The information contained within this announcement is deemed by Circassia Pharmaceuticals plc to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

Proposed transfer of assets to and termination of agreement with AstraZeneca for consideration to be set off against debt and accrued interest

Oxford, UK – 9 April 2020 Circassia Pharmaceuticals plc, ("**Circassia**" or "the **Company**"; LSE: CIR) announces that the Board has concluded that it is in the best interests of the Company to terminate the development and commercialisation agreement between the Company and AstraZeneca UK Limited, a subsidiary of AstraZeneca plc (LSE/STO/NYSE: AZN) (**AstraZeneca**) for the U.S. commercial rights to Tudorza® and Duaklir® and transfer the assets to AstraZeneca (the **Transaction**).

On completion of the Transaction, AstraZeneca will acquire the U.S. commercial rights to Tudorza® and Duaklir® together with certain ancillary rights and assets, from Circassia the consideration for which shall be equal to, and shall be satisfied by way of set-off against, the entirety of the loan amount outstanding from the Company to AstraZeneca, together with accrued interest owed by the Company to AstraZeneca, as at the date of completion of the Transaction (being approximately US$149.9 million as at the date of announcement) AstraZeneca will retain its 18.9% shareholding in the Company. Subject to receipt of necessary approvals, it is anticipated that the Transaction will complete in no longer than three months.

The proposed Transaction will constitute a fundamental change of business of Circassia under Rule 15 of the AIM Rules for Companies and is therefore conditional on, inter alia, the passing of an ordinary resolution to approve the Transaction at the General Meeting, a circular convening the General Meeting is expected to be posted to Shareholders shortly. In addition, the Transaction is considered to constitute a related party transaction under Rule 13 of the AIM Rules for Companies.

On completion of the Transaction, Circassia proposes to change its name to Circassia Group plc, subject to the passing of a special resolution to approve the Company's change of name at the General Meeting.

Ian Johnson, Circassia's Executive Chairman, said: "As a Board and Management team, we conducted a strategic review of our business and its prospects, concluding that it would be in the best interests of both patients and our shareholders for us to terminate the development and commercialisation agreement between the Company and AstraZeneca UK Limited for the U.S. commercial rights to Tudorza® and Duaklir®.

As we look to move forwards with a primary focus on our Niox® respiratory diagnostic platform, we are confident in our ability to drive long-term growth. Upon completion, this transaction will transform Circassia into a debt-free business with a strong revenue-generating business, with which we have the potential to expand into new territories and a commercial infrastructure that can in the medium term be further leveraged through broadening its range of products. This fundamental change in the business will place us in a strong position to deliver improved shareholder value."

The person responsible for releasing this announcement on behalf of Circassia Pharmaceuticals Plc is Michael Roller, Chief Financial Officer.

Enquiries:

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About Circassia

Circassia is a world-class specialty pharmaceutical business focused on respiratory disease. The Company sells its market-leading NIOX® asthma management products directly to specialists in the United States, United Kingdom, China, Germany and Italy, and in a wide range of other countries through its network of partners. In the United States, Circassia has the commercial rights to chronic obstructive pulmonary disease (COPD) treatments Tudorza® and Duaklir®. Circassia also has the US and Chinese commercial rights to the late-stage ventilator-compatible nitric oxide product LungFit PH. For more information please visit www.Circassia.com.

INTRODUCTION

The Board announces proposals to terminate the development and commercialisation agreement (as amended from time to time, the Development and Commercialisation Agreement) between the Company and AstraZeneca UK Limited (AstraZeneca) for the U.S. commercial rights to Tudorza® and Duaklir® (the Transaction). On completion of the Transaction, AstraZeneca will acquire the U.S. commercial rights to Tudorza® and Duaklir® together with certain ancillary rights and assets, from Circassia the consideration for which shall be equal to, and shall be satisfied by way of set-off against, the entirety of the loan amount outstanding from the Company to AstraZeneca in respect of certain unpaid milestone and other amounts under the Development and Commercialisation Agreement, together with accrued interest owed by the Company to AstraZeneca, as at the date of completion of the Transaction (being approximately US$149.9 million as at the Latest Practicable Date). Subject to receipt of necessary approvals, including competition law clearance under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, it is anticipated that the Transaction will complete in no longer than three months.

The proposed Transaction will constitute a fundamental change of business of Circassia under Rule 15 of the AIM Rules for Companies and is therefore conditional on, inter alia, the passing of an ordinary resolution to approve the Transaction at the General Meeting (Resolution 1). In addition, the Transaction is considered to constitute a related party transaction under Rule 13 of the AIM Rules for

Companies. A circular convening the General Meeting is expected to be posted to Shareholders shortly.

Circassia is also seeking the approval of Shareholders for (i) the grant of share options to Ian Johnson and Michael Roller (Resolution 2) and (ii) the adoption of a new Sharesave plan (Resolution 3).

Circassia also proposes to change its name to Circassia Group plc, subject to the passing of a special resolution to approve the Company's change of name at the General Meeting (Resolution 4) and conditional on Resolution 1 also being approved.

If Shareholders do not approve the proposed Transaction at the General Meeting, the Company will have to consider other options for the Company's business selling Tudorza® and Duaklir® in the United States (the COPD Business) which, given the ongoing operating losses of those operations, would likely require the Company to raise additional funding in the relatively near term and there can be no certainty as to the terms on which any such funding could be available, if at all. The Board has assessed other options for the COPD Business including significantly reducing the size and scale of it, which could potentially defer the need to raise additional capital for a period of time, but under any reasonable scenario that the Board has assessed it has determined it is highly unlikely that the Company would be able to refinance the loan, together with accrued interest thereon, owed to AstraZeneca under the Development and Commercialisation Agreement (being approximately US$149.9 million as at the Latest Practicable Date).

Following completion of the Transaction, there will be a transition period during which Circassia will continue to promote and sell Tudorza® and Duaklir® to ensure patients will not experience a disruption to their access to medication. AstraZeneca has agreed to work with the Company to support the availability of Tudorza® and Duaklir® to patients in the United States during the transition period. At the conclusion of the transition period, these rights will transfer from the Company to AstraZeneca and the Development and Commercialisation Agreement will terminate in its entirety. The transition period will run until the end of March 2021 unless AstraZeneca elects to shorten it on not less than eight weeks' notice.

