Redx Pharma

Block 33, Mereside, Alderley Park, Macclesfield SK10 4TG

4 November 2017

Dear Shareholder,

I am pleased to confirm that on Friday 3 November we announced that Redx Pharma plc has come out of Administration and with sufficient working capital to return to the stock market as 'a going concern', the Administrators, FRP, having reached agreement with all outstanding creditors.

Redx also emerges under new leadership, with a new Board, which is committed to Redx's re-focused vision of creating and developing first, or potentially best in class drugs, in specific areas of oncology and fibrosis that address significant unmet medical need. We are confident that this will enable the Company to build significant value for shareholders over the medium and longer term.

In light of the above, the Board and the Company's Nominated Adviser (NOMAD), Cantor Fitzgerald, has requested that the suspension on trading of the Company's shares on AIM be lifted. This has been approved and trading is expected to commence at 12 noon on Monday 6 November.

This letter is designed to provide our shareholders with further information on the refocused business and the Company's strategy, including the rationale for the drug targets upon which we have chosen to concentrate. Whilst in Administration Redx's business team and scientists have not been idle and consequently we also discuss the significant recent progress made with key assets in the pipeline.

CREATING HIGH VALUE DRUGS TO TREAT SIGNIFICANT UNMET NEEDS IN CANCER AND FIBROSIS

- **Redx** is a UK biotechnology company whose shares are traded on AIM (AIM:REDX) with innovative programmes in Cancer and Fibrosis indications where there are significant unmet medical needs.
- **Redx** now has a focused development pipeline consisting of two prioritised lead programmes and five other programmes in research. The opening balance sheet has £13.6m of cash, with no loan facilities nor liabilities – outside of those necessary for the normal course of business – which when coupled with a reduced cost base, provides a cash runway through to early 2019[1].
- **Redx** has new leadership as I will take on the role of Executive Chairman until such time as we identify and appoint a new, suitably qualified CEO and I will further strengthen the Board & Management commensurate with the imminent move of the Company's first drug candidate into the clinic.
- **Redx** will retain a significant in-house discovery team with proven world-class chemistry capabilities. The value of this team has been clearly validated by the recent sale of the Company's BTK preclinical programme for US$40m.
- **Redx** will aim to continue to focus on creating potentially 'first in class' or 'best in class' drugs. We believe this will ensure that the programmes will be highly valued by the market and pharmaceutical industry alike.
- **Redx's** lead programme RXC004, a potential best in class porcupine inhibitor, will enter the clinic in Q1 2018 following the recent approval by the MHRA for a phase 1/2a study that will include patients with hard to treat cancers.
- **Redx** will have sufficient funds to achieve a number of significant scientific and commercial milestones over the next 3-9 months based upon our current cash-burn projections. Thereafter, the Company will look to progress its development programmes through to clinical proof of concept, a key value inflection point.

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

- **Redx** intends to retain ownership of its assets, where it is in the best interests of shareholders. However, it will also consider licensing and/or partnering arrangements if it is considered the best means to realise the optimal return on investment for an asset.

As Redx's shares return to trading on AIM, your Company has emerged from Administration as a leaner, fitter organisation with a greater sense of urgency and focus. Notwithstanding these positive changes, as Executive Chairman, I want to take this opportunity, on behalf of the Board and Management of Redx Pharma plc, to apologise that this situation arose in the first place.

Background

There has been media speculation as to the events leading up to the Company being put into Administration. Suffice to say despite considerable efforts by Redx Management to re-structure, re-finance and renegotiate the outstanding loan with Liverpool City Council (LCC), the Council chose to issue a Default Notice, which was received by the Company on 23 May 2017 and to call in the Administrators the following day.

On 24 May 2017, LCC rejected the Company's written offer to make a full repayment of the Loan plus outstanding interest within 7 days of receiving the Default Notice and to meet with me, as the new Chairman, to try and resolve the matter.

