



Shaping the
future of
medicine

2019 Report
& Accounts



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Highlights 2018 and 2019

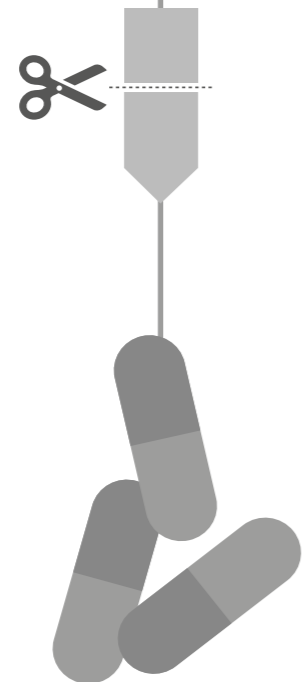
Research collaboration and licensing agreement for chemistry developed at Tufts University Medical School has created the **pre|CISION chemotherapy platform** which is a new class of chemotherapies that are only activated in the tumour thereby improving the safety and tolerability of these effective anti-cancer drugs.



An additional pipeline of more than ten pre|CISION chemotherapies has been established with the most advanced of these, a pre|CISION **proteasome inhibitor**, approximately twelve months from IND filing.



Completed IND-enabling studies for first pre|CISION chemotherapy candidate – **AVA6000 pro-doxorubicin**. The Group is aiming to begin a Phase I dose escalation clinical trial in 2020 to show that the cardiotoxicity of this \$1 billion global annual revenue generic drug is significantly reduced, potentially creating a proprietary, blockbuster chemotherapy for advanced soft tissue sarcoma, as well as other cancers, and validating the pre|CISION technology in humans.



Avacta's **long-term strategy** to build a pipeline of novel and differentiated cancer treatments is to combine pre|CISION chemotherapies with Affimer immunotherapies in TMACs to improve the outcomes for patients who do not respond to existing immunotherapies alone.



Collaboration agreement with **ADC Therapeutics SA** (Lausanne, CH) to develop Affimer-drug conjugates combining Affimer technology with ADC Therapeutics' PBD warhead and linker technologies. Under the terms of the agreement, ADC Therapeutics will cover all Avacta's research costs during the collaboration and Avacta will also receive certain fees, development and commercialisation milestones, as well as a royalty on sales of successfully developed products.



Major therapeutics development partnership and licensing agreement with **LG Chem Life Sciences (LG Chem)**. Potentially generating revenues for Avacta of up to \$310 million, plus future royalties on product sales, the agreement included an upfront payment of \$2.5 million, pre-clinical milestone payments of up to \$5.5 million plus payment of Avacta's full research costs to generate Affimer molecules for the treatment of a range of diseases. Excellent progress with initial target during 2019 has led to LG Chem nominating the second and third targets for development.



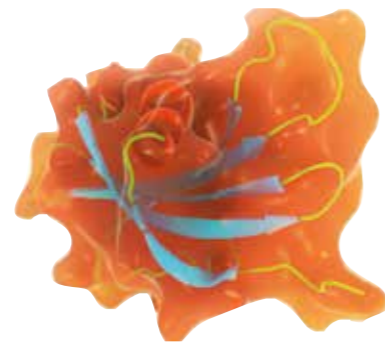
Critical milestone of selecting the **first Affimer clinical candidate** for first-in-human trials for the Affimer platform has been achieved. Initial GMP manufacturing steps for the AVA004-251 PD-L1 blocker clinical candidate have been successfully completed, confirming a high production yield from a routine manufacturing process.

A proprietary pipeline of Affimer diagnostic assays aimed at **accelerating licensing deals** has been established, with the first two, a D-dimer and an estradiol assay, having been completed.



Appointment of **David Wilson**, a diagnostics industry veteran with over 25 years of experience, as Commercial Director for Affimer Diagnostics.

Affimer Diagnostics



Excellent range of ongoing **paid-for technology evaluations** and Affimer services projects with high-quality, global commercial partners across significant *in vitro* diagnostic, pharma, biotech and bioprocessing companies with potential for licensing deals.

Commercial licence agreed with New England Biolabs® (NEB®), a global leader in the discovery and production of enzymes for molecular biology applications. This agreement is to commercialise a product using the Affimer technology for use in both life science research and diagnostics assays.

Strong growth in revenue reported at £0.8 million for Affimer diagnostics reagents business.



Fundraising completed in November 2019 raising gross proceeds of **£9.0 million** in order to progress the AVA6000 programme into clinical trials.



Initial up-front milestone payment of **\$2.5 million** received from LG Chem Life Sciences.

Revenues of **£5.5 million** for 17-month period to 31 December 2019. (12-month period to 31 July 2018: £2.8million)

Cash balances at 31 December 2019: **£8.8 million** (31 July 2018: £5.2 million)

Financial highlights

Loss per ordinary share: **13.0 pence.** (2018: 13.5 pence)

Increased R&D investment driven by strong progress in therapeutic programmes leading to reported loss of **£15.6 million.** (2018: £8.8 million)

Operating loss of **£18.0 million** for 17-month period to 31 December 2019. (12-month period to 31 July 2018: £10.4 million)

Following a post-period end £5.75 million fundraising the business remains well capitalised with a £10.5 million net cash position as at 30 April 2020.

Collaboration with Cytiva (formerly GE Healthcare Life Sciences) to develop and manufacture a rapid test for the **COVID-19 coronavirus** antigen for mass population screening.

Post-period highlights



Paul Fry appointed as Non-executive Director. Paul is Chief Financial Officer of Vectura Group plc, an industry-leading inhaled drug delivery specialist listed on the FTSE Main Market.

Established a **joint venture in South Korea** with Daewoong Pharmaceutical Co. Ltd., (KRX: 069620), a leading Korean pharmaceutical company, to develop the next generation of cell and gene therapies incorporating Affimer proteins to enhance the immune-modulatory effects. All of Avacta's research and development costs will be paid for by the joint venture.

Collaboration with Adeprix to develop a high throughput Affimer-based antigen test to diagnose **COVID-19 infection**, to be used on hospitals' existing installed base of mass spectrometers.

Affimer Technology

An Affimer molecule is a small protein that is capable of binding to and capturing a target molecule (such as another protein, a peptide or a small molecule) in the same way that an antibody does.

This ability to capture or bind a target molecule can then be used to detect or quantify it in a diagnostic test or research assay, or to enrich or purify it from a complex mixture, for example. If the target is involved in a disease pathway and the binding by the Affimer molecule activates, alters or blocks its function, then there is potential for the Affimer molecule to provide therapeutic benefit as a drug.

Antibodies are proteins that have evolved as part of the immune system to bind to a target *in vivo*. Over several decades this property of antibodies has been harnessed to develop thousands of reagents for laboratory assays and diagnostic tests, and one third of all drugs in development are now antibodies. This enormous success of antibodies is despite some significant limitations. These limitations are that:

- antibodies are often not specific to the target and cross-react with other targets causing uncertainty in the results that are obtained or drug side-effects;
- antibodies are large proteins with complex structures, including special internal bonds and external chemical modifications that are required for correct function, making many of them challenging and costly to manufacture and resulting in batch-to-batch variability;
- antibodies are often generated by immunising an animal and purifying the antibodies from the animal's blood, which means that the time required to develop a new, high-quality antibody can be many months and that the type of target to which an antibody can be raised is limited to those that are not toxic and cause an immune response; many important and commercially valuable targets do not fit these criteria;
- the large size of antibodies is a disadvantage in some applications in which, for example, tissue penetration is important or a high density on a sensor surface is required; and

- many applications require the antibody to be modified to carry a payload or signalling tag and their large size and complex structure makes these modifications more challenging.

In contrast, the small size and simple structure of Affimer molecules means that they are easy to manufacture with simple, low-cost processes that are reliable in their batch-to-batch consistency. Their simplicity also means that modifying an Affimer molecule for a particular application is easily carried out with simple biochemistry.