The Company has received from certain Shareholders irrevocable undertakings to vote in favour of the Resolutions in respect of holdings totalling in aggregate 108,317,939 Ordinary Shares, representing approximately 28.9% of the Company's existing issued share capital.

BACKGROUND TO AND REASONS FOR THE TRANSACTION

Circassia's product portfolios

Circassia is a specialty pharmaceutical company focused on respiratory disease. The Company has two distinct product portfolios:

(a) an asthma diagnostics and management business with NIOX® products sold directly to specialists in the U.S., China, the U.K., Germany and Italy and in a wide range of other countries through a network of partners (the NIOX® Business); and

(b) the COPD Business formed from a collaboration with AstraZeneca through which Circassia promotes two inhaled chronic obstructive pulmonary disease (**COPD**) treatments, Tudorza® and Duaklir® in the United States, through its dedicated sales force.

COPD is a leading cause of morbidity and mortality worldwide that includes an economic and social burden that is both substantial and increasing. COPD is the result of a complex interaction of long-term cumulative exposure to noxious gases and particles, particularly from tobacco smoking. It is

further complicated by a variety of factors including genetics, airway hyper-responsiveness and poor lung growth during childhood.

The COPD market is large and growing. GlobalData estimates that the market size across the eight major markets of the US, France, Germany, Italy, Spain, the United Kingdom, Japan, and Australia was US$9.9 billion in 2015 and will reach more than US$14 billion by 2025, representing a compound annual growth rate of 3.7%. COPD is a leading cause of death in the United States, which affects 16 million Americans and the National Heart, Lung and Blood Institute believes millions more do not know they have it. COPD is responsible for over 120,000 deaths per year in the United States making it the third leading cause of death.

Tudorza® (aclidinium bromide) is an inhaled long-acting muscarinic antagonist (LAMA). In addition to Tudorza® there are three other LAMA products marketed in the United States currently, namely Boehringer Ingelheim's Spiriva®, GlaxoSmithKline's Incruse® and Sunovion's Seebri®.

Duaklir® (aclidinium bromide and formoterol) is an inhaled combination therapy that contains both a LAMA and a long-acting beta2-agonist (LABA). In addition to Duaklir® there are four other LAMA/LABA products marketed in the United States currently, namely AstraZeneca's Bevespi®, Boehringer Ingelheim's Stiolto®, GlaxoSmithKline's Anoro® and Sunovion's Utibron®.

Development and Commercialisation Agreement

In March 2017, the Company entered into the Development and Commercialisation Agreement with AstraZeneca to enter into a collaboration and secure certain U.S. commercial rights to two COPD products, Tudorza® and Duaklir®, for a maximum total consideration (including milestone payments and option fees) of up to US$230 million, plus future sales based royalties upon the commercialisation of Duaklir® in the United States, following potential approval. On completion of the Development and Commercialisation Agreement in April 2017, the Company issued Ordinary Shares to AstraZeneca with a value of US$50 million in satisfaction of part of the total consideration of US$230 million payable by the Company to AstraZeneca under the Development and Commercialisation Agreement.

During 2018, Circassia and AstraZeneca amended the Development and Commercialisation Agreement, and AstraZeneca increased its shareholding in Circassia to 19.9% through the subscription for newly-issued Ordinary Shares. In July 2018, Circassia used the US$26.7 million consideration received from AstraZeneca for those Ordinary Shares to pay a US$20.0 million research and development contribution due to AstraZeneca by 31 December 2018, and settle US$6.7 million of the US$25 million research and development contribution due to AstraZeneca by 31 December 2019, in each case under the terms of the Development and Commercialisation Agreement. The remaining US$18.3 million of the US$25 million research and development contribution of due to AstraZeneca by 31 December 2019 was addressed by the entry by Circassia into a five-year loan arrangement with AstraZeneca (the **DCA Loan Facility**).

In December 2018, Circassia issued a notice of option exercise to acquire the full U.S. commercialisation rights to Tudorza®. This completed as anticipated on 31 December 2018, and from 1 January 2019 Circassia has recorded Tudorza®'s in-market sales and costs and retained the full profits from commercialisation. The option exercise triggered an initial payment obligation of US$5 million from the Company to AstraZeneca and, following the approval of Duaklir® by the U.S. Food and Drug Administration in March 2019, a final option payment of US$20 million became payable by the Company to AstraZeneca. These payment obligations were addressed by the DCA Loan Facility. The DCA Loan Facility also addressed the outstanding consideration amount of US$100 million due

under the Development and Commercialisation Agreement, in addition to the research and development payment described above.

DCA Loan Facility

As at the Latest Practicable Date, the total outstanding amount of the DCA Loan Facility is US$149.9 million, comprising the following amounts:

Date	**Amount**	**Payment obligation under Development and Commercialisation Agreement to which amount relates**
October 2019	US$18.3 million	Partial settlement of US$25 million research and development contribution of due to AstraZeneca by 31 December 2019
June 2019	US$5 million	Payment due on exercise of option to acquire the full U.S. commercial rights to Tudorza®
June 2019	US$20 million	Payment due in connection with the exercise of option to acquire the full U.S. commercial rights to Tudorza® which became payable as a result of approval of Duaklir® by the U.S. Food and Drug Administration
August 2019	US$100 million	Deferred consideration payment due as a result of approval of Duaklir® by the U.S. Food and Drug Administration
October 2019	US$1.5 million	Capitalisation of DCA Loan Facility interest in respect of Q3 2019
January 2020	US$2.5 million	Capitalisation of DCA Loan Facility interest in respect of Q4 2019
April 2020	US$2.4 million	Capitalisation of DCA Loan Facility interest in respect of Q1 2020
Latest Practicable Date	US$0.2 million	Unpaid accrued interest in respect of the DCA Loan Facility
Total:	**US$149.9 million**	

The Transaction

Many competitor products to the COPD Business are marketed by companies substantially larger than Circassia with far greater financial resources. The market for COPD treatments in the United States is highly competitive and requires significant sustained investment to gain market share. The Board believes that significant investment in sales and marketing would be required to be able to increase

Circassia's revenues from the COPD Business to a level where it could potentially become self-sustaining as a business unit. However, as stated above, under any reasonable scenario that the Board has assessed it is highly unlikely that Circassia would be able to refinance the vendor loan and capitalised interest owed to AstraZeneca which as at the Latest Practicable Date amounted to US$149.9 million and is due to be repaid by 2024. The Board has therefore determined that it is in Shareholders' best interests to terminate the Development and Commercialisation Agreement with AstraZeneca and return the rights and assets relating to Tudorza® and Duaklir® to AstraZeneca.

