25 June 2020

This announcement contains inside information

Renalytix AI plc

("RenalytixAI", the "Company")

Proposed board changes
and
publication of circular and notice of general meeting

Renalytix AI plc (LSE: RENX), an artificial intelligence-enabled *in vitro* diagnostics company, focused on optimizing clinical management of kidney disease to drive improved patient outcomes and lower healthcare costs, announces proposed board changes together with the publication of a circular and notice of general meeting. This follows the Company's earlier announcement today in connection with RenalytixAI's proposed Nasdaq dual-listing and global offering.

Proposed board changes

Julian Baines (Non-Executive Chair) and Richard Evans (Non-Executive Director and Chair of the Company's Audit Committee) have informed the Company that they intend to step down from the board of directors immediately prior to the completion of the proposed Nasdaq dual-listing. Christopher Mills (Non-Executive Director) will become Interim Chair at that point and will oversee a search for suitable replacement directors.

The membership of the Company's board committees will also change immediately prior to the completion of the proposed Nasdaq dual-listing. Erik Lium will assume the role of Chair of the Audit Committee, with the other members of the Audit Committee being Barbara Murphy and Christopher Mills. Erik Lium will also assume the role of Chair of the Remuneration Committee, with the other member of the Remuneration Committee being Chirag Parikh. Finally, Barbara Murphy will assume the role of Chair of the Nomination Committee, with the other member of the Nomination Committee being Chirag Parikh.

Shareholders should note that, in the event that the proposed Nasdaq dual-listing does not proceed, these proposed board and board committee changes will not take place.

Circular and Notice of General Meeting

The Company will today publish and send to shareholders a circular in connection with the proposed Nasdaq dual-listing and global offering (the "**Circular**") seeking, amongst other thing, sufficient shareholder authority to enable the global offering to proceed. The Circular incorporates a notice convening a general meeting to be held at the offices of Harwood Capital LLP, 6 Stratton Street, Mayfair, London W1J 8LD at 11:00 a.m. on 13 July 2020. In the event that shareholders do not grant the Company with sufficient authority to issue shares free of statutory pre-emption rights, the Nasdaq dual-listing and global offering will not proceed.

The Circular also seeks shareholder approval for the adoption of a new equity incentive plan, the Renalytix AI plc 2020 Equity Incentive Plan with Non-Employee Sub-Plan (the "**EIP**"), for the grant of options (including potentially tax efficient incentive stock options to employees in the U.S.), restricted shares, restricted share units and performance share awards to employees, directors and consultants of the Company and its subsidiaries. In addition, shareholder approval is also sought for the adoption of the Renalytix AI plc 2020 Employee Share Purchase Plan (the "**ESPP**"). Further details of the EIP and the ESPP are set out in the Circular which also attaches a copy of each plan.

An electronic copy of the Circular will shortly be available on the Company's website at www.renalytixai.com in accordance with AIM Rule 20.

Financial information in the Form F-1 registration statement

The Form F-1 registration statement contains audited consolidated financial statements for the Company for the period from 15 March 2018 (the Company's inception) to 30 June 2018 and the year ended 30 June 2019 prepared in accordance with generally accepted accounting principles in the United States ("**U.S. GAAP**"). In addition, the Form F-1 registration statement contains unaudited financial statements for the Company for the nine months ended 31 March 2019 and 2020 also prepared in accordance with U.S. GAAP. Such consolidated financial statements, as extracted from the Form F-1 registration statement, are set out in the appendices to this announcement.

The Company will continue to prepare the financial statements included in its annual and half-yearly reports as required by the Companies Act 2006 (in respect of the annual report) and the AIM Rules for Companies published by the London Stock Exchange in accordance with International Financial Reporting Standards as adopted by the European

Union ("**IFRS**"). An unaudited reconciliation table showing the differences between IFRS and U.S. GAAP for the 9 month periods ended 31 March 2019 and 2020 is also included in the appendices in order to aid shareholders.

For further information, please contact:

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The person responsible for arranging the release of this announcement on behalf of the Company is James McCullough, CEO of Renalytix AI plc.

About RenalytixAI

RenalytixAI is a developer of artificial intelligence-enabled clinical *in vitro* diagnostic solutions for kidney disease, one of the most common and costly chronic medical conditions globally. RenalytixAI's products are being designed to make significant improvements in kidney disease diagnosis, transplant management, clinical care, patient stratification for drug clinical trials, and drug target discovery. For more information, visit www.renalytixai.com.

Important Information

This announcement does not constitute a Form F-1 registration statement and does not constitute or form, and will not form, part of any offer or invitation to sell or issue, or the solicitation of an offer to purchase or acquire, any of the ordinary shares or American depositary shares or any other securities in the United States or in any other jurisdiction. Securities may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Any public offering of securities to be made in the United States will be made by means of a Form F-1 registration statement. Such Form F-1 registration statement will contain detailed information about the issuer and its management and financial statements. This announcement is being issued pursuant to and in accordance with Rule 135e under the U.S. Securities Act.

Forward-Looking Statements

Certain statements made in this press release are forward-looking statements including with respect to the proposed board changes and creation of a trading market for ADSs representing the Company's ordinary shares in the United States. These forward-looking statements are not historical facts but rather are based on the Company's current expectations, estimates, and projections about its industry; its beliefs; and assumptions. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and other factors, some of which are beyond the Company's control, are difficult to predict, and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including if the Company's registration statement is not declared effective by the SEC or if Nasdaq fails to approve the Company's ADS listing application. The Company cautions security holders and prospective security holders not to place undue reliance on these forward-looking statements, which reflect the view of the Company only as of the date of this press release. The forward-looking statements made in this press release relate only to events as of the date on which the statements are made. The Company will not undertake any obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances, or unanticipated events occurring after the date of this announcement except as required by law or by any appropriate regulatory authority.

For readers in the European Economic Area ("EEA") and the United Kingdom

In any EEA member state and the United Kingdom, this communication is only addressed to and directed at qualified investors in that member state and the United Kingdom within the meaning of the Prospectus Regulation. The term "Prospectus Regulation" means Regulation (EU) 2017/1129.

For readers in the United Kingdom
This communication, in so far as it constitutes an invitation or inducement to enter into investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 as amended) in connection with the securities which are the subject of the offering described in this press release or otherwise, is being directed only at (i) persons who are outside the United Kingdom or (ii) persons who have professional experience in matters relating to

investments who fall within Article 19(5) (“Investment professionals”) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) certain high value persons and entitles who fall within Article 49(2)(a) to (d) (“High net worth companies, unincorporated associations etc.”) of the Order; or (iv) any other person to whom it may lawfully be communicated (all such persons in (i) to (iv) together being referred to as “relevant persons”). The ADSs or ordinary shares offered in the Global Offering are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such ADSs or ordinary shares will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Appendix A
Extracted consolidated financial statements

Renalytix AI plc
Consolidated balance sheets

(in thousands, except share and per share data)	June 30, 2018	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 82	$ 8,201
Short-term investments	—	994
Prepaid expenses and other current assets	33	227
Total current assets	115	9,422
Property and equipment, net	—	278
Total assets	$ 115	$ 9,700
Liabilities and Shareholders' (Deficit) Equity		
Current liabilities:		
Notes payable to related-party	$ 438	$ —
Accounts payable	10	317
Accrued expenses and other current liabilities	169	832
Total current liabilities	617	1,149
Commitments and contingencies (Note 6)		
Shareholders' (deficit) equity:		
Ordinary shares, £0.0025 par value per share: 56,011,831 shares authorized; 20,000,000 and 53,816,134 shares issued and outstanding at June 30, 2018 and 2019, respectively	66	162
Additional paid-in capital	—	52,084
Accumulated other comprehensive income (loss)	4	(822)
Accumulated deficit	(572)	(42,873)
Total shareholders' (deficit) equity	(502)	8,551
Total liabilities and shareholders' (deficit) equity	$ 115	$ 9,700

The accompanying notes are an integral part of these consolidated financial statements.

Renalytix AI plc
Consolidated statements of operations and comprehensive loss

(in thousands, except share data)	From March 15, 2018 (inception) through June 30, 2018	Year ended June 30, 2019
Operating expenses:		
Acquired in-process research and development	$ —	$ 35,286
Research and development	193	4,316
General and administrative	374	2,737
Total operating expenses and loss from operations	(567)	(42,339)
Other income (expense), net	(5)	38
Net loss	(572)	(42,301)
Other comprehensive income (loss):		
Foreign exchange translation adjustment	4	(826)
Total comprehensive loss	$ (568)	$ (43,127)
Net loss per ordinary share—basic and diluted	$ (0.03)	$ (0.99)
Weighted average ordinary shares—basic and diluted	20,000,000	42,561,600

The accompanying notes are an integral part of these consolidated financial statements.

Renalytix AI plc
Consolidated statements of shareholders' (deficit) equity

(in thousands, except share and per share data)	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' (deficit) equity
	Shares	Amount				
Balance at March 15, 2018 (inception)	—	$ —	$ —	$ —	$ —	$ —
Issuance of ordinary shares upon formation	20,000,000	66	—	—	—	66
Currency translation adjustments	—	—	—	4	—	4
Net loss	—	—	—	—	(572)	(572)
Balance at June 30, 2018	20,000,000	66	—	4	(572)	(502)
Ordinary shares issued to acquire Joslin license	15,427,704	49	24,237	—	—	24,286
Sale of ordinary shares in initial public offering, net of offering costs of $1,742	18,388,430	47	27,322	—	—	27,369
Share-based compensation expense	—	—	525	—	—	525
Currency translation adjustments	—	—	—	(826)	—	(826)
Net loss	—	—	—	—	(42,301)	(42,301)
Balance at June 30, 2019	53,816,134	$ 162	$ 52,084	$ (822)	$ (42,873)	$ 8,551

The accompanying notes are an integral part of these consolidated financial statements.

Renalytix AI plc
Consolidated statements of cash flows

(in thousands)	From March 15, 2018 (inception) through June 30, 2018	Year ended June 30, 2019
Cash flows from operating activities:		
Net loss	$ (572)	$ (42,301)
Adjustments to reconcile net loss to net cash used in operating activities		
Non-cash in-process research and development charge	—	35,286
Depreciation	—	31
Share-based compensation	—	525
Realized gain on short-term investments	—	(24)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(35)	(197)
Accounts payable	10	303
Accrued expenses and other current liabilities	170	221
Net cash used in operating activities	(427)	(6,156)
Cash flows from investing activities:		
Purchases of property and equipment	—	(309)
Purchase of short-term investments	—	(4,970)
Proceeds from short-term investments	—	4,000
Acquired in-process research and development	—	(11,021)
Net cash used in investing activities	—	(12,300)
Cash flows from financing activities:		
Gross proceeds from the issuance of ordinary shares	66	29,111
Offering costs associated with the issuance of ordinary shares	—	(1,292)
Proceeds from related-party notes	442	633
Repayment of related-party notes	—	(1,069)
Net cash provided by financing activities	508	27,383
Effect of exchange rate changes on cash	1	(808)
Net increase in cash and cash equivalents	82	8,119
Cash and cash equivalents, beginning of period	—	82
Cash and cash equivalents, end of period	$ 82	$ 8,201
Supplemental disclosure of cashflow information:		
Cash paid for interest	$ —	$ 21
Cash received for interest income	$ —	$ 34
Supplemental noncash financing activities:		
Ordinary shares issued to acquire Joslin license	$ —	$ 24,286
Offering costs within accrued expenses	$ —	$ 450

The accompanying notes are an integral part of these consolidated financial statements.