New Affimer molecules are generated by screening through a pre-existing large library of approximately ten billion Affimer molecules to identify those that bind to the target of interest. This utilises an industry standard *in vitro* process which does not use animals and therefore it is quick, taking a matter of weeks, and circumvents limitations arising from the need for an immune response in an animal. This screening process can also be finely controlled to maximise the specificity and optimise other properties of the Affimer molecules that are pulled out of the library for a particular application.

Affimer molecules are ten times smaller than antibodies and very stable, being resistant to extremes of pH and temperature, which makes them better suited to some applications where harsh conditions are experienced or where their small size leads to better sample penetration or a higher density of binding sites on a surface. Their small size and the ease with which they can be modified means that the amount of time a therapeutic Affimer molecule stays in the bloodstream can be tailored to suit different therapeutics regimes.

Despite the limitations outlined above, antibodies have become the dominant technology in markets worth in excess of \$100 billion annually. Therefore, the opportunity for an alternative such as the Affimer technology is very large with the potential to generate near-term revenue from minimally regulated, low-risk life sciences research tools and diagnostics applications, as well as potentially generating much higher rewards from therapeutics but with associated greater development risk.

Affimer®

Two Affimer scaffolds, based on similar protein conformations, have been developed. The first is of human origin, based on the naturally-occurring human protease inhibitor Stefin A, and is ideal for therapeutic applications. The second is based on a consensus sequence of Cystatin A from a number of plant species and is ideal for use in reagents and diagnostics.

Engineered specificity

A large binding surface obtained through two 9 amino acid loops enables Affimer proteins to bind with high affinity and exquisite selectivity. *In vitro* phage display selection allows for a tailored screening approach to discriminate between closely-related targets.



Rapid development

Selection and characterisation of new custom Affimer binders typically takes just ten to twelve weeks using optimised and standardised processes.

Flexible functionalisation

Affimer molecules can be easily modified by genetic or chemical means allowing maximum flexibility to suit many assay formats, including several therapeutics options such as multispecific molecules.

Ease of manufacturing

Affimer binders can be expressed cost-effectively in very high yields in a simple bacterial expression system. This guarantees a consistent, high quality supply.

Small size

At 12-14 kDa, Affimer molecules are around ten times smaller than antibodies – giving several performance advantages, such as allowing better tissue penetration and increased packing density on surfaces.

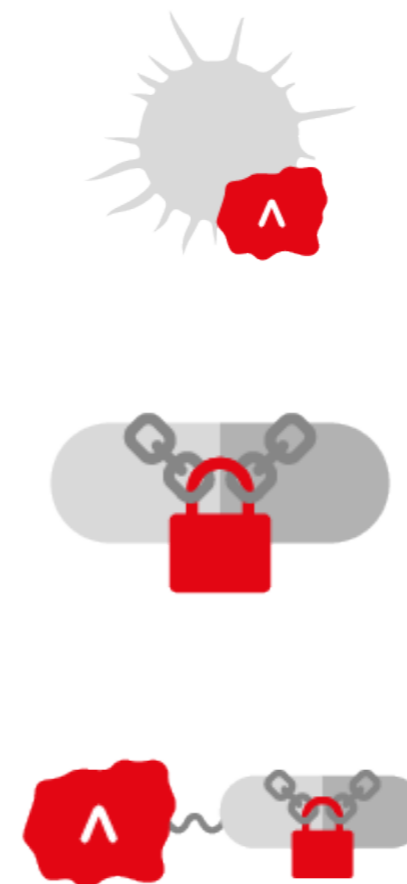
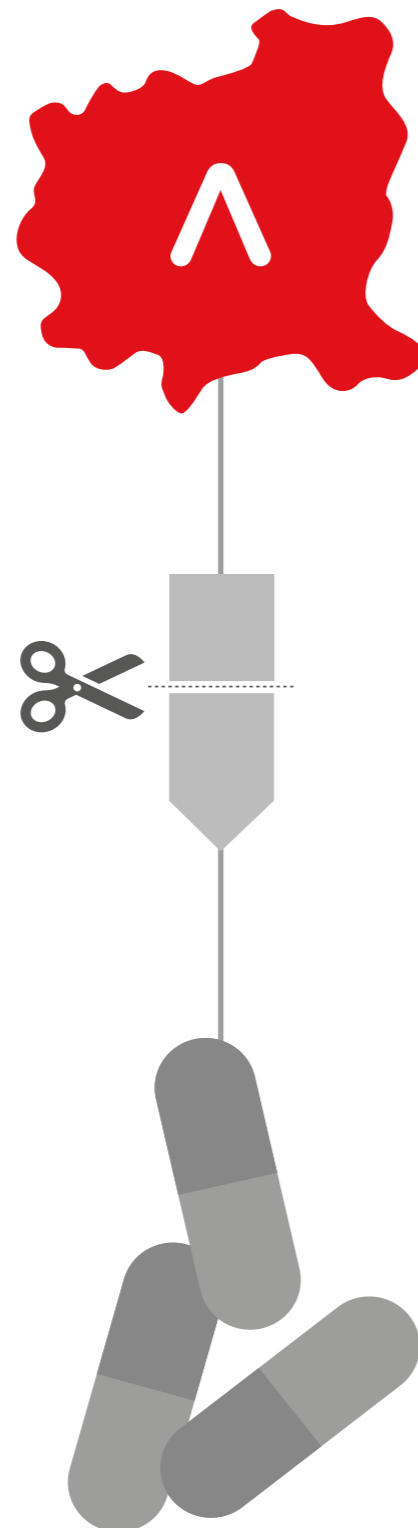
pre|CISION™ and TMAC® Technologies

Avacta's proprietary pre|CISION technology incorporates a substrate that is sensitive to cleavage by fibroblast activation protein (FAPα) which is highly upregulated in the tumour microenvironment of most solid tumours compared with healthy tissues.

The pre|CISION substrate can be utilised in a drug conjugate linker or to generate chemotherapy pro-drugs that are only activated in the tumour.

When added to a chemotoxin, the pre|CISION substrate prevents the chemotoxin from entering cells and therefore renders it inert until the substrate is cleaved in the tumour microenvironment. Using this pro-drug approach, the systemic exposure to the chemotoxin is dramatically reduced, and the safety and therapeutic window of these powerful anti-cancer treatments is improved.

Avacta's long-term focus is on achieving a more durable response for patients through synergy of the innate immune response to pre|CISION chemotherapies with the adaptive immune response to Affimer immunotherapies in the form of co-administered combinations and in novel tumour microenvironment activated drug conjugates (TMAC)



Avacta's proprietary pre|CISION technology has a number of essential advantages.

Tumour targeting

Fibroblast activation protein alpha (FAPα) is a protease expressed at 10-100-fold above background in many solid tumours, including breast, pancreatic, liver, lung and ovarian tumours. The pre|CISION substrate is specifically cleaved by FAPα and not by any other enzyme, providing a targeting mechanism that ensures localised release of chemotherapeutic agents in the tumour.

Pro-drugs

When conjugated to a chemotoxin the pre|CISION substrate prevents the chemotoxin from entering cells, rendering it inactive. Thus, the pre|CISION platform can be used to generate pro-drug forms of many chemotherapies that are inactive in circulation and activated by FAPα in the tumour microenvironment. As a result of this targeting, systemic exposure to the active drug is limited, creating the potential for increased and longer-duration dosing.

Tumour microenvironment activated drug conjugates (TMAC)

Incorporating pre|CISION technology in the linker of Affimer-drug conjugates ensures localised, extracellular release of a chemotoxin payload in the tumour microenvironment. This mechanism overcomes the need to target an internalising cancer marker, as with conventional drug conjugates, allowing the Affimer to be selected to target an immune checkpoint. Thus, the innate immune response to the chemotoxin is supported by the Affimer immune checkpoint blockade in this novel class of checkpoint targeting tumour microenvironment activated drug conjugates (TMAC)

Investment Proposition

Strategic aims to deliver value growth for shareholders by:

- establishing significant drug development partnerships;
- building a substantial pipeline of Affimer therapeutic assets for partnering;
- growing revenue through licensing of Affimer reagents to developers of research tools and diagnostics;
- becoming ready for first-in-man trial of the Affimer therapeutic platform; and
- delivering phase I safety study for the first of the pre|CISION pro-drugs AVA6000.