A segmental analysis as included in the Company's annual report and accounts for the years ended 31 December 2016 to 31 December 2018 and management accounts for year ended 31 December 2019 of the current Circassia business is set out below.

Segmental Analysis

For the financial period ending 31 December

	2019	**2018**	**2017**	**2016**
	(Unaudited)	*(Audited)*	*(Audited)*	*(Audited)*
	(£ million)	(£ million)	(£ million)	(£ million)
Revenue				
Niox®	*34.6*	*27.4*	*27.3*	*23.1*
COPD Business	*27.8*	*20.9*	*19.0*	*-*
Total	**62.4**	**48.3**	**46.3**	**23.1**
Research & development				
Niox®	*(1.9)*	*(3.2)*	*(4.4)*	*(9.7)*
COPD Business	*(12.2)*	*(1.0)*	*(45.1)*	*-*
Respiratory Business	*-*	*-*	*(39.6)*	*(6.8)*
Unallocated	*(5.2)*	*(6.6)*	*(8.3)*	*(1.3)*
Total	**(19.3)**	**(10.8)**	**(97.4)**	**(17.8)**
Sales & marketing				
Niox®	*(24.1)*	*(32.3)*	*(32.6)*	*(27.2)*
COPD Business	*(32.9)*	*(22.1)*	*(16.8)*	*-*
Respiratory Business	*-*	*-*	*-*	*-*
Unallocated	*(0.4)*	*-*	*(0.2)*	*-*
Total	**(57.4)**	**(54.4)**	**(49.6)**	**(27.2)**
General & administrative				
Niox®	*-*	*-*	*-*	*(4.8)*
COPD Business	*(0.1)*	*-*	*-*	*-*
Respiratory Business	*-*	*-*	*-*	*-*
Unallocated	*(12.4)*	*(11.4)*	*(10.9)*	*(10.1)*
Total	**(12.5)**	**(11.4)**	**(10.9)**	**(14.9)**
Other				
Niox®	*(9.1)*	*(8.9)*	*(10.0)*	*(8.0)*
COPD Business	*(7.1)*	*-*	*-*	*-*
Respiratory Business	*-*	*-*	*-*	*-*
Unallocated	*-*	*-*	*-*	*-*

Total	**(16.2)**	**(8.9)**	**(10.0)**	**(8.0)**
Operating loss				
Niox®	*(0.5)*	*(17.0)*	*(19.7)*	*(26.6)*
COPD Business	*(24.5)*	*(2.2)*	*(42.9)*	*-*
Respiratory Business	*-*	*-*	*(39.6)*	*(6.8)*
Unallocated	*(18.0)*	*(18.0)*	*(19.4)*	*(11.4)*
Total	**(43.0)**	**(37.2)**	**(121.6)**	**(44.8)**

* Note: The figures in the table above for financial years ended 31 December 2016, 2017 and 2018 are taken from the annual report and accounts for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively. The figures in the table above for the financial year ended 31 December 2019 are taken from the management accounts for year ended 31 December 2019 (which are subject to audit) and do not include any impairment calculations for intangible fixed assets. There will be a material impairment charge to intangible assets in the 2019 accounts as a result of the Transaction.

The NIOX® Business has grown revenues at a compound annual growth rate of 14% in the period 2016 -2019. Revenue growth in 2018 over 2017 was held back by the disruption associated with switching from a distributor model to a direct model in China, and also by a modest decline in sales to global research customers, which are lumpy and difficult to predict from one year to the next. Gross margins for the NIOX® Business have been in the range of 70-75% during the period.

Sales and marketing costs for NIOX® decreased significantly in 2019 as the increase associated with the move to a direct sales force in China was more than offset by a reduction in the size of the U.S. field sales force after a review of the profitability of that business was undertaken.

The COPD Business has also seen a steady sales increase driven by a commercial strategy to reduce Tudorza® rebates and distribution costs and an increase in the price of the drug amid stable prescription volumes. The commercial model changed during the course of 2019 from a profit share model with AstraZeneca to a full direct sales model. Duaklir® was launched in the U.S. at the end of October 2019.

The research and development costs associated with the COPD Business in 2019 substantially comprise the amortisation of goodwill arising on the licence fees paid to AstraZeneca and other associated intangible assets.

The Company's respiratory business is unconnected to the COPD Business and relates to the Prosonix business, which was acquired by the Company in 2015 and subsequently written off in 2018 following a decision to focus on the COPD Business and the NIOX® Business and reduce the level of research and development expenditure associated with the respiratory portfolio.

Unallocated general and administrative costs have grown as the scale of the Company has increased since 2016, which was when the COPD Business commenced operation to a level of £12.5 million in 2019. Approximately £4.1 million of this related to corporate costs, and as a result of cost cutting actions in both 2019 and early 2020, these are expected to reduce significantly to around £1.7 million for the year ending 31 December 2020, with scope for further modest reductions of around £0.2 million in 2021.

The remaining £8.4 million of unallocated general and administrative costs are the subject of ongoing evaluation although further savings of at least £1 million are expected to be realised over the course of 2020.