Renalytix AI plc
Notes to consolidated financial statements

1. Business and risks

Renalytix AI plc and its wholly-owned subsidiary, Renalytix AI, Inc. (collectively, RenalytixAI, or the Company) is an artificial intelligence-enabled *in vitro* diagnostics company, focused on optimizing clinical management of kidney disease to drive improved patient outcomes and significantly lower healthcare costs. KidneyIntelX, the Company's first-in-class diagnostic platform, employs a proprietary artificial intelligence-enabled algorithm that combines diverse data inputs, including validated blood-based biomarkers, inherited genetics and personalized patient data from EHR systems, to generate a unique patient risk score. KidneyIntelX has already been granted a Current Procedural Terminology, or CPT, code, national Medicare pricing and a positive coverage determination from a regional, private physician-led health insurance payor. Further, it has been granted breakthrough device designation from the Food and Drug Administration, or FDA.

Since inception in March 2018, the Company has focused primarily on organizing and staffing the Company, raising capital, developing the KidneyIntelX platform, conducting clinical validation studies for KidneyIntelX, establishing and protecting its intellectual property portfolio and commercial laboratory operations, pursuing regulatory clearance and developing a reimbursement strategy. To date, the Company has not generated any revenue from the sales of KidneyIntelX tests. The Company has funded its operations primarily through equity financings.

In November 2018, the Company sold 18.4 million of its ordinary shares in its initial public offering, or IPO, and its ordinary shares were admitted to AIM, a market operated by the London Stock Exchange, resulting in aggregate net proceeds of approximately $27.4 million. In July 2019, the Company sold an additional 5.6 million of its ordinary shares in a secondary offering for aggregate net proceeds of $16.6 million. Prior to the IPO, EKF Diagnostics Holdings ("EKF"), a related party, provided debt financing. All borrowings with EKF were repaid in their entirety upon completion of the equity offering in November 2018. The Company has no current debt obligations as of June 30, 2019.

The Company is subject to risks and uncertainties common to early-stage companies in the diagnostics industry, including, but not limited to, ability to secure additional capital to fund operations, compliance with governmental regulations, development by competitors of new technological innovations, dependence on key personnel and protection of proprietary technology. To achieve widespread usage, KidneyIntelX and additional diagnostic products currently under development will require extensive clinical testing and validation prior to regulatory approval and commercialization. These efforts require significant amounts of additional capital, adequate personnel, and infrastructure and extensive compliance-reporting capabilities.

2. Liquidity

On November 6, 2018, the Company sold 18.4 million ordinary shares in an IPO at $1.57 per share resulting in net proceeds of approximately $27.4 million and its ordinary shares were admitted to trading on the AIM. At June 30, 2019, the Company had cash, cash equivalents and short-term investments of $9.2 million. The Company has incurred recurring losses and negative cash flows from operations since inception and had an accumulated deficit of $42.9 million as of June 30, 2019. In July 2019, the Company sold 5.6 million of its ordinary shares to several new and existing investors in exchange for $16.6 million of net cash proceeds. The Company anticipates incurring additional losses until such time, if ever, that it can generate significant sales of KidneyIntelX or any future products currently in development. Management believes its cash, cash equivalents and short-term investments as of June 30, 2019, and the proceeds from the sale of its ordinary shares in July 2019, are sufficient to fund the projected operations for at least the next twelve months from the issuance date of these financial statements. Substantial additional capital will be needed by the Company to fund its operations, expand its commercial activities and develop other potential diagnostic related products.

The Company plans to seek additional funding through public or private equity offerings, debt financings, other collaborations, strategic alliances and licensing arrangements. The Company may not be able to obtain financing on acceptable terms, or at all, and the Company may not be able to enter into strategic alliances or other arrangements on favorable terms, or at all. The terms of any financing may adversely affect the holdings or the rights of the Company's shareholders. If the Company is unable to obtain funding, the Company could be required to delay, curtail or discontinue research and development programs, product portfolio expansion or future commercialization efforts, which could adversely affect its business prospects.

3. Basis of presentation and summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (U.S. GAAP). Any reference in these notes to applicable guidance is meant to refer to U.S. GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Updates (ASU) of the Financial Accounting Standards Board (FASB).

Principles of consolidation

The consolidated financial statements include the accounts of Renalytix AI plc and its wholly-owned subsidiary, Renalytix AI, Inc. All inter-company balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual results could differ from those estimates. Due to the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may materially vary from these estimates.

Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant areas that require management's estimate include the assumptions used in determining the fair value of share-based awards, the value of consideration for the acquired in-process research and development and in recording the prepaid/accrual, and associated expense, for research and development activities performed for the Company by third parties.

Segment information

The Company manages its operations as a single operating segment for the purposes of assessing performance and making operating decisions. The Company's singular focus is to make significant improvements in kidney disease diagnosis and prognosis, clinical care, patient stratification for drug clinical trials, and drug target discovery.

Foreign currency translation

The Company's consolidated financial statements are presented in U.S. dollars, the reporting currency of the Company. The functional currency of Renalytix AI plc and Renalytix AI, Inc. is GB pounds and U.S. dollar, respectively. Assets and liabilities of Renaltyix AI plc are translated at the rate of exchange at year-end, while the statements of operations are translated at the weighted average exchange rates in effect during the reporting period. The net effect of these translation adjustments is shown as a component of accumulated other comprehensive income (loss).

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash. Periodically, the Company maintains deposits in accredited financial institutions in excess of federally insured limits. The Company deposits its cash in financial institutions that it believes have high credit quality and are not exposed to any unusual credit risk beyond the normal credit risk associated with commercial banking relationships, and has not experienced any losses on such accounts. At June 30, 2018 and 2019, all of the Company's cash was held at two accredited financial institutions.

Fair value of financial instruments
At June 30, 2018 and 2019, the Company's financial instruments included prepaid expenses and other current assets, accounts payable and other current liabilities. The carrying amounts of these assets and liabilities approximates fair value due to their short-term nature.

Cash and cash equivalents
The Company considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. As of June 30, 2019, the Company had a cash balance of $7.2 million and cash equivalents consisting of $1.0 million held in U.S. Treasury Bills.

Short-term investments
Short-term investments consist of debt securities with a maturity date greater than three months when acquired. The Company classifies its short-term investments at the time of purchase as available-for-sale securities. Available-for-sale securities are carried at fair value. Unrealized gains or losses on available-for-sale securities are reported in accumulated other comprehensive income (loss), a component of the shareholders' (deficit) equity, until realized. Short-term investments at June 30, 2019 consisted of U.S. Treasury Bills with a fair value of $1.0 million. Unrealized gains (losses) were de minimis as their maturity date was 91 days from original purchase.

Deferred offering costs
The Company capitalizes certain legal, professional, accounting and other third-party fees that are directly associated with in-process common equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded as a reduction of additional paid-in capital generated

as a result of such offering. Should an in-process equity financing be abandoned, the deferred offering costs will be expensed immediately as a charge to operating expenses in the consolidated statements of operations and comprehensive loss. The Company had no deferred offering costs as of June 30, 2018 and 2019.

Property and equipment

Property and equipment are recorded at cost and consist of lab equipment. Depreciation and amortization is determined using the straight-line method over the estimated useful lives ranging from three to ten years. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in operations. During the year ended June 30, 2019, the Company acquired lab equipment at a cost of $0.3 million and depreciation expense of $31,000 was recorded on these assets during this period.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated. Impairment charges are recognized at the amount by which the carrying amount of an asset exceeds the fair value of the asset. The Company has not recognized any impairment of long-lived assets for the period from May 15, 2018 (inception) through June 30, 2018 and for the year ended June 30, 2019.

Acquired in-process research and development expenses

Acquired in-process research and development (IPR&D) expense consists of the initial up-front payments incurred in connection with the acquisition or licensing of products or technologies that do not meet the definition of a business under FASB ASC Topic 805, *Business Combinations*. The Company's acquired IPR&D expense of $35.3 million, which reflects the fair value of consideration ascribed to the licenses acquired from Mount Sinai (see Note 7) and the license transfer from EKF (see Note 7).

Research and development expenses

Research and development costs consist primarily of costs incurred in connection with the development of KidneyIntelX and other studies for KidneyIntelX to determine clinical value and performance in different chronic kidney disease populations. Research and development costs are expensed as incurred.

At the end of the reporting period, the Company compares payments made to third-party service providers to the estimated progress toward completion of the research or development objectives. Such estimates are subject to change as additional information becomes available. Depending on the timing of payments to the service providers and the progress that the Company estimates has been made as a result of the service provided, the Company may record a prepaid expense or accrued liability relating to these costs. Upfront milestone payments made to third parties who perform research and development services on the Company's behalf are expensed as services are rendered. Contingent development or regulatory milestone payments are recognized upon the related resolution of such contingencies.

Share-based compensation

The Company measures equity classified share-based awards granted to employees and nonemployees based on the estimated fair value on the date of grant and recognizes compensation expense of those awards over the requisite service period, which is the vesting period of the respective award. The Company accounts for forfeitures as they occur. For share-based awards with service-based vesting conditions, the Company recognizes compensation expense on a straight-line basis over the service period. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model, which requires inputs based on certain subjective assumptions, including the expected stock price volatility, the expected term of the option, the risk-free interest rate for a period that approximates the expected term of the option, and the Company's expected dividend yield. The Company was a privately-held organization prior to November 2018 and has been a publicly-traded company for a limited period of time and therefore lacks company-specific historical and implied volatility information for its shares. Therefore, it estimates its expected share price volatility based on the historical volatility of publicly-traded peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded share price. The expected term of the Company's stock options has been determined utilizing the "simplified" method for awards that qualify as "plain-vanilla" options. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is none based on the fact that the Company has never paid cash dividends on ordinary shares and does not expect to pay any cash dividends in the foreseeable future. The Company classifies share-based compensation expense in its consolidated statement of operations and comprehensive loss in the same manner in which the award recipient's payroll costs are classified or in which the award recipient's service payments are classified.