Investment highlights

Addressing the lack of a durable response to existing immunotherapies through combinations of two proprietary therapeutic platforms: Affimer - best-in-class antibody mimetic platform - and pre|CISION tumour targeted chemotherapy.

Near-term value inflection points including phase 1 clinical trial later in 2020 of AVA6000, a pre|CISION pro-drug form of doxorubicin that is only activated in the tumour, improving the safety and therapeutic index of this chemotherapy.

Pipeline of pre|CISION targeted chemotherapies and novel tumour microenvironment activated drug conjugates (TMACs)

Validating partnerships in place with LG Chem, Moderna Therapeutics, ADC Therapeutics, Daewoong Pharmaceuticals and Tufts University, and new discussions with additional third parties ongoing.

Affimer[®] pre|**CISION**[™]



“Affimer technology brings novel approaches to tackle the hostile tumour micro-environment, which has prevented the breakthrough for all cancer patients that we have been waiting for, and that will add to our treatment options in the fast-moving field of immuno-oncology.”

Eliot Forster, Non-executive Chairman



Strategic Report



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Chairman and Chief Executive Officer's Joint Statement

The Group has made significant commercial and operational progress during the reporting period, with several therapeutic development partnerships being established with major pharmaceutical companies that fully fund the development of the Affimer platform in areas of high unmet clinical need: oncology, autoimmune and inflammatory disease.

Not only are there significant commercial opportunities arising from these collaborations but the Group has also retained the commercial rights to the Affimers developed for use outside of the collaborative focus, thus growing its own therapeutic pipeline at no additional cost.

There are multiple ongoing discussions with new partners and the Board is confident of further therapeutic partnerships during 2020.

Group revenue and in particular the diagnostics division's revenue and order book has grown strongly, which reflects the growing commercial traction for the Affimer platform in markets outside of therapeutics. The Board anticipates that several of the ongoing technology evaluations by diagnostics partners should reach fruition during 2020, propelled in no small part by the recent success in generating Affimer reagents for SARS-COV-2 antigen testing.

The first two in-house clinical candidates for the Affimer and pre|CISION platforms have been developed and the Group is focusing its clinical development resources in 2020 on AVA6000 pro-doxorubicin. This proprietary form of a \$1 billion global annual revenue generic chemotherapy has been shown in animal models to have a dramatically improved safety profile and if these data are reproduced in patients then AVA6000 will have the potential to be a blockbuster anti-cancer drug. There is already significant interest from third parties in the AVA6000 programme and the wider pre|CISION pro-drug opportunity. The Group plans to start the AVA6000 phase I trial in late 2020 but, noting that many phase I studies have been halted during the current coronavirus pandemic because of pressure on hospital resources, there may be a short delay to starting the study. We will continue to work hard to start the trial as soon as we are permitted.

The recent announcement of our collaboration with Cytiva (formerly GE Healthcare Life Sciences)

to develop a rapid COVID-19 antigen test for mass population screening, and then our immediate success in generating a large number of Affimer reagents that detect the virus spike protein, has shone a spotlight on the power and performance of the Affimer platform. We believe that the technical risk of developing a COVID-19 diagnostic is significantly reduced now that we have a large number of Affimer reagents to work with, and our objective is to have a saliva test ready for production as early as possible in the summer. This individual opportunity is significant; there will be a medium-term need for very high volume COVID-19 antigen testing to support the global process of exiting lockdown and getting healthy people back to work. There will also be a long-term need for antigen testing as the disease will remain in some societies for many years. Outside of this opportunity, which has raised the profile of the Affimer platform dramatically, there remains significant commercial potential for Affimer diagnostics to deliver long-term sustainable revenues.

In addition, the Company has announced a collaboration with Adeprix (Beverly, MA, USA) to develop and manufacture an Affimer-based BAMS (bead-assisted mass spectrometry) coronavirus antigen test that will provide clinicians with a significant expansion of the available testing capacity for COVID-19 infection in hospitals. The diagnostic test will allow hospitals around the world to utilise their existing installed base of mass spectrometers that are not currently used for COVID-19 testing, thus contributing significantly to the increase in global testing capacity. Avacta's recently developed Affimer reagents that bind the SARS-COV-2 spike protein will be used to provide the capture and enrichment of the virus particle from the sample, which could be saliva, nasopharyngeal swabs or serum.

Fundraising

In April 2020, the Group announced a successful fund-raise of £9.0 million, which was concluded following the placing of new shares issued after the Annual General Meeting held in November 2019. This follows the completion of the fund-raise announced in July 2018 of £11.6 million (£10.9 million net of costs), which was concluded in August 2018.

In April 2020, the Group announced that it had completed a fundraising of £5.7 million through the placing and subscription of new shares to strengthen the Group balance sheet in the light of the challenges created by the coronavirus pandemic and provide

funding through 2020 and 2021, with the receipt of the proceeds received after the General Meeting which was held on 23 April 2020.

Board changes

During the period, in January 2019, Alan Aubrey stepped down as a Non-executive Director, having served on the Board since the initial listing of the Group back in 2006 and the Board is grateful for his significant input to the Group over this time. Following the period end, in February 2020, Paul Fry joined the Board as a Non-executive Director and has become the Chairman of the Audit Committee. Paul, who is also Chief Financial Officer of Vectura plc, brings with him a wealth of financial experience across a number of sectors including biotech, pharmaceutical and telecommunications.

Our people

We would like to thank our employees for their continued hard work in driving the Group's progress during this period, in particular the development of our therapeutic programmes towards the commencement of clinical trials and the growing of revenues in our diagnostic business unit. We would also like to acknowledge the recent effort and commitment shown by the diagnostics team in working long hours and weekends to generate the Affimer reagents for COVID-19 so quickly.

We are pleased that throughout this period of rapid growth and development Avacta has managed to retain an entrepreneurial, open and inclusive culture with a high level of employee engagement and satisfaction.

Effects of the COVID-19 pandemic

The Board is continuing to monitor and assess the impact of COVID-19, which is a rapidly changing issue across the world, and the impact it has on the Group's businesses.

As noted above, many clinical trials have been halted due to the pressure on clinicians and hospitals during the current COVID-19 pandemic and the regulators are prioritising submissions related to COVID-19 therapies. Our contract manufacturing and clinical operations partners have reduced staffing levels to maintain social distancing, as has the Group. It is prudent to assume a short delay in starting the AVA6000 phase I study. We expect to obtain regulatory approval for the AVA6000 clinical trial from the MHRA in Q3 and dose first patients late in the year or, more likely, early in 2021. This also means that the associated costs are delayed and there is sufficient cash on the balance sheet to complete the phase I trial as well as progressing our other programmes.

Our Animal Health business has seen a slow down as veterinary practices are now focusing on emergency cases, with more routine appointments in relation to allergy or therapy testing being put on hold given the limitations of travel on the UK population at the

moment. This will have an impact on revenues in the coming weeks until we emerge from the lock-down caused by the pandemic.

Conversely, the opportunity created by the unique strength of the Affimer platform to rapidly provide highly specific diagnostic reagents for SARS-COV-2 antigen testing is difficult to quantify but clearly very large indeed. The Group has established two commercial partnerships and is in discussion with several others to establish multiple routes to market for the Affimer reagents. This will minimise risk and time to market and maximise the commercial opportunity, which is likely to far outweigh the negative impacts of the COVID-19 pandemic.

Outlook

Avacta has, over the past few years, created huge potential value for shareholders through the establishment of multiple global partnerships and a pipeline of Affimer therapeutics and diagnostics. On top of that we have taken the therapeutics opportunity to the next level by adding the unique precision chemotherapy platform. The Group is now delivering this value to shareholders and is in a position to continue to do this in a long-term and sustainable manner.