NIOX® sales and marketing costs (excluding £1.8 million of depreciation and amortisation) amounted to £22.3 million in 2019. As a result of cost cutting actions taken in the latter part of 2019, budgeted sales and marketing costs (excluding depreciation and amortisation) for the year ending 31 December 2020 are expected to be some £18 million. Total cost savings to be realised during 2020 thus amount to £2.4 million of corporate costs and £4.3 million of NIOX® sales and marketing costs, principally as a result of the reorganisation of the US field sales force in Q4 2019.

The Board expects to achieve further cost reductions during the course of this year; further information will be provided on this at the time of the publication of the Annual Results for 2019, which is expected to be in June 2020.

INFORMATION ON THE RETAINED NIOX® BUSINESS

Asthma is one of the common non-communicable diseases. It is a chronic disease that is normally triggered by environmental factors, such as allergens, exercise, smoke or cold air, that lead to inflammation of the lungs. Patients suffer laboured breathing, coughing, wheezing, and occasionally a potentially fatal asthma attack. The Global Asthma Network estimated that asthma affects around 339 million individuals worldwide and the World Health Organization has estimated that 15 million disability-adjusted life-years are lost and 250,000 asthma deaths are reported worldwide.

The overall costs of asthma are very high and the United States and China are the two major markets. In the United States, 15.4 million people are treated for asthma each year and the overall annual cost to the U.S. economy was estimated at more than US$80 billion in 2015. The National Health and Family Planning Commission estimates approximately 30 million people in China have asthma with a direct annual per capita medical cost of RMB 525 (US$75).

The global respiratory diagnostics market was valued at US$4.4 billion in 2018 and is a growing market expected to be worth US$6.5 billion by 2024, rising at a compound annual growth rate of 6.6%. The Company believes that the specialist asthma diagnosis and treatment segment represents approximately a US$190 million market opportunity and that U.S. primary care providers represent approximately a US$610 million market opportunity, should the Group develop a means to reach that market.

NIOX® is used around the world to improve asthma diagnosis and management by measuring fractional exhaled nitric oxide (**FeNO**), an important biomarker of the major underlying cause of asthma, type 2 airway inflammation. Circassia sells the product directly in the United States, China, U.K. and Germany, and recently launched a direct sales team in Italy. Circassia also sells NIOX® through its international network of partners in more than 40 further countries.

The NIOX® products are based on research demonstrating that raised levels of nitric oxide in exhaled air is a biomarker of inflammation in the airways, such as in allergic asthma. By assessing and controlling the inflammation, the diagnosis and treatment of patients may be improved and Circassia's medical diagnostic products are used to facilitate this process. This allows physicians to assess and apply appropriate anti-inflammatory treatment or adjust ongoing treatment if the patient's adherence is shown to be inadequate. In addition, this approach has the potential to reduce asthma exacerbations.

The NIOX® franchise is a market leader in the routine testing of FeNO, providing a measure of the degree of inflammation in the respiratory systems of asthma patients. There are currently a limited

number of participants in this market, which forms part of the total market for the diagnosis and monitoring of asthma patients.

The Directors believe that there is good scope to develop the NIOX® Business further, both geographically and by providing improved customer service and technical support to ensure that users are readily able to maximise use of their devices. Historically, the NIOX® Business has been generated principally from clinical establishments; the Directors believe that scope exists for a more focused approach on CROs and other potential channel partners, including pharmaceutical companies for prescription of whose products a FeNO test may in certain instances be indicated.

TRADING UPDATE

Q1 2020 Trading Update - NIOX®

The Company's NIOX® clinical business in the UK, Germany, the United States and partner markets performed ahead of both budget and prior year in the first two months of 2020, however understandably sales in China were seriously impacted in the latter half of January and February 2020 as COVID-19 restrictions were implemented there. The Company's global research sales from its NIOX® Business, which are typically lumpy, had a slow start to the year.

As the Company progressed through March the significant disruption caused by COVID-19 has had an impact on its broader NIOX® Business and not just in China. Excluding China, first quarter sales were £6.6 million (4% down on the prior year), reflecting both 2-3 weeks' disruption in most of the Company's geographical markets in March and the slow start to the year in the global research sales business. China, where the COVID 19 outbreak started, saw the beginnings of a recovery in March as restrictions there have been eased and sales returned to around 50% of pre COVID-19 budget levels for the month.

Unaudited revenue by principal market for the NIOX® Business in 2019 is set out below:

	£ million
United States	8.7
China	6.7
Japan	6.1
Germany	2.2
UK	1.6
Other	9.3
Total	**34.6**

Q1 2020 Trading Update – COPD Business

The COPD Business traded behind both budget and prior year in the first two months of 2020. Total COPD sales were £2.8 million, compared to £3.4 million in the first two months of 2019, and total COPD sales during the first quarter of 2020 were approximately £5.0 million. The introduction of lockdown restrictions in the United States in March has caused an increase in Tudorza® revenues as patients began to be allowed to order 90 days' worth of prescription medication, as opposed to the normal 30 days. It is likely that at some point this effect will reverse when restrictions are eased. Duaklir® sales have been disappointing since launch. Many types of marketing activity for

pharmaceutical products in the United States are proving difficult to undertake during lockdown restrictions.

Impact of COVID-19 lockdown measures and Group outlook

The Group's priority at this time is the safety, health and well-being of its employees and their families and to supply its customers as far as is feasibly possible whilst complying with government measures on social distancing in those countries in which it operates.

As lockdown style measures have been implemented in countries where the Group operates, the Company's limited experience to date has suggested that very little FeNO testing takes place and therefore sales reduce significantly; this is, however, based only on two to three weeks of such measures being in place in the Company's major Western markets.

All Circassia sites involved in supply chain activity are currently in operation and meeting the Group's commitments to maintain supply of its products to distributors and customers worldwide. We cannot rule out potential supply disruption across the Group in the coming months in the NIOX® Business, but we have sufficient supplies of Tudorza® and Duaklir® to permit continuity of supply to patients for at least six months.

At this time we are unable to predict the eventual financial impact that the COVID-19 pandemic will have on the Group, as it will depend on how long pandemic control procedures are in operation and how quickly thereafter the markets in which the Group operates can recover. The Group continues to monitor the situation carefully and will update the market as appropriate.