Income taxes

Income taxes are accounted for under the asset and liability method as required by FASB ASC Topic 740, *Income Taxes (ASC 740)*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A reduction in the carrying value of the deferred tax assets is required when it is not more likely than not that such deferred tax assets are realizable.

FASB ASC Subtopic 740-10, *Accounting for Uncertainty of Income Taxes (ASC 740-10)*, defines the criterion an individual tax position must meet for any part of the benefit of the tax position to be recognized in financial statements prepared in conformity with U.S. GAAP. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not such tax position will be sustained on examination by the taxing authorities, based solely on the technical merits of the respective tax position. The tax benefits recognized in the financial statements from such a tax position should be measured based on the largest benefit having a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. In accordance with disclosure requirements of ASC 740-10, the Company's policy on income statement classification of interest and penalties related to income tax obligations is to include such items as part of income tax expense.

Comprehensive loss

Comprehensive loss includes net loss as well as other changes in shareholders' (deficit) equity that result from transactions and economic events other than those with shareholders.

Net loss per ordinary share

Basic net loss per ordinary share is computed by dividing net loss by the weighted average number of ordinary shares outstanding during each period. Diluted net loss per ordinary share includes the effect, if any, from the potential exercise or conversion of securities, such as options which would result in the issuance of incremental ordinary shares. In computing basic and diluted net loss per share, the weighted average number of shares is the same for both calculations due to the fact that a net loss existed for the period from March 15, 2018 (inception) through June 30, 2018 and the year ended June 30, 2019.

Potentially dilutive securities outstanding as of June 30, 2019 have been excluded from the computation of diluted weighted average shares outstanding, as they would be anti-dilutive. As of June 30, 2019, there were 2,195,697 shares issuable upon exercise of outstanding options that were anti-dilutive and excluded from diluted loss per share for the year ended June 30, 2019. There were no potentially dilutive securities outstanding at June 30, 2018.

Emerging growth company

The Company is an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, as amended (the "JOBS Act"). Under the JOBS Act, companies have extended transition periods available for complying with new or revised accounting standards. The Company has elected to avail itself of this exemption and, therefore, while the Company is an emerging growth company it will not be subject to new or revised accounting standards at the same time that they become applicable to other public emerging growth companies that have not elected to avail themselves of this exemption.

Recently adopted accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09")*, which supersedes existing revenue recognition guidance under U.S. GAAP. This standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to in exchange for those goods or services. The standard defines a five-step process to achieve this principle and will require companies to use more judgment and make more estimates than under the current guidance. The Company expects that these judgments and estimates will include identifying performance obligations in the customer contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delayed the effective date of ASU 2014-09 such that the standard is effective for non-public entities for annual periods beginning after December 15, 2018 and for interim periods beginning after December 15, 2019. The FASB subsequently issued amendments to ASU 2014-09 that have the same effective date and transition date. The Company early adopted ASU 2014-09 as of January 1, 2018, and the adoption had no impact on the Company's financial position, results of operations or cash flows as the Company does not currently have any revenue-generating arrangements.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. This standard will require entities to recognize all excess tax benefits and tax deficiencies in the statement of operations as a discrete item in the reporting period in which they occur. The standard

also allows an employer to withhold up to the maximum statutory tax rate and still qualify for equity classification. Classification of excess tax benefits on the statement of cash flows should be classified as an operating activity, and employee taxes paid when an employer withholds shares for tax-withholding purposes should be classified as a financing activity. The provisions that affect the statement of operations will be effective prospectively in the year of adoption and the provisions that affect the statement of cash flows will be effective retrospectively. This Company adopted this standard at its inception and it had no impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurements*, which changes the fair value measurement disclosure requirements of ASC 820. The goal of the ASU is to improve the effectiveness of ASC 820's disclosure requirements. The standard is applicable to the Company for fiscal years beginning July 1, 2020, and interim periods within those years. The Company adopted this guidance on July 1, 2018, and it did not have a material impact on its consolidated financial statements.

Recently issued accounting pronouncements

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 addresses eight specific cash flow issues with the objective of reducing diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years beginning July 1, 2019, and interim periods within those years. The adoption of this guidance will not have a material impact to its consolidated statement of cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, in order to increase transparency and comparability among organizations by, among other provisions, recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. For public companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. In transition, entities may also elect a package of practical expedients that must be applied in its entirety to all leases commencing before the adoption date, unless the lease is modified, and permits entities to not reassess (a) the existence of a lease, (b) the lease classification or (c) the determination of initial direct costs, as of the adoption date, which effectively allows entities to carryforward accounting conclusions under previous U.S. GAAP. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities an optional transition method to apply the guidance under Topic 842 as of the adoption date, rather than as of the earliest period presented. The new standard is effective for fiscal years beginning July 1, 2021, and interim periods within those years. The Company is currently evaluating the impact of adopting this guidance to its consolidated financial statements.

4. Fair value

Assets and liabilities recorded at fair value on a recurring basis in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

- Level 1 - Quoted prices (unadjusted in active markets for identical assets or liabilities)
- Level 2 - Inputs other than quoted prices in active markets that are observable either directly or indirectly
- Level 3 - Unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions

This hierarchy requires the use of observable market data when available and to minimize the use of unobservable inputs when determining fair value. The Company has classified cash equivalents and short-term investments at June 30, 2019, which were comprised of U.S. Treasury Bills and measured at fair value on a recurring basis, as Level 1.

5. Accrued expenses

Accrued expenses consisted of (in thousands):

	June 30,	
	2018	**2019**
Consulting and professional fees	$ 160	$ 719
Payroll and related benefits	—	28
Other	9	85
	$ 169	$ 832

6. Commitments and contingencies

Leases

In June 2018, the Company entered into an office lease and, in February 2019, the Company entered into a lease for laboratory testing facilities and offices. Each lease is located in New York City and are month-to-month leasing arrangements. Additionally, in February 2019, the Company entered into a lease for an apartment used by executives for traveling requirements. The apartment was located in New York and expired in October 2019. Rent expense for all leases was $9,000 for the period from March 15, 2018 (inception) through June 30, 2018 and $0.2 million for the year ended June 30, 2019. Future rent commitments are $0.1 million at June 30, 2019, and will be paid in less than one year.

Employment agreements

The Company has entered into employment agreements with certain key executives providing for compensation and severance in certain circumstances, as set forth the agreements.

Retirement plans

The Company maintains a defined contribution 401(k) retirement plan which covers all U.S. employees. Employees are eligible after three months of service. Under the 401(k) plan, participating employees may make contributions in an amount up to the limit set by the Internal Revenue Service on an annual basis. The Company has a safe harbor plan and makes contributions to employee accounts of 5% of compensation (as defined by the plan). The Company paid $14,000 in contributions for the year ended June 30, 2019. The Company did not make contributions to the plan for the period from March 15, 2018 (inception) through June 30, 2018.

Legal proceedings

The Company is not a party to any litigation and does not have contingency reserves established for any litigation liabilities. At each reporting date, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies.

7. License agreements

Mount Sinai license and sponsored research agreements

On May 30, 2018, the Company entered into an exclusive license agreement (the ISMMS License Agreement) and, on March 7, 2019, a sponsored research agreement (the ISMMS SRA) with the Icahn School of Medicine at Mount Sinai (ISMMS or Mount Sinai). Under the terms of the ISMMS License Agreement, ISMMS granted the Company (i) an exclusive, sublicensable license to use certain patent rights covering specific inventions concerning the utilization of biomarkers guided artificial intelligence techniques for detecting kidney functional decline (the ISMMS Technology), (ii) a non-exclusive license under unregistered licensed copyrights and licensed know-how and (iii) an exclusive option to obtain licensed technology conceived after May 30, 2018. A license issuance fee of $10.0 million was contingent upon the Company's completion of an IPO and upon payment, was recorded as acquired in-process research and development expense during the year ended June 30, 2019 on the Company's consolidated statements of operations and comprehensive loss. The Company accounted for this transaction as an asset acquisition as substantially all of the value acquired by the Company consisted of a single asset with no alternative future use. The Company is obligated to pay Mount Sinai $1.5 million and $7.5 million in commercial milestone payments upon achieving worldwide net sales of KidneyIntelX of $50.0 million and $300.0 million, respectively. The Company is also obligated to pay Mount Sinai a 4% to 5% royalty on net sales of KidneyIntelX, subject to customary reductions. Royalties are payable on a product-by-product basis from first commercial sale of such product until the later of (1) expiration of the last valid claim of a licensed patent covering such product or (2) on a country-by-country basis, 12 years from first commercial sale of such product in such country. Moreover, the Company is obligated to pay Mount Sinai between 15% and 25% of any consideration received from a sublicensee.

As part of the ISMMS SRA, the Company has agreed to fund several research projects to further develop the ISMMS Technology. The Company incurred approximately $0.2 million in research and development expenses under the ISMMS SRA for the year ended June 30, 2019.

Mount Sinai license agreement for FractalDx

On December 21, 2018, the Company entered into an exclusive license agreement (the ISMMS FractalDx License Agreement) with ISMMS. Under the terms of the ISMMS FractalDx License Agreement, ISMMS granted the Company (i) an exclusive license, with sub-license rights, to use certain patent rights covering specific inventions concerning the utilization of biomarkers guided artificial intelligence techniques for detecting kidney functional decline (the ISMMS

Technology), (ii) a non-exclusive license under unregistered licensed copyrights and licensed know-how and (iii) an exclusive option to obtain licensed technology conceived after May 30, 2018. An up-front license fee of $1.0 million was paid and recorded as acquired in-process research and development expense during the year ended June 30, 2019 on the Company's consolidated statements of operations and comprehensive loss. The Company accounted for this transaction as an asset acquisition as substantially all of the value acquired by the Company consisted of a single asset with no alternative future use. The patent reimbursement fees of approximately $0.3 million were also paid and expensed as general and administrative expenses during the year ended June 30, 2019. The Company is obligated to pay Mount Sinai $0.3 million upon receipt of certain regulatory clearance and approval, $0.3 million upon receipt of U.S. CMS reimbursement code or PAMA reimbursement approval. In addition, the Company is obligated to pay Mount Sinai $1.0 million and $4.0 million in commercial milestone payments upon achieving worldwide net sales of FractalDx of $50.0 million and $250.0 million, respectively. The Company is also obligated to pay Mount Sinai a 6% to 8% royalty on net sales of FractalDx, subject to customary reductions. Moreover, the Company is obligated to pay Mount Sinai between 15% and 70% of any consideration received from a sublicensee.

Royalties are payable on a product-by-product basis from first commercial sale of such product until the later of (1) expiration of the last valid claim of a licensed patent covering such product or (2) on a country-by-country basis, 12 years from first commercial sale of such product in such country. The Company is also subject to an annual license maintenance fee of $25,000 in calendar year 2020 and 2021, $50,000 in calendar year 2022 and 2023, $0.1 million in calendar years 2024 through 2027, and $0.2 million for calendar year 2028 and beyond.