The planned phase I study of AVA6000 pro-doxorubicin in cancer patients is transformational for the Group. If the pre-clinical performance of this drug is recapitulated in humans, then not only will AVA6000 have the potential to become a proprietary blockbuster in its own right, but the potential of the pre|CISION platform to improve the safety of a range of chemotherapies will have been demonstrated. This is a significant and unique opportunity for the Group to address urgent clinical needs in oncology through advanced chemotherapies and in combination with Affimer immunotherapies.

The strong commercial progress in the Affimer diagnostics business unit is reflected in the number of technology evaluations and growing revenue. Very recently, a spotlight has been shone on the power of the Affimer platform to generate diagnostic reagents quickly and with high specificity by our success in generating diagnostic Affimers for the SARS-COV-2 antigen in our collaboration with Cytiva.

We are focused on building long-term, sustainable growth in shareholder value based on the numerous therapeutic and diagnostic opportunities that the Group has created, including a COVID-19 rapid antigen test. I look forward very much to keeping the market up to date as we progress.



Alastair Smith
Chief Executive Officer
6 May, 2020



Eliot Forster
Non-executive Chairman
6 May, 2020

Chief Executive's Q & A

How do you feel Avacta has performed over the reporting period?

It has been a very strong period of performance for the Group, with it advancing its own therapeutic programmes, securing substantial therapeutic partnerships with major global pharmaceutical companies and building commercial traction in the Affimer diagnostics business. The recent COVID-19 antigen diagnostic test collaborations with Cytiva and Adeptrix have highlighted the significant potential of the Affimer platform for diagnostics and the Company has generated Affimer reagents that bind the SARS-COV-2 spike protein in only four weeks. The substantial progress that has been made during the past couple of years is now being reflected in the share price and I am delighted that we are beginning to return substantial value to shareholders.

How confident are you that the phase I clinical trial for AVA6000 will be successful and will the COVID-19 pandemic cause significant delay in starting the trial?

The animal data are very compelling. The improvement in therapeutic index of doxorubicin in the form of the AVA6000 pro-drug is not marginal, it is black and white. This gives us a high level of confidence that we will see these data reflected in a positive phase I study in cancer patients. We will conduct this clinical trial in the UK and are working now to complete the stability studies that will finalise the regulatory package and allow us to submit this to the MHRA. A reduction in staffing levels within our contract manufacturing and clinical operations partners has not caused a significant delay to date but this may mean that there is a short delay in the regulatory submission for the AVA6000 clinical trial to the MHRA into Q3. Many clinical trials have been halted due to the pressure on clinicians and hospitals during the current COVID-19 pandemic. We do not expect there to be a significant delay but it is prudent to assume a short delay in starting the AVA6000 phase I study perhaps into early Q1 2021. This also means that the associated costs are delayed, and there is sufficient cash on the balance sheet to complete the phase I trial as well as progressing our other programmes.

Why has it taken longer than anticipated to secure licensing deals in the diagnostics sector for the Affimer platform?

The principal reason for this is that the process of a partner committing their own resources to developing an Affimer-based product so that they can evaluate its performance before committing to a commercial licence is slow. The time taken by Avacta to develop an Affimer that meets their requirements is actually a small part of the process. It is the time taken by the partner to develop and evaluate the Affimers, when other business activities may well take priority, that is rate determining. This is why we have taken the step of developing Affimer diagnostic assays ourselves, because we can prioritise the resources to do this more quickly than a partner and reduce the time to get to a licensing deal. I fully anticipate that, in the case of the COVID-19 antigen test, the time required to secure a number of OEM partnerships and licensing agreements will be very much quicker.

What newsflow might we expect from the Group during 2020?

Clearly there is going to be a significant focus on the development and commercialisation of the COVID-19 diagnostic test during 2020 and we very much look forward to keeping the market updated. However, there is considerable potential newsflow expected from our broader diagnostic and therapeutic programmes. We will keep the market updated on the progress of AVA6000 into the clinic and I hope that we will see additional therapeutic partnerships established during the year. I expect to see continued growth in the diagnostics business and we will be working extremely hard to convert the strong commercial interest there is in the Affimer diagnostics platform into licensing deals and revenue growth.



Operational Review

Business overview

Avacta is developing novel cancer immunotherapies combining its two proprietary platforms - Affimer biotherapeutics and pre|CISION tumour targeted chemotherapy. With this approach, the Company aims to address the lack of a durable response to current immunotherapies experienced by most patients. The Company's therapeutics development activities are based in Cambridge, UK.

The Affimer platform is an alternative to antibodies derived from a small human protein. Despite their shortcomings, antibodies currently dominate markets worth in excess of \$100 billion global annual revenue. Affimer technology has been designed to address many of these negative performance issues, principally: the time taken, and the reliance on an animal's immune response, to generate new antibodies; poor specificity in many cases; large size and cost.

Avacta's pre|CISION platform activates chemotherapy only in the tumour, thereby limiting systemic exposure and damage to healthy tissues, and thus improving the overall safety and therapeutic potential of these powerful anti-cancer treatments.

By combining these two platforms the Company is building a wholly owned pipeline of novel cancer therapies with the aim of creating effective treatments for all cancer patients including those who do not respond to existing immunotherapies. Avacta expects to take its first drug, a pre|CISION targeted form of the standard-of-care doxorubicin, into the clinic later in 2020.

Avacta has established drug development partnerships with pharma and biotech, including with Moderna Therapeutics Inc., a collaboration with LG Chem to develop treatments for autoimmune and inflammatory diseases worth up to \$310 million (plus future royalties on product sales), a partnership with ADC Therapeutics to develop Affimer drug conjugates and a joint venture in South Korea with Daewoong Pharmaceuticals to develop the next generation of stem cell therapies that incorporate Affimer immunomodulators. Avacta actively seeks to license its proprietary platforms in a range of therapeutic areas.

The Company benefits from near-term revenues generated from Affimer reagents for diagnostics, bioprocessing and research, through a separate business unit based in Wetherby, UK.

The Avacta diagnostics business unit works with partners worldwide to develop Affimers for evaluation by those third parties with the objective of establishing royalty-bearing licensing deals. The Company is also developing a small in-house pipeline of Affimer-based diagnostic assays for licensing.



Life Sciences - Therapeutics

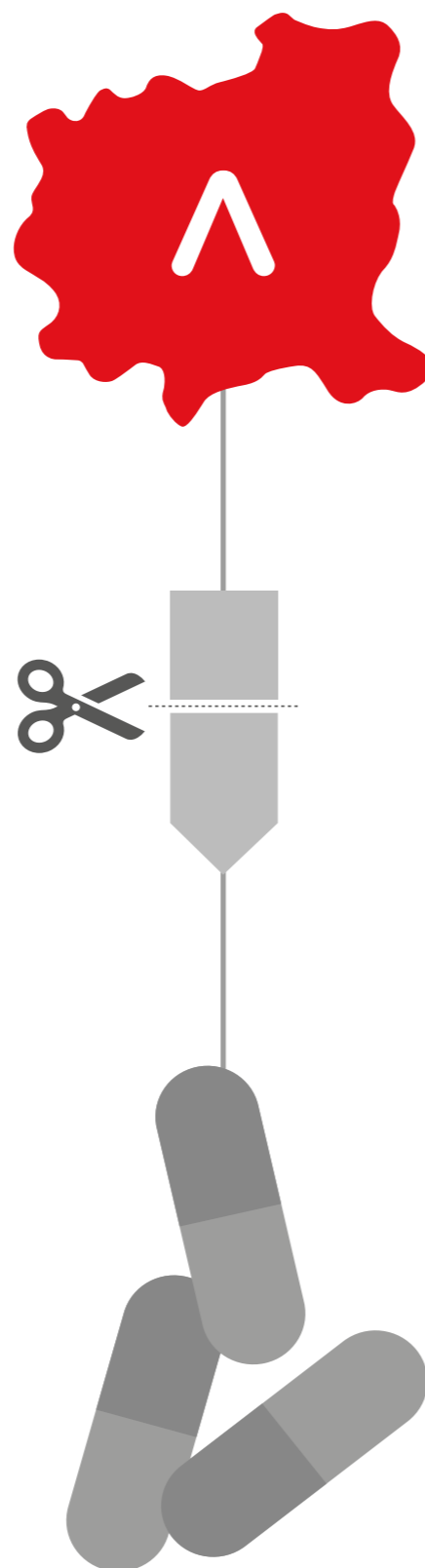
pre|CISION Targeted Chemotherapies

During the reporting period the Group established a transformational collaboration and licensing deal to access intellectual property developed by Professor Bill Bachovchin at Tufts University Medical School (Tufts). The long-term objective is to combine Affimer immunotherapies with pre|CISION tumour targeted chemotherapies to improve the outcome for cancer patients, the majority of whom do not respond to immunotherapies alone.