Whilst I was only appointed on 1 May 2017, let me assure you every effort was made by the Redx Board and its advisers to avoid going into Administration. However, I am pleased to report that throughout the last 5 months the Board & Management has worked diligently with the Administrators in order to enable the Company to return to the market as a 'going concern'.

Now that control of the Company has been handed back to the new Board of Directors, in the coming weeks I will be seeking to meet with as many Redx shareholders as possible but wanted to update you on the changes that we are making to the organisation and the strategy going forward.

During the period in Administration I, along with the other directors and senior management, have reviewed all facets of the business, including the financial systems, controls and procedures; reviewed and focused the R&D portfolio; and taken on advice from stakeholders and advisers. This has resulted in the adoption of a number of changes to the Company to ensure a more focused approach, with an emphasis on financial rigour, throughout the organisation.

Leadership Changes to the Board and Management

- **Dr Neil Murray** has decided to stand down as CEO now that the Company has come out of Administration and accordingly has resigned from the Board with immediate effect. As indicated I have agreed to become Executive Chairman until such time as we have identified and appointed a suitably qualified CEO to lead the business. During this initial period, I will work closely with the executive management team comprising: **Dr Richard Armer** (Chief Scientific Officer), **Dr Matilda Bingham** (Head of Research and Operations) and **Mr Nicholas Adams** (Chief Business Officer) all of whom have made a significant contribution to enable the Company to exit Administration.
- I am pleased to announce that **Mr Dominic Jackson** has been appointed as Chief Financial Officer and has joined the Board as an executive director. He is an experienced financial professional who has undertaken a number of interim CFO roles in turnaround situations.
- I am also pleased to announce that **Mr Peter Presland**, a seasoned financial professional with extensive public company experience (having been Group CEO of CE Heath plc and following the demerger, Executive Chairman of Rebus Group plc), has agreed to join the Board as a non-executive director and to chair the Audit, Risk and Disclosure Committee. Peter will take over from **Mr Norman Molyneux**, a long-standing non-executive director, who is standing down from the Board now that the Company has exited Administration. It was announced in August that **Mr David Lawrence** resigned from his role as Non-Executive Director to take up a role as CFO of Valneva.

- **Dr Bernhard Kirschbaum**, a non-executive director, who brings vital research and development experience and industry wide contacts, will remain on the Board and continue to Chair the Company's Scientific and Remuneration Committees. He has agreed to work closely with the Company's scientific management team until a new CEO is appointed.

In addition to the Research restructuring carried out prior to going into Administration, a further review has resulted in a number of administrative posts being made redundant and the Company exits Administration with a total headcount of 38 staff. We intend to retain a team of in house research scientists in order to continue to create innovative and best in class assets.

I want to thank Neil Murray for his many contributions as founder and CEO of the Company and to wish him well. I would also like to thank Norman Molyneux on the Company's behalf for his long-term commitment and personally for his unstinting support throughout the time in Administration.

The Redx team has made significant progress, despite Administration

While changes are inevitable in the circumstances, I want to assure you that in the intervening period whilst dealing with the immediate creditor issues and reviewing the business, the Redx team has worked, with the support of FRP, to maintain and progress the development of the business from a scientific and commercial point of view:

- **23 June 2017** – the Company announced that the clinical trial application (CTA) for our lead asset, porcupine inhibitor RXC004, was approved by the MHRA for a phase 1/2a clinical study that will include hard to treat cancers such as gastric, pancreatic and biliary, one of the significant opportunities that we intend to target with this drug. This marked the culmination of a huge effort by the Redx team and our clinical development advisers, Novella Clinical[2]. Currently we are liaising with the clinical sites, confirming the study initiation visits and preparing the final supply of material to sites and expect to start the 1a portion of the study (which will be in cancer "all comers") in Q1 2018. On this timeline we anticipate initial safety and tolerability results from the study during H2 2018.
- **31 July 2017** – the Company announced that on 28th July 2017 it had signed a binding Sale Agreement for the disposal to Loxo Oncology, Inc. (NASDAQ: LOXO), of the patents, intellectual property, contracts for product manufacture, and physical materials relating to Redx's Bruton's tyrosine kinase (BTK) inhibitor drug development programme for the sum of US$40m.
- **9 September 2017** – the Company presented a poster at the European Society for Medical Oncology (ESMO) identifying a specific gastric cancer patient sub-population sensitive to RXC004, which will allow us to target specific patients for clinical trials.