The Board will not be issuing any guidance in respect of the financial years ending 31 December 2020 and 2021 for the NIOX® Business or the Group as a whole but will revisit this as the year progresses.

Cash and Liquidity

Unaudited cash at 31 March 2020 was £17.8 million – adjusting for the timing of various working capital related payments, underlying cash is around £14 million, compared to underlying cash of around £20 million at the end of January 2020. The working capital profile of the COPD Business, which generates upfront cash from sales with rebates being claimed up to a year after they are initially recognised, means that some £8 million of this underlying cash of £14 million is earmarked for the payment of rebates relating to earlier months and therefore around £6 million of cash will remain to fund the ongoing activities of the Group.

As a result of the nature of the transitional arrangements agreed with AstraZeneca, after completion of the Transaction, the Board anticipates that the COPD Business will be cash positive in the run off

period, adjusting for the payment of accrued rebates referred to above, which is expected to significantly reduce the cash burn rate of the Group.

The Board believes it is likely that the NIOX® Business will burn cash for a period of time whilst the COVID-19 pandemic causes disruption across a number of the Company's key markets but believes that in the medium to long-term the NIOX® Business should be both profitable and cash generative.

In the current period of uncertainty, the Group will carefully manage its operating costs, working capital and capital expenditure to ensure that it remains in the strongest possible financial and operational position to return to strong growth when the Group's end markets recover.

The Group will release a further trading update as and when appropriate.

PRINCIPAL TERMS OF THE PROPOSED TRANSACTION AND FINANCIAL EFFECTS ON CIRCASSIA

Principal terms of the proposed Transaction

Circassia, Circassia Limited and AstraZeneca have entered into an asset purchase agreement dated 9 April 2020 (the **Asset Purchase Agreement**) which contains the principal terms and conditions applicable to the Transaction, as summarised below.

The Transaction

Under the Asset Purchase Agreement, Circassia has agreed to transfer to AstraZeneca, at completion of the Transaction and conditional upon satisfaction of certain conditions (described below):

1. the assets of Circassia relating to the COPD Business (the Transferred Assets), including regulatory approvals, regulatory documentation, certain intellectual property, books and records, goodwill and certain business contacts; and

2. the liabilities of Circassia relating to the COPD Business (the Assumed Liabilities) arising out of the operation or conduct of the COPD Business after completion of the Transaction, including certain payables, liabilities under contracts and tax liabilities and excluding certain liabilities (the Excluded Liabilities) such as payables and liabilities arising prior to completion of the Transaction.

Termination of Development and Commercialisation Agreement

Other than certain surviving provisions, the Development and Commercialisation Agreement will terminate at the end of the Run-Off Business Term (as defined below). Some terms will be amended from completion or will not be applicable during the Run-Off Business Term. Other than certain surviving provisions, the supply agreement and quality agreement will also terminate at the end of the Run-Off Business Term. On a product-by-product basis, the pharmacovigilance agreement will cease to apply upon the last regulatory approval transfer date for each product (except that Circassia's obligations will survive until the expiry date of the last pack of such product with Circassia labelling).

Termination of the Development and Commercialisation Agreement (and related agreements) is without prejudice to any rights and remedies accrued prior to termination. Subject to the survival of certain provisions and certain exceptions, with effect from completion of the Transaction, Circassia and AstraZeneca have agreed not to pursue claims against each other in respect of a breach of any of

the Development and Commercialisation Agreement or related agreement of which they are respectively aware at the date of the Asset Purchase Agreement.

Conditions Precedent

Completion of the Transaction is conditional upon satisfaction of the following conditions within three months of the date of the Asset Purchase Agreement:

1. the Circular having been published;

2. Resolution 1 having been validly passed (in full and without amendment other than any immaterial or administrative amendment) at the General Meeting;

3. no governmental authority having enacted, issued, promulgated, enforced or entered any law or court Order (whether temporary, preliminary or permanent) which is in effect and has the effect of (i) making the transactions contemplated by the Asset Purchase Agreement illegal or (ii) otherwise enjoining or prohibiting the consummation of such transactions and no pending action, proceeding or investigation brought by a governmental authority that could lead to any of the foregoing;

4. payment of certain invoices owed by Circassia to AstraZeneca in full; and

5. any waiting period under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976 having expired or been terminated.

Consideration

The consideration payable at completion of the Transaction by AstraZeneca to Circassia for the transfer of the Transferred Assets and the termination of the Development and Commercialisation Agreement pursuant to the Asset Purchase Agreement will be an amount equal to the DCA Loan Facility at closing of the Transaction. The consideration will be satisfied solely by setting-off the indebtedness of Circassia to AstraZeneca in respect of the DCA Loan Facility against the obligation of AstraZeneca to pay the consideration to Circassia at completion of the Transaction.

Period prior to completion of the Transaction

Circassia has agreed that it shall, and shall cause its affiliates to, use reasonable efforts to continue to conduct the COPD Business in all material respects in the ordinary course in the period between the date of the Asset Purchase Agreement and completion of the Transaction. Circassia has agreed to indemnify AstraZeneca and its affiliates against any losses suffered or incurred as a result of a breach by Circassia of this obligation (unless such breach is also a breach of the Development and Commercialisation Agreement, in which case the Development and Commercialisation Agreement liability regime will apply).

Completion

Completion of the Transaction will take place on the third Business Day following the date that all of the conditions precedent to the Transaction have been fulfilled or waived.

Post Completion Matters

AstraZeneca has agreed to indemnify Circassia and its affiliates against the Assumed Liabilities and any losses suffered as a result of AstraZeneca not discharging the Assumed Liabilities. Circassia also has a

right to direct the conduct of claims relating to the Assumed Liabilities after completion of the Transaction.

Circassia has agreed to indemnify AstraZeneca and its affiliates against any losses suffered as a result of Circassia not discharging the Excluded Liabilities. AstraZeneca also has a right to direct the conduct of claims relating to the Excluded Liabilities after completion of the Transaction.