Joslin diabetes center agreement

In October 2018, the Company purchased a worldwide exclusive license agreement with Joslin (the Joslin Agreement) that was previously entered into with EKF, a related party, in July 2017. The license agreement provides the Company with the right to develop and commercialize licensed products covering a novel methodology of diagnosing and predicting kidney disease using certain biomarkers (the Joslin Diabetes Technology). The Company issued 15,427,704 ordinary shares as consideration for total noncash consideration of $24.3 million. Given the timing of the assignment of license to the Company's IPO on AIM, the estimated fair value of the ordinary shares issued was $1.57 per share. The noncash consideration was expensed as acquired in-process research and development expense during the year ended June 30, 2019 on the Company's consolidated statements of operations and comprehensive loss. The Company accounted for this transaction as an asset acquisition as substantially all of the value acquired by the Company consisted of a single asset with no alternative future use.

Under the terms of the Joslin Agreement, the Company is obligated to pay Joslin aggregate commercial milestone payments of $0.3 million and $1.0 million in commercial milestone payments upon achieving worldwide net sales of licensed products and processes of $2.0 million and $10.0 million, respectively. The Company is also obligated to pay Joslin a 5% royalty on net sales of any licensed products or licensed processes, subject to customary reductions. Moreover, the Company is obligated to pay Joslin 25% of any consideration received from a sublicensee.

The Joslin Agreement initially expires on July 31, 2025 and is subject to an automatic five-year extension unless either party notifies the other party of its intent not to extend the agreement at least 180 days prior to initial expiration. Either party may terminate the Joslin Agreement earlier upon an uncured material breach of the agreement by the other party, the insolvency of the other party, or in the event the other party is unable to perform its obligations under the agreement for a specified period. Additionally, Joslin may terminate the agreement in the event that the Company ceases developing or commercializing licensed products or processes, if the Company fails to maintain certain required insurance policies, and if the Company fails to pay patent expenses related to the licensed patents.

8. Shareholders' (deficit) equity

Ordinary shares

As of June 30, 2019, the Company had 56,011,831 ordinary shares authorized on a fully diluted basis. Each share entitles the holder to one vote on all matters submitted to a vote of the Company's shareholders. Ordinary shareholders are entitled to receive dividends as may be declared by the board of directors. From inception through June 30, 2019, no cash dividends have been declared or paid.

9. Share-based compensation

In November 2018, Company established the Renalytix AI plc Share Option Plan (the Plan) and a U.S. Sub-Plan and Non-Employee Sub-Plan. The Plan provides for the Company to grant options, restricted share awards and other share-based awards to employees, directors and consultants of the Company. As of June 30, 2019, there were 5,601,183 shares available for future issuance under the Plan.

The Plan is administered by the board of directors. The exercise prices, vesting and other restrictions are determined at their discretion, except that all options granted have exercise prices equal to the fair value of the underlying ordinary shares on the date of the grant and the term of stock option may not be greater than ten years from the grant date.

The options granted as of June 30, 2019 vest equally over twelve quarters following the grant date, with the exception of 80,724 options which vested immediately when granted. If options remain unexercised after the date one day before the tenth anniversary of grant, the options expire. On termination of employment, any options that remain unexercised are either forfeited immediately or after a delayed expiration period, depending on the circumstances of termination. Upon the exercise of awards, new ordinary shares are issued by the Company.

The Company recorded share-based compensation expense in the following expense categories in the consolidated statements of operations for the year ended June 30, 2019 (in thousands):

Research and development	$ 322
General and administrative	203
	$ 525

The fair value of options is estimated using the Black-Scholes option pricing model, which takes into account inputs such as the exercise price, the value of the underlying ordinary shares at the grant date, expected term, expected volatility, risk-free interest rate and dividend yield. The fair value of each grant of options during the year ended June 30, 2019 was determined using the methods and assumptions discussed below.

- The expected term of employee options is determined using the “simplified” method, as prescribed in SEC’s Staff Accounting Bulletin (SAB) No. 107, whereby the expected life equals the arithmetic average of the vesting term and the original contractual term of the option due to the Company’s lack of sufficient historical data.
- The expected volatility is based on historical volatility of the publicly-traded common stock of a peer group of companies.
- The risk-free interest rate is based on the interest rate payable on U.S. Treasury securities in effect at the time of grant for a period that is commensurate with the assumed expected term.
- The expected dividend yield is none because the Company has not historically paid and does not expect for the foreseeable future to pay a dividend on its ordinary shares.

For the year ended June 30, 2019, the grant date fair value of all option grants was estimated at the time of grant using the Black-Scholes option-pricing model using the following weighted average assumptions:

Expected term (in years)	5.8
Expected volatility	66.9%
Risk-free rate	3.1%
Dividend yield	—

The weighted average fair value of the options granted during the year ended June 30, 2019 was $0.97 per share.

The following table summarizes the stock option granted to employees and nonemployees for the year ended June 30, 2019:

	Number of shares under option plan	Weighted-average exercise price per option	Weighted-average remaining contractual life (in years)
Outstanding at June 30, 2018	—	$ —	
Granted	2,195,697	$ 1.57	
Outstanding at June 30, 2019	2,195,697	$ 1.57	9.4
Exercisable at June 30, 2019	433,420	$ 1.57	
Vested and expected to vest at June 30, 2019	2,195,697	$ 1.57	9.4

As of June 30, 2019, there was $1.6 million in unrecognized compensation cost related to unvested options that will be recognized as expense over a weighted average period of 1.71 years. The aggregate intrinsic value of options outstanding and options exercisable at June 30, 2019 was $3.4 million and $0.7 million, respectively.

10. Income taxes

Loss from operations before income taxes was comprised of the following (in thousands):

	From March 15, 2018 (inception) through June 30, 2018	Year ended June 30, 2019
United Kingdom	$ (118)	$ (37,803)
United States	(454)	(4,498)
	(572)	(42,301)

Due to the pretax losses reported in both the United Kingdom and United States for all periods since inception there is no income tax expense or benefit.

A reconciliation of income tax benefit from continuing operations as reflected in the financial statements is as follows:

	From March 15, 2018 (inception) through June 30, 2018	Year ended June 30, 2019
U.K. tax benefit at statutory rate	(19.0)%	(19.0)%
State taxes, net of federal benefit	(9.1)	(1.2)
Permanent differences	0.1	8.0
Research and development	0.0	0.0
Change in valuation allowance	29.2	11.4
Other	(1.2)	0.7
Effective tax rate	0.0%	0.0%

The principal components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	June 30,	
	2018	2019
Deferred tax assets:		
Net operating losses	$ 163	$ 1,832
Research and development licenses	—	2,831
Development costs	—	301
Share-based compensation	—	88
Other	3	6
Valuation allowances	(166)	(5,000)
Total deferred tax assets	—	58
Deferred tax liabilities:		
Depreciation	—	(58)
Total deferred tax liabilities	—	(58)
Net deferred tax	$ —	$ —

The Company does not have unrecognized tax benefits as of June 30, 2018 or 2019. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

The Company's net operating loss carryforwards ("NOL") for U.K., U.S. federal and U.S. state income tax purposes consisted of the following (in thousands):

	June 30,	
	2018	2019
United Kingdom	$ 97	$ 1,667
U.S. Federal	452	4,770
U.S. State and Local	905	9,540

The U.K. and U.S. federal net operating loss carryforwards have no expiration. The Company recorded a valuation allowance on the deferred tax assets as of June 30, 2018 and June 30, 2019 because of the uncertainty of their realization. The valuation allowance increased by $0.2 million for the period from March 15, 2018 (inception) through June 30, 2018, and by $4.8 million for the year ended June 30, 2019.

Utilization of the net operating losses and general business tax credits carryforwards may be subject to a substantial limitation under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if changes in ownership of the company have occurred previously or may occur in the future. Ownership changes may limit the amount of net operating losses and general business tax credits carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of five percent (5%) or greater shareholders in the stock of a corporation by more than 50 percentage points over a three-year period. If the Company experiences a Section 382 ownership change, the tax benefits related to the U.S. federal NOL carry forwards may be further limited or lost.

The Company files income tax returns in the United Kingdom, the U.S. federal jurisdiction and various U.S. state jurisdictions. The Company's 2018 and 2019 tax returns remain subject to examination.

11. Related-party transactions

As discussed in Note 7, in October 2018, the Company purchased a worldwide exclusive license agreement with Joslin, that was previously entered into with EKF in July 2017, in exchange for the issuance of 15,427,704 of the Company's ordinary shares.

EKF provided short-term loans to the Company in the form of notes payable. During the period from March 15, 2018 (inception) through June 30, 2018 and for the year ended June 30, 2019, the Company borrowed $0.4 million and $0.6 million, respectively. The notes bore interest at an annual rate of 5%. All outstanding principal and accrued interest of $1.0 million and $21,000, respectively, was repaid in November 2018 upon consummation of the Company's IPO. Interest expense during the period from March 15, 2018 (inception) through June 30, 2018 was $5,000. The Company recognized interest expense of $16,000 during the year ended June 30, 2019.

In May 2018, the Company secured its cornerstone license agreement with ISMMS for research and clinical study work and intended commercialization by the Company (see Note 7). As part of the collaboration, ISMMS became a shareholder in the Company and has subsequently made equity investments both in the Company's IPO in November 2018 and the subsequent sale of ordinary shares in July 2019. Additionally, in December 2018, the Company executed its option with ISMMS for the FractalDx license, which grants rights to technology and patents relating to a series of potential diagnostics and prognostics in the field of kidney transplant and rejection.

Prior to the Company's IPO on AIM in November 2018, the Company's Chief Executive Officer and Chief Financial Officer provided their respective services through a consulting agreement between the Company and Renwick Capital, LLC. During the period from March 15, 2018 (inception) through June 30, 2018 and for the year ended June 30, 2019, the Company incurred consulting services of $0.1 million and $0.2 million, respectively. As of June 30, 2019, there was $0 within accounts payable due to Renwick Capital, LLC. Upon consummation of the Company's IPO, the Chief Executive Officer and Chief Financial Officer became employee of the Company and the consulting agreement with Renwick Capital, LLC as terminated.

12. Subsequent events

The Company has evaluated subsequent events from the balance sheet date through May 15, 2020, the date at which the consolidated financial statements were available to be issued, and determined there are no other items requiring disclosure beyond those disclosed below.

Equity share offering

In July 2019, the Company sold 5,600,000 of its ordinary shares on AIM to several new and existing shareholders at a price of $3.11 per share and received $16.6 million in net proceeds.