Whilst I recognise that concerns were expressed in the media at the time of the sale of the BTK inhibitor programme, we believe this transaction not only speaks to the potential value being created in the rest of our pipeline, but also more than validates the Company's underlying scientific capability and our strategy to develop products to clinical proof of concept. BTK was an example whereby Redx had decided to work on a target that was already well validated from both a scientific and commercial perspective. The competitiveness of the Redx compound was based on the clear shortcomings of the successfully marketed 'first in class' compound, Ibrutinib, where development of resistance had been observed.

By any metric, US$40m in cash is a high price tag for a pre-clinical programme and while this perhaps reflects the *perceived* reduced development risk of the programme, it should be remembered that the lead compound, RXC005, in the BTK programme is yet to complete pre-clinical toxicology. The Administrators and the Directors took the view, therefore, that this transaction presented a unique opportunity to monetise this asset, pay creditors and allow the Company to emerge from Administration as 'a going concern'.

Looking forward, we believe our business model will deliver substantial value to shareholders and important medicines to patients.

[2] A QuintilesIMS Company – a specialist contract research organisation (CRO) focused on oncology

Our Science – an increased focus

Earlier this year, and prior to Administration, an internal programme was initiated to restructure and to reduce 'research' running costs by ~£4m per annum with the aim of refocusing the Company's portfolio to prioritise and focus on commercially 'hot' areas in cancer and fibrosis. Administration has had the effect of accelerating this process and as a result, we now have a streamlined company with a reduced headcount focused solely on those two therapeutic areas. Most importantly, I am pleased to confirm that we have retained the key, talented scientific staff that discovered and developed our lead cancer asset, RXC004 and the BTK inhibitor, RXC005, which we sold to Loxo Oncology.

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

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

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

Cancer – our lead candidate is expected to enter the clinic in Q1 2018

In line with the strategy stated above, Redx is among the first to bring a porcupine inhibitor to the clinic, with the start of clinical trials for RXC004 expected during Q1 2018. While Novartis's porcupine inhibitor is slightly further ahead (phase 1/2 clinical trials) and currently leading the path to clinical profiling, the preclinical data we have generated in head to head studies with this compound suggest RXC004 could be the more efficacious, best in class, compound.

We believe RXC004 has the potential to be used as a biomarker-guided, targeted therapy in hard to treat cancers and as a combination partner in immuno-oncology treatment paradigms with checkpoint inhibitors. Together these are multibillion-dollar addressable markets. We expect to see an increase in the number of potentially interested partners once safety data is available from the phase 1/2a trial. We expect initial data from the 1a segment in H2 2018.

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

Fibrosis – developing the first drug specifically designed to treat fibrosis related to inflammatory bowel disease (IBD)

Redx has developed considerable expertise in understanding the molecular mechanisms underlying fibrosis and the druggable targets on which to focus. We have several active programmes in this area. Our lead programme is a potential first-in-class "soft" Rho Kinase (ROCK) 1/2 dual inhibitor where the targeted indication is fibrosis arising from Inflammatory Bowel Disease (IBD). The drug is designed to work only at the site of action in the gastrointestinal tract and degrades quickly, once absorbed, though

enzyme-mediated metabolism in blood plasma[3]. A development candidate is expected to be announced in H1 2018. It is estimated that the direct cost to the US healthcare system of IBD is up to $28bn [Mehta F. Am J Manag Care. 2016;22: S51-60], suggesting that a drug for treating (or preventing) fibrosis for this condition could have blockbuster potential. Redx recognised the potential for this drug and acquired it from Amakem, a Belgian private company.

