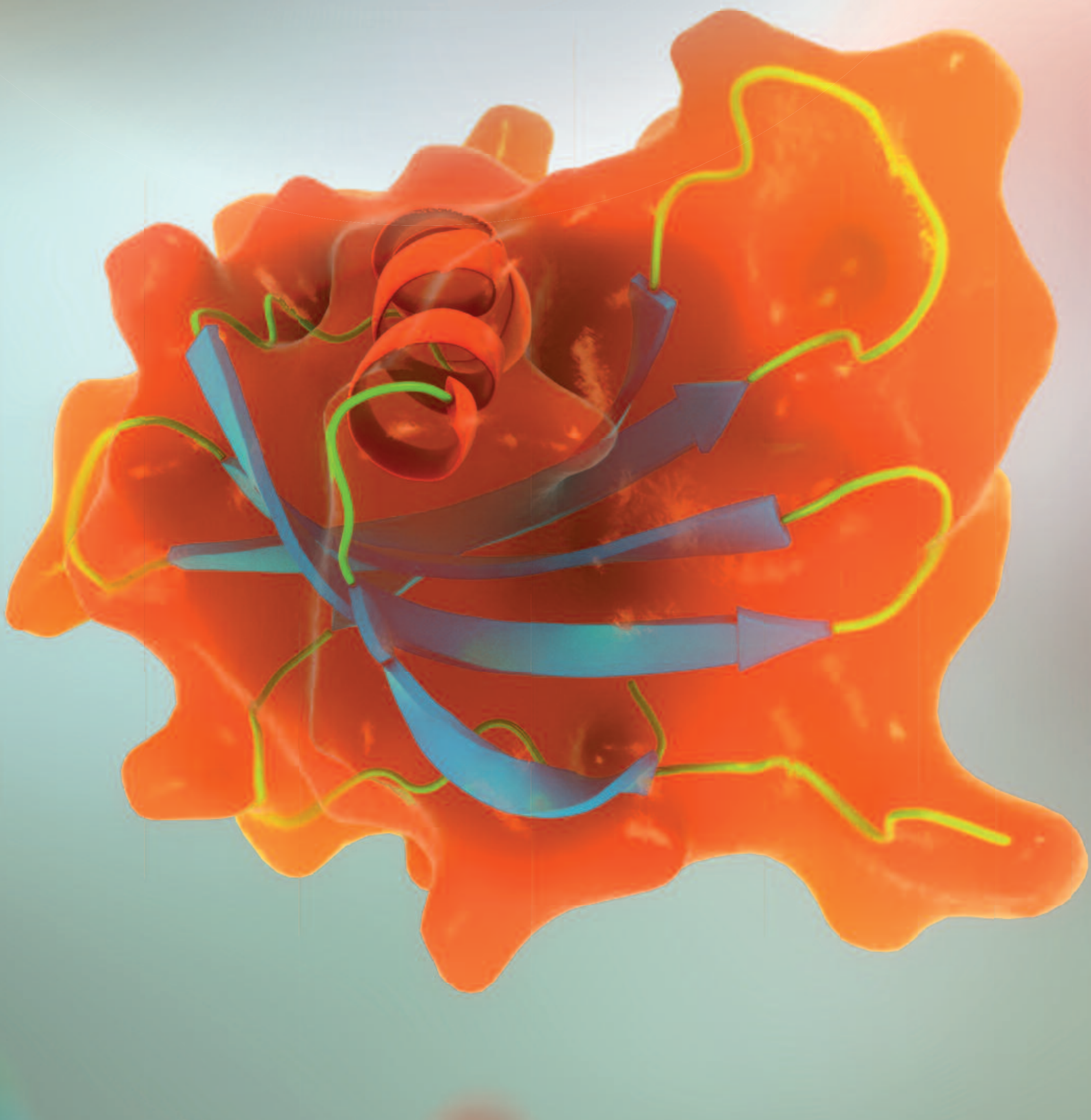
Avacta



2015 Annual Report & Accounts

contents

business review

Board Members

Dr Trevor Nicholls

Non-executive Chairman

Trevor is currently Chief Executive Officer of the not-for-profit CAB International, an intergovernmental organisation owned by 47 member countries whose mission is to improve lives worldwide by providing information and applying scientific expertise to solve problems in agriculture and the environment. He is also Non-executive Director of hVIVO Group plc, a biotech company pioneering novel drug and biomarker discovery using unique human disease models, Non-executive Director at Conidia Bioscience and was founder and CEO of Oxagen, a UK biotech company. Trevor brings considerable experience in the commercialisation of life science systems and reagents from his previous roles as Chief Commercial Officer at Affymetrix and Commercial Director for Life Sciences at Amersham International (now part of GE Healthcare). Trevor is Chairman of the Remuneration Committee and a member of the Audit Committee.

Alan Aubrey

Non-executive Director

Alan is the CEO of IP Group plc, a FTSE 250 company and leading global intellectual property commercialisation company. He is also Non-Executive Chairman of Proactis, an AIM-listed software company, Non-Executive Chair of Ceres Power Holdings plc, an AIM-listed fuel cell company, Non-Executive Chairman of Modern Biosciences plc, a drug development company, Non Executive Director of Oxford Science Innovation plc, a company set up to commercialise intellectual property developed at the University of Oxford and a Non-Executive Director of a number of other private technology companies. From 2008 to 2014, he was a Non-Executive Director of the Department for Business, Innovation & Skills (BIS). Previously Alan was a partner in KPMG where he specialised in providing advice to fast-growing technology businesses. He is a fellow of the Institute of Chartered Accountants of England and Wales. Alan holds a BA in Economics and an MBA.

Dr Mike Owen

Non-executive Director

Mike was Senior Vice President and global Head of Research of the Biopharmaceuticals R&D Unit at GlaxoSmithKline and was responsible for initiating and rapidly growing GSK's robust pre-clinical and clinical therapeutic antibody pipeline during the last decade through in-house development as well as through acquisitions such as Domantis. He left GSK in 2010 to establish Kymab which is developing biotherapeutics using its novel transgenic mouse platform. Mike is an immunologist by training who had a highly successful scientific career at Imperial Cancer Research during which he was elected a member of the European Molecular Biology Organisation and a fellow of the Academy of Medical Sciences. Mike is also an independent board member at Zealand Pharma and Non-executive Director of Ossianix Inc. and Blink Therapeutics. He sits on the scientific advisory board of Kymab and also advises the private equity CRT Pioneer Fund and HS Life Sciences.

Dr Michael Albin

Non-executive Director

Following a Ph.D. in chemistry at Pennsylvania State University and postdoctoral research in biochemistry at the California Institute of Technology, he worked at SYVA diagnostics followed by fifteen years at Applied Biosystems Inc rising to the role of VP of Science and Technology, and then VP of Strategic Technologies of the parent company Applera Corp, an S&P 500 company. As VP of Science and Technology at Applied Biosystems Inc (now Life Technologies Inc.), he was responsible for R&D programmes with a budget in excess of US$100 million overseeing the development of the company's product pipeline via internal development, investment and acquisition. In recent years he has worked as a private consultant focusing on technical and strategic assessments and the positioning of a wide range of companies in the life sciences, molecular diagnostics and personalised medicine sectors. In addition he has been appointed to carry out due diligence for venture capital and other investment organisations in the US, Canada and the UK and has a broad market understanding of the life sciences sector and strong connections in the important US market. Michael is a member of the Remuneration Committee and the Audit Committee.

Dr Alastair Smith

Chief Executive Officer

Alastair combines world class scientific and technical knowledge with a highly commercial mindset. Alastair has been Chief Executive of Avacta since its inception in 2005 and has been responsible for the management and strategic development of the company, led the IPO and the fund raising and M&A activities of the Group, and has overseen the product development programmes. He has a degree and PhD in Physics from Manchester University and, after working in the US for a period, took up a position at Leeds University in 1995. At the age of 38 he was awarded a Chair of Molecular Biophysics and had, over ten years, grown one of the leading biophysics research groups in Europe. He left his academic career in 2007 to focus full time on delivering value to Avacta shareholders.

Craig Slater

Chief Operating Officer

Craig has more than 25 years' experience of commercial, operational and group management roles in specialist engineering, construction, software and marketing groups. More specifically this experience includes the supply of specialist equipment to Life Science clients, B2B service provision and the implementation of growth plans in SME businesses. Craig has been working with Avacta since June 2012, primarily in a commercial and operational capacity within Avacta Analytical and, latterly, within Avacta Animal Health.

Tim Sykes

Chief Financial Officer

Tim is a fellow of the Institute of Chartered Accountants of England and Wales and the founder of Penta Financial Direction Limited, a business advisory practice specialising in providing accounting services to small, listed businesses. Tim is also Chief Financial Officer at PROACTIS Holdings PLC.

Strategic Report

Group Overview

The year ended 31 July 2015 has been a transformational one for the Affimer technology and for Avacta. The Directors believe that the Affimer technology presents the most significant opportunity for the Group to deliver value growth for shareholders and therefore, the Company has been through a process of focusing its resources on the technology. The progress made during the past year helped secure the Company's first substantial therapeutic partnership with Moderna Therapeutics and allowed the Company to raise £21m on 3rd August to support in-house drug development plans as well as put the infrastructure in place to allow additional therapeutic partnerships to be established. The Affimer technology has significant potential as the next generation biotherapeutic platform whilst also offering the benefit of near term revenues from a research and diagnostic reagents business capable of addressing the weaknesses of antibodies as research tools.

Avacta Life Sciences

Key performance targets for the year met

The key performance targets established for the Affimers business for the period ending 31 July 2015 were: to achieve scale-up of the established Affimer reagents generation and production processes to support future growth; to demonstrate clearly that commercial traction was being achieved; to grow the on-line catalogue of Affimer reagents; and to generate pre-clinical data that would demonstrate the potential of Affimer therapeutics. The Company has met these targets and has been able to capitalise on this progress to secure a substantial fund raise that will accelerate the first Affimer therapeutics into the clinic. The Directors believe this will provide a significant value inflection point for the technology and the business.

Early traction with custom Affimer projects highlights potential as research reagents

A business development team was established in Q2 of the reporting period to promote Affimer reagents as research tools, as diagnostic reagents and as therapeutics. The team comprises senior sales executives from major antibody suppliers such as Abcam and Cell Signaling Technologies. The team has rapidly grown the pipeline of sales enquiries and delivered an order intake in the reporting period of 30 custom Affimer projects from a wide range of customer types including several large biopharmaceutical and pharmaceutical companies, smaller biotechs, diagnostics and other life sciences companies and academics. Around a third of these projects were delivered during the year and the rest carried through as order book and work in progress into FY16. The team continues to add new sales leads for custom Affimer projects and convert this interest into order intake.

Trading in the first part of the current year is in line with last year and first repeat orders have been received.

At this early stage in the commercialisation of Affimer research reagents, the key driver of growth is increasing awareness of the technical and commercial advantages of the Affimer technology over antibodies including:

- Quick to develop
- Excellent engineered-in specificity
- Targets not limited by an immune response
- Security of supply and batch to batch consistency
- Small, robust and stable; easily functionalised
- Functional within live cells
- Unencumbered IP - straightforward licensing/exclusivity
- No use of animals required to generate the Affimer
- Can be lyophilised for shipping and storage

In-house and third party applications data are key to speed of commercial success

The Company has made good progress in generating data to demonstrate all of the technical benefits which can be seen in technical presentations, data sheets and application notes on the Avacta Life Sciences web site. Reports by third parties of their own data that demonstrate the performance of Affimer reagents in their hands is the most powerful marketing material. Such reports are now beginning to appear and the Company recently reported two such examples (1. ProtATonce demonstrated the use of Affimer reagents to replace antibodies in assays run on the Luminex platform, the market leading multiplexed assay system; 2. University of Copenhagen demonstrated the use of Affimer reagents to reduce the susceptibility of barley to powdery mildew). A number of key opinion leaders are now working with the Company and their first peer reviewed publications of Affimer reagents performance are anticipated in the current financial year.

During the reporting period significant advances have been made in generating data demonstrating the use of Affimer reagents in a much wider range of applications than had previously been exemplified. These now include several high value market opportunities:

- Immunohistochemistry/immunofluorescence – a form of staining of tissue sections to highlight the presence and distribution of proteins which are often indicative of disease. This is a very widely used technique in pathology and in drug and diagnostics development. The immunohistochemistry market is the dominant segment (c.$1bn) of the tissue diagnostics market which is expected to reach $3.9bn by 2018[1]
- Super high-resolution microscopy – modern techniques in microscopy (e.g. PALM, STORM, STED)[2] are delivering resolution that is now limited by the size of the antibodies used. Since Affimer reagents are ten times smaller than antibodies the resolution of these techniques could be pushed even further down to molecular levels
- Flow cytometry – is a laser based technique used for cell counting, cell sorting and biomarker detection. It allows for very high throughput analysis of complex

biological samples to be carried out, analyzing up to thousands of particles per second. Flow cytometry applications represent about 16% of the research antibody market[3]

- Pull-downs and affinity purification – use of an affinity reagent to pull a target out of a complex mixture as a purification or concentration step widely used in bioprocessing and biochemical analyses of many different types
- Inhibition of protein-protein interactions – the blocking or modulation of a biological interaction. Affimer reagents have been shown to have inhibitory effects in vitro and in living cells. Affimer reagents that block SH2 domains (signal transduction), FcGRIIIa (inflammatory disease), PD-L1 (immune checkpoint; oncology), kRas (oncology) and fibrinogen (blood clotting) have all been demonstrated. The Affimer reagents discovery process that has been put in place during the reporting period is capable of differentiating between Affimer reagents that simply bind to the target and those that inhibit the target's biology. Therefore, promising potential Affimer therapeutics may be selected from the Affimer reagents repertoire for separate development.