Laboratory facility

On October 31, 2019, the Company entered into a lease agreement that established a commercial laboratory operation in Salt Lake City, Utah. The lease has a term of five years and is the first long-term lease entered into by the Company. The future minimum payments under this lease are as follows (in thousands):

2020	$ 55
2021	83
2022	83
2023	83
2024	83
2025	28
	$ 415

Coronavirus pandemic

On March 11, 2020, the World Health Organization characterized the novel COVID-19 virus as a global pandemic. The extent of the impact of the COVID-19 pandemic to the Company's business, operations and regulatory and commercialization timelines will depend on certain developments, including the duration and spread of the outbreak and its impact on the Company's partners, laboratory sites, and other third parties with whom the Company conducts business, as well as its impact on regulatory authorities and the Company's key scientific and management personnel. To the extent possible, the Company is conducting business as usual, with necessary or advisable modifications to employee travel and employee work locations. The Company continues to actively monitor the rapidly evolving situation related to COVID-19 and may take further actions that alter its business operations, including those that may be required by federal, state or local authorities, or that the Company determines are in the best interests of its employees, partners and shareholders. At this point, the extent to which the COVID-19 pandemic may impact the Company's business, operations and regulatory and commercialization timelines remains uncertain.

Paycheck Protection Program

On April 29, 2020, the Company, entered into an original loan agreement with Fortis Private Bank as the lender ("Lender") for a loan in an aggregate principal amount of $0.3 million (the "Loan") pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and implemented by the U.S. Small Business Administration. The Loan matures in two years and bears interest at a rate of 1% per annum, with all payments deferred through the six-month anniversary of the date of the Loan. Principal and interest are payable monthly commencing on October 29, 2020 and may be prepaid by the Company at any time prior to maturity without penalty. The Company may apply for forgiveness of amounts due under the Loan, with the amount of potential loan forgiveness to be calculated in accordance with the requirements of the PPP based on payroll costs, any mortgage interest payments, any covered rent payments and any covered utilities payments during the 8-week period after the origination date of the Loan. The Company intends to use proceeds of the Loan for payroll and other qualifying expenses, but there can be no assurances that any portion of the Loan will be forgiven.

Renalytix AI plc
Consolidated balance sheets
(Unaudited)

(in thousands, except share and per share data)	June 30, 2019	March 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 8,201	$ 9,874
Short-term investments	994	7,952
Prepaid expenses and other current assets	227	571
Total current assets	9,422	18,397
Property and equipment, net	278	1,072
Deferred offering costs	—	457
Total assets	$ 9,700	$ 19,926
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 317	$ 585
Accrued expenses and other current liabilities	832	718
Total current liabilities	1,149	1,303
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Ordinary shares, £0.0025 par value per share: 56,011,831 and 62,444,992 shares authorized at June 30, 2019 and March 31, 2020, respectively; 53,816,134 and 59,416,134 shares issued and outstanding at June 30, 2019 and March 31, 2020, respectively	162	179
Additional paid-in capital	52,084	69,349
Accumulated other comprehensive loss	(822)	(1,165)
Accumulated deficit	(42,873)	(49,740)
Total shareholders' equity	8,551	18,623
Total liabilities and shareholders' equity	$ 9,700	$ 19,926

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Renalytix AI plc
Consolidated statements of operations and comprehensive loss
(Unaudited)

(in thousands, except share data)	Nine months ended March 31, 2019	2020
Operating expenses:		
Acquired in-process research and development	$ 35,286	$ —
Research and development	3,081	3,659
General and administrative	1,904	3,770
Total operating expenses and loss from operations	(40,271)	(7,429)
Other income, net	117	562
Net loss	(40,154)	(6,867)
Other comprehensive loss:		
Foreign exchange translation adjustment	(538)	(343)
Total comprehensive loss	$ (40,692)	$ (7,210)
Net loss per ordinary share—basic and diluted	$ (1.04)	$ (0.12)
Weighted average ordinary shares—basic and diluted	38,750,787	58,968,134

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Renalytix AI plc
Consolidated statements of shareholders' (deficit) equity
(Unaudited)

(in thousands, except share and per share data)	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' (deficit) equity
	Shares	Amount				
Balance at July 1, 2018	20,000,000	$ 66	$ —	$ 4	$ (572)	$ (502)
Ordinary shares issued to acquire Joslin license	15,427,704	49	24,237	—	—	24,286
Sale of ordinary shares in initial public offering, net of offering costs of $1,742	18,388,430	47	27,322	—	—	27,369
Share-based compensation expense	—	—	356	—	—	356
Currency translation adjustments	—	—	—	(538)	—	(538)
Net loss	—	—	—	—	(40,154)	(40,154)
Balance at March 31, 2019	53,816,134	$ 162	$ 51,915	$ (534)	$ (40,726)	$ 10,817

(in thousands, except share and per share data)	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' (deficit) equity
	Shares	Amount				
Balance at July 1, 2019	53,816,134	$ 162	$ 52,084	$ (822)	$ (42,873)	$ 8,551
Sale of ordinary shares in secondary offering, net of offering costs of $842	5,600,000	17	16,416	—	—	16,433
Share-based compensation expense	—	—	849	—	—	849
Currency translation adjustments	—	—	—	(343)	—	(343)
Net loss	—	—	—	—	6,867	(6,867)
Balance at March 31, 2020	59,416,134	$ 179	$ 69,349	$ (1,165)	$ (49,740)	$ 18,623

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Renalytix AI plc
Consolidated statements of cash flows
(Unaudited)

(in thousands)	Nine months ended March 31, 2019	2020
Cash flows from operating activities:		
Net loss	$ (40,154)	$ (6,867)
Adjustments to reconcile net loss to net cash used in operating activities		
Non-cash in-process research and development charge	35,286	—
Depreciation	15	40
Share-based compensation	356	849
Realized gain on short-term investments	—	(98)
Unrealized foreign exchange gain	(149)	(321)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(76)	(343)
Accounts payable	595	(52)
Accrued expenses and other current liabilities	348	(343)
Net cash used in operating activities	(3,779)	(7,135)
Cash flows from investing activities:		
Purchases of property and equipment	(305)	(599)
Software development costs	—	(92)
Purchase of short-term investments	(3,976)	(21,260)
Proceeds from short-term investments	—	14,400
Acquired in-process research and development	(11,000)	—
Net cash used in investing activities	(15,281)	(7,551)
Cash flows from financing activities:		
Gross proceeds from the issuance of ordinary shares	29,111	17,276
Offering costs associated with the issuance of ordinary shares	(1,292)	(892)
Proceeds from related-party notes	634	—
Repayment of related-party notes	(1,071)	—
Net cash provided by financing activities	27,382	16,384
Effect of exchange rate changes on cash	(686)	(25)
Net increase in cash and cash equivalents	7,636	1,673
Cash and cash equivalents, beginning of period	82	8,201
Cash and cash equivalents, end of period	$ 7,718	$ 9,874
Supplemental disclosure of cashflow information:		
Cash paid for interest	$ 21	$ —
Cash received for interest income	$ —	$ 117
Supplemental noncash financing activities:		
Ordinary shares issued to acquire Joslin license	$ 24,286	$ —
Offering costs within accrued expenses	$ 450	$ 408
Software development costs in accounts payable	$ —	$ 150

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Renalytix AI plc
Notes to unaudited interim consolidated financial statements

1. Business and risks

Renalytix AI plc and its wholly-owned subsidiary, Renalytix AI, Inc. (collectively, RenalytixAI, or the Company) is an artificial intelligence-enabled *in vitro* diagnostics company, focused on optimizing clinical management of kidney disease to drive improved patient outcomes and significantly lower healthcare costs. KidneyIntelX, the Company's first-in-class diagnostic platform, employs a proprietary artificial intelligence-enabled algorithm that combines diverse data inputs, including validated blood-based biomarkers, inherited genetics and personalized patient data from EHR systems, to generate a unique patient risk score. KidneyIntelX has already been granted a Current Procedural Terminology, or CPT, code, national Medicare pricing and a positive coverage determination from a regional, private physician-led health insurance payor. Further, it has been granted breakthrough device designation from the Food and Drug Administration, or FDA.

Since inception in March 2018, the Company has focused primarily on organizing and staffing the Company, raising capital, developing the KidneyIntelX platform, conducting clinical validation studies for KidneyIntelX, establishing and protecting its intellectual property portfolio and commercial laboratory operations, pursuing regulatory clearance and developing a reimbursement strategy. To date, the Company has not generated any revenue from the sales of KidneyIntelX tests. The Company has funded its operations primarily through equity financings.

In November 2018, the Company sold 18.4 million of its ordinary shares in its initial public offering, or IPO, and its ordinary shares were admitted to AIM, a market operated by the London Stock Exchange, resulting in aggregate net proceeds of approximately $27.4 million. In July 2019, the Company sold an additional 5.6 million of its ordinary shares in a secondary offering for aggregate net proceeds of $16.4 million. Prior to the IPO, EKF Diagnostics Holdings ("EKF"), a related party, provided debt financing. All borrowings with EKF were repaid in their entirety upon completion of the equity offering in November 2018. The Company has no current debt obligations as of March 31, 2020.

The Company is subject to risks and uncertainties common to early-stage companies in the diagnostics industry, including, but not limited to, ability to secure additional capital to fund operations, compliance with governmental regulations, development by competitors of new technological innovations, dependence on key personnel and protection of proprietary technology. To achieve widespread usage, KidneyIntelX and additional diagnostic products currently under development will require extensive clinical testing and validation prior to regulatory approval and commercialization. These efforts require significant amounts of additional capital, adequate personnel, and infrastructure and extensive compliance-reporting capabilities.

Coronavirus pandemic

On March 11, 2020, the World Health Organization characterized the novel COVID-19 virus as a global pandemic. The extent of the impact of the COVID-19 pandemic to the Company's business, operations and regulatory and commercialization timelines will depend on certain developments, including the duration and spread of the outbreak and its impact on the Company's partners, laboratory sites, and other third parties with whom the Company conducts business, as well as its impact on regulatory authorities and the Company's key scientific and management personnel. To the extent possible, the Company is conducting business as usual, with necessary or advisable modifications to employee travel and employee work locations. The Company continues to actively monitor the rapidly evolving situation related to COVID-19 and may take further actions that alter its business operations, including those that may be required by federal, state or local authorities, or that the Company determines are in the best interests of its employees, partners and shareholders. At this point, the extent to which the COVID-19 pandemic may impact the Company's business, operations and regulatory and commercialization timelines remains uncertain.