Idiopathic pulmonary fibrosis (IPF) is the target indication for a porcupine inhibitor, which is currently starting pre-clinical proof of concept. A ROCK2 selective inhibitor programme that overcomes the hypotensive side-effects of systemic dual ROCK 1/2 inhibition (currently in Lead Optimisation) complements the portfolio in this area. In this case we are looking for easy to administer orally active ROCK2 inhibitors for indications where systemic exposure is desirable, such as in kidney fibrosis associated with diabetes.

Our Finances – cash runway sufficient to meet a number of business milestones

On 17 May 2017 the Company announced its Interim Results for six months ending March 31 2017 including a cash position at the end of the period of £5.1m. Concurrent to the on-going discussions to re-finance and/or re-negotiate the LCC Loan, at the time the Company had discussions underway with third parties, which the directors had every reason to believe would secure further funding later in the financial year. These included discussions related to partnering/licensing of specific R&D programmes and with our financial advisers regarding the potential for further investment from specialist healthcare funds later in the year.

The Company, going into Administration, not only required the repayment of secured and unsecured creditors, but also triggered the default of £9.7m Regional Growth Fund [RGF] grants and a number of other liabilities.

In late July 2017 the Company received net cash of $40m (c. £30.2m) from Loxo Oncology for the sale of the BTK programme assets. These funds coupled with the existing cash in the business allowed the payment of £3.6m to secured creditors and a £6.1m settlement with the RGF. In addition approximately £12m has funded 7 months trading from April – October 2017 including restructuring costs before and during administration, external costs incurred during administration associated with progressing RXC004 towards the clinic and all the costs of the administration.

As a result the Company has exited administration with £13.6m of working capital and provides the Company with a cash runway through until early 2019. However this does not include any R&D Expenditure Credits or any potential income from partnering/collaborations and/or the sale or out- licensing of non-core assets.

With the support of the Administrators and the understanding of our creditors and suppliers, the Company exits Administration with all its creditors having been paid and no outstanding obligations in terms of grants or outstanding loans. On behalf of the Company I would particularly like to thank the RGF for their support, following their decision to negotiate a reduced settlement that leaves the Company with sufficient funds to maintain the in-house discovery team and to progress our Fibrosis R&D initiative.

In summary the Company returns to the market with a 'clean sheet' and all costs paid. The $40m cash windfall from the sale of RXC005 to Loxo Oncology not only was sufficient to pay creditors, but also funded the operations of the business and restructuring activities during the period, as outlined above. Having also paid all the costs associated with the Administration process, the opening cash balance is in excess of £13.6m. When coupled with the projected cost base, the Company has a cash runway through to early 2019, which is sufficient to achieve a number of important milestones.

Our Prospects – we believe we now have the right components in place to build a prized portfolio of assets for investors and potential partners

This is a particularly important moment in the evolution of our Company, with the impending return of Redx's shares to trading on AIM. Following the events of the last few months the Board anticipates there may be some volatility in the share price in the first few days of trading. However we believe we have implemented the necessary changes in the organisation to create a strong platform upon which the Company can build forwards.

[3] Systemic exposure to dual ROCK 1/2 inhibitors is known to cause hypotension

The new Board takes the view that the long-term success of the Company will depend on leveraging scientific excellence to build a diversified portfolio of high-quality, pre-clinical and clinical-stage pharmaceutical assets that will be prized by both potential investors and partners. Only by so doing can we reasonably hope to grow the long-term value of the business. We return to the market with multiple "shots on goal" with 2 prioritised lead programmes and 5 other programmes in research.

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

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

We have been working assiduously over the last few months to prepare for Redx's exit from Administration. We aim to drive our current portfolio to meaningful value inflection points over the next 12 months. We believe we have now put in place the integral components for a well-planned corporate transformation.

I look forward to meeting many of you and would ask you for your continued support.

Best regards

Iain Ross
Chairman