One interesting commercial application of Affimer reagents lies in producing multiplexed assays, which are assays that measure more than one target at once. The degree of multiplexing in assays that are dependent on antibodies is typically limited by the lack of specificity of the range of antibodies required leading to cross-reactivity. Since Affimer reagents can be selected to not cross-react with each other, the degree of multiplexing that can be achieved is in principle much greater. The Company has been researching whether Affimer reagents can be used successfully in multiplexed microarray assays for drug and biomarker discovery as well as working with partners such as ProtATonce to develop multiplexed assays on established platforms like Luminex. The Affimer microarrays that have been developed show good performance and acceptable shelf-life, and have been successfully used to highlight proteomic differences between diseased and healthy clinical samples. However, in their current format the microarrays require a subsequent analysis step using mass spectrometry and this is proving insufficiently sensitive to provide a robust assay using currently available mass spectrometers. The underlying array technology will be utilized in future in other product formats that do not require mass spectrometry but in the near term the Company does not expect significant revenues from array based products and will focus on the nearer term opportunities and on working with third parties, such as ProtATonce, to commercialise Affimer reagents in multiplexed assay products.

Follow on licensing/supply deals are key to strong Affimer reagents revenue growth in the medium term

A key element of the research reagents business model is that some of the custom Affimer projects lead to Affimer reagents being incorporated into third parties' products, such as diagnostic tests or affinity purification systems, that will generate long term recurring revenue streams from royalties and exclusivity payments. Agreements with Agrisera (purification of plant proteins), ProtATonce (Luminex assay development), Phoremost (drug target discovery) and Moderna Therapeutics (mRNA therapeutics development) were reported during the period. A number of additional long term commercial relationships are in discussion and progress in this important area will be reported to the market as further agreements are put in place.

Affimer technology key benefits as a biotherapeutic platform

The success of the Affimer technology as a therapeutic platform, and therefore the Company's ability to deliver the potential value of a next generation of biotherapeutics, depends on the company continuing to demonstrate and leverage several fundamental technical performance benefits:

- Speed of development due to rapid generation of high affinity leads Affimers
- Ease of production which makes available sufficient material to allow development to progress quickly
- Generation of bi- and tri-specifics and drug conjugates due to ease of modification
- Lack of target limitations due to no reliance on an animal's immune response
- Potential for topical delivery due to stability and small size
- Addressing "undruggable targets" due to intracellular activity

A highly experienced team of five scientists led by Dr Amrik Basran was established at the Stevenage Bioscience Catalyst to spearhead the generation of a data pack that would allow the Company to secure therapeutic licensing deals and raise funding for infrastructure and in-house development programmes.

The in-house development progress during the period, and the Moderna partnership, were the catalysts for a significant fund raising which completed on 3 August 2015 and that has allowed the Company to expand considerably its in-house Affimer therapeutics development programme. The £21 million net raised will allow the Company also to expand into new facilities in Cambridge, which it anticipates will be ready in Spring 2016, to grow the development team and so as to support the in-house therapeutic development programmes and further therapeutic R&D partnerships.

Note 1 – http://tissuepathology.com/2014/04/16/tissue-diagnostics-market-worth-3924-01-million-by-2018/#axzz3oe25ALlu

Note 2 – https://en.wikipedia.org/wiki/Super-resolution_microscopy; http://www.nobelprize.org/nobel_prizes/chemistry/laureates/2014/betzig-facts.html

Note 3 – http://www.bioastrum.com/home/sites/docs/Antibody-reagent-market-2012.pdf

Strategic Report continued

The Company's key strategic objective with respect to Affimer therapeutics is for the first candidates to enter into the clinic, either through in-house or partnered programmes, while generating a pipeline of therapeutic assets to be taken forwards by the Company or licensed out. The Company has a balanced risk development plan leveraging the Affimer technology's technical advantages to produce best-in-class therapies in areas where the disease biology is well understood, alongside the development of first-in-class therapies where the development risk may be greater but the value of such treatments may be much higher.

The two principle in-house programmes which are now being established are:

- Oncology – developing combination therapies combining multiple immune checkpoint inhibitors by making bi- and tri-specific Affimer constructs
- Blood clotting disorders – proof of concept data obtained in collaboration with a clinical group at the University of Leeds led by Dr Ramzi Ajjan indicate that Affimer therapeutics can be generated that modulate blood clot formation with the potential for anti-thrombotic as well as wound healing therapies

Further details on the progress of these programmes will be given later in the current financial year.

Research partnership with Moderna Therapeutics

During Q4 of the reporting period the first significant therapeutic development and licensing deal was signed with Moderna Therapeutics to use their mRNA technology to deliver Affimer therapeutics. Under the terms of the agreement, Moderna made an upfront payment of $500,000 which provides Moderna exclusive access to custom Affimers reagents against certain targets which may be extended to include additional targets by a further payment. Moderna will also make certain payments to Avacta for research services to deliver pre-clinical development milestones. Moderna has the option to enter into exclusive license agreements for selected therapeutic Affimer candidates for clinical development and in each case Avacta will be entitled to milestone payments. The total value of these payments could reach several tens of millions of dollars. Avacta is also entitled to royalties in connection with future product sales.

The Company is restricted from providing any development updates relating to its research partnership with Moderna Therapeutics but will make announcements as key development and commercial milestones are achieved.

Avacta Animal Health

Algorithm based test pipeline growing

The first algorithm-based Sensitest, to assist in the diagnosis of Canine Lymphoma, was launched early in the financial year with strong support from key opinion leaders. Initial sales have been to oncology specialists and veterinarians in the UK and North America.

The next such launch is expected to be a diagnostic for Canine Pancreatitis, helping veterinarians to diagnose the acute form of the disease more effectively. This test is in the advanced stages of development. Two further algorithm based tests are in early stages of development and in each case results are expected to lead to diagnostic performance levels exceeding those currently available.

Assay and Affimer based test pipeline also strong

The development team has made significant progress with further allergy tests, designed to strengthen the Company's leadership in allergy testing, and is building a range of acute phase protein tests to help veterinarians diagnose and monitor canine and feline health.

Affimers represent a strong opportunity for Avacta Animal Health to offer novel and high performing assays and the first such project is in progress. The specificity and consistency offered by Affimers make them ideal for use in companion animal diagnostics.

Point of care delivery

Following the decision to cease work indefinitely on Sensipod, the Company is in early discussions with potential partners to enable the delivery of its Sensitest diagnostics over their point of care instruments. The Directors believe this approach will lead to earlier and better sales at the point of care.

Core allergy business

The Company's core allergy business was maintained with the exception of one bulk customer which was lost late in the previous financial year. Significant marketing and promotional efforts have maintained customer and test numbers.

Alongside the planned expansion of allergy tests, a distribution deal was signed to enable Avacta Animal Health to offer exclusively a range of high quality nutraceuticals to veterinarians in the second half of the financial year. This range addresses, amongst other conditions, skin problems and has a clear link to core products.

Establishment of US sales presence

In contrast to some allergy testing, which is region-specific, most other diagnostic tests can be used equally effectively in other territories. A small US presence has therefore been set up to market and sell these other tests. This also permits links to US key opinion leaders and is consequently a significant addition to the Company's development efforts.

Trading in the first part of the current year is in line with last year and new tests are expected to contribute materially to next financial year's performance.

Financial Performance

The Group's results are extracted from the Operating segment analysis (see note 2) below.

	Avacta Life Sciences		Avacta Animal Health		Avacta Analytical	
	2015 £million	2014 £million	2015 £million	2014 £million	[1]2015 £million	2014 £million
Performance						
Revenue	0.44	0.03	1.37	1.59	0.17	1.56
Gross Profit	0.37	0.02	0.92	1.07	0.09	0.95
Gross margin	84%	67%	67%	67%	52%	61%
Adjusted EBITDA[2]	(0.67)	(0.27)	(0.10)	0.01	(0.26)	0.22
Operating (loss)/profit	(1.21)	(0.57)	(0.20)	(0.28)	(0.30)	0.15
Investment						
Development costs	2.52	1.55	0.40	0.31	-	-
Plant and equipment	0.83	0.79	0.01	0.03	-	0.03

Avacta Life Sciences recorded revenues of £0.44 million (2014 £0.03 million) for its custom Affimer reagents services including £0.36 million from the different elements of the Moderna Therapeutic contract.

Avacta Animal Health revenues from its existing allergy and acute phase protein SensiTest and SensiPak products fell to £1.37 million (2014: £1.59 million). The canine lymphoma blood test contributed £0.03 million (2014: £0.01 million) of revenue during the first full year of operation.

Gross margins across the Group improved to 71% (2014: 67%) due to the positive impact of the Moderna Therapeutic contract.

Underlying overhead increased significantly to £4.21 million (£2.72 million) following the ramp up of activity during this and the previous financial period in respect, particularly, of the Avacta Life Sciences business unit. Non-recurring administrative expenses, impairment and amortisation of development costs and share based payment charges of £2.71 million (2014: £0.42 million) pushed total overhead up to £6.93 million (2014: £3.14 million).

The Group recognised £0.65 million (2014: £0.55 million) of R&D tax credits during the year.

On 11 February 2015, the Group sold the Avacta Analytical business unit for an initial consideration of $3.50 million (£2.21 million) in cash. In addition, contingent consideration of up to $1.5 million could be receivable depending upon future sales performance over the five calendar years ending 31 December 2019. The Group has not recognised any of this contingent consideration. This sale realised a loss of £5.10 million in total, comprising a small profit of £0.15 million against the selected assets and liabilities sold but a pre-sale post tax loss of £0.30 million and a loss of £4.94 million resulting from the impairment of goodwill.

The loss retained increased to £9.99 million (2014: £1.49 million) leaving loss per share at 0.20 pence (2014: 0.04 pence).

Development expenditure capitalised during the year increased to £3.11 million (2014: £1.86 million) through the accelerated development of the Affimer platform where £2.52 million was capitalised (2014: £1.55 million). £0.40 million (2014: £0.31 million) was capitalised into Avacta Animal Health but £2.38 million was impaired to reflect the Board's decision to cease further investment in the Sensipod device. A further £1.64 million of development cost was disposed of and £4.94 million of goodwill impaired as part of the sale of the Analytical business unit. These factors resulted in net intangible assets reducing to £10.36 million (2014: £16.29 million).

The Group's capital expenditure continued during the period at £0.81 million (2014: £0.92 million) through the continued investment of £0.83 million (2014: £0.79 million) in the development and production facilities within Avacta Life Sciences.

The Group reported cash balances of £7.33 million at 31 July 2015 (2014: £11.48 million). On 3 August 2015, the Group completed a placing of £22.00 million (before expenses) at a price of 1.25 pence per share.

Outlook

We believe that the Affimer technology has enormous potential both as a source of novel bio-therapeutics and research reagents. These molecules possess innate attributes that suggest they could be superior alternatives to antibodies. Our strategic mission is to realise this potential and take a meaningful share of a very large and growing market. We are confident that we are well positioned to achieve this, initially through the sale of custom Affimer research reagents and longer-term through the development, and ultimately the commercialisation, of valuable Affimer-based drugs. We look forward to reporting on key performance indicators of progress in meeting these goals over the next few years.

Trevor Nicholls
Chairman

23 October 2015

Alastair Smith
Chief Executive Officer

23 October 2015

Note 1 – This business unit was sold on 11 February 2015 and the amounts above (in respect of 2015) are the results for the 6 months and 11 days to the date of sale.
Note 2 – Excluding non-recurring administrative expenses principally relating to impairment and amortisation of intangible assets and share based payment charges

The first algorithm-based Sensitest, to assist in the diagnosis of Canine Lymphoma, was launched early in the financial year with strong support from key opinion leaders

Governance

Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 July 2015.

Principal activity

The principal activity of the Group is the research, development, production and delivery of instrumentation and services for the biopharmaceutical drug development and clinical diagnostics markets using biophysical technology.

Business review and future developments

A review of the Group's operations and future developments is covered in the Strategic Report on pages 6 to 9. This report includes sections on strategy and markets and considers key risks and key performance indicators.

Financial results

Details of the Group's financial results are set out in the Consolidated Income Statement and other components on pages 24 to 48.

The Directors have reviewed the results for the years ended 31 July 2015 and 31 July 2014, including the annual report and accounts, preliminary results statement and the report from the external auditor. In reviewing the statements and determining whether they were fair, balanced and understandable, the Directors considered the work and recommendations of management as well as the report from the external auditor.

Dividends

The Directors do not recommend the payment of a dividend.

Going concern

After making enquiries, the Directors have confidence that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Report and Accounts. This is described in more detail at Note 1.

Directors

The Directors who served on the Board and on Board Committees during the year are set out on pages 4 and 5. All of the Directors served throughout the year. Doctor Mike Owen was appointed on 17 September 2015.

Under the Articles of Association of the Company, two of the directors are required to retire at the forthcoming Annual General Meeting, notice of which accompanies this Report & Accounts. The Directors retiring by rotation at the forthcoming Annual General Meeting are Alan Aubrey and Trevor Nicholls. Each of these directors, being eligible, offers themselves for re-election. Mike Owen was appointed to the Board after the year but before the most recent Annual General Meeting and the Articles of Association require that he seek re-appointment. In relation to the re-elections of each of the Directors, the Board is satisfied that each of these Directors continues to be effective and to demonstrate commitment to the Company. Details of the Directors offering themselves for re-election or re-appointment at the forthcoming Annual General Meeting can be found on pages 4 and 5.