2. Liquidity

On November 6, 2018, the Company sold 18.4 million ordinary shares in an IPO at $1.57 per share resulting in net proceeds of approximately $27.4 million and its ordinary shares were admitted to trading on the AIM. In July 2019, the Company sold 5.6 million of its ordinary shares to several new and existing investors in exchange for $16.4 million of net cash proceeds. At March 31, 2020, the Company had cash, cash equivalents and short-term investments of $17.8 million. The Company has incurred recurring losses and negative cash flows from operations since inception and had an accumulated deficit of $49.7 million as of March 31, 2020. The Company anticipates incurring additional losses until such time, if ever, that it can generate significant sales of KidneyIntelX or any future products currently in development. Management believes its cash, cash equivalents and short-term investments as of March 31, 2020 are sufficient to fund the projected operations for at least the next twelve months from the issuance date of these financial statements. Substantial additional capital will be needed by the Company to fund its operations, expand its commercial activities and develop other potential diagnostic related products.

The Company plans to seek additional funding through public or private equity offerings, debt financings, other collaborations, strategic alliances and licensing arrangements. The Company may not be able to obtain financing on acceptable terms, or at all, and the Company may not be able to enter into strategic alliances or other arrangements on favorable terms, or at all. The terms of any financing may adversely affect the holdings or the rights of the Company's shareholders. If the Company is unable to obtain funding, the Company could be required to delay, curtail or discontinue research and development programs, product portfolio expansion or future commercialization efforts, which could adversely affect its business prospects.

3. Basis of presentation and summary of significant accounting policies

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (U.S. GAAP). Any reference in these notes to applicable guidance is meant to refer to U.S. GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Updates (ASU) of the Financial Accounting Standards Board (FASB).

In the opinion of management, the accompanying unaudited interim consolidated financial statements include all normal and recurring adjustments (which consist primarily of accruals and estimates that impact the financial statements) considered necessary to present fairly the Company's financial position as of March 31, 2020 and its results of operations and cash flows for the nine months ended March 31, 2019 and 2020. Operating results for the nine months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending June 30, 2020. The unaudited interim financial statements, presented herein, do not contain the required disclosures under U.S. GAAP for annual financial statements. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes as of and for the year ended June 30, 2019.

Principles of consolidation

The consolidated financial statements include the accounts of Renalytix AI plc and its wholly-owned subsidiary, Renalytix AI, Inc. All inter-company balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual results could differ from those estimates. Due to the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may materially vary from these estimates.

Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant areas that require management's estimate include the assumptions used in determining the fair value of share-based awards, the value of consideration for the acquired in-process research and development and in recording the prepaid/accrual, and associated expense, for research and development activities performed for the Company by third parties.

Segment information

The Company manages its operations as a single operating segment for the purposes of assessing performance and making operating decisions. The Company's singular focus is to make significant improvements in kidney disease diagnosis and prognosis, clinical care, patient stratification for drug clinical trials, and drug target discovery.

Foreign currency translation

The Company's consolidated financial statements are presented in U.S. dollars, the reporting currency of the Company. The functional currency of Renalytix AI plc and Renalytix AI, Inc. is GB pounds and U.S. dollar, respectively. Assets and liabilities of Renaltyix AI plc are translated at the rate of exchange at year-end, while the statements of operations are translated at the weighted average exchange rates in effect during the reporting period. The net effect of these translation adjustments is shown as a component of accumulated other comprehensive income (loss). For the nine months ended March 31, 2019 net transaction losses of $17,000 was included in other income. For the nine months ended March 31, 2020, net transaction gains of $0.3 million was included in other income.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash. Periodically, the Company maintains deposits in accredited financial institutions in excess of federally insured limits.

The Company deposits its cash in financial institutions that it believes have high credit quality and are not exposed to any unusual credit risk beyond the normal credit risk associated with commercial banking relationships, and has not experienced any losses on such accounts. At June 30, 2019 and March 31, 2020, all of the Company's cash was held at two accredited financial institutions.

Fair value of financial instruments

At June 30, 2019 and March 31, 2020, the Company's financial instruments included prepaid expenses and other current assets, accounts payable and other current liabilities. The carrying amounts of these assets and liabilities approximates fair value due to their short-term nature.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. As of March 31, 2020, the Company had a cash balance of $9.6 million and cash equivalents consisting of $0.3 million held in a money market account.

Short-term investments

Short-term investments consist of debt securities with a maturity date greater than three months when acquired. The Company classifies its short-term investments at the time of purchase as available-for-sale securities. Available-for-sale securities are carried at fair value. Unrealized gains or losses on available-for-sale securities are reported in accumulated other comprehensive income (loss), a component of the shareholders' (deficit) equity, until realized. Short-term investments at March 31, 2020 consisted of U.S. Treasury Bills with a fair value of $8.0 million. Unrealized gains (losses) were de minimis as their maturity date was 91 days from original purchase.

Deferred offering costs

The Company capitalizes certain legal, professional, accounting and other third-party fees that are directly associated with in-process common equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded as a reduction of additional paid-in capital generated as a result of such offering. Should an in-process equity financing be abandoned, the deferred offering costs will be expensed immediately as a charge to operating expenses in the consolidated statements of operations and comprehensive loss. The Company had deferred offering costs of $0.5 million related to the filing of the registration statement on Form F-1 as of March 31, 2020.

Property and equipment

Property and equipment are recorded at cost and consist of lab and office equipment. Depreciation and amortization is determined using the straight-line method over the estimated useful lives ranging from three to ten years. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in operations. During the nine months ended March 31, 2019 and 2020, the Company acquired lab and office equipment at a cost of $0.3 million and $0.6 million and depreciation expense of $15,000 and $39,000 was recorded on these assets during the nine months ended March 31, 2019 and 2020, respectively.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated. Impairment charges are recognized at the amount by which the carrying amount of an asset exceeds the fair value of the asset. The Company has not recognized any impairment of long-lived assets for the nine months ended March 31, 2019 and 2020.

Software development costs

The Company follows the provisions of ASC 985, *Software,* which requires software development costs for software to marketed externally to be expensed as incurred until the establishment of technological feasibility, at which time those costs are capitalized until the software is available for general release and amortized over its estimated useful life. Technological feasibility is established upon the completion of a working model that has been validated. As of June 30, 2019, there were no software development costs capitalized as technological feasibility had not been established. As of March 31, 2020, there was $0.2 million of capitalized software development costs which will begin to amortize once development is completed.

Acquired in-process research and development expenses

Acquired in-process research and development (IPR&D) expense consists of the initial up-front payments incurred in connection with the acquisition or licensing of products or technologies that do not meet the definition of a business under FASB ASC Topic 805, *Business Combinations*. The Company's acquired IPR&D expense of $35.3 million for the nine months ended March 31, 2019, which reflects the fair value of consideration ascribed to the licenses acquired from Mount Sinai (see Note 7) and the license transfer from EKF (see Note 7).

Research and development expenses

Research and development costs consist primarily of costs incurred in connection with the development of KidneyIntelX and other studies for KidneyIntelX to determine clinical value and performance in different chronic kidney disease populations. Research and development costs are expensed as incurred.

At the end of the reporting period, the Company compares payments made to third-party service providers to the estimated progress toward completion of the research or development objectives. Such estimates are subject to change as additional information becomes available. Depending on the timing of payments to the service providers and the progress that the Company estimates has been made as a result of the service provided, the Company may record a prepaid expense or accrued liability relating to these costs. Upfront milestone payments made to third parties who perform research and development services on the Company's behalf are expensed as services are rendered. Contingent development or regulatory milestone payments are recognized upon the related resolution of such contingencies.

Share-based compensation

The Company measures equity classified share-based awards granted to employees and nonemployees based on the estimated fair value on the date of grant and recognizes compensation expense of those awards over the requisite service period, which is the vesting period of the respective award. The Company accounts for forfeitures as they occur. For share-based awards with service-based vesting conditions, the Company recognizes compensation expense on a straight-line basis over the service period. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model, which requires inputs based on certain subjective assumptions, including the expected stock price volatility, the expected term of the option, the risk-free interest rate for a period that approximates the expected term of the option, and the Company's expected dividend yield. The Company was a privately-held organization prior to November 2018 and has been a publicly-traded company for a limited period of time and therefore lacks company-specific historical and implied volatility information for its shares. Therefore, it estimates its expected share price volatility based on the historical volatility of publicly-traded peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded share price. The expected term of the Company's stock options has been determined utilizing the "simplified" method for awards that qualify as "plain-vanilla" options. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is none based on the fact that the Company has never paid cash dividends on ordinary shares and does not expect to pay any cash dividends in the foreseeable future. The Company classifies share-based compensation expense in its consolidated statement of operations and comprehensive loss in the same manner in which the award recipient's payroll costs are classified or in which the award recipient's service payments are classified.

Comprehensive loss

Comprehensive loss includes net loss as well as other changes in shareholders' (deficit) equity that result from transactions and economic events other than those with shareholders.

Net loss per ordinary share

Basic net loss per ordinary share is computed by dividing net loss by the weighted average number of ordinary shares outstanding during each period. Diluted net loss per ordinary share includes the effect, if any, from the potential exercise or conversion of securities, such as options which would result in the issuance of incremental ordinary shares. In computing basic and diluted net loss per share, the weighted average number of shares is the same for both calculations due to the fact that a net loss existed for the period nine months ended March 31, 2019 and 2020, respectively.

Potentially dilutive securities outstanding as of March 31, 2020 have been excluded from the computation of diluted weighted average shares outstanding, as they would be anti-dilutive. As of March 31, 2019, and 2020, respectively, there were 2,195,697 and 3,028,858 shares issuable upon exercise of outstanding options that were anti-dilutive and excluded from diluted loss per share. There were no potentially dilutive securities outstanding at March 31, 2020.

Emerging growth company

The Company is an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, as amended (the "JOBS Act"). Under the JOBS Act, companies have extended transition periods available for complying with new or revised accounting standards. The Company has elected to avail itself of this exemption and, therefore, while the Company is an emerging growth company it will not be subject to new or revised accounting standards at the same time that they become applicable to other public emerging growth companies that have not elected to avail themselves of this exemption.

Recently adopted accounting pronouncements

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. This standard will require entities to recognize all excess tax benefits and tax deficiencies in the statement of operations as a discrete item in the reporting period in which they occur. The standard also allows an employer to withhold up to the maximum statutory tax rate and still qualify for equity classification. Classification of excess tax benefits on the statement of cash flows should be classified as an operating activity, and employee taxes paid when an employer withholds shares for tax-withholding purposes should be classified as a financing activity. The provisions that affect the statement of operations will be effective prospectively in the year of adoption and the provisions that affect the statement of cash flows will be effective retrospectively. The Company adopted this standard at its inception and it had no impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 addresses eight specific cash flow issues with the objective of reducing diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years beginning July 1, 2019, and interim periods within those years. The Company adopted this guidance on July 1, 2019, and it did not have a material impact to its consolidated statement of cash flows.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurements*, which changes the fair value measurement disclosure requirements of ASC 820. The goal of the ASU is to improve the effectiveness of ASC 820's disclosure requirements. The standard is applicable to the Company for fiscal years beginning July 1, 2020, and interim periods within those years. The Company adopted this guidance on July 1, 2018, and it did not have a material impact on its consolidated financial statements.