In the near term, the Group has identified an opportunity to use the pre|CISION platform to dramatically reduce the side effects of standard chemotherapies, whilst maintaining their effectiveness. The first of these is AVA6000 pro-doxorubicin. There is expected to be only a limited impact of the coronavirus pandemic on the timing of the phase 1 clinical trial of AVA6000 in humans which is expected to start in late 2020 / early 2021.

The Company's long-term strategy is to bring together Affimer immunotherapies with pre|CISION targeted chemotherapies to develop superior cancer treatments with better patient outcomes. In the near term, the tumour targeting chemistry developed at Tufts provides the Company with an opportunity to take generic chemotherapies and reduce their side effects to improve their safety and tolerability whilst maintaining their efficacy. The first of these, AVA6000 pro-doxorubicin, will be taken into the clinic during 2020.

When the pre|CISION substrate is chemically attached to a chemotherapy drug, such as doxorubicin, it prevents the drug from entering cells and therefore renders it inactive and harmless. The pre|CISION substrate is removed by an enzyme (FAP α) that is in high concentration in most solid tumours. Removal of the pre|CISION substrate allows the drug to enter and kill cancer cells in the tumour. This enzyme is in very low concentration in healthy tissue and therefore the chemotherapy is activated predominantly in the tumour, reducing the exposure of healthy tissues to the activated drug and reducing side effects caused by the damage to healthy tissues. This improvement in the safety profile of efficacious cancer drugs creates a huge opportunity for the Company through licensing and, in the longer term, through combinations with Affimer immunotherapies.



The pre|CISION substrate can be applied to a wide range of chemotherapies to improve their safety profile but initially the Company is focusing on doxorubicin, which has been the standard-of-care for over 40 years for patients with advanced soft tissue sarcoma. Patients are taken off treatment with doxorubicin due to irreversible heart damage once the cumulative dose reaches a certain level, even if they are experiencing clinical benefit. This is because standard doxorubicin is not targeted to the cancer and therefore the exposure of healthy tissue such as the heart to the drug is the same as the exposure of the tumour. As a result, patients cannot be dosed for long enough to achieve a better median progression free survival than approximately six months, with median overall survival of 12-15 months. This severe cardiotoxicity limits the size of the doxorubicin market, but it is still a \$1 billion drug ¹.

As part of the collaboration with Professor Bachovchin at Tufts, Avacta has compared the safety and efficacy of standard doxorubicin with AVA6000, a pre|CISION modified form of doxorubicin. In a tumour-burdened mouse model, standard doxorubicin is distributed between the tumour and heart with a 1:1 ratio as expected because it is not targeted, causing the dose limiting severe cardiotoxicity. However, in the case of AVA6000, the level of activated doxorubicin in the tumour increased by a factor 18:1 compared with the heart. This results in dramatic tumour shrinkage and 100% survival at 60 days of the animals treated with AVA6000 compared with 0% survival of the animals treated with standard doxorubicin.

There has been only limited impact of the coronavirus pandemic on progression of AVA6000 into the clinic to date. Avacta has nearly completed IND-enabling studies and plans to file regulatory submission in the UK shortly (late Q2 or early Q3) to allow dosing of first patients with AVA6000 later in the year, or early 2021 depending on patient recruitment. This phase I clinical study will be a dose escalation study with up to 15 patients with a range of soft tissue sarcomas. Initial data are expected within a few months of starting the trial. If these data in humans demonstrate significantly reduced cardio-toxicity, allowing patients to be dosed for longer than with standard doxorubicin, then better overall survival is anticipated and a huge commercial opportunity is created for AVA6000 and the wider pre|CISION chemotherapy pipeline. More than ten other pre|CISION chemotherapies have been synthesised and tested to varying degrees. The most advanced of these is a pre|CISION form of a proteasome inhibitor closely related to Velcade. This pre|CISION drug, AVA3996, could be ready for IND filing in approximately twelve months.

The Group has prioritised the use of proceeds of the placing in October 2019 to complete the phase I clinical trial of AVA6000 as it has the potential to deliver a transformational commercial opportunity and value inflection point.

¹ <https://www.grandviewresearch.com/press-release/global-doxorubicin-market>



Affimer Therapeutics

Progress of the Affimer platform towards first-time-in-human studies.

The first Affimer clinical development candidate AVA004-251, a PD-L1 antagonist, has been selected and initial cell line development successfully completed. GMP production of AVA004-251 is on hold whilst the Group focuses its resources on AVA6000.

The focus of Avacta's in-house Affimer therapeutic programmes is in immuno-oncology. In order to generate first-time-in-human data for the Affimer platform as quickly as possible, to de-risk the platform from the perspective of potential partners and thereby increase deal value, the Group has selected an inhibitor of PD-L1 as the lead programme.

During the reporting period, the clinical development candidate, AVA004-251, was selected and cell line development for it has been completed successfully. High levels of AVA004-251 could be produced from the selected cell line and production of the molecule using a standard GMP manufacturing process was demonstrated. This is an important step because it demonstrates that Affimer drugs can be manufactured using an industry standard process without the need for any changes which would incur additional cost of goods.

The Group has now paused the commitment to the next stage of GMP manufacturing of AVA004-251 and the subsequent IND-enabling studies, because it is focusing its resources on the phase I clinical trial for AVA6000. The progression into the clinic of the lead PD-L1 inhibitor and the broader Affimer platform will continue to be fully funded by partners.

Summary:

The first Affimer clinical development candidate AVA004-251, a PD-L1 antagonist, has been selected and initial cell line development successfully completed. GMP production of AVA004-251 is on hold whilst the Group focuses its resources on AVA6000.



Drug Assets Pipeline

Building a pipeline of valuable chemotherapy / immunotherapy drug assets.

The combination of the Company's immunotherapies / chemotherapies is designed to provide a benefit to those patients who do not experience a durable response to existing immunotherapies alone. It is the combination of these two proprietary platforms, Affimer and pre|CISION, that creates a clearly differentiated and highly valuable clinical pipeline for the Group.

In the oncology field it has become clear in recent years that single cancer immunotherapies have limited overall response rates and that combining immune checkpoint modulators such as PD-1, or PD-L1, with chemotherapy improves patients' outcomes. Avacta is in a unique position, with two proprietary platforms, to address this urgent need. The Company's strategy is to bring together Affimer immunotherapies with the pre|CISION targeted chemotherapies to develop superior cancer treatments with better patient outcomes. The Company is doing this in two ways: through co-administered combinations of the two drugs and through a novel drug conjugate in which the pre|CISION substrate is incorporated into the linker that joins the chemotoxin and the Affimer immunotherapy into a single drug molecule called a 'drug conjugate'.

Co-administered combination therapies

Progress in the development of the AVA6000 pro-doxorubicin has been outlined above. The clinical development plans (Phase 1b and 2) for this molecule include combinations with a PD-L1 antagonist in a range of solid tumours carried out with Avacta's AVA004-251 molecule, or with a partner's PD(L)1 inhibitor.