Restrictive covenant

Circassia has agreed that it will not (subject to limited exceptions relating to the Run-Off Business (as defined below) and ordinary course business) for a period of two years from completion of the Transaction, commercialise in the territory any product for inhaled administration containing a LAMA compound as the sole active pharmaceutical ingredient or containing a LAMA compound combination with a LABA compound.

Operation of Run-Off Business

During the Run-Off Business Term (as defined below), Circassia and its affiliates will sell their inventory of finished stock of Tudorza® and Duaklir® (and other stock supplied under the terms of the supply agreement or the Asset Purchase Agreement) in the United States in their own name and for their own account (the Run-Off Business). Circassia will pay an amount equal to fifty per cent of the monthly profit to AstraZeneca, but is otherwise entitled to retain proceeds of sale.

The Run-Off Business Term runs from completion until 31 March 2021 (or an earlier date if AstraZeneca so chooses by giving at least eight weeks' written notice). If AstraZeneca elects to specify an earlier date, for Circassia's obligations during the Run-Off Business Term, Circassia only has to use reasonable endeavours to satisfy these by the end of the Run-Off Business Term (as long as it satisfies them by 31 March 2021). AstraZeneca may also terminate the Run-Off Business Term with 20 Business Days' notice for breach of Circassia’s obligations in relation for the Run-Off Business Term or for material breach of the Development and Commercialisation Agreement (with a five day remedy period).

Transitional Matters

During the Run-Off Business Term, AstraZeneca and Circassia will cooperate to prepare for the smooth transfer of all sales and distribution activities of the COPD Business. Circassia will undertake the activities set out in the agreed product transition plan, provided that it will not be required to undertake any such activities after the period that ends six months after the end of the Run-Off Business Term (unless expressly stated and other than FDA-mandated pharmacovigilance activities).

The Asset Purchase Agreement sets out a procedure for transfer of the relevant regulatory approvals to AstraZeneca, which is customary for such transactions.

Circassia grants AstraZeneca a transitional, non-exclusive licence to use Circassia's corporate names and marks in the US, solely in connection with the transfer and operation of the COPD Business. AstraZeneca must cease all use of these corporate names and marks as soon as reasonably practicable after the end of the Run-Off Business Term.

Termination

The Asset Purchase Agreement may be terminated: (a) by mutual consent of the parties; (b) by either party if any governmental authority has issued a final and non-appealable court action or taken any other action enjoining or otherwise prohibiting the transactions contemplated by the Asset Purchase

Agreement; (c) if the conditions precedent are not satisfied within three months of the date of the Asset Purchase Agreement; (d) in the event of a material breach of the Asset Purchase Agreement by the other party; (e) in the event of a breach of the completion obligations in the Asset Purchase Agreement that cannot be remedied prior to the long stop date (being three months after signing of the Asset Purchase Agreement); and (f) in the event AstraZeneca has received notice of a "Territory Breach" (as defined in the Development and Commercialisation Agreement) and either that "Territory Breach" is not capable of remedy or Circassia has failed to remedy such breach within 20 days.

Warranties

The Asset Purchase Agreement contains customary warranties given by both AstraZeneca and Circassia at signing and completion of the Transaction in respect of their incorporation status, the execution and performance of the Asset Purchase Agreement and solvency.

The Asset Purchase Agreement contains warranties customary for such transactions given by Circassia, including but not limited to warranties relating to transferred assets, intellectual property rights, transferred regulatory approvals, product safety and recall, product liability, business contracts, legal compliance, regulatory compliance, litigation, inventory and customers. These warranties will be repeated at completion of the Transaction and are subject to customary limitations on Circassia's liability, with a warranty claim period of 24 months from the date of completion of the Transaction.

Other

The Asset Purchase Agreement contains a force majeure clause, under which no party can be liable for delays in performance or non-performance caused by events beyond its reasonable control. The affected party must give written notice of a force majeure event within 10 days.

The Asset Purchase Agreement is governed by English law and disputes are to be conducted by arbitration in London under the Rules of Arbitration of the International Chamber of Commerce.

The Asset Purchase Agreement also contains other customary provisions, including as to confidentiality, tax and assignment.

Financial effects on Circassia

Following completion of the Transaction, Circassia will be a debt free diagnostics business focussed on commercialising its NIOX® products. NIOX® unaudited revenue grew 26% in 2019 to £34.6 million and has grown revenues at a compound annual growth rate of 14% in the period 2016 -2019. Revenue growth in 2018 over 2017 was held back by the disruption associated with switching from a distributor model to a direct model in China, and also by a modest decline in sales to global research customers, which are lumpy and difficult to predict from one year to the next. Gross margins for the NIOX® Business have been in the range of 70-75% during the period. Sales and marketing costs for NIOX® decreased significantly in 2019 as the increase associated with the move to a direct sales force in China was more than offset by a reduction in the size of the U.S. field sales force after a review of the profitability of that business was undertaken.

The Board believes it is likely that the NIOX® Business will burn cash for a period of time whilst the COVID-19 pandemic causes disruption across a number of the Company's key markets but believes that in the medium to long-term the NIOX® Business should be both profitable and cash generative.

In the current period of uncertainty, the Group will carefully manage its operating costs, working capital and capital expenditure to ensure that it remains in the strongest possible financial and operational position to return to strong growth when the Group’s end markets recover.

There will be a material impairment charge to intangible assets in the 2019 accounts as a result of the Transaction.

PROPOSED CHANGE OF NAME

Following completion of the Transaction, Circassia will be focussed on its NIOX® asthma diagnostics and management business and will no longer have any pharmaceutical products. Circassia proposes to change its name to Circassia Group plc to better reflect the focus of its activities and is seeking Shareholder approval for Resolution 3 to effect this change of name at the General Meeting. Circassia's TIDM of "CIR" will remain unchanged.

EXECUTIVE CHAIRMAN AND CFO - GRANT OF SHARE OPTIONS

It is proposed that Ian Johnson be granted a share option over 1,677,233 Ordinary Shares and Michael Roller be granted a share option over 829,971 Ordinary Shares (the Share Options), in both cases to be granted as nil-cost options under the 2019 Performance Share Plan (the **PSP**). The Share Options are proposed to be granted over a number of Ordinary Shares with a market value in excess of the annual limit on individual participation set out in Circassia's remuneration policy, as part of the remuneration packages for Ian Johnson and Michael Roller consulted on and supported by the Company's principle shareholders, and as explained in further detail below.

