liability and then at each subsequent reporting date, using an estimated volatility of 125% and a risk free rate of 1%. Changes to the fair value are recognised in the Consolidated Statement of Comprehensive Income.

9. Creditors: Amounts falling due after more than one year

	2020 £'000	2019 £'000
Convertible loan notes	16,758	-
	16,758	**-**

On 4 August 2020 Redx Pharma plc issued convertible loan notes with a value of £22.2m. No interest is payable during the first 3 years, thereafter it is payable at a maximum rate equal to the US prime rate at that time. The notes are convertible into Ordinary shares of Redx Pharma plc, at any time at the option of the holder, or repayable on the third anniversary of the issue. The conversion rate is 1 Ordinary share for each £0.155 of loan note held. Total transaction costs of £0.88m (2019: £nil) have been offset against the convertible notes payable liability. The notes have been assessed as compound instruments using a discount rate of 8.5%, and the value of the conversion feature (£4.57m) has been recognised as an equity component (see the Company Statement of Changes in Equity, and the reconciliation on page 45.) The loan notes are secured by a fixed and floating charge over all the assets of the Group. An increase in discount rate to 9.5% would decrease the debt element by £0.44m and a decrease to 7.5% would increase the debt element by £0.46m.

10. Share Capital

	2020 Numbers	2019 Numbers
Number of shares in issue		
Ordinary shares of £0.01	195,247,413	126,477,914
	£'000	£'000
Share Capital at par, fully paid		
Ordinary shares of £0.01	1,952	1,265
Movement in year		
Ordinary shares of £0.01	687	-
Total movement in year	**687**	**-**

Share issues

On 22 January 2020, following approval at a general meeting, the Company issued 52,030,789 Ordinary shares at £0.0525 pursuant to the capitalisation of the entire outstanding loan and accrued interest due to Moulton Goodies Ltd of £2.73m, and admission to trading on AIM.

On 28 February 2020, the Company issued 11,500,000 Ordinary shares at £0.112 each pursuant to a subscription by RM Special Holdings 3 LLC, and admission to trading on AIM. The gross amount raised was £1.29m.

On 21 July 2020, the Company issued 5,238,710 Ordinary shares at £0.155 each pursuant to a subscription by Sofinnova Crossover 1 SLP, and admission to trading on AIM. The gross amount raised was £0.81m.

11. Operating lease arrangements – minimum lease payments

	Property	
	2020 £'000	2019 £'000
Outstanding commitments for future minimum lease payments under non-cancellable operating leases expiring:		
Within one year	786	747
In the second to fifth years	3,144	2,986
In greater than five years	721	1,431
	4,651	**5,164**

12. Related Parties

Related party information disclosed in note 28 to the Group accounts is also applicable to the Company.

13. Contingent liabilities

The Company has agreed to support its subsidiary undertakings for 12 months from the signing of these financial statements. The Directors estimate this support could be in the region of £25.8m.

14. Ultimate controlling party

In the opinion of the Directors, the Company's ultimate parent company is Redmile Group LLC, a company incorporated in Delaware, United States of America.

Notes to the individual Financial Statements of Redx Pharma Plc – continued

15. Post balance sheet events

On 2 December 2020, the Group announced that it had conditionally raised £25.5m by way of a Placing of Ordinary shares at 56p per share, and up to a further £2.2m by way of an Open Offer at the same price. All resolutions required to accomplish this were passed at a general meeting of shareholders on 21 December 2020. The final gross amount raised was £25.7m and accordingly 45,833,641 new Ordinary shares were issued and admitted to trading on AIM on 22 December 2020.

On the same date the Group announced that, subject to successful admission of the above shares, RM Special Holdings 3 LLC and Sofinnova Crossover 1 SLP would convert £3.33m and £1.75m respectively of the principal amount of the convertible loan notes into Ordinary shares. Under the terms of the loan notes, the conversion took place at 0.155p per new Ordinary share. Accordingly 32,806,159 new Ordinary shares were issued and admitted to trading on AIM on 22 December 2020.

Company Information

Directors	Iain G Ross (Chairman) Lisa Anson (Chief Executive Officer) Dr James Mead (Chief Financial Officer) Dr Bernhard Kirschbaum (Non-Executive Director) Peter Presland (Non-Executive Director) Sarah Gordon Wild (Non-Executive Director) Dr Thomas Burt (Non-Executive Director)
Secretary	Andrew Booth
Company number	07368089
Principal place of business & registered office	Block 33 Mereside Alderley Park SK10 4TG
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Nomad	SPARK Advisory Partners Ltd 5 St John's Lane London EC1M 4BH
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Designed and printed by Perivan

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