Recently issued accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, in order to increase transparency and comparability among organizations by, among other provisions, recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. For public companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. In transition, entities may also elect a package of practical expedients that must be applied in its entirety to all leases commencing before the adoption date, unless the lease is modified, and permits entities to not reassess (a) the existence of a lease, (b) the lease classification or (c) the determination of initial direct costs, as of the adoption date, which effectively allows entities to carryforward accounting conclusions under previous U.S. GAAP. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities an optional transition method to apply the guidance under Topic 842 as of the adoption date, rather than as of the earliest period presented. In June 2020, the FASB issued ASU No 2020-05 that further delayed the effective date of Topic 842 to fiscal years beginning July 1, 2022, and interim periods within those years. The Company is currently evaluating the impact of adopting this guidance to its consolidated financial statements.

4. Fair value

Assets and liabilities recorded at fair value on a recurring basis in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

- Level 1—Quoted prices (unadjusted in active markets for identical assets or liabilities)
- Level 2—Inputs other than quoted prices in active markets that are observable either directly or indirectly
- Level 3—Unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions

This hierarchy requires the use of observable market data when available and to minimize the use of unobservable inputs when determining fair value. The Company has classified cash equivalents and short-term investments at

June 30, 2019 and March 31, 2020, which were comprised of U.S. Treasury Bills and measured at fair value on a recurring basis, as Level 1.

5. Accrued expenses

Accrued expenses consisted of (in thousands):

	June 30, 2019	March 31, 2020
Consulting and professional fees	$ 719	$ 623
Payroll and related benefits	28	46
Other	85	49
	$ 832	$ 718

6. Commitments and contingencies

Leases

In June 2018, the Company entered into an office lease and, in February 2019, the Company entered into a lease for laboratory testing facilities and offices. Each lease is located in New York City and are month-to-month leasing arrangements. Additionally, in February 2019, the Company entered into a lease for an apartment used by executives for traveling requirements. The apartment was located in New York and expired in October 2019. On October 31, 2019, the Company entered into a lease agreement that established a commercial laboratory operation in Salt Lake City, Utah. The lease has a term of five years and is the first long-term lease entered into by the Company. Rent expense for all leases was $0.1 million and $0.4 million for the nine months ended March 31, 2019 and 2020, respectively.

The future minimum payments are as follows (in thousands):

2020	$ 21
2021	83
2022	83
2023	83
2024	83
2025	28
	$ 381

Employment agreements

The Company has entered into employment agreements with certain key executives providing for compensation and severance in certain circumstances, as set forth the agreements.

Retirement plans

The Company maintains a defined contribution 401(k) retirement plan which covers all U.S. employees. Employees are eligible after three months of service. Under the 401(k) plan, participating employees may make contributions in an amount up to the limit set by the Internal Revenue Service on an annual basis. The Company has a safe harbor plan and makes contributions to employee accounts of 5% of compensation (as defined by the plan).

Legal proceedings

The Company is not a party to any litigation and does not have contingency reserves established for any litigation liabilities. At each reporting date, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under the provisions of the authoritative guidance that addresses accounting for contingencies.

7. License agreements

Mount Sinai license and sponsored research agreements

On May 30, 2018, the Company entered into an exclusive license agreement (the ISMMS License Agreement) and, on March 7, 2019, a sponsored research agreement (the ISMMS SRA) with the Icahn School of Medicine at Mount Sinai (ISMMS or Mount Sinai). Under the terms of the ISMMS License Agreement, ISMMS granted the Company (i) an

exclusive, sublicensable license to use certain patent rights covering specific inventions concerning the utilization of biomarkers guided artificial intelligence techniques for detecting kidney functional decline (the ISMMS Technology), (ii) a non-exclusive license under unregistered licensed copyrights and licensed know-how and (iii) an exclusive option to obtain licensed technology conceived after May 30, 2018. A license issuance fee of $10.0 million was contingent upon the Company's completion of an IPO and upon payment, was recorded as acquired in-process research and development expense during the nine months ended March 31, 2019 on the Company's consolidated statements of operations and comprehensive loss. The Company accounted for this transaction as an asset acquisition as substantially all of the value acquired by the Company consisted of a single asset with no alternative future use. The Company is obligated to pay Mount Sinai $1.5 million and $7.5 million in commercial milestone payments upon achieving worldwide net sales of KidneyIntelX of $50.0 million and $300.0 million, respectively. The Company is also obligated to pay Mount Sinai a 4% to 5% royalty on net sales of KidneyIntelX, subject to customary reductions. Royalties are payable on a product-by-product basis from first commercial sale of such product until the later of (1) expiration of the last valid claim of a licensed patent covering such product or (2) on a country-by-country basis, 12 years from first commercial sale of such product in such country. Moreover, the Company is obligated to pay Mount Sinai between 15% and 25% of any consideration received from a sublicensee.

As part of the ISMMS SRA, the Company has agreed to fund several research projects to further develop the ISMMS Technology. The Company incurred approximately $0.2 million in research and development expenses under the ISMMS SRA for the nine months ended March 31, 2020.

Mount Sinai license agreement for FractalDx

On December 21, 2018, the Company entered into an exclusive license agreement (the ISMMS FractalDx License Agreement) with ISMMS. Under the terms of the ISMMS FractalDx License Agreement, ISMMS granted the Company (i) an exclusive license, with sub-license rights, to use certain patent rights covering specific inventions concerning the utilization of biomarkers guided artificial intelligence techniques for detecting kidney functional decline (the ISMMS Technology), (ii) a non-exclusive license under unregistered licensed copyrights and licensed know-how and (iii) an exclusive option to obtain licensed technology conceived after May 30, 2018. An up-front license fee of $1.0 million was paid and recorded as acquired in-process research and development expense during the nine months ended March 31, 2019 on the Company's consolidated statements of operations and comprehensive loss. The Company accounted for this transaction as an asset acquisition as substantially all of the value acquired by the Company consisted of a single asset with no alternative future use. The patent reimbursement fees of approximately $0.3 million were also paid and expensed as general and administrative expenses during the nine months ended March 31, 2019.

The Company is obligated to pay Mount Sinai $0.3 million upon receipt of certain regulatory clearance and approval, $0.3 million upon receipt of U.S. CMS reimbursement code or PAMA reimbursement approval. In addition, the Company is obligated to pay Mount Sinai $1.0 million and $4.0 million in commercial milestone payments upon achieving worldwide net sales of FractalDx of $50.0 million and $250.0 million, respectively. The Company is also obligated to pay Mount Sinai a 6% to 8% royalty on net sales of FractalDx, subject to customary reductions. Moreover, the Company is obligated to pay Mount Sinai between 15% and 70% of any consideration received from a sublicensee.

Royalties are payable on a product-by-product basis from first commercial sale of such product until the later of (1) expiration of the last valid claim of a licensed patent covering such product or (2) on a country-by-country basis, 12 years from first commercial sale of such product in such country. The Company is also subject to an annual license maintenance fee of $25,000 in calendar year 2020 and 2021, $50,000 in calendar year 2022 and 2023, $0.1 million in calendar years 2024 through 2027, and $0.2 million for calendar year 2028 and beyond.

Joslin diabetes center agreement

In October 2018, the Company purchased a worldwide exclusive license agreement with Joslin (the Joslin Agreement) that was previously entered into with EKF, a related party, in July 2017. The license agreement provides the Company with the right to develop and commercialize licensed products covering a novel methodology of diagnosing and predicting kidney disease using certain biomarkers (the Joslin Diabetes Technology). The Company issued 15,427,704 ordinary shares as consideration for total noncash consideration of $24.3 million. Given the timing of the assignment of license to the Company's IPO on AIM, the estimated fair value of the ordinary shares issued was $1.57 per share. The noncash consideration was expensed as acquired in-process research and development expense during the nine months ended March 31, 2019 on the Company's consolidated statements of operations and comprehensive loss. The Company accounted for this transaction as an asset acquisition as substantially all of the value acquired by the Company consisted of a single asset with no alternative future use.

Under the terms of the Joslin Agreement, the Company is obligated to pay Joslin aggregate commercial milestone payments of $0.3 million and $1.0 million in commercial milestone payments upon achieving worldwide net sales of licensed products and processes of $2.0 million and $10.0 million, respectively. The Company is also obligated to pay Joslin a 5% royalty on net sales of any licensed products or licensed processes, subject to customary reductions. Moreover, the Company is obligated to pay Joslin 25% of any consideration received from a sublicensee.

The Joslin Agreement initially expires on July 31, 2025 and is subject to an automatic five-year extension unless either party notifies the other party of its intent not to extend the agreement at least 180 days prior to initial expiration. Either party may terminate the Joslin Agreement earlier upon an uncured material breach of the agreement by the other party, the insolvency of the other party, or in the event the other party is unable to perform its obligations under the agreement for a specified period. Additionally, Joslin may terminate the agreement in the event that the Company ceases developing or commercializing licensed products or processes, if the Company fails to maintain certain required insurance policies, and if the Company fails to pay patent expenses related to the licensed patents.

8. Shareholders' equity

Ordinary shares

As of March 31, 2020, the Company had 62,444,992 ordinary shares authorized on a fully diluted basis. Each share entitles the holder to one vote on all matters submitted to a vote of the Company's shareholders. Ordinary shareholders are entitled to receive dividends as may be declared by the board of directors. From inception through March 31, 2020, no cash dividends have been declared or paid.

9. Share-based compensation

In November 2018, Company established the Renalytix AI plc Share Option Plan (the Plan) and a U.S. Sub-Plan and Non-Employee Sub-Plan. The Plan provides for the Company to grant options, restricted share awards and other share-based awards to employees, directors and consultants of the Company. As of March 31, 2020, there were 2,352,755 shares available for future issuance under the Plan.

The Plan is administered by the board of directors. The exercise prices, vesting and other restrictions are determined at their discretion, except that all options granted have exercise prices equal to the fair value of the underlying ordinary shares on the date of the grant and the term of stock option may not be greater than ten years from the grant date.

The options granted as of March 31, 2020 vest equally over twelve quarters following the grant date, with the exception of 80,724 options which vested immediately when granted and 145,000 options which vest 25% on the one year anniversary and equally over twelve quarters following the one year anniversary. If options remain unexercised after the date one day before the tenth anniversary of grant, the options expire. On termination of employment, any options that remain unexercised are either forfeited immediately or after a delayed expiration period, depending on the circumstances of termination. Upon the exercise of awards, new ordinary shares are issued by the Company.