Ian Johnson joined the Board as Executive Chairman on 5 December 2019 and Michael Roller joined as CFO after the financial year end in January 2020. The Board decided that in light of the circumstances facing the business, these management changes were necessary in the long-term interests of the Company and its stakeholders.

The remuneration packages for Ian Johnson and Michael Roller have been negotiated and determined by the Remuneration Committee in consultation with and support from the principle shareholders in the Company. Each package includes a base salary (which, at £300,000 and £220,000 respectively, are significantly lower than the salaries of their predecessors), and participation in the Company's equity, in the form of share options. Unlike the other Executive Directors, Ian Johnson and Michael Roller are not eligible for an annual bonus or for any benefits, save that, to take account of the requirements of his role, Ian Johnson and Michael Roller are entitled to an annual allowance of £10,000 to cover business-related expenses. The equity element of the remuneration package comprises, in the case of Ian Johnson, a commitment to grant options to acquire 6,000,000 Ordinary Shares (representing approximately 1.6% of the Company's issued ordinary share capital) and, in the case of Michael Roller, an option to acquire 4,000,000 Ordinary Shares (representing approximately 1.07% of the issued ordinary share capital of the Company).

Under the Company's shareholder approved remuneration policy, share options under the PSP may be granted up to a maximum of 300% of annual salary. On 19 December 2019, Ian Johnson was granted an option to acquire 4,332,767 Ordinary Shares being an award (with a value of 300% of his salary). The option was granted as a nil cost option under the PSP, which will vest and become exercisable on the third anniversary of the date of grant, subject to either (i) the share price being 62.4p (equating to three times the average closing price of an Ordinary Share over the ten dealing days preceding the date of grant) for at least 30 consecutive dealing days during the vesting period; or (ii) a liquidity event occurring at a price per Ordinary Share greater than 62.4p. Michael Roller will similarly be granted a nil-cost option to acquire 3,170,029 Ordinary Shares (being an award with a

value of 300% of his salary, and for which shareholder approval is not required, as within the limits set out in Circassia's remuneration policy), which will vest subject to the same terms.

The Board now proposes to grant the Share Options, which will make up the balance of the share options to be comprised in the remuneration packages as explained above. The Share Options will vest and become exercisable in full on the third anniversary of the date of grant, subject to either (i) the share price being 62.4p (equating to three times the average closing price of an Ordinary Share over the ten dealing days preceding the date of grant) for at least 30 consecutive dealing days during the vesting period; or (ii) a liquidity event occurring at a price per Ordinary Share greater than 62.4p. The granted share options described above along with the proposed Share Options will be satisfied using existing shares from the Circassia Employee Benefit Trust (either already held or to be purchased in the market by the trustee of the Employee Benefit Trust).

The proposed grant of the Share Options is within the overall dilution limit under the PSP, but is in excess of the annual individual limit under the PSP and the Company's shareholder approved remuneration policy. Accordingly, Circassia is seeking the approval of shareholders for the grant of the Share Options.

SHARESAVE PLAN

The Board wishes to make participation in the Company's share capital available to substantially all staff, to encourage wider share ownership, facilitate the recruitment, motivation and retention of employees, and to align employee interest, as far as possible, with the interests of shareholders. Accordingly, Circassia proposes to adopt the Circassia Group plc Sharesave Plan (the **Sharesave Plan**). Under the tax legislation governing the terms of the Sharesave Plan, UK employees, including executive directors, who meet the eligibility criteria to acquire Ordinary Shares, may be granted share options on favourable terms using funds accumulated by way of monthly savings out of post-tax income of between £5 and £500, normally over three or five years. As is usual practice, the resolution to adopt the Sharesave Plan also authorises the Directors to adopt, as far as practicable, similar plans for overseas employees, which take account of local laws and regulations, provided that the plan is operated within the limits set out in the Sharesave Plan.

IRREVOCABLE UNDERTAKINGS

The Directors whose names appear in the table below (being all the Directors holding any interest in the issued share capital of the Company) have given irrevocable undertakings to Circassia to vote in favour of the Resolutions to be proposed at the General Meeting (and, where relevant, to procure that such action is taken by the relevant registered holders if that is not one of them) in respect of their beneficial holdings totalling, in aggregate, 777,340 Ordinary Shares, representing approximately 0.21% of Circassia's entire issued share capital (being 375,210,543 Ordinary Shares as at the Latest Practicable Date).

Name	***Number of Shares***	***Percentage of Company's entire issued share capital***
Garry Watts	477,340	0.13%
Jonathan Emms	300,00	0.08%
Total:	**777,340**	0.21**%**

Certain Shareholders have given irrevocable undertakings to Circassia to vote in favour of the Resolutions to be proposed at the General Meeting (and, where relevant, to procure that such action is taken by the relevant registered holders if that is not one of them) in respect of their beneficial holdings totalling, in aggregate, 108,317,939 Ordinary Shares, representing approximately 28.9% of Circassia's entire issued share capital.

The irrevocable undertakings referred to above will cease to be binding:

(a) immediately if the Circular is not released by 5.00 p.m. on 17 April 2020;

(b) immediately if the Company announces that it does not intend to proceed with the Transaction and the transactions contemplated by Resolutions 2, 3 and 4; or

(c) on and from the earlier of:

a. the date falling three months after the date of the undertaking; and

b. the time and date on which the Transaction is withdrawn, lapses or otherwise terminates in accordance with its terms.

RELATED PARTY TRANSACTION

In view of the size of the Transaction and the fact that AstraZeneca is a "substantial shareholder" in Circassia for the purposes of the AIM Rules for Companies, the Transaction is considered to constitute a related party transaction under Rule 13 of the AIM Rules for Companies. For this reason, AstraZeneca has confirmed to Circassia that it intends to abstain from voting on Resolution 1. The Directors consider, having consulted with Peel Hunt, the Company's nominated adviser, that the terms of the Transaction are fair and reasonable insofar as Shareholders are concerned.