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Substantial shareholders

The Company is informed that, at 15 October 2015, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued Ordinary Share capital
IP2IPO Limited	1,394,139,177	20.7%
Aviva Investors	559,998,939	8.3%
Ruffer LLP	485,290,913	7.2%
Henderson Alphagen Volantis Fund	336,314,596	5.0%
Strathclyde Pension Fund	325,739,106	4.8%
NFU Mutual	243,000,000	3.6%
Avacta Employees Share Trust	232,727,808	3.5%
JO Hambro Capital Management	224,000,000	3.3%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 July 2015 and at 23 October 2015 was as follows:

	Number of shares	% of issued Ordinary Share capital
Non-executive Directors		
Trevor Nicholls	3,500,000	0.1%
Alan Aubrey	19,133,419	0.3%
Michael Albin	-	-
Mike Owen	-	-
Executive Directors		
Alastair Smith	53,728,296	0.8%
Craig Slater	641,025	-
Tim Sykes	10,285,384	0.2%

In addition, Alastair Smith has a joint interest in 114,414,973 shares, Craig Slater has a joint interest in 34,082,086 shares and Tim Sykes has a joint interest in 50,148,663 shares in the share capital of the Company. Such shares are jointly held by themselves individually and Avacta Group Trustee Limited in its capacity as trustee of The Avacta Employees' Share Trust. The precise nature of the joint interest is described within Joint Share Ownership Agreements dated 9 January 2012 for Alastair Smith and Tim Sykes and dated 21 February 2014 for Craig Slater and between those individuals and Avacta Group Trustee Limited and Avacta Group plc in all three cases.

None of the Directors had any interest in the share capital of any subsidiary company. Further details of options held by the Directors are set out in the Remuneration Committee Report on pages 14 to 17.

The middle market price of the Company's ordinary shares on 31 July 2015 was 1.43p and the range during the year was 0.63p to 1.43p with an average price of 0.88p.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee Report on pages 14 to 17.

Research and development

The Group expended £3,060,000 during the year (2014: £2,419,000) on research and development of which £3,060,000 (2014: £1,861,000) was capitalised within intangible assets and £Nil (2014: £Nil) was charged to the income statement. In addition, an amortisation charge of £58,000 (2014: £170,000) has been recognised against previously development capitalised costs.

Derivatives and financial instruments

The Group's policy and exposure to derivatives and financial instruments is set out at Note 19.

Employee involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

Post balance sheet event

On 3 August 2015, the Company raised £22.0 million through a placing of 1,760,000,000 ordinary shares of 0.1p each at a placing price of 1.25p per share.

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the year to 31 July 2015 and the amount owed to its trade creditors at 31 July 2015, was 43 days (2014: 63 days).

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Re-appointment of auditors

A resolution for the re-appointment as auditors of KPMG LLP and the fixing of their remuneration will be put to the forthcoming Annual General Meeting to be held on 25 January 2016.

By order of the Board

Tim Sykes
Company secretary
Avacta Group plc (Registered number - 4748597)

23 October 2015

Remuneration Committee Report

General policy

The remuneration of the executive directors is determined by the Remuneration Committee ("the Committee") in accordance with the remuneration policy set by the Board upon recommendation from the Committee. The Committee, which consists solely of the non-executive directors of the Company (whose biographical details are given on pages 4 and 5), determines the detailed terms of service of the executive directors, including basic salary, incentives and benefits and the terms upon which their service may be terminated. Non-executive directors have no personal financial interest in the Company, except the holding of shares, no potential conflict of interest arising from cross directorships and no day-today involvement in the running of the Company. Details of the Directors' individual and joint (where applicable) shareholdings are given on page 12.

Avacta's remuneration policy for executive directors is designed to attract, retain and motivate executives of the highest calibre to ensure the Group is managed successfully to the benefit of shareholders. The policy is to pay base salary at median levels with a performance related bonus each year. Share ownership is encouraged and all of the executive directors are interested in the share capital or share options over the share capital of the Company. In setting remuneration levels the Committee takes into consideration remuneration within the Group and the remuneration practices in other companies of a similar size in the markets and locations in which Avacta operates. Avacta is a dynamic, growing company which operates in a specialised field and positions are benchmarked against comparable roles in AIM companies. AIM is considered to be the most appropriate market against which to benchmark executive pay given the business strategy of Avacta.

Executive Directors – Short term incentives

Basic salary

Basic salary is based on a number of factors including market rates together with the individual director's experience, responsibilities and performance. Individual salaries of directors are subject to review annually on 1 November.

Performance related bonus

The Company operates an annual performance related bonus scheme for executive directors. The bonus scheme is discretionary dependent entirely upon the performance of the Group. Bonuses awarded for the performance of the Group for this financial year are set out below.

Benefits in kind

The Company does not provide any benefits in kind to its directors.

Pensions

The Company makes payments into defined contribution Personal Pension Plans ("the Plans") on behalf of the executive directors. These payments are at a rate of 5% of basic salary.

Executive Directors – Long term incentives

Share interests

The Committee considers that the long term motivation of the executive directors is secured by their interests in the share capital of the Company. The individual interests and joint interests (where applicable) of the Directors in the share capital of the Company are set out on page 12 and their interests in options held over shares in the Company are set out on page 16.

Executive Directors' service agreements

The Board's policy on setting notice periods for directors is that these should not exceed one year. All executive directors have service agreements terminable on six months' notice.

The details of the service contracts of the executive directors are shown below.

	Date of service contract	Initial term of contract	Notice period following initial term
Alastair Smith	9 January 2012	Nil	6 months
Craig Slater	20 December 2013	Nil	6 months
Tim Sykes	9 January 2012	Nil	6 months

Non-executive directors

The Board determines the fees paid to non-executive directors, the aggregate limit for which is laid down in the Articles of Association. The fees, which are reviewed annually, are set in line with prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. Non-executive directors are not involved in any discussion or decision about their own remuneration. The same applies to the Chairman of the Board whose remuneration is determined by the Board on the recommendation of the Committee.

The non-executive directors do not participate in any of the Company's pension schemes or bonus arrangements nor do they have service agreements. Alan Aubrey was appointed for an initial term of one year by letter of appointment dated 13 July 2006 and is entitled to three months' notice following that initial term. Trevor Nicholls was appointed on 2 August 2013 with no initial term and is entitled to one months' notice. Michael Albin was appointed on 5 February 2014 with no initial term and is entitled to one months' notice. Mike Owen was appointed on 17 September 2015 with no initial term and is entitled to one months' notice.

External appointments

The Committee recognises that its Directors may be invited to become executive or non-executive directors of other companies or to become involved in charitable or public service organisations. As the Committee believes that this can broaden the knowledge and experience of the Company's Directors to the benefit of the Group, it is the Company's policy to approve such appointments provided there is no conflict of interest and the commitment required is not excessive. The Director concerned can retain the fees relating to any such appointment.

Total remuneration

The remuneration of each of the Directors of the Company for the year ended 31 July 2015 is set out below. These values are included within the audited accounts.

	Basic salary £000	Fees £000	Pensions[5] £000	Share based payment charge £000	**Total 2015 £000**	Total 2014 £000
Non-executive Directors						
Trevor Nicholls	20	-	-	-	**20**	15
Alan Aubrey	15	-	-	-	**15**	15
Michael Albin[1]	-	54	-	-	**54**	25
Mike Owen[2]	-	-	-	-	**-**	-
Gwyn Humphreys[3]	8	-	-	-	**8**	17
Anthony Robards[4]	-	-	-	-	**-**	7
Executive Directors						
Alastair Smith	142	-	2	12	**156**	144
Craig Slater	127	-	6	72	**205**	54
Tim Sykes	70	-	2	12	**84**	66
	382	54	10	96	**542**	343

The above emoluments include all payments paid to the directors whilst directors of the Group.

1 – Michael Albin's fees are paid for his services as a director but also for his services as a consultant at a rate of £1,600 per day. The total fees for his services as a director were £15,000 and his total consultancy fees were £34,000.

2 – Mike Owen was appointed on 17 September 2015.

3 – Gwyn Humphreys resigned as a director on 23 January 2015.

4 – Anthony Robards resigned as a director on 24 January 2014.

5 – The number of directors accruing benefits under money purchase pension schemes was 3 (2014: 2).

Renumeration Committee Report continued

Details of Directors' interests in share options in the Executive Share Option Schemes

	At 31 July 2014	Granted	Waived	Exercised	At 31 July 2015	Exercise price pence	Market price at date of exercise pence	Date from which exercisable	Date of grant	Expiry date
Non-executive Directors										
Trevor Nicholls	-	-	-	-	-	-	-	-	-	-
Alan Aubrey	-	-	-	-	-	-	-	-	-	-
Michael Albin	-	-	-	-	-	-	-	-	-	-
Mike Owen	-	-	-	-	-	-	-	-	-	-
Executive Directors										
Alastair Smith[1]	14,117,646	-	-	-	14,117,646	0.50p	-	Note 2	09.01.12	09.01.22
Craig Slater[1]	20,000,000	-	-	-	20,000,000	1.18p	-	Note 2	21.02.14	22.12.23
Tim Sykes[1]	14,117,646	-	-	-	14,117,646	0.50p	-	Note 2	09.01.12	09.01.22

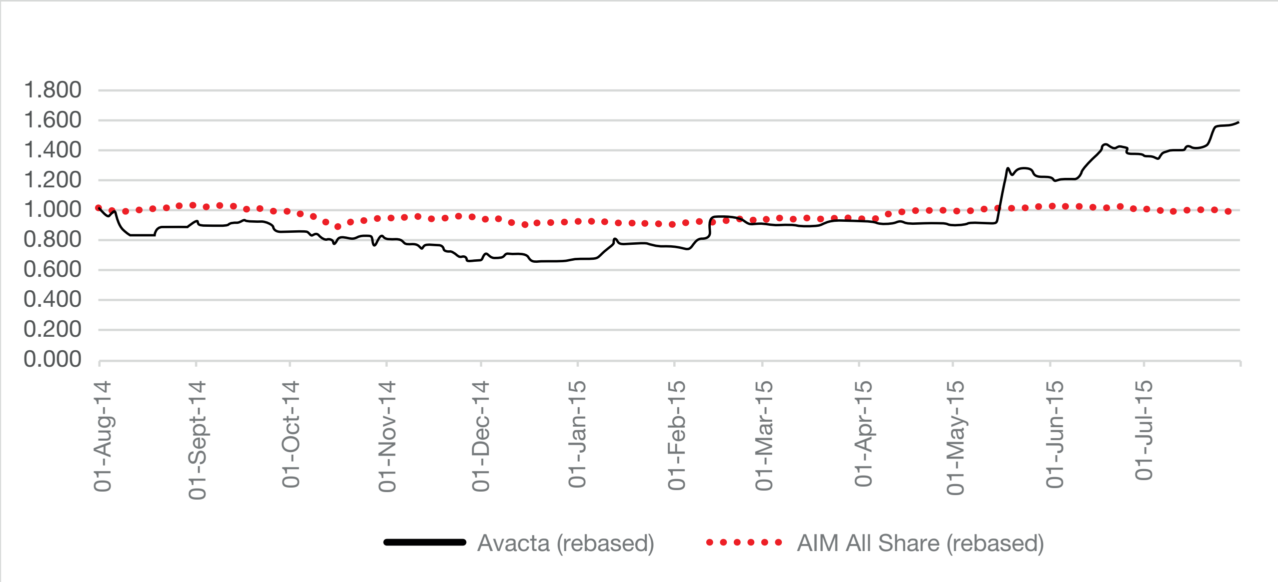
Note 1 – This option provides that, unless waived at the discretion of the remuneration committee of the board, it can, if it has not lapsed, be exercised as to one quarter after each anniversary of the date of grant up to and including the fourth anniversary of the date of grant.

The aggregate gain made by directors on the exercise of share options was £Nil (2014: £17,100).

In addition, Alastair Smith has a joint interest in 114,414,973 shares, Craig Slater has a joint interest in 34,082,086 shares and Tim Sykes has a joint interest in 50,148,663 shares in the share capital of the Company. Such shares are jointly held by themselves individually and Avacta Group Trustee Limited in its capacity as trustee of The Avacta Employees' Share Trust. The precise nature of the joint interest is described within Joint Share Ownership Agreements dated 9 January 2012 for Alastair Smith and Tim Sykes and dated 21 February 2014 for Craig Slater and between those individuals and Avacta Group Trustee Limited and Avacta Group plc in all three cases.

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE AIM (rebased) for the year ended 31 July 2015.



The Remuneration Committee has selected the above index because it is most relevant for the Company's size and sector.

This report was approved by the Board of Directors and authorised for issue on 23 October 2015 and was signed on its behalf by:

Dr Trevor Nicholls
Chairman of the Remuneration Committee

Corporate Governance

Code on Corporate Governance

Whilst the Company is listed on the AIM, it is not required to adopt the provisions of the Code on Corporate Governance ("the Combined Code"). The Board, however, is committed to the maintenance of high standards of corporate governance and after due consideration it has adopted many aspects of the Combined Code as described below.