TMAC drug conjugates

The pre|CISION substrate can also be incorporated into a chemical linker joining an Affimer immunotherapy with a chemotoxin to create a single drug conjugate molecule that can be delivered to the patient in a single infusion. The linker is cut by the FAP enzyme in the tumour microenvironment releasing and activating the chemotherapy in the tumour alongside the Affimer immunotherapy. By selecting the chemotherapy to have a mechanism of action

that stimulates and recruits the immune system to the tumour, the Affimer checkpoint blockade provides synergistic support for this immune response. This tumour microenvironment activated drug conjugate (TMAC) is a new class of drug conjugate for which the Company has made a patent application with Tufts University Medical School.

The first of Avacta's TMACs combines an Affimer PD-L1 inhibitor with a powerful chemotherapy called AVA100 I-DASH (also known as Talabostat Mesylate) that kills macrophage in the tumour microenvironment leading to a significant inflammatory event that attracts the immune system to the tumour. The immune response is then supported by the presence of the Affimer PD-L1 blockade.

Initial efficacy data in mice have been generated by co-administration (two separate molecules) of the lead Affimer PD-L1 candidate AVA004-251 with AVA100 as two separate drugs as an intermediate step towards generating these data for the TMAC. These data show that AVA004-251 performs as effectively as Atezolizumab, a marketed PD-L1 antibody, and also show a synergistic effect of the combination of AVA004-251 with AVA100 as anticipated. In fact, tumours in the animals treated with the combination of the two showed complete regression and developed an immunity to being re-challenged with the same tumour 60 days later.

In order to carry out the same evaluation with the TMAC, an appropriate mouse efficacy model that has been modified to contain the FAP enzyme required to release the chemotherapy from the TMAC has been developed. Postperiod end, the first data from this engineered mouse model were obtained and clear synergy between the released warhead and Affimer PD-L1 inhibitor was seen, causing a significant slowdown in tumour growth compared with the approved PD-L1 monoclonal antibody inhibitor Avelumab. A number of further pre-clinical animal studies are now planned for 2020 to investigate in detail the optimum TMAC structure.



Drug Development Collaborations

Collaborating to develop next-generation therapeutics

The Group has recently reported substantial commercial progress with regards to drug development collaborations. Avacta agreed a therapeutics partnership and licensing deal with LG Chem Life Sciences (LG Chem), potentially worth over \$300 million. Moderna, with whom Avacta has been collaborating on several programmes, exercised its option to an exclusive commercial licence for Affimer against one particular target.

The Group also announced a collaboration with ADC Therapeutics, a Swiss pharmaceutical company that is developing drug conjugates using proprietary warheads licensed from Astra Zeneca. The collaboration with ADC Therapeutics is aimed at developing Affimer-drug conjugates using these warheads. Just post-period end, the Company announced that it had established a joint venture in South Korea with Daewoong Pharmaceuticals to develop engineered stem cell therapies. The Company is continuing its extensive business development activities to generate further such fully funded partnerships and licensing deals.

In Q4 2018 the Group announced that it had agreed an Affimer therapeutics development partnership and licensing agreement with LG Chem, part of the South Korean LG Group. This multi-target therapeutics development agreement provides an upfront payment of \$2.5 million and pre-clinical milestone payments of up to a further \$5.5 million, plus longer-term clinical development milestones totalling up to \$180 million, dependent on the satisfaction of certain performance conditions. Avacta will also receive royalties on any future product sales and LG Chem will cover the Group's costs of research and development associated with the collaboration. Avacta may receive an additional \$130 million in option fees and milestone payments should LG Chem elect to exercise their options for additional targets.

As part of the collaboration, Avacta is generating and carrying out early-stage optimisation of Affimer drug candidates against undisclosed targets in oncology and inflammatory disease. For reasons of confidentiality it is not possible to provide detailed information about the LG Chem collaboration but the Company is able to report that excellent progress

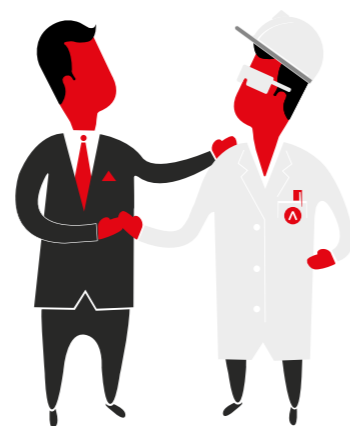
has been made with the first target that LG Chem nominated and that LG Chem has now nominated the second and third targets for development.

LG Chem will be responsible for pre-clinical and regulatory studies, and clinical development for these programmes and worldwide marketing of any resulting products. LG Chem has stated that it aims to make the first regulatory filing for an Affimer therapeutic in 2021.

Moderna Therapeutics (NASDAQ: MRNA) exercised its option to enter into an exclusive licensing agreement with respect to certain Affimers against a potential therapeutic target that has been part of an ongoing research collaboration between the two companies.

In 2015, Avacta and Moderna entered into a collaboration, licensing and option agreement under which Moderna was granted exclusive access to Avacta's Affimer technology for certain collaboration targets and the option to enter into exclusive licensing agreements on pre-agreed terms to further research, develop and commercialise Affimers selected by Moderna. Under the terms of the agreement, Avacta may receive undisclosed payments upon future clinical development milestones and royalties in connection with future product sales.

The Group also announced that it had entered a collaboration and option agreement with ADC Therapeutics SA (Lausanne, CH), a clinical-stage oncology-focused biotechnology company pioneering the development of highly potent and targeted antibody-drug conjugates for patients suffering from haematological malignancies and solid tumours. The agreement is to develop Affimer-drug conjugates combining Avacta's Affimer technology with ADC Therapeutics' pyrrolobenzodiazepine (PBD)-based warhead and linker technologies that it licenses from Astra Zeneca.

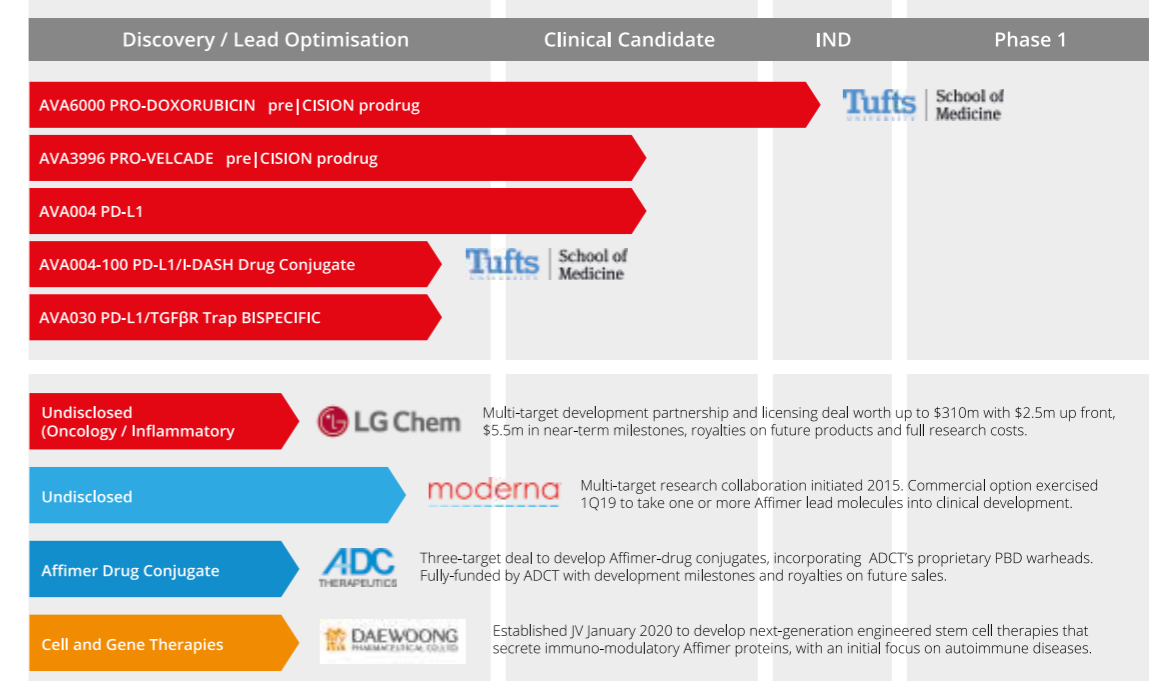


As part of the multi-target collaboration, the Group will generate and optimise Affimer binders against three undisclosed cancer targets and provide these to ADC Therapeutics to target its proprietary cytotoxic warheads (PBDs) to the site of the tumour. ADC Therapeutics will carry out pre-clinical research and development programmes to evaluate each of the Affimer-drug conjugates with a view to generating clinical candidates.

Under the terms of the agreement, ADC Therapeutics will cover all Avacta's costs during the collaboration and the Group has retained the rights to use these Affimers in applications outside of drug conjugates. The commercial agreement provides ADC Therapeutics with the opportunity, on a target-by-target basis, to obtain exclusive licences to the Affimer proteins for clinical development and commercialisation.

Upon ADC Therapeutics entering into each of the commercialisation licences and successfully bringing new Affimer-drug conjugates to market, Avacta will receive option fees, development and commercialisation milestones, as well as a single-digit royalty on sales. Further financial details cannot be disclosed.

Post-period end, on the 9 January 2020, the Group announced that it has established a joint venture in South Korea with Daewoong Pharmaceutical Co. Ltd., (KSX: 069620), a leading Korean pharmaceutical company, to develop the next generation of cell and gene therapies, incorporating Affimer proteins to enhance the immune-modulatory effects. All of Avacta's research and development costs associated with the generation of the Affimer proteins for the joint venture will be funded by the joint venture.



Case Study:
AVA6000

Standard doxorubicin is a generic drug with a ~\$1 billion market despite severe cardiotoxicity

Companies with existing doxorubicin products

Companies with sales forces and relevant doxorubicin commercialisation experience and contacts

Approved generic doxorubicin HCl

Brand Names: Adriamycin, Adriamycin RDF, Rubex, Adriamycin PFS

Most notable companies include: BMS, Pharmachemie and Abraxis

Approved liposomal doxorubicin formulations

Brand Names: Doxil, Dox-SL, Lipo-Dox, Evacet, Nudoxa, Myocet

Most notable companies include: J&J, Sun Pharma, Teva

Companies with ongoing checkpoint inhibitor + doxorubicin clinical studies

Large pharma testing combinations of antibodies / receptor traps with doxorubicin (including liposomal Dox)

Involving checkpoint inhibitors

AstraZenica / Medimmune, BMS, Merck, Roche / Genentech, Pfizer: (PD-L1/PD-1)

BMS, AstraZenica / Medimmune: (CTLA-4)

Companies with other ongoing doxorubicin clinical studies of note

Roche, Biocon, and/or Mylan: Trastuzumab (anti-HER2)

Genentech: Bevacizumab (anti-VEGF-A)
Eli Lilly / Merck KGaA: Cetuximab (anti-EGFR)

AVA6000 Market opportunity

- Market expansion through increasing number of treatment cycles per patient
- Market expansion in existing indications not easily addressed by current doxorubicin formulations because of age-related risks
- Market expansion in indications not normally addressed by current doxorubicin formulations because of patient fragility (i.e. not age per se)
 - Opportunity for combinations with checkpoint inhibitors



Team Profile: David Gilfoyle, Development Director

Professional background

David has close to 25 years' experience taking small-molecule (NCE) and protein-based therapeutics from lead candidate selection through pivotal clinical development. An organic/protein chemist by training, David's initial academic career provided a strong foundation in synthetic organic chemistry, molecular biology, recombinant protein production and characterisation, and computational modelling. Subsequent industry experience spans a global contract research organisation and a number of EU / US start-up/SME biotech companies, which has supported an in-depth understanding of the drug development process, the global regulatory environment, programme/risk management and quality management within GLP, GMP and ISO compliant environments.

Particular areas of technical expertise include manufacturing, non-clinical pharmacology/safety and bioanalysis (including PK, PD and immunogenicity analysis), which has enabled the scientific-focussed leadership of five NCE and four biologics programmes. Therapeutic development experience spans adult and paediatric indications within CNS, endocrinology and oncology.

Most recently, at Ascendis Pharma, David led the development of the company's first transiently-conjugated protein prodrug to the point of initiation of Phase 3 clinical trials, with the company expecting to file BLA/MAA submissions during 2020. During this period, he was involved in all

aspects of the product's development at a scientific/technical level, drafting regulatory documentation to support worldwide CTA/IND/paediatric information plan submissions and attending pre-IND, Scientific Advice and Orphan Designation meetings.

David's academic background includes a BSc (Hons) in Biochemistry and a DPhil in Organic & Protein Chemistry from the University of Sussex and a MSc in Genomic Medicine from Cambridge University. Post-doctoral research focused on protein structure-function relationships was conducted between the University of Sussex and a research institute associated with Stanford University. He is the author of a number of peer-reviewed articles and book chapters, as well as a co-inventor on a number of patents.

Role within the company

As Development Director, David is responsible for the leadership of Avacta's first human therapeutic programme, AVA6000 (FAP-activated doxorubicin prodrug) which is anticipated to enter early phase clinical development in 2020. In addition, his broad drug development experience supports a wider role in helping move Avacta's discovery-phase opportunities across the pre|CISION, TMAC and Affimer therapeutic platforms towards lead candidate selection and into manufacture and non-clinical development.

Why are you excited by the technology?

"In a relatively short period of time, Avacta has assembled an enviable range of human therapeutic platforms which have generated stand-alone antibody-mimetic (Affimer) and chemotherapy prodrug (pre|CISION) development candidates, each with the potential to make a significant difference to the lives of cancer patients and their families. However, perhaps uniquely, these platforms synergise, enabling the development of superior therapeutic combinations or conjugates (TMAC) of established or novel immunotherapies, with chemotherapy prodrugs activated in the tumour microenvironment.

This is a particularly exciting time to be working at Avacta. In addition to our internal therapeutics pipeline, the Affimer technology is being developed more broadly through an increasing number of external collaborations. This has the potential to both exemplify and validate the technology with respect to Affimer biotherapeutics, Affimer-drug conjugates and, most recently, novel Affimer protein-expressing cell therapies."

Affimer Diagnostics

The Affimer diagnostics business is being built upon key differentiating factors including specificity, stability, batch to batch consistency and speed of development without the use of animals.



Affimer Diagnostics

Strong growth in revenue reported at £0.8 million following separation from Affimer Therapeutics into two distinct business segments. This revenue is primarily derived from paid-for evaluations of the technology for diagnostics applications, and the generation of anti-idiotypic Affimer reagents to support partners' drug development programmes.

The Group also agreed a commercial licence with New England Biolabs for Affimers to use in diagnostic kits. Whilst other ongoing evaluations are progressing well, they have not yet resulted in further licensing agreements and so the Group is now developing a small in-house pipeline of Affimer diagnostic assays ready for licensing and development into products to speed up the process.

An experienced Commercial Director, dedicated to the Affimer diagnostics reagents business, has been appointed to capitalise on growing commercial traction.

Post-period end the Company entered into a partnership with Cytiva (formerly GE Healthcare Life Sciences) to develop a rapid point-of-care saliva antigen test for COVID-19 infection and has already generated more than 50 Affimer reagents that specifically bind the virus.

A further collaboration has also been entered into with Adeprix to develop and manufacture an Affimer-based BAMS coronavirus antigen test that will provide clinicians with a significant expansion of the available testing capacity for COVID-19 infection in hospitals.

The Affimer technology has significant commercial potential outside therapeutic applications. Good commercial traction has now been established in the diagnostics reagents business with strongly growing revenue/order intake and an expanding sales pipeline of high quality, global partners. However, licensing deal flow resulting from technology evaluations has been slower than anticipated and the Company believes that the diagnostics reagents business unit now requires full-time and dedicated commercial leadership at its operating site in Wetherby.

In August 2019, the Company appointed David Wilson, a highly experienced commercial professional in the diagnostics markets, to the role of Commercial Director - Diagnostics.

David brings to Avacta over 25 years' international experience in business development, marketing and sales management in the *in vitro* diagnostic medical devices industry, having held senior commercial and Board level positions in global corporations, angel and venture capital funded start-ups and a sector specific trade association, including a twelve-year period at Genzyme Corporation where David led the international sales, marketing and business development functions for the Diagnostics Products division. He is currently a Board member for two early-stage diagnostic businesses developing novel point of care diagnostic testing platforms, and has served on the Executive Committee of the British In Vitro Diagnostics Association (BIVDA). David's role in Avacta mirrors that of Matt Vincent, who is VP Business Development and Strategy (Therapeutics).

The reagents business unit is now focusing its business development and operational resources in three areas:

- Paid-for evaluations of Affimer technology with a view to longer-term, royalty-bearing licensing deals for Affimer molecules incorporated into third-party products particularly focused on the diagnostics sector
- Custom Affimer services to generate Affimer molecules that will be used in-house by a third party to support R&D with particular focus on generating anti-idiotypic Affimers for PK measurements in drug development and clinical trials
- Development of an in-house pipeline of Affimer diagnostic assays for licensing

The Company has seven ongoing Affimer evaluations with diagnostic partners, including four out of the top ten global diagnostics companies. All of these

evaluations have the potential to deliver licensing deals. The licensing deal with New England Biolabs (NEB®), which was announced in Q4 2018, arose directly out of a paid-for technology evaluation in this way. The evaluation with NEB took over two years to complete and the Company is experiencing similar timescales with other partners in the pipeline. In order to circumvent this long evaluation process, the Company announced in 2018 that it would also develop a small number of Affimer diagnostics assays itself.

The Company believes that, by developing the working assays itself, it will be able to progress to commercial licensing deals more quickly than through the process of third-party evaluations in which the partner controls the process. The target of having two assays completed by the end of 2019 was met and a further pipeline of diagnostic assays is now in development for licensing.

A growing short-term revenue stream is being generated from custom Affimer services to generate bespoke Affimer binders for third parties to use in R&D applications. One example of such an application that has generated significant interest is the measurement of the level of a drug in serum samples to support clinical development programmes, so-called pharmacokinetic (PK) analysis. Reagents that can be used for PK analysis are called anti-idiotypic binders and the Group has demonstrated that it can quickly, with a very high success rate, generate anti-idiotypic Affimers that outperform the market leading anti-idiotypic antibodies.

Since running a marketing campaign to launch this service in 2018, the Company now has multiple custom anti-idiotypic Affimer services projects completed and ongoing with large pharma and biotechs. Each project is worth approximately £40,000 revenue and, in principle, every monoclonal antibody drug in development, of which there are thousands, requires a reagent for PK measurements. Therefore, as the Company builds its reputation for rapidly supplying these critical reagents, it anticipates that it can grow a substantial recurring revenue stream of several millions of pounds.

Post-period end the world has faced a major health crisis arising from the SARS-COV-2 virus which originated in Wuhan, China. In response to this crisis and the urgent need for rapid testing for the COVID-19 infection, on April 8 the Company formed a collaboration with Cytiva (formerly GE Healthcare Life Sciences) to develop a rapid point-of-care saliva test for the virus antigen and on 1 May 2020 entered into a diagnostic collaboration agreement with Adeprix to develop an Affimer-based BAMS coronavirus antigen test. The point-of-care test will tell the user whether

the person is infected now, as distinct from "antibody" tests which tell the user that the person has been infected in the past. The Affimer-based BAMS coronavirus antigen test will provide clinicians with a significant expansion of the available testing capacity for COVID-19 infection in hospitals.

Cytiva Collaboration

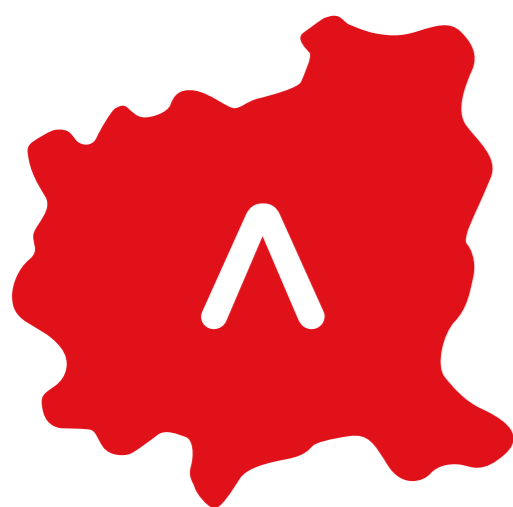
The Company has, in only four weeks, generated a large number of Affimer reagents that bind the SARS-COV-2 virus spike protein, that do not cross-react with other related viruses such as MERS and SARS, which can be developed into a lateral flow test strip by Cytiva and others, and into other forms of immunoassays. The work has highlighted two of the key benefits of the Affimer platform - the speed of development and specificity of new binders. Avacta owns all the commercial rights to the Affimers and any tests developed with them. The Company aims to have a working laboratory test before the end of May and is now also transferring Affimer reagents to Cytiva to develop a rapid saliva test for the virus antigen suitable for mass screening of populations. The aim is to have this test ready for production as soon as possible during the summer.

The very rapid success in generating highly specific Affimer diagnostic reagents for the SARS-COV-2 virus has highlighted the significant potential of the Affimer platform for diagnostics and generated significant commercial interest which the Company is pursuing vigorously.

Adeprix Collaboration

The diagnostic test will allow hospitals around the world to utilise their existing installed base of mass spectrometers that are not currently used for COVID-19 testing, thus contributing significantly to the increase in global testing capacity. Avacta's recently developed Affimer reagents that bind the SARS-COV-2 spike protein will be used to provide the capture and enrichment of the virus particle from the sample, which could be saliva, nasopharyngeal swabs or serum.

Development of a BAMS test capable of diagnosing whether a person has the COVID-19 infection at any specific moment is a quick process and the companies are aiming to have a BAMS test ready for clinical validation, regulatory approval and manufacturing in June. Adeprix and Avacta are already in discussion with large-scale manufacturing partners to rapidly deploy this new high throughput test.





Case Study:
 Dx – Turning Negative Read Tests into Positive Read Tests



Negative read tests for small molecules such as drugs of abuse, hormones, antibiotics and pollutants involve the signal, usually a blue line on a test strip, disappearing when the analyte is present. These are difficult to read, not reliably quantitative and often not sensitive or specific enough, but they represent a huge market worth many \$billions.

Converting these assays into a positive read assay, in which the blue line appears when more analyte is present, is highly desirable because they are easier to interpret, can be quantitative, and because two antibodies have to bind the analyte they are often more specific leading to fewer false readouts.

However, it is often impossible to find a second antibody to bind these types of analyte because there is not enough 'room' for two antibodies to bind such a small molecule.

We have developed a process to generate Affimers that detect the tiny change in shape of the first antibody that occurs when it binds the analyte, meaning that it is possible in principle to convert any competition assay into a superior Affimer/antibody sandwich assay and take market share.

Avacta is now pursuing this commercial opportunity vigorously by developing in-house assays for licensing, and with partners to convert their existing assays. For example, this photo shows a sensitive lateral flow test strip developed for testing levels of estradiol, a hormone that is important in women's reproductive health.



Team Profile: David Wilson Commercial Director – Diagnostics

Professional background

David brings to Avacta over 25 years' international experience in business development, marketing and sales management in the *in vitro* diagnostic medical devices industry, having held senior commercial positions in global corporations and venture capital funded start-ups. Following a 12-year period at Genzyme Corporation where he led the international sales, marketing and business development functions for the Diagnostics Products division, David joined US / Israel-based start-up Molecular Detection Inc. as Vice-President Commercial Operations to lead the commercial development of a molecular diagnostics technology platform applied to the rapid, accurate detection of antibiotic resistant bacteria.

Building on his experience supporting the commercial development of early stage businesses and technologies in the *in vitro* diagnostics sector, David joined London/Boston-based specialist life sciences consulting firm Alacrita to lead the development of their diagnostics consulting practice, providing both strategic and operational support to early-