GENERAL MEETING AND RESOLUTIONS

The implementation of the Transaction is conditional upon, among other things, the Shareholders' approval of Resolution 1 being obtained at the General Meeting. Accordingly, the Company is convening a General Meeting expected to be held in May 2020 at the offices of Circassia located at Northbrook House, Robert Robinson Avenue, The Oxford Science Park, Oxford, Oxfordshire, OX4 4GA, United Kingdom.

DEFINITIONS AND GLOSSARY OF TERMS

The following definitions apply throughout this announcement unless the context requires otherwise:

AIM	AIM, a market operated by the London Stock Exchange
AIM Rules for Companies	the AIM Rules for Companies published by the London Stock Exchange from time to time
AstraZeneca	AstraZeneca UK Limited
Asset Purchase Agreement	the asset purchase agreement between Circassia and AstraZeneca dated 9 April 2020 relating to the Transaction

Assumed Liabilities	the liabilities to be transferred by Circassia to AstraZeneca under the Asset Purchase Agreement
Board	the board of directors of Circassia from time to time
Business Day	a day (other than Saturday, Sunday or a public holiday) on which banks are generally open for business in the City of London for the transaction of normal banking business
certificated or **in certificated form**	a share or other security not held in uncertificated form (i.e. not in CREST)
Circular	the circular to be published by the Company in connection with the Transaction
Companies Act	the Companies Act 2006, as amended
Company or **Circassia**	Circassia Pharmaceuticals plc
COPD	chronic obstructive pulmonary disease
COPD Business	the Company's business selling Tudorza® and Duaklir® in the United States
CREST	the electronic transfer and settlement system for the paperless settlement of trades in listed securities operated by Euroclear
CREST Manual	the CREST manual consisting of: the CREST reference manual; CREST international manual; the CREST central counterparty service manual; the CREST rules; the CREST Courier and Sorting Services operations manual; and the CREST glossary of terms available at https://www.euroclear.com
CREST Member	a person who has been admitted to Euroclear as a system-member (as defined in the CREST Regulations)
CREST Participant	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations)
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378)
CREST Sponsor	a CREST Participant admitted to CREST as a CREST sponsor
DCA Loan Facility	the five-year, secured interest bearing loan made by AstraZeneca to Circassia pursuant to the Development and Commercialisation Agreement
Development and Commercialisation Agreement	the development and commercialisation agreement dated 17 March 2017 between Circassia and AstraZeneca, as amended and restated from time to time

Directors	The Executive Chairman and the Executive and Non-Executive Directors of Circassia
Duaklir®	the medicinal product for human use for inhaled administration containing as its sole active pharmaceutical ingredients a combination of aclidinium bromide and the active pharmaceutical ingredient with the INN formoterol as further specified in the Development and Commercialisation Agreement
Euroclear	Euroclear UK and Ireland Limited, the operator (as defined in the CREST Regulations) of CREST
Executive Chairman	Ian Johnson
Executive Directors	Ian Johnson, Michael Roller and Jonathan Emms
Excluded Liabilities	the liabilities to be excluded from the transfer of liabilities by Circassia to AstraZeneca under the Asset Purchase Agreement
FCA	U.K. Financial Conduct Authority
Form of Proxy	the form of proxy for use at the General Meeting
FSMA	the U.K. Financial Services and Markets Act 2000, as amended
General Meeting	the general meeting of Circassia Pharmaceuticals plc to be held at the offices of the Company located at Northbrook House, Robert Robinson Avenue, Oxford, Oxfordshire, OX4 4GA, United Kingdom on a date to be set out in the Circular
Group	Circassia and its subsidiary undertakings as at the Last Practical Date
LABA	long-acting beta2-agonist
LAMA	long-acting muscarinic antagonist
Latest Practicable Date	8 April 2020
London Stock Exchange	London Stock Exchange plc
NIOX® Business	the Company's asthma diagnostics and management business selling NIOX® products sold directly to specialists in the U.S., China, the U.K., Germany and Italy and in a wide range of other countries through a network of partners
Non-Executive Directors	Garry Watts, Sharon Curran and Jo Le Couilliard
Notice of General Meeting	the notice of the General Meeting which will be set out in the Circular
Ordinary Shares	ordinary shares of 0.08 pence each in Circassia

Peel Hunt	Peel Hunt LLP, the Company's nominated adviser and joint broker
PSP	the Company's 2019 Performance Share Plan
Registrar	Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom
Resolution 1	the ordinary resolution to be proposed to approve the Transaction at the General Meeting
Resolution 2	the ordinary resolution to be proposed at the General Meeting to grant share options to Ian Johnson and Michael Roller
Resolution 3	the ordinary resolution to be proposed at the General Meeting to create a new share scheme for the Company
Resolution 4	the special resolution to be proposed at the General Meeting to change the name of the Company
Resolutions	Resolution 1,Resolution 2, Resolution 3 and Resolution 4
Share Options	the share options over Ordinary Shares to be granted to Ian Johnson and Michael Roller,
Shareholders	holders of Ordinary Shares
Sharesave Plan	the sharesave plan proposed to be adopted by the Company
Transaction	the proposed transfer of assets to, and termination of the Development and Commercialisation Agreement with, AstraZeneca for the U.S. commercial rights to Tudorza® and Duaklir® for consideration to be set off against the entirety of the loan amount outstanding (together with accrued interest thereon) from the Company to AstraZeneca in respect of certain unpaid milestone and other amounts under the Development and Commercialisation Agreement, as at the date of completion of the Transaction, to be implemented pursuant to and in accordance with the terms of the Asset Purchase Agreement
Transferred Assets	the assets to be transferred by Circassia to AstraZeneca under the Asset Purchase Agreement
Tudorza®	the medicinal product for human use for inhaled administration containing aclidinium bromide as its sole active pharmaceutical ingredient as further specified in Development and Commercialisation Agreement.
uncertificated or **in uncertificated form**	recorded on the register of members of the Company as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
Voting Record Time	6.30pm two days before the date of the General Meeting