The Board of Directors and Committees of the Board of Directors

The Board, which is headed by the Chairman who is non-executive, comprises three other non-executive and three executive members as at 23 October 2015. This ensures compliance with the Combined Code which states that a smaller company should have at least two independent directors. The Board met regularly throughout the year with ad hoc meetings also being held. The role of the Board is to provide leadership of the Company and to set strategic aims but within a framework of prudent and effective controls which enable risk to be managed. The Board has agreed the Schedule of Matters reserved for its decision which includes ensuring that the necessary financial and human resources are in place to meet its obligations to its shareholders and others. It also approves acquisitions and disposals of businesses, major capital expenditure, annual financial budgets and recommends interim and final dividends. It receives recommendations from the Audit Committee in relation to the appointment of auditors, their remuneration and the policy relating to non-audit services. The Board agrees the framework for executive directors' remuneration with the Remuneration Committee and determines fees paid to non-executive directors. Board papers are circulated before Board meetings in sufficient time to be meaningful.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined. The Chairman's primary responsibility is ensuring the effectiveness of the Board and setting its agenda. The Chairman has no involvement in the day to day business of the Group. The Chief Executive Officer has direct charge of the Group on a day to day basis and is accountable to the Board for the financial and operational performance of the Group.

The performance of the Board is evaluated on an ongoing basis informally with reference to all aspects of its operation including, but not limited to: the appropriateness of its skill level; the way its meetings are conducted and administered (including the content of those meetings); the effectiveness of the various Committees; whether Corporate Governance issues are handled in a satisfactory manner; and, whether there is a clear strategy and objectives.

A new director, on appointment, is briefed on the activities of the Company. Professional induction training is also given as appropriate. The Chairman briefs non-executive directors on issues arising at Board meetings if required and non-executive directors have access to the Chairman at any time. Ongoing training is provided as needed. Directors are continually updated on the Group's business and on insurance and on issues covering pensions, social, ethical, environmental and health and safety by means of Board presentations.

In the furtherance of his duties or in relation to acts carried out by the Board or the Company, each director has been informed that he is entitled to seek independent professional advice at the expense of the Company. The Company maintains appropriate cover under a Directors and Officers insurance policy in the event of legal action being taken against any director.

Each director is appraised through the normal appraisal process. The Chief Executive Officer is appraised by the Chairman, the executive Board members by the Chief Executive Officer and the non-executive Board members by the Chairman. Each director has access to the services of the Company Secretary if required.

The non-executive directors are considered by the Board to be independent of management and are free to exercise independence of judgement. They have never been employees of the Company nor do they participate in any of the Company's pension schemes or bonus arrangements. They receive no other remuneration from the Company other than the directors' fees.

It is recognised that the Combined Code does not treat the Chairman as independent after appointment and it is considered best practice that he should not sit on the Audit or Remuneration Committees. The Board, however, takes the view that as the number of non-executive directors is only four, including the Chairman, his participation will continue as the Committees gain the benefit of his external expertise and experience in areas which the Company considers important.

The table opposite shows the number of Board meetings and Audit Committee and the Remuneration Committee meetings held during the year and the attendance of each director.

	Board meetings		Committee meetings			
			Audit		Remuneration	
	Possible	Attended	Possible	Attended	Possible	Attended
Non-executive Directors						
Trevor Nicholls	10	10	1	1	1	1
Alan Aubrey	10	10	1	1	1	1
Michael Albin	10	10	1	1	-	-
Mike Owen	-	-	-	-	-	-
Gwyn Humphreys	5	4	1	1	1	1
Executive Directors						
Alastair Smith	10	10	-	-	-	-
Craig Slater	10	10	-	-	-	-
Tim Sykes	10	9	-	-	-	-

The Audit Committee

The Audit Committee ("the Committee") is established by and is responsible to the Board. It has written terms of reference. Its main responsibilities are:

- to monitor and be satisfied with the truth and fairness of the Company's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law and the Listing Rules of the Financial Services Authority
- to monitor and review the effectiveness of the Company's system of internal control
- to make recommendations to the Board in relation to the appointment of the external auditors and their remuneration, following appointment by the shareholders in general meeting, and to review and be satisfied with the auditor's independence, objectivity and effectiveness on an ongoing basis
- to implement the policy relating to any non-audit services performed by the external auditors.

Alan Aubrey is the Chairperson of the Committee. The other members of the Committee, Trevor Nicholls, Michael Albin and Mike Owen, all of whom are non-executive directors, have gained wide experience in regulatory and risk issues.

The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice as is deemed necessary by it.

Meetings of the Committee are held once per year (usually during October) to coincide with the review of the scope of the external audit and observations arising from their work in relation to internal control and to review the financial statements. The external auditors are invited to these meetings and meet with the Audit Committee at least once a year. At its meeting, it carries out a full review of the year-end financial statements and of the audit, using as a basis the Report to the Audit Committee prepared by the external auditors and taking into account any significant accounting policies, any changes to them and any significant estimates or judgements. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations.

The Committee receives reports from management on the effectiveness of the system of internal controls. It also receives from the external auditors a report of matters arising during the course of the audit which the auditors deem to be of significance for the Committee's attention. The statement on internal controls and the management of risk, which is included in the annual report, is approved by the Committee.

The 1998 Public Interest Disclosure Act ("the Act") aims to promote greater openness in the workplace and ensures "whistle blowers" are protected. The Company maintains a policy in accordance with the Act which allows employees to raise concerns on a confidential basis if they have reasonable grounds in believing that there is serious malpractice within the Company. The policy is designed to deal with concerns, which must be raised without malice and in good faith, in relation to specific issues which are in the public interest and which fall outside the scope of other Company policies and procedures. There is a specific complaints procedure laid down and action will be taken in those cases where the complaint is shown to be justified. The individual making the disclosure will be informed of what action is to be taken and a formal written record will be kept of each stage of the procedure.

The external auditors are required to give the Committee information about policies and processes for maintaining their independence and compliance regarding the rotation of audit partners and staff. The Committee considers all relationships between the external auditors and the Company to ensure that they do not compromise the auditors' judgement or independence particularly with the provision of non-audit services.

Corporate Governance continued

The Remuneration Committee

The Remuneration Committee is chaired by Trevor Nicholls and the other members of the Committee are Alan Aubrey, Michael Albin and Mike Owen, all of whom are non-executive directors. The Committee meets at least once a year with the Chief Executive Officer in attendance as appropriate. It has written terms of reference. The Committee agrees the framework for executive directors' remuneration with the Board.

Re-election

Directors are subject to re-election at the Annual General Meeting following their appointment. In addition, at each Annual General Meeting one third (or whole number less than one third) of the directors will retire by rotation.

Shareholder communications

The Chairman and the Chief Executive Officer regularly meet with institutional shareholders to foster a mutual understanding of objectives.

The directors encourage the participation of all shareholders, including private investors, at the Annual General Meeting and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting.

The Annual Report & Accounts is published on the Company's website, www.avacta.com, and can be accessed by shareholders.

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group highlights potential financial and non-financial risks which may impact on the business as part of the monthly management reporting procedures. The Board receives these monthly management reports and monitors the position at Board meetings.

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group. The processes have been in place from the date of Admission to AIM up to the date of approval of the Annual Report & Accounts and is consistent with the guidance for directors on internal control issued by the Turnbull Committee.

The Group's internal financial control and monitoring procedures include:

- clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- the control of key financial risks through appropriate authorisation levels and segregation of accounting duties;
- detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget;
- reporting on any non-compliance with internal financial controls and procedures; and
- review of reports issued by the external auditors.

The Audit Committee on behalf of the Board reviews reports from the external auditors together with management's response regarding proposed actions. In this manner they have reviewed the effectiveness of the system of internal controls for the period covered by the accounts.

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the members of Avacta Group plc

We have audited the financial statements of Avacta Group plc for the year ended 31 July 2015 set out on pages 24 to 55. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

John Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

23 October 2015

Financial Statements

Consolidated Income Statement for the year ended 31 July 2015

	Notes	2015 £000	2014 £000
Revenue		**1,813**	1,618
Cost of sales		**(526)**	(527)
Gross profit		**1,287**	1,091
Administrative expenses		**(6,854)**	(3,136)
Operating loss before non-recurring items, amortisation and share-based payment charges		**(2,853)**	(1,624)
Non-recurring administrative expenses	5	**-**	(232)
Amortisation of development costs		**(58)**	-
Impairment of intangible assets	9	**(2,407)**	-
Share-based payment charges	4	**(249)**	(189)
Operating loss	5	**(5,567)**	(2,045)
Finance income	6	**26**	24
Loss before taxation from continuing operations		**(5,541)**	(2,021)
Taxation	7	**648**	551
Loss after taxation from continuing operations		**(4,893)**	(1,470)
Loss from discontinued operations, net of tax	24	**(5,098)**	(22)
Loss		**(9,991)**	(1,492)
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Share based payment charges		**265**	209
Total comprehensive income		**(9,726)**	(1,283)
Loss per ordinary share:			
- Basic and diluted	8	**(0.20p)**	(0.04p)

The notes on pages 28 to 48 form an integral part of these financial statements.

Consolidated Balance Sheet as at 31 July 2015

	Notes	2015 £000	2014 £000
Non-current assets			
Intangible assets	9	**10,360**	16,289
Property, plant & equipment	10	**1,546**	1,401
		11,906	17,690
Current assets			
Inventories	11	**333**	469
Trade and other receivables	12	**767**	985
Income taxes		**1,066**	425
Cash and cash equivalents	13	**7,330**	11,480
		9,496	13,359
Total assets		**21,402**	31,049
Current liabilities			
Trade and other payables	14	**(1,407)**	(1,390)
Contingent consideration	15	**(395)**	(350)
		(1,802)	(1,740)
Non-current liabilities			
Contingent consideration	15	**(468)**	(472)
Deferred tax liabilities	16	**-**	-
		(468)	(472)
Total liabilities		**(2,270)**	(2,212)
Net assets		**19,132**	28,837
Equity attributable to equity holders of the Company			
Share capital	17	**5,057**	5,045
Share premium	18	**35,756**	35,747
Capital reserve	18	**2,669**	2,669
Other reserve	18	**(1,729)**	(1,729)
Reserve for own shares	18	**(1,590)**	(1,590)
Retained earnings	18	**(21,031)**	(11,305)
Total equity		**19,132**	28,837

The notes on pages 28 to 48 form an integral part of these financial statements.

The financial statements on pages 24 to 55 were approved by the Board of Directors on 23 October 2015 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tim Sykes
Chief Financial Officer

Consolidated Statement of Changes in Equity for the year ended 31 July 2015

	Share capital £000	Share premium £000	Other reserve £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 1 August 2013	3,234	22,990	(1,729)	2,669	(1,590)	(10,022)	15,552
Transactions with owners of the company recognised directly in equity							
Shares issued for cash	1,807	12,729	-	-	-	-	14,536
Shares issued as consideration for business combinations	4	28	-	-	-	-	32
Total comprehensive income for the period							
Result for the period	-	-	-	-	-	(1,492)	(1,492)
Share based payment charges	-	-	-	-	-	209	209
At 31 July 2014	5,045	35,747	(1,729)	2,669	(1,590)	(11,305)	28,837
Transactions with owners of the company recognised directly in equity							
Shares issued for cash	12	9	-	-	-	-	21
Total comprehensive income for the period							
Result for the period	-	-	-	-	-	(9,991)	(9,991)
Share based payment charges	-	-	-	-	-	265	265
At 31 July 2015	**5,057**	**35,756**	**(1,729)**	**2,669**	**(1,590)**	**(21,031)**	**19,132**

Details of the nature of each component of equity are given at Note 18.

Consolidated Statement of Cash Flows for the year ended 31 July 2015

FINANCIAL STATEMENT

	2015 £000	2014 £000
Cash flow from operating activities		
Loss for the year	**(9,991)**	(1,492)
Loss on disposal and impairment of goodwill on discontinued operations	**4,793**	-
Amortisation and impairment losses	**2,465**	171
Depreciation	**518**	356
Loss on disposal of property, plant and equipment	**33**	-
Equity settled share based payment charges	**265**	209
Financial income	**(26)**	(24)
Income tax credit	**(648)**	(551)
Operating cash outflow before changes in working capital	**(2,591)**	(1,331)
Increase in inventories	**(210)**	(89)
Decrease in trade and other receivables	**197**	-
Increase in trade and other payables	**56**	142
Operating cash outflow from operations	**(2,548)**	(1,278)
Finance income received	**26**	24
Income tax received	**7**	416
Cash flows from operating activities	**(2,515)**	(838)
Cash flows from investing activities		
Purchase of plant and equipment	**(806)**	(922)
Purchase of intangible fixed assets	**-**	(17)
Development expenditure capitalised	**(3,060)**	(1,861)
Disposal of discontinued operations	**2,210**	-
Net cash flow from investing activities	**(1,656)**	(2,800)
Cash flows from financing activities		
Proceeds from issue of shares	**21**	14,536
Net cash flow from financing activities	**21**	14,536
Net (decrease)/increase in cash and cash equivalents	**(4,150)**	10,898
Cash and cash equivalents at the beginning of the year	**11,480**	582
Cash and cash equivalents at the end of the year	**7,330**	11,480

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Avacta Group plc (the 'Company') is a company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 July 2015 comprise the Company and its subsidiaries (together referred to as the 'Group').

The following paragraphs summarise the significant accounting policies of the Group, which have been applied consistently in dealing with items which are considered material in relation to the Group's consolidated financial statements.

Basis of preparation

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The Company has elected to prepare its parent company financial statements in accordance with UK accounting standards and applicable law ('UKGAAP'). These parent company financial statements appear after the notes to the consolidated financial statements.

The financial statements have been prepared on a going concern basis. The current economic conditions create uncertainty particularly over the level of demand for the Group's products and over the availability of finance which the directors are mindful of. In addition, the Group has incurred significant losses over the last few years of which a substantial element is in cash.