The Company recorded share-based compensation expense in the following expense categories in the consolidated statements of operations for the nine months ended March 31, 2019 and 2020 (in thousands):

	Nine Months ended March 31,	
	2019	**2020**
Research and development	$ 202	$ 419
General and administrative	154	430
	$ 356	$ 849

The fair value of options is estimated using the Black-Scholes option pricing model, which takes into account inputs such as the exercise price, the value of the underlying ordinary shares at the grant date, expected term, expected volatility, risk-free interest rate and dividend yield. The fair value of each grant of options during the nine months ended March 31, 2019 and 2020, respectively, was determined using the methods and assumptions discussed below.

- The expected term of employee options is determined using the "simplified" method, as prescribed in SEC's Staff Accounting Bulletin (SAB) No. 107, whereby the expected life equals the arithmetic average of the vesting term and the original contractual term of the option due to the Company's lack of sufficient historical data.

- The expected volatility is based on historical volatility of the publicly-traded common stock of a peer group of companies.

- The risk-free interest rate is based on the interest rate payable on U.S. Treasury securities in effect at the time of grant for a period that is commensurate with the assumed expected term.

- The expected dividend yield is none because the Company has not historically paid and does not expect for the foreseeable future to pay a dividend on its ordinary shares.

For the nine months ended March 31, 2019 and 2020, the grant date fair value of all option grants was estimated at the time of grant using the Black-Scholes option-pricing model using the following weighted average assumptions:

	Nine months ended March 31	
	2019	2020
Expected term (in years)	5.8	5.7
Expected volatility	66.9%	63.7%
Risk-free rate	3.1%	1.7%
Dividend yield	—%	—%

The weighted average fair value of the options granted during the nine months ended March 31, 2019 and 2020 was $0.97 and $2.09 per share, respectively.

The following table summarizes the stock option granted to employees and nonemployees for the nine months ended March 31, 2020:

	Number of shares under option plan		Weighted-average exercise price per option	Weighted-average remaining contractual life (in years)
Outstanding at June 30, 2019	2,195,697	$	1.57	9.4
Granted	833,161	$	2.95	
Outstanding at March 31, 2020	3,028,858	$	1.95	8.8
Exercisable at March 31, 2020	1,134,003	$	1.74	
Vested and expected to vest at March 31, 2020	3,028,858	$	1.95	8.8

As of March 31, 2020, there was $2.4 million in unrecognized compensation cost related to unvested options that will be recognized as expense over a weighted average period of 1.62 years. The aggregate intrinsic value of options outstanding and options exercisable at March 31, 2020 was $1.4 million and $0.6 million, respectively.

10. Related-party transactions

As discussed in Note 7, in October 2018, the Company purchased a worldwide exclusive license agreement with Joslin, that was previously entered into with EKF in July 2017, in exchange for the issuance of 15,427,704 of the Company's ordinary shares.

EKF provided short-term loans to the Company in the form of notes payable. The Company borrowed $1.0 million from EKF since inception. The notes bore interest at an annual rate of 5%. All outstanding principal and accrued interest of $1.0 million and $21,000, respectively, was repaid in November 2018 upon consummation of the Company's IPO. The Company recognized interest expense of $16,000 during the nine months ended March 31, 2019.

In May 2018, the Company secured its cornerstone license agreement with ISMMS for research and clinical study work and intended commercialization by the Company (see Note 7). As part of the collaboration, ISMMS became a shareholder in the Company and has subsequently made equity investments both in the Company's IPO in November 2018 and the subsequent sale of ordinary shares in July 2019. Additionally, in December 2018, the Company executed its option with ISMMS for the FractalDx license, which grants rights to technology and patents relating to a series of potential diagnostics and prognostics in the field of kidney transplant and rejection.

Prior to the Company's IPO on AIM in November 2018, the Company's Chief Executive Officer and Chief Financial Officer provided their respective services through a consulting agreement between the Company and Renwick Capital, LLC. During the nine months ended March 31, 2019, the Company incurred consulting services of $0.2 million. Upon consummation of the Company's IPO, the Chief Executive Officer and Chief Financial Officer became employee of the Company and the consulting agreement with Renwick Capital, LLC as terminated.

11. Subsequent events

The Company has evaluated subsequent events from the balance sheet date through June 24, 2020, the date at which the consolidated financial statements were available to be issued, and determined there are no other items requiring disclosure beyond those disclosed below.

Paycheck Protection Program

On April 29, 2020, the Company, entered into an original loan agreement with Fortis Private Bank as the lender ("Lender") for a loan in an aggregate principal amount of $0.3 million (the "Loan") pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and implemented by the U.S. Small Business Administration. The Loan matures in two years and bears interest at a rate of 1% per annum, with all payments deferred through the six-month anniversary of the date of the Loan. Principal and interest are payable monthly commencing on October 29, 2020 and may be prepaid by the Company at any time prior to maturity without penalty. The Company may apply for forgiveness of amounts due under the Loan, with the amount of potential loan forgiveness to be calculated in accordance with the requirements of the PPP based on payroll costs, any mortgage interest payments, any covered rent payments and any covered utilities payments during the 8-week period after the origination date of the Loan. The Company intends to use proceeds of the Loan for payroll and other qualifying expenses, but there can be no assurances that any portion of the Loan will be forgiven.

Kantaro Biosciences LLC

In May 2020, the Company and Mount Sinai entered into an operating agreement ("Kantaro Operating Agreement") to form a joint venture, Kantaro Biosciences LLC ("Kantaro"), for the purpose of developing and commercializing laboratory tests for the detection of antibodies against SARS-CoV-2 originally developed by Mount Sinai. Kantaro has partnered with Bio-Techne Corporation to develop and launch the new test which are designed for use in any authorized clinical testing laboratory without the need for proprietary equipment. In connection with the formation of Kantaro, the Company entered into a five-year Advisory Services Agreement ("Advisory Agreement") pursuant to which the Company has agreed to provide certain advisory services to Kantaro.

Pursuant to the Kantaro Operating Agreement, Kantaro issued 750 Class A Units to Mount Sinai in exchange for Mount Sinai granting licenses to Kantaro under certain intellectual property rights of Mount Sinai and 250 Class A Units to the Company as the sole consideration for the services to be rendered by the Company under the Advisory Agreement. A portion of the Company's units are subject to forfeiture if, prior to December 31, 2020, Kantaro terminates the Advisory Agreement as a result of an uncured material breach of the Advisory Agreement or in the event the Company is acquired by a hospital or health system that serves all or any portion of the service areas served by Mount Sinai.

In addition to the equity granted at formation, the Company and Mount Sinai each committed to making a loan to Kantaro. Mount Sinai committed to lend an initial amount of $0.3 million and an additional $0.5 million thereafter. The Company committed to lend an initial amount of $83,333 and an additional $0.2 million thereafter. Each loan bears interest at a per annum rate equal to 0.25%, compounded monthly, until repaid, and is repayable from the first amounts that would otherwise constitute cash available for distribution to the members of Kantaro (provided that each loan repayment will be made, 75% to Mount Sinai and 25% to the Company).

Verici Dx Limited

In April 2020, the Company created a wholly-owned subsidiary, Verici Dx Limited ("Verici Dx"), after evaluating its plans for its FractalDx technology, in-licensed from Mount Sinai in late 2018. In May 2020, the Company transferred the in-licensed FractalDx technology and associated assets to Verici Dx in exchange for $2.0 million, which was satisfied by the issuance of convertible loan notes of Verici Dx to the Company, which notes will be either repaid or converted into equity upon Verici Dx completing an offering and admission of its shares to trading on AIM, a market operated by the London Stock Exchange (or another recognized stock exchange). The reduction of capital necessary to implement this transaction was approved by the Company's shareholders at a general meeting held on May 15, 2020 and confirmed by the High Court in England and Wales on June 9, 2020. Prior to completion of a possible admission to AIM or an equivalent financing transaction, and the establishment of an independent Verici board of directors and independent management team, the Company will retain control of Verici Dx. As a result of its level of control, the Company anticipates Verici DX will continue to be included in its consolidated financial statements and notes thereto.

Appendix B
Unaudited reconciliation tables for the 9 month periods ended 31 March 2019 and 2020

Balance Sheet
(in thousands except share and per share amounts)

	GAAP	IFRS
	March 31,	
	2020	2020
Assets		
Current assets:		
Cash	$ 9,874	$ 9,874
Short-term investments	7,952	7,952
Prepaid expenses and other current assets	571	562
Total current assets	18,397	18,388
Property, plant and equipment, net	1,072	830
Deferred offering costs	457	365
Intangibles, net	-	19,082
Deferred tax asset	-	2,163
Total assets	$ 19,926	$ 40,828
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	585	948
Accrued expenses and other current liabilities	718	718
Total current liabilities	1,303	1,666
Total liabilities	1,303	1,666
Stockholders' (deficit) equity:		
Ordinary shares	179	192
Additional paid-in capital	69,349	51,309
Accumulated other comprehensive (loss) income	(1,165)	(549)
Accumulated deficit	(49,740)	(11,790)
Total stockholders' (deficit) equity	18,623	39,162
Total liabilities and stockholders' (deficit) equity	$ 19,926	$ 40,828

Statement of Operations
(in thousands)

	GAAP	IFRS
	9 Months Ended March 31,	
	2020	2020
Operating expenses:		
Acquired in-process research and development	$ -	$ -
Research and development	3,659	-
General and administrative	3,770	7,941
Loss from operations	(7,429)	(7,491)
Other income (expense), net	562	475
Loss before income taxes	(6,867)	(7,016)
Income tax benefit	-	1,204
Net Loss	(6,867)	(5,812)

Balance Sheet
(in thousands except share and per share amounts)

	GAAP	IFRS
	March 31,	
	2019	2019
Assets		
Current assets:		
Cash	$ 7,718	$ 7,718
Short-term investments	3,976	3,976
Prepaid expenses and other current assets	110	110
Total current assets	11,804	11,804
Property, plant and equipment, net	290	290
Deferred offering costs		
Intangibles, net	-	17,735
Total assets	$ 12,094	$ 29,829
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	606	606
Accrued expenses and other current liabilities	970	321
Total current liabilities	1,576	927
Total liabilities	1,576	927
Stockholders' (deficit) equity:		
Ordinary shares	162	175
Additional paid-in capital	51,914	34,177
Accumulated other comprehensive (loss) income	(534)	(186)
Accumulated deficit	(41,024)	(5,264)
Total stockholders' (deficit) equity	10,518	28,902
Total liabilities and stockholders' (deficit) equity	$ 12,094	$ 29,829

Statement of Operations
(in thousands)

	GAAP	IFRS
	9 Months Ended March 31,	
	2019	2019
Operating expenses:		
Acquired in-process research and development	$ 35,286	$ -
Research and development	3,081	-
General and administrative	1,904	4,660
Loss from operations	(40,271)	(4,660)
Other income (expense), net	(181)	(186)
Loss before income taxes	(40,452)	(4,846)
Income tax benefit	-	-
Net Loss	(40,452)	(4,846)