The Financial Reporting Council issued "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" in 2009, and the Directors have considered this when preparing these financial statements. These have been prepared on a going concern basis, notwithstanding the loss for the period ended 31 July 2015. The Directors have taken steps to ensure that they believe the going concern basis of preparation remains appropriate, and that the carrying value of intangibles remains supported by future cash flows. The key conclusions are summarised below.

- The Group is at a critical point in its development as it seeks to launch the Affimer suite of products and services. These are expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows.
- The Group has, in the past, taken a significant amount of annualised costs out of the business and will continue to take all appropriate steps to manage its cost base in light of any deviations from the forecast sales levels.
- The Group raised £22.0 million (gross of issue costs) through a placing of its shares on 3 August 2015.
- The Directors have prepared sensitised cash flow forecasts extending to the end of the financial year ended 31 July 2018. These show that the Group has sufficient funds available to meet its obligations as they fall due over that period.
- The Directors are not aware of any evidence to suggest that the budgeted improvement in the level of performance over the short term future will not be realised although the Directors recognise that it is possible that a worsening of performance could become evident, at which point they would act accordingly to mitigate the impact of such a worsening. The action may include cost reduction strategies, curtailed capital expenditure programs or equity issues.
- The Group does not have external borrowings or any covenants based on financial performance.
- The Directors have considered the position of the individual trading companies in the group to ensure that these companies are also in a position to continue to meet their obligations as they fall due.
- The markets in which the business operates are not considered to be at significant risk due to the ongoing global economic recession.
- There are not believed to be any contingent liabilities which could result in a significant impact on the business if they were to crystallise.

Following this assessment, the Directors have reasonable expectation that the Group has adequate resources to continue for the foreseeable future and that carrying values of intangible assets are supported. Thus, they continue to adopt the going concern basis of accounting in preparing these financial statements.

The financial statements have been prepared under the historical cost convention except for derivative financial instruments that are stated at fair value.

The accounting polices set out below have been applied consistently throughout the Group and to all periods presented for the purposes of these consolidated financial statements.

The consolidated financial statements are presented in sterling, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in the next year are discussed at Note 21.

New standards and interpretations not applied
The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date to be confirmed).
- IFRS 15 Revenue from Contract with Customers (effective date to be confirmed). The Group has commenced an assessment of the impact likely from adopting the standard, but is not yet in a position to state whether the impact will be material to the Group's reported results or financial position.
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date to be confirmed).
- Annual Improvements to IFRSs – 2010-2012 Cycle (effective date to be confirmed).
- Annual Improvements to IFRSs – 2011-2013 Cycle (effective date to be confirmed).
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date to be confirmed).

No new standards becoming effective and applied in the current year have had a material impact on the financial statements.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting periods.

The following principal accounting policies have been applied consistently to all periods presented in the Group financial statements.

Basis of consolidation
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where the acquisition is treated as a business combination, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

Property, plant and equipment
Property, plant and equipment are held at cost less accumulated depreciation and impairment charges.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value, which is based on up to date prices, of property, plant and equipment over their estimated useful lives as follows:

Laboratory equipment	– 5 to 10 years
Fixtures and fittings	– 3 to 10 years
Leasehold improvements	– 10 years

Intangible assets – Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Intangible assets – Research and development
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, the Group can demonstrate all of the following:

- that completion of the intangible asset so that it will be available for use or sale is technically feasible;
- that it intends to complete the intangible asset and use or sell it;
- that it has the ability to use or sell the intangible asset;
- that it can demonstrate how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

Notes to the Consolidated Financial Statements continued

- that there is an availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- that it can measure reliably the expenditure attributable to the intangible asset during its development.

The Group normally interprets that these parameters are met at the date that an appropriate prototype has been produced and that the Group has demonstrated its commitment to completion by reference to some internal or external event. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Development expenditure is amortised based on the number of units sold and from the date of first sale of each unit over the initial product lifecycle of the unit which the Directors estimate to be 5 years.

Acquired intangible assets – Business combinations
Intangible assets that are acquired as a result of a business combination are recognised separately from goodwill when their fair value can be reliably measured.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, impairment losses are recognised within the consolidated income statement. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable.

Impairment
The carrying amount of the Group's non-financial assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit ('CGU') exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Where individual assets are not capable of generating cash flows independently from other assets, they are grouped together into CGUs.

Financial instruments
In accordance with IAS32 'Financial instruments: presentation', financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Inventories
Inventories are stated at the lower of cost and net realisable value.

Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of manufacture of inventories and work in progress includes related production overheads based on normal operating activity and is calculated using the FIFO method. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Financial assets
The Group classifies its financial assets into one of the following categories:

Loans and receivables: These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade receivables) or amounts held on deposit with third party institutions (cash and cash equivalents).

Trade and other receivables: Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents: These comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Financial liabilities
Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost. Such liabilities are classified as other liabilities in accordance with IAS39 for compliance with IFRS7.

Segmental reporting
The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is the Group's chief operating decision maker ("CODM"). This accounting policy is in accordance with IFRS 8 "Operating Segments".

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

IFRS 8 requires consideration of the CODM within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, which reviews internal monthly management reports, budget and forecast information as part of this. Accordingly the Board of Directors is deemed to be the CODM.

Revenue recognition
The Group derives revenue from the sale of products, granting of licences and the provision of services. Revenue represents the fair value of consideration received or receivable in respect of products, licences or services supplied to third parties in the period, excluding sales related taxes and trade discounts. Revenue is recognised on sale of products when the significant risks and rewards of ownership of the products are transferred to the customer, this is usually when products are delivered and title passes to the customer. Revenue from the provision of services is recognised on services when the service has been performed. Revenue from licenses comprises exclusivity arrangements, technology access fees and similar arrangements, milestone income and royalties. The accounting policies for the licensing revenue stream are as follows: (i) Exclusivity arrangements, technology access fees and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction; (ii) Non-refundable milestone income is recognised as revenue in the accounting period in which the milestones are achieved. If any milestone income is creditable against royalty payments then it is deferred and released to the Income Statement over the accounting periods in which the royalties would otherwise be receivable; and (iii) Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.

Share based payments
The fair value of awards to employees or other parties that take the form of shares or rights to shares is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Non-recurring items
Non-recurring items are material items in the Income Statement which derive from events or transactions which fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate the Group has highlighted as needing to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. They are recognised within operating profit.

Leases
Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Rentals payable under operating lease rentals are charged to the income statement on a straight line basis over the term of the lease.

Leases where the Group retains substantially all of the risks and rewards of ownership are classified as finance leases or hire purchase agreements. Assets held under finance leases or hire purchase agreements are capitalised and depreciated over the shorter of their useful economic lives or the length of the lease. The capital element of the future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the income statement over the periods of the finance leases and hire purchase agreements and represent a constant proportion of the balance of capital outstanding.

Notes to the Consolidated Financial Statements continued

Post retirement benefits
The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable based on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years.

Deferred tax is provided using the balance sheet liability method providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except when they arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that is not a business combination and that affects neither accounting nor taxable profits. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which an asset can be utilised.

2 Segment reporting

Operating segments
In the view of the Board of Directors, the Group has two distinct reportable segments; Life Sciences and Animal Health, and segment reporting has been presented on this basis. The Directors recognise that the operations of the Group are dynamic and therefore this position will be monitored as the Group develops. During the year, the Analytical segment was disposed of and therefore the Analytical segment is not reported for the year ended 31 July 2015.

The principal activities of each reportable segment are as follows:

Animal Health: provision of tools and contract services to assist diagnosis of conditions in animals to enable faster treatment for veterinarians.

Life Sciences: provision of reagents and arrays for diagnostics, drug and biomarker discovery in biotech research and development.

Segment revenue represents revenue from external customers arising from sale of goods and services, plus inter-segment revenues. Inter-segment transactions are priced on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Substantially all of the Group's revenue originates from the UK. The Group's revenue to destinations outside the UK amounted to 44% (2014: 67%) of total revenue.

FINANCIAL STATEMENT

Operating segment analysis 2015	Animal Health £000	Life Sciences £000	**Total £000**
Sale of goods	706	-	**706**
Provision of services	668	82	**750**
Licence related income	-	357	**357**
Revenue	**1,374**	**439**	**1,813**
Cost of sales	(452)	(74)	**(526)**
Gross profit	**922**	**365**	**1,287**
Depreciation	(64)	(363)	**(427)**
Other operating expenses	(1,019)	(1,040)	**(2,059)**
Operating loss before amortisation and share-based payment charges	**(161)**	**(1,038)**	**(1,199)**
Amortisation of development costs	-	(57)	**(57)**
Share-based payment charges	(41)	(119)	**(160)**
Segment operating loss	**(202)**	**(1,214)**	**(1,416)**
Corporate and other unallocated items			**(1,744)**
Impairment of patents and development costs			**(2,407)**
Operating loss			**(5,567)**
Finance income			**26**
Finance expenses			**-**
Loss before taxation from continuing operations			**(5,541)**
Taxation			**648**
Discontinued operations[1]			**(5,098)**
Amount attributable to equity holders of the Company			**(9,991)**

Operating segment analysis 2015	Animal Health £000	Life Sciences £000	**Total £000**
Segment tangible assets	3,843	6,484	**10,327**
Segment other assets	307	2,371	**2,678**
Segment assets	**4,150**	**8,855**	**13,005**
Corporate and other unallocated items			**8,397**
Total assets			**21,402**
Segment liabilities	(992)	(1,001)	**(1,993)**
Corporate and other unallocated items			**(277)**
Total liabilities			**(2,270)**

Note 1 – The Group's Analytical operating segment was disposed of on 11 February 2015 at which point selected assets and liabilities were sold. The financial performance of this operating segment and the impact of the disposal is set out at Note 24.

Notes to the Consolidated Financial Statements continued

Operating segment analysis 2014	Animal Health £000	Life Sciences £000	**Total £000**
Sale of goods	896	-	**896**
Provision of services	692	30	**722**
Revenue	**1,588**	**30**	**1,618**
Cost of sales	(516)	(11)	**(527)**
Gross profit	**1,072**	**19**	**1,091**
Depreciation	(56)	(191)	**(247)**
Other operating expenses	(1,081)	(292)	**(1,373)**
Operating loss before amortisation and share-based payment charges	**(65)**	**(464)**	(529)
Non-recurring administrative expenses	(179)	-	**(179)**
Share-based payment charges	(40)	(106)	**(146)**
Segment operating profit	**(284)**	**(570)**	(854)
Corporate and other unallocated items			**(1,191)**
Operating loss from continuing operations			(2,045)
Finance income			**24**
Finance expenses			**-**
Loss before taxation			(2,021)
Taxation			**551**
Discontinued operations[1]			**(22)**
Amount attributable to equity holders of the Company			**(1,492)**

Operating segment analysis 2014	Animal Health £000	Life Sciences £000	**Total £000**
Segment intangible assets	5,805	3,876	**9,681**
Segment tangible assets	595	2,065	**2,660**
Segment assets	**6,400**	**5,941**	12,341
Corporate and other unallocated items			**11,126**
Discontinued operations[1]			**7,582**
Total assets			**31,049**
Segment liabilities	**(1,037)**	**(755)**	(1,792)
Corporate and other unallocated items			**(248)**
Discontinued operations[1]			**(172)**
Total liabilities			**(2,212)**

Note 1 – The Group's Analytical operating segment was disposed of on 11 February 2015 at which point selected assets and liabilities were sold. The financial performance of this operating segment and the impact of the disposal is set out at Note 24.

FINANCIAL STATEMENT

3 Employees

	2015 £000	2014 £000
Staff costs		
- Wages and salaries	**3,068**	2,351
- Social security costs	**309**	229
- Pension charges	**98**	46
- Share-based payment charges	**265**	209
	3,740	2,835
Average number of employees (including directors) during the year		
- Commercial and operational	**72**	60
- Administrative	**11**	11
	83	71

4 Share based payments

The Group operates an Inland Revenue approved executive incentive plan ("EMI scheme") and an unapproved share option plan ("Unapproved scheme"). Options have also been granted to certain individuals dependent upon the performance of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited), to replace existing options in respect of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc) and dependent upon the future sales performance of any products or services resulting from certain acquired intellectual property and assets related to the development of the Group's animal health diagnostic test menu. Details of the options currently granted and unexercised are given below.

Grant date	Employees entitled	Number of options	Vesting conditions	Exercise price (p)	Earliest exercise date	Expiry date
Options granted as employee (or consultant) benefits						
8 August 2006	1	7,218,273	Time served	2.250	Note 1	7 August 2016
23 June 2009	3	6,666,667	Time served	1.875	Note 2	22 June 2019
12 November 2010	1	3,591,433	Time served and share price performance	0.760	Note 3	11 November 2014
12 November 2010	1	1,600,000	Time served	0.760	Note 4	11 November 2020
9 January 2012	2	28,235,292	Time served	0.500	Note 5	9 January 2022
12 January 2012	1	2,068,966	Contractual performance	0.725	12 January 2012	12 January 2022
21 December 2012	22	2,100,000	Unconditional	1.065	21 December 2012	21 December 2022
8 March 2013	1	1,226,994	Time served	1.200	Note 6	8 March 2023
16 September 2013	1	25,000,000	Time served	0.815	Note 7	16 September 2023
4 November 2013	6	15,000,000	Time served	0.885	Note 8	4 November 2023
4 November 2013	24	1,850,000	Unconditional	0.885	4 November 2013	4 November 2023
16 June 2014	1	20,000,000	Time served	1.180	Note 9	16 June 2024
16 June 2014	1	11,160,714	Time served and commercial performance	1.180	Note 10	16 June 2024
21 September 2014	1	1,800,000	Time served	0.860	Note 11	21 September 2024
3 November 2014	1	1,800,000	Time served	0.750	Note 12	3 November 2024
4 November 2014	2	5,000,000	Time served	0.885	Note 13	4 November 2024
10 November 2014	1	2,500,000	Time served	0.730	Note 14	10 November 2024
25 November 2014	38	3,050,000	Unconditional	0.660	25 November 2014	25 November 2024
15 May 2015	1	13,836,675	Time served	0.855	Note 15	15 May 2025
Options granted to individuals combining employee benefits and as consideration for business combinations						
3 March 2009	3	1,600,306	Time served	4.14	Note 16	2 March 2019
Options granted to individuals in consideration for business combinations						
14 December 2007	1	2,767,517	Note 17	3.19	14 December 2007	13 December 2017
14 December 2007	5	27,485,377	Note 18	0.10	14 December 2007	13 December 2017
14 May 2013	3	33,333,333	Note 19	0.10	14 May 2013	14 May 2018
8 December 2014	2	142,408	Note 20	0.10	8 December 2014	7 December 2015
28 July 2015	2	403,206	Note 20	0.10	28 July 2015	27 July 2016

Notes to the Consolidated Financial Statements continued

Note 1 Each of the options provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 7,218,273 at 31 July 2015.

Note 2 Each of these options provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 6,666,667 at 31 July 2015.

Note 3 Each of these options provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to one half if the share price of the Company increases to 1.6p for a continuous period of three calendar months and as to one half if the share price of the Company increases to 2.0p for a continuous period of three calendar months, each within a period of three years from the date of grant.

Note 4 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 1,600,000 at 31 July 2015.

Note 5 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 21,176,466 at 31 July 2015 and as to 7,058,826 on or after 9 January 2016.

Note 6 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 1,226,994 at 31 July 2015.

Note 7 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 10,000,000 at 31 July 2015 and 15,000,000 on or after 16 September 2015.

Note 8 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 9,000,000 as at 31 July 2015 and 13,500,000 on or after 4 November 2015.

Note 9 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 5,000,000 as at 31 July 2015, as to 5,000,000 on or after 21 February 2016, as to 5,000,000 on or after 21 February 2017 and as to 5,000,000 on or after 21 February 2018.

Note 10 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 2,232,142 as at 31 July 2015, as to 2,232,142 on or after 16 June 2016 and as to 6,696,430 upon certain commercial milestones being met before 16 June 2016.

Note 11 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 800,000 on or after 21 September 2015 and 1,000,000 on or after 21 September 2016.

Note 12 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 800,000 on or after 3 November 2015 and 1,000,000 on or after 3 November 2016.

Note 13 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 2,000,000 on or after 4 November 2015 and 3,000,000 on or after 4 November 2016.

Note 14 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 1,000,000 on or after 10 November 2015 and 1,500,000 on or after 10 November 2016.

Note 15 This option provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 4,612,225 on or after 15 May 2016, as to 4,612,225 on or after 15 May 2017 and as to 4,612,225 on or after 15 May 2018.

Note 16 Each of these options provides that, unless waived at the discretion of the remuneration committee of the board, they can, if they have not lapsed, be exercised as to 1,600,306 as at 31 July 2015. These options were granted as replacement options to certain individuals that had held options over the ordinary shares of Curidium Medica Limited (formerly Curidium Medica plc) at the date that the Company acquired Curidium Medica Limited. As such, the calculated value of those options that had vested at the date of the acquisition have been capitalised under IFRS3 and the value of those options that have vested during the period since the acquisition date was charged to the income statement under IFRS2.

Note 17 These options were granted to an individual at the date of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) to reflect the estimated value of the equity issued at that date and the fair value of those options has been capitalised under IFRS3.

Note 18 Each of these options provides that, unless waived at the discretion of the Remuneration Committee of the Board, they can, if they have not lapsed, be exercised subject to the achievement of certain milestones set by the Company within the Share Purchase Agreement dated 14 December 2007.

Note 19 These options were granted to certain individuals at the date of the acquisition of certain assets related to the development of the Group's animal health diagnostic test menu to reflect the estimated value of those assets at that date and the fair value of those options has been capitalised under IFRS3.

Note 20 These options were granted to certain individuals as a result of the post-acquisition sales performance of animal health diagnostic tests developed from intellectual property acquired, the fair value of which was estimated at the date of the acquisition and capitalised under IFRS3.

The number and weighted average exercise price of share options are as follows:

	Year ended 31 July 2015		Year ended 31 July 2014	
	Options	**Weighted average exercise price (p)**	Options	Weighted average exercise price (p)
At start of period	**200,404,872**	**0.78**	135,541,215	0.62
Granted during the year	**29,832,289**	**0.80**	91,015,259	0.95
Exercised during the year	**(4,500,000)**	**0.85**	(14,338,233)	0.52
Forfeited or lapsed during the year	**(6,300,000)**	**0.88**	(11,813,369)	0.60
Outstanding at end of period	**219,437,161**	**0.77**	200,404,872	0.78
Exercisable at end of period	**142,618,088**	**0.71**	103,035,077	0.64

These options are share based payments and are measured at fair value at the date of grant. Where the options have been granted as employee benefits the fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Where the options have been granted to employees or individuals as consideration for business combinations the fair value determined at the grant date of equity-settled share-based payments is recognised within intangible assets as a cost of investment. Where the options have been granted to replace existing options in respect of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc), the vested proportion of the options is included within intangible assets as a cost of investment and the unvested proportion has been expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

In addition, certain employees have a joint interest in shares with Avacta Group Trustee Limited as trustee of The Avacta Employees' Share Trust. At 31 July 2015, three employees (2014: three) had joint interests in 198,645,722 (2014: 198,645,722) ordinary shares in the Company. The precise nature of the joint interest is described within Joint Share Ownership Agreements between each employee individually, Avacta Group Trustee Limited and Avacta Group plc. These joint interests have been treated as employee benefits and the fair value at the date of issue of the shares based on the Group's estimate of the number of shares that will eventually be sold and the price at which they will be sold on a straight line basis from the date that a sale becomes probable to the date at which they are anticipated to be sold.

Fair value is measured by use of the Black-Scholes or Monte Carlo option pricing model depending on which is most appropriate to the conditions attached to the employee benefit.

The Group recognised a charge to the income statement of £265,000 (2014: £209,000) of which £249,000 (2014: £209,000) was charged within administrative expenses.

The options outstanding at 31 July 2015 had a weighted average exercise price of 0.77p (2014: 0.78p), and a weighted average remaining contractual life of 6 years and 4 weeks (2014: 6 years and 38 weeks).

The inputs into the Black-Scholes models for the options granted during the year are as follows:

	2015	2014
Weighted average share price at date of grant	**0.80p**	0.95p
Weighted average exercise price	**0.80p**	0.95p
Expected volatility	**95.5%**	95.5%
Expected life	**4.5 years**	5.0 years
Risk free rate	**1.0%**	1.0%
Expected dividends	**Nil**	Nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over a period commensurate with the expected life of the option. The expected life used in the model has been adjusted, based on management's best estimate at the date of grant, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the Consolidated Financial Statements continued

5 Operating loss

	2015 £000	2014 £000
Operating loss is stated after charging		
Operating lease rentals:		
- Land and buildings	**131**	150
Auditor's remuneration:		
- Audit services in respect of the Company's financial statements	**15**	10
- Audit services in respect of the Company's subsidiaries' financial statements	**15**	15
- Tax services	**6**	6
Depreciation of property, plant and equipment:		
- On owned assets	**567**	356
Share-based payment charges	**249**	209
Non-recurring administrative expenses[1]	**-**	232

	2015 £000	2014 £000
Note 1		
Restructuring costs	**-**	46
Non-recurring administrative overhead	**-**	186
	-	232

Non-recurring administrative expenses in 2014 related to employment costs and the termination costs thereof incurred in the restructuring process that were not expected to recur during the financial period ending 31 July 2015.

6 Finance income

	2015 £000	2014 £000
Bank interest	**26**	24

7 Taxation on loss on ordinary activities

	2015 £000	2014 £000
Corporation tax		
Current year	**(500)**	(425)
Prior years	**(148)**	(126)
Deferred taxation		
Current year	**-**	-
Tax on loss on ordinary activities	**(648)**	(551)

Factors affecting the tax charge for the current period
The current tax credit for the year is lower (2014: higher) than the standard rate of corporation tax in the UK of 20.7% (2014: 22.3%). The differences are explained below.

	2015 £000	2014 £000
Loss on ordinary activities before taxation	**(5,541)**	(2,021)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 20.7% (2014: 22.3%)	**(1,142)**	(409)
Effects of		
- Difference between capital allowances and depreciation	**105**	71
- Expenses not deductible for tax purposes	**90**	76
- Utilisation of tax losses	**(178)**	-
- Other timing differences (including tax losses not recognised)	**1,125**	262
- Government tax incentives	**(648)**	(551)
- Deferred tax (Note 16)	**-**	-
	(648)	(551)

8 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit or loss for the period and the weighted average number of equity voting shares in issue. The earnings per ordinary share are the same as the diluted earnings per ordinary share because the effect of potentially issuable shares is anti-dilutive.

	2015	2014
Loss (£000)	**(9,991)**	(1,492)
Underlying loss[1] (£000)	**(2,968)**	(1,470)
Weighted average number of shares (number '000)	**4,972,982**	4,181,527
Basic and diluted loss per ordinary share (pence)	**(0.20p)**	(0.04p)
Underlying basic and diluted loss per ordinary share[1] (pence)	**(0.06p)**	(0.04p)

Note 1 – Excluding discontinued operations and impairment charges..

9 Intangible fixed assets

	Goodwill £000	Customer related intangible assets £000	Development costs £000	Patents £000	Total £000
Cost					
At 1 August 2013	9,596	210	5,179	36	15,021
Additions	-	-	-	17	17
Internally developed	-	-	1,861	-	1,861
At 31 July 2014	9,596	210	7,040	53	16,899
Transfers from property, plant and equipment (see note 10)	-	-	54	-	54
Internally developed	-	-	3,060	-	3,060
Disposals	(4,941)	-	(2,032)	-	(6,973)
At 31 July 2015	**4,655**	**210**	**8,122**	**53**	**13,040**
Amortisation and impairment					
At 1 August 2013	-	210	219	9	438
Charge for the year	-	-	170	2	172
At 31 July 2014	-	210	389	11	610
Impairment	-	-	2,381	26	2,407
Charge for the year	-	-	57	1	58
Disposals	-	-	(395)	-	(395)
At 31 July 2015	**-**	**210**	**2,432**	**38**	**2,680**
Net book value					
At 31 July 2015	**4,655**	**-**	**5,690**	**15**	**10,360**
At 31 July 2014	9,596	-	6,651	42	16,289
At 31 July 2013	9,596	-	4,960	27	14,583

Development costs

Development costs relate to the internally generated intangible asset associated with the development of:

- the Affimer affinity reagent based technologies;
- the companion animal diagnostic testing capability.

Development costs are amortised on a unit of production basis from the date of first sale over the initial product lifecycle of the instrument and related consumables which the Directors estimate to be 5 years.

Notes to the Consolidated Financial Statements continued

9 Intangible fixed assets continued

Patents
The amortisation period applied to the patent expenditure is the same period as the length of the life of the patent, being either 14 or 15 years, of which 11 remain.

Goodwill
Goodwill arising on business combinations is allocated to the Group's separate Cash Generating Units (CGUs) based on an assessment of which CGUs will derive benefit from each acquisition. A CGU is the smallest group of assets which generate cash inflows independently from other assets. A CGU can be smaller than an Operating Segment. In the view of the Directors, the Group currently has two (2014: three) CGUs reflecting the core areas of technological focus. Goodwill is not amortised, but tested annually for impairment. The goodwill can be allocated, on an operating segment (see Note 2) basis, as follows:

	2015 £000	2014 £000
Analytical	**-**	4,941
Animal Health	**3,117**	3,117
Life Sciences	**1,538**	1,538
Goodwill	**4,655**	9,596

Impairment review
An impairment review of the Group's intangible and tangible non-current assets was conducted at 31 July 2015. The tangible and intangible non-current assets at 31 July 2015 can be allocated as follows:

	Tangible £000	Goodwill £000	Development costs £000	Patents £000	**Total £000**
Analytical	-	-	-	-	**-**
Animal Health	60	3,117	706	-	**3,883**
Life Sciences	1,376	1,538	4,984	15	**7,913**
	1,436	4,655	5,690	15	**11,796**

In each case the recoverable amount of each CGU is compared against the carrying value of assets allocated to each CGU. The recoverable amount is estimated based on value in use calculations. Centrally held assets are considered against the aggregate value in use of the whole Group.

Value in use calculations include detailed budgets and three year forecasts, followed by modelling of expected cash flows reflecting the expected life cycle of each product and extrapolation of "steady state" performance at growth rates given below. The long term growth rates reflect the long term expectation for each CGU and have been estimated at 2.5% (2014: 2.5%) in each case. Gross and operating margins have been assumed to remain constant based on budget and past experience. All cash flows are discounted back to present value using a pre-tax discount rate of between 12.5% and 15.0% (2014: between 12.5% and 15.0%) that takes into account the individual risks of each particular asset and revenue stream.

The Directors' key assumptions relate to short term revenue growth and discount rates applied. Gross and operating margins have been assumed to remain constant and are based on budget.

For the Animal Health segment, value in use exceeds the carrying amount of goodwill by £4.2m and the carrying amount of the total non-current assets of the segment by £3.4m. The recoverable amount is not sensitive to reasonably possible changes in the short term sales growth profile or in the discount rate.

For the Life Sciences segment, value in use exceeds the carrying amount of goodwill by £83.4m and the carrying amount of total non-current assets of the segment by £77.1m. The recoverable amount is not sensitive to reasonably possible changes in the short term sales growth profile or in the discount rate.

Amortisation
The amortisation charge of £58,000 is recognised in the line item denoted by "Administrative expenses" in the Consolidated Income Statement.

FINANCIAL STATEMENT

10 Property, plant and equipment

	Assets in the course of construction £000	Leasehold improvements £000	Laboratory equipment £000	Office fixtures & fittings £000	Total £000
Cost					
At 1 August 2013	-	-	1,178	272	1,450
Transfers	22	117	-	(139)	-
Additions	49	91	759	23	922
Disposals	-	-	-	(2)	(2)
At 31 July 2014	71	208	1,937	154	2,370
Transfers to intangible fixed assets (see note 9)	(54)	-	-	-	(54)
Additions	-	-	793	44	837
Disposals	(17)	-	(382)	(22)	(421)
At 31 July 2015	**-**	**208**	**2,348**	**176**	**2,732**
Depreciation					
At 1 August 2013	**-**	**-**	**509**	**106**	**615**
Transfers	-	33	-	(33)	-
Charge for the year	-	34	287	35	356
Disposals	-	-	-	(2)	(2)
At 31 July 2014	-	67	796	106	969
Charge for the year	-	46	434	38	518
Disposals	-	-	(284)	(17)	(301)
At 31 July 2015	**-**	**113**	**946**	**127**	**1,186**
Net book value					
At 31 July 2015	**-**	**95**	**1,402**	**49**	**1,546**
At 31 July 2014	71	141	1,141	48	1,401
At 1 August 2013	-	-	669	166	835

11 Inventories

	2015 £000	2014 £000
Raw materials and components (net of impairment of £Nil, 2014: £158,000)	**324**	387
Finished goods (net of impairment of £Nil, 2014: £249,000)	**9**	82
	333	469

The movement on the Group's provisions against inventories are as follows:

	2015 £000	2014 £000
At the start of the year	**407**	**365**
Utilised	**(407)**	**-**
Charge to the income statement	**-**	**42**
At the end of the year	**-**	**407**

Notes to the Consolidated Financial Statements continued

12 Trade and other receivables

	2015 £000	2014 £000
Trade receivables	**213**	472
Prepayments and accrued income	**432**	355
Other taxes and social security	**122**	158
	767	985

Trade and other receivables denominated in currencies other than sterling comprise £Nil (2014: £47,000) of trade receivables denominated in Euros. The fair values of trade receivables are the same as their book values.

The Group does not maintain a provision for impairment against trade receivables. Trade receivables that are past due are considered individually for impairment. The Group uses a monthly ageing profile as an indicator of impairment. The summarised ageing analysis of trade receivables past due but not impaired is as follows:

	2015 £000	2014 £000
Under 30 days overdue	**52**	7
Between 30 and 60 days overdue	**4**	1
Over 90 days overdue	**(13)**	(6)
	43	2

The other classes within trade and other receivables do not contain impaired assets.

13 Cash and cash equivalents

	2015 £000	2014 £000
Cash	**7,330**	11,480

14 Trade and other payables

	2015 £000	2014 £000
Trade payables	**664**	975
Other taxes and social security	**125**	102
Accruals and other creditors	**618**	313
	1,407	1,390

Trade and other payables denominated in currencies other than sterling comprise £95,000 (2014: £87,000) of trade payables denominated in US dollars and £22,000 (2014: £15,000) denominated in Euros. The fair values of trade payables are the same as their book values.

15 Contingent consideration

	2015 £000	2014 £000
Contingent consideration	**863**	822
Maturity of debt		
- Payable on demand or within one year	**395**	350
- Payable between one and two years	**25**	31
- Payable after more than two years	**443**	441
	863	822

Contingent consideration amounting to £822,000 arose on the acquisition of certain assets relating to the development of the animal health diagnostic test menu on 14 May 2013 and the amount payable is related to revenues generated over the five year period ended 14 May 2018.

Contingent consideration amounting to £41,000 arose on the acquisition of Avacta Life Sciences Limited (formerly Aptuscan Limited) on 9 January 2012 and the amount payable is related to revenues generated during the year ended 31 July 2015.

16 Deferred tax liabilities

Deferred tax liabilities are attributable as set out below and are disclosed as non-current liabilities in the balance sheet:

	2015 £000	2014 £000
Deferred tax asset/(liability)		
Development costs	**(1,138)**	(1,330)
Trading losses	**785**	1,158
Other items	**353**	172
	-	-

Movement in deferred tax for the year ended 31 July 2015

	At 1 August 2014 £000	Income statement £000	At 31 July 2015 £000
Development costs	(1,330)	192	**(1,138)**
Trading losses	1,158	(373)	**785**
Other items	172	181	**353**
	-	-	**-**

There is no liability to corporation tax in the year. There is an unprovided deferred tax asset of approximately £3,274,000 due to trading losses in prior financial years (2014: £2,194,000). This asset has not been recognised because of uncertainty around future utilisation of losses.

FINANCIAL STATEMENT

Notes to the Consolidated Financial Statements continued

17 Share capital

	2015 £000	2014 £000
Allotted, called up and fully paid:		
- 4,979,649,550 (2014: 4,967,649,550) Ordinary shares of 0.1p each	**4,980**	4,968
- 19,327,344 Deferred shares of 0.4p each	**77**	77
	5,057	5,045

On 5 January 2015, 7,500,000 Ordinary shares of 0.1p each were allotted and issued at a price of 0.25p per share further to a exercising of options, at the discretion of the Board, by former employees of the Company.

On various dates through the financial year, 4,500,000 Ordinary shares of 0.1p each were allotted and issued at a weighted average price of 0.16p per share further to exercising of options by employees or former employees of the Company.

Warrants

On 11 April 2006, the Company issued warrants to subscribe for 52,500,000 Ordinary shares of the Company. The warrants are exercisable in whole or in part at the discretion of the warrant holders at any time during the seven years following the date of their grant. On 5 January 2015, the Board exercised its discretion and allowed a warrantholder to exercise their warrant over 7,500,000 shares leaving 1,500,000 (2014: 9,000,000) unexercised. These warrants lapsed on 11 April 2013 and, accordingly, are, subject to Board discretion, no longer exercisable.

On 4 March 2009, as part of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc), the Company issued replacement warrants to three companies to subscribe for up to 12,566,642 Ordinary shares of the Company (0.25% of the issued Ordinary share capital of the Company). The first warrant over 483,328 Ordinary shares at 5.43p per share is unconditional, the second warrant over up to 2,416,657 Ordinary shares at 5.17p per share is also unconditional and the third warrant over 9,666,657 Ordinary shares has a variable price per share of either 0.1p, 7.89p or 11.84p dependent upon future events relating to the forward performance and commercial relationship between Curidium Limited (a subsidiary of Curidium Medica Limited) and the beneficiary of the warrant. None of these warrants have been exercised as at 31 July 2015.

Respective rights of Ordinary and Deferred shares

The rights of the Ordinary shareholders are dealt with in the Articles of Association of the Company which is available from the Company's registered office at Unit 651, Street 5, Thorp Arch Estate, Wetherby, LS23 7FZ or from its website, www.avacta.com. The holders of the Deferred shares shall not, by virtue or in respect of their holdings of Deferred shares, have the right to receive notice of any General Meeting, nor the right to attend, speak or vote at any such General Meeting. Save as required by law, the Company need not issue share certificates to the holders of the Deferred shares in respect of their holding thereof. The Deferred shares shall not entitle their holders to receive any dividend or other distribution. The Deferred shares shall on a return of assets in a winding up entitle the holders only to the repayment of the amounts so paid up on such Deferred shares after repayment of the capital paid up on the Ordinary shares plus the payment of £10,000,000 per Ordinary share. The Company shall have irrevocable authority at any time to appoint any person to execute on behalf of the holders of the Deferred shares a transfer thereof and/or an agreement to transfer the same to such person as the Company determines as custodian thereof, without making any payment to the holders thereof, and/or to cancel the same (in accordance with the provisions of the Companies Acts) without making any payment to or obtaining the sanction of the holders thereof, and pending such transfer and/or cancellation, to retain the certificate for such shares. The Company may, at its option at any time purchase all or any of the Deferred shares then in issue, at a price not exceeding 1 pence for each holding of Deferred shares so purchased.

18 Capital and reserves

Share premium
The share premium account of £35,756,000 (2014: £35,747,000) arose from the issue of shares at a premium to their nominal value less certain allowable cost of issue. The reserve is not distributable.

Capital reserve
The capital reserve of £2,669,000 (2014: £2,669,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisitions of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) and Curidium Medica Limited (formerly Curidium Medica plc). The reserve represents the value of Ordinary shares of 0.1p to be issued as part of the contingent consideration subject to the achievement of certain milestone objectives in the case of Avacta Health Limited (£1,899,000) and it represents the fair value of vested options and warrants in the Company granted as replacement options and warrants to those existing in Curidium Medica Limited immediately prior to the acquisition (£770,000). This reserve is not distributable.

Other reserve
The other reserve of negative £1,729,000 (2014: negative £1,729,000) arose from the application of reverse acquisition accounting principles to the financial statements at the time of the reverse takeover of Avacta Group plc by Avacta Limited. This reserve is not distributable.

Reserve for own shares
The reserve for own shares held arose as a result of 232,707,808 Ordinary shares of 0.1p each being subscribed for jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable.

Retained earnings
Retained earnings arise from the cumulative profits or losses of the Group and include the charge and associated credits in respect of cumulative share-based payment charges (where appropriate).

19 Capital and financial risk management

Capital management
The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group develops such that it trades profitably in the foreseeable future. The Group recognises that, because it is an early stage development Group with limited current revenues and significant continued investment that does not support debt within its capital structure, its capital structure is largely limited to equity based capital which the Group uses to finance most of its acquisition strategy.

The Group has two forms of debt, credit card debt and finance leases. Credit card debt is used to finance incidental expenditure, is short term and settled in the month following the incurring of the related expenditure. Finance leases are long term and used where finance can be found for significant items of capital expenditure, against which the debt is secured. The Group does not have long-term gearing ratio targets.

Whilst the Group uses debt in the forms described above, this debt is immaterial to the Group's capital structure and its capital management strategy. The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates. It does not impact the dividend policy of the Group as the current strategy to invest capital in the business. The Group has not made any changes to its capital management during the year.

The Group considers its capital to include share capital, share premium, capital reserve, retained earnings and other reserves. The Group does not have any externally imposed capital requirements.

Financial risk management
The financial risks faced by the Group comprise credit risk, interest rate risk and currency risk. This note presents information about the Group's exposure to each of these risks and the Group's objectives and processes for managing this risk. Further disclosures are included throughout these consolidated financial statements.

Financial instruments policy
Treasury and financial risk policies are set by the Board and have remained unchanged from the previous period. All instruments utilised by the Group are for financing purposes. The day-to-day financial management and treasury function is controlled centrally for all operations. During the year, the Group had no derivative transactions.

Notes to the Consolidated Financial Statements continued

19 Capital and financial risk management continued

Financial assets and liabilities

The Group's financial instruments comprise cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations. An analysis of the financial assets and liabilities recognised on the balance sheet, each of which is at amortised cost is set out below.

	2015 £000	2014 £000
Financial assets		
Trade receivables	**213**	472
Cash	**7,330**	11,480
	7,543	11,952

	2015 £000	2014 £000
Financial liabilities		
Trade payables	**664**	975
Contingent consideration	**863**	822
	1,527	1,797

	2015 £000	2014 £000
Maturity profile of financial liabilities		
In one year or on demand	**1,059**	1,325
Between one and five years	**468**	472
	1,527	1,797

The financial liabilities due for repayment within one year relate to trade payables and other short-term liabilities.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

The Group continues to manage the cash position in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus cash funds are deposited with commercial banks that meet credit criteria approved by the Board, for periods between one week and six months.

Interest rate and currency profile

At 31 July 2015 and throughout the year, the Group maintained Sterling cash at bank and short term deposits. The current book value of interest bearing assets and liabilities is as follows:

	2015 £000	2014 £000
Financial assets		
Cash at bank (floating interest rate)	7,330	11,480

Cash at bank attracted interest at floating rates, which were between Nil% and 0.5% at 31 July 2015 (2014: Nil% and 0.5%).

Fair value of financial instruments

At 31 July 2015 the difference between the book value and the fair value of the Group's financial assets and liabilities was £Nil (2014: £Nil).

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 July 2015.

20 Pensions

The Group operates a defined contribution pension scheme for its employees. The pension cost charge for the year represents contributions payable by the Group to the scheme and other personal pension plans and amounted to £98,000 (2014: £46,000). There were outstanding contributions at 31 July 2015 of £16,000 (2014: £12,000).

21 Accounting estimates and judgements

The Directors discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out at Note 1.

The Directors consider that the key judgements and sources of estimation made in preparation of the financial statements are:

Going concern
After making enquiries, the Directors have confidence that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Report and Accounts. This is described in more detail at Note 1.

Intangible assets
The carrying value of intangible assets has been tested for impairment. Tests have been undertaken using commercial judgements and a number of assumptions and estimates have been made in order to estimate the assets' value in use in order to test the carrying amounts as described within Note 9. No impairment was recorded, but reasonably possible changes in inputs to the value in use calculations could have led to a different conclusion being drawn.

Further judgements have been taken to capitalise development costs in respect of specific products and services that it is intended will be introduced to the Group's markets in the future and to allocate the surplus of fair value paid by the Group as consideration over the fair value of the net assets acquired. In capitalising development costs, the Directors have identified only the direct costs associated with the people and the bought-in tools and services required to develop those specific products and services.

Share based payments
The Group has equity settled share based remuneration schemes for employees. The fair value of share options is estimated by using the Black-Scholes valuation model, on the date of grant based on certain assumptions. These assumptions include, among others, expected volatility, expected life of the options and the number of options expected to vest.

Revenue recognition
Fees invoiced in respect of non-refundable upfront fees have been recognised as revenue in the period when all criteria for revenue recognition have been met.

Deferred tax recognition
The Directors consider it probable that the Group will become profitable in the future and, accordingly, a deferred tax asset has been recognised. It is possible that this deferred tax asset is not realised.

22 Related party transactions

Intra Group transactions
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have, therefore, not been disclosed.

Remuneration of key management personnel
The Group considers the directors to be its key management personnel. Full details of their compensation are set out in the Remuneration Committee Report on pages 14 to 17.

Notes to the Consolidated Financial Statements continued

23 Commitments

(a) Capital commitments
At 31 July 2015, the Group had £Nil capital commitments (2014: £Nil).

(b) Operating lease commitments
The Group maintains non-cancellable operating lease commitments on three properties and a licence over a fourth property.

	Land and buildings	
	2015 £000	2014 £000
Non-cancellable operating lease rentals are payable as follows:		
- Less than one year	**130**	147
- Between one and five years	**45**	131
	175	278

24 Discontinued operations

On 11 February 2015, the Group sold its entire Analytical business unit. The Group was previously committed to a plan to sell the division due to a change in strategic direction. Upon sale for $3.5 million in cash (£2.21 million equivalent), a pre-tax gain of £148,000 was recorded. The attributable tax was £Nil due to losses brought forward being utilised, leaving a gain after tax of £148,000.

	2015 £000	2014 £000
Results of discontinued operations		
Revenue	**175**	1,562
Expenses	**(480)**	(1,584)
Profit before tax	**(305)**	(22)
Tax on profit	**-**	-
Gain recognised on disposal	**148**	-
Impairment of goodwill	**(4,941)**	-
Tax on gain on disposal	**-**	-
Loss for the year	**(5,098)**	(22)
Cash flows from (used in) discontinued operations		
Net cash used in operating activities	**(305)**	148
Net cash used in investing activities	**(4)**	(29)
Net cash used in discontinued operations	**(309)**	(119)
Effect of the disposal on individual assets and liabilities		
Intangible assets	**-**	6,608
Property, plant and equipment	**-**	124
Inventories	**-**	254
Trade and other receivables	**-**	540
Trade and other payables	**-**	(172)
Net identifiable assets and liabilities	**-**	7,354
Consideration received, satisfied in cash	**2,210**	-

Company Balance Sheet as at 31 July 2015

Registered number 4748597

	Note	2015 £000	2014 £000
Fixed assets			
Tangible fixed assets	25	**165**	166
Investments	26	**5,624**	11,047
		5,789	11,213
Current assets			
Debtors	27	**12,621**	19,690
Cash at bank and in hand		**6,935**	10,850
		19,556	30,540
Creditors : amounts falling due within one year	28	**(2,551)**	(2,496)
Net current assets		**17,005**	28,044
Total assets less current liabilities		**22,794**	39,257
Creditors : amounts falling due after more than one year	29	**(161)**	(472)
Net assets		**22,633**	38,785
Capital and reserves			
Called up share capital	30	**5,057**	5,045
Share premium account	31	**36,162**	36,153
Capital reserve	31	**2,669**	2,669
Reserve for own shares	31	**(1,590)**	(1,590)
Retained earnings	31	**(19,665)**	(3,492)
Shareholders' funds		**22,633**	38,785

The notes on pages 51 to 55 form an integral part of these financial statements.

The balance sheet above was approved by the Board of Directors and authorised for issue on 23 October 2015 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tim Sykes
Chief Financial Officer

FINANCIAL STATEMENT

Reconcilliation of Movements in Shareholders' Funds

Reconciliation of movements in shareholders' funds

	2015 £000	2014 £000
(Loss)/profit attributable to ordinary shareholders	**(16,263)**	635
Other recognised gains:		
Share-based payment charges	**90**	43
Shares issued during the year	**21**	14,537
Shares issued in respect of business combinations during the year	**-**	32
Adjustment	**-**	(218)
	(16,152)	15,029
Opening shareholders' funds	**38,785**	23,756
Closing shareholders' funds	**22,633**	38,785

Notes to the Company Balance Sheet

Basis of preparation
As used in the financial statements and related notes, the term 'Company' refers to Avacta Group plc. The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles ('UKGAAP').

These financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

A separate profit and loss account dealing with the results of the Company only has not been presented, as permitted by Section 408 of the Companies Act 2006.

Under FRS1, the Company is exempt from the requirement to present its own cash flow statement.

The Company has taken advantage of the exemption in FRS8 and not disclosed transactions with other members of its group.

Tangible fixed assets
Tangible fixed assets are held at cost less accumulated depreciation and impairment charges.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value, which is based on up to date prices, of property, plant and equipment over their estimated useful lives as follows:

Fixtures and fittings	– 3 to 10 years
Leasehold improvements	– 10 years

Investments
Fixed asset investments are stated at cost less provision for impairment where appropriate. The Directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged to the profit and loss account in the year.

Taxation
The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not yet reversed by the balance sheet date, except where otherwise required by FRS19.

Share-based payments
The Company has adopted FRS20 and the accounting policies followed are, in all material regards, the same as the Group's policy under IFRS2 'Share-based payment'. The policy is shown in the Group accounting policies at Note 1.

Notes to the Company Balance Sheet continued

25 Tangible fixed assets

	Leasehold improvements £000	Office fixtures & fittings £000	**Total £000**
Cost			
At 31 July 2014	208	96	**304**
Additions	-	67	**67**
At 31 July 2015	208	163	**371**
Depreciation			
At 31 July 2014	67	71	**138**
Additions	-	3	**3**
Charge for the year	46	19	**65**
At 31 July 2015	113	93	**206**
Net book value			
At 31 July 2015	95	70	**165**
At 31 July 2014	141	25	**166**

26 Investments

	£000
Cost	
At 1 August 2014	14,955
Additions	41
Adjustment to contingent consideration	(308)
At 31 July 2015	**14,688**
Provision	
At 1 August 2014	3,908
Charge for the year	5,156
At 31 July 2015	**9,064**
Net book value	
At 31 July 2015	**5,624**
At 31 July 2014	11,047

The companies in which Avacta Group plc's interest is more than 20% at 31 July 2015 are as follows:

	Principal activity	Class and percentage of and reserves	Holding
Subsidiary undertakings			
Avacta Limited	Technology development	Ordinary 100%	Direct
Avacta Analytical Limited	Contract services	Ordinary 100%	Indirect
Avacta Analytical Inc	Dormant	Ordinary 100%	Indirect
Oriental Fine Foods Limited	Dormant	Ordinary 100%	Direct
Avacta Health Limited	Technology development	Ordinary 100%	Direct
		Preference Nil%	N/A
TheraGenetics Limited	Dormant	Ordinary 100%	Direct
TheraGenetics Inc	Dormant	Ordinary 100%	Indirect
Crossco (1127) Limited	Intermediate holding company	Ordinary 100%	Direct
Avacta Animal Health Limited	Contract services	Ordinary 100%	Indirect
Avacta Animal Health Inc	Contract services	Ordinary 100%	Indirect
Curidium Medica Limited	Intermediate holding company	Ordinary 100%	Direct
Curidium Limited	Dormant	Ordinary 100%	Indirect
Reactivlab Limited	Technology development	Ordinary 100%	Direct
Avacta Life Sciences Limited	Technology development	Ordinary 100%	Direct
Avacta Life Sciences Inc	Dormant	Ordinary 100%	Indirect
Avacta Nottingham Asset Limited	Non-trading	Ordinary 100%	Indirect
Promexus Limited	Non-trading	Ordinary 100%	Indirect
Avacta Group Trustee Limited	Dormant	Ordinary 100%	Direct

Avacta Analytical Limited is a subsidiary of Avacta Limited. TheraGenetics Inc is a subsidiary of TheraGenetics Limited. Avacta Animal Health Limited is a subsidiary of Crossco (1127) Limited. Curidium Limited is a subsidiary of Curidium Medica Limited. Avacta Nottigham Asset Limited is a subsidiary of Avacta Animal Health Limited. Promexus Limited is a subsidiary of Avacta Life Sciences Limited.

All of the companies were incorporated in England and Wales except Avacta Animal Health Inc, Avacta Analytical Inc, Avacta Life Sciences Inc and TheraGenetics Inc which were incorporated in the United States and Reactivlab Limited which was incorporated in Scotland.

27 Debtors

	2015 £000	2014 £000
Other taxes and social security	**28**	26
Prepayments and accrued income	**116**	83
Amounts owed by subsidiary undertakings	**12,477**	19,581
	12,621	19,690

28 Creditors: amounts falling due within one year

	2015 £000	2014 £000
Trade creditors	**136**	115
Other taxes and social security	**23**	20
Amounts owed to subsidiary undertakings	**1,898**	1,898
Accruals and deferred income	**99**	113
Contingent consideration	**395**	350
	2,551	2,496

Notes to the Company Balance Sheet continued

29 Creditors: amounts falling due after more than one year

	2015 £000	2014 £000
Contingent consideration	**161**	472

	2015 £000	2014 £000
Maturity of debt:		
- Payable between one and two years	**25**	30
- Payable after more than two years	**136**	442
	161	472

30 Share capital

	2015 £000	2014 £000
Allotted, called up and fully paid		
- 4,979,649,550 (2014: 4,967,649,550) Ordinary shares of 0.1p each	**4,980**	4,968
- 19,327,344 Deferred shares of 0.4p each	**77**	77
	5,057	5,045

On 5 January 2015, 7,500,000 Ordinary shares of 0.1p each were allotted and issued at a price of 0.25p per share further to a exercising of options, at the discretion of the Board, by former employees of the Company.

On various dates through the financial year, 4,500,000 Ordinary shares of 0.1p each were allotted and issued at a weighted average price of 0.16p per share further to exercising of options by employees or former employees of the Company.

Warrants
On 11 April 2006, the Company issued warrants to subscribe for 52,500,000 Ordinary shares of the Company. The warrants are exercisable in whole or in part at the discretion of the warrant holders at any time during the seven years following the date of their grant. On 5 January 2015, the Board exercised its discretion and allowed a warrantholder to exercise their warrant over 7,500,000 shares leaving 1,500,000 (2014: 9,000,000) unexercised. These warrants lapsed on 11 April 2013 and, accordingly, are, subject to Board discretion, no longer exercisable.

On 4 March 2009, as part of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc), the Company issued replacement warrants to three companies to subscribe for up to 12,566,642 Ordinary shares of the Company (0.25% of the issued Ordinary share capital of the Company). The first warrant over 483,328 Ordinary shares at 5.43p per share is unconditional, the second warrant over up to 2,416,657 Ordinary shares at 5.17p per share is also unconditional and the third warrant over 9,666,657 Ordinary shares has a variable price per share of either 0.1p, 7.89p or 11.84p dependent upon future events relating to the forward performance and commercial relationship between Curidium Limited (a subsidiary of Curidium Medica Limited) and the beneficiary of the warrant. None of these warrants have been exercised as at 31 July 2014.

Respective rights of Ordinary and Deferred shares
The rights of the Ordinary shareholders are dealt with in the Articles of Association of the Company which is available from the Company's registered office at Unit 651, Street 5, Thorp Arch Estate, Wetherby, LS23 7FZ or from its website, www.avacta.com. The rights of the holders of the Deferred shares is set out at Note 17.

31 Reserves

	Share premium £000	Capital reserve £000	Reserve for own shares £000	Profit and loss account £000
At 1 August 2014	36,153	2,669	(1,590)	(3,492)
Shares issued during the period	9	-	-	-
Profit for the financial period	-	-	-	(16,263)
Share-based payment charge	-	-	-	90
At 31 July 2015	**36,162**	**2,669**	**(1,590)**	**(19,665)**

32 Commitments

(a) Capital commitments

At 31 July 2015, the Company had £Nil capital commitments (2014: £Nil).

(b) Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 July 2015 was £Nil (2014: £Nil).

(c) Operating lease commitments

The Company's annual commitment for operating lease payments is as follows:

	Land and buildings	
	2015 £000	2014 £000
In respect of leases expiring:		
- In less than one year	**82**	-
- Between one and two years	**64**	82
- Between two and five years	**-**	64

Secretary and Advisers

Secretary and Registered Office
Tim Sykes
Avacta Group plc
Unit 651
Street 5
Thorp Arch Estate
Wetherby
LS23 7FZ

Stockbroker and Nominated adviser
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

Solicitors
Walker Morris
Kings Court
12 King Street
Leeds
LS1 2HL

Auditor
KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Registrars
Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Avacta Group plc
Unit 651, Street 5
Thorp Arch Estate
Wetherby LS23 7FZ

t: +44 (0) 844 414 0452
f: +44 (0) 844 414 0453
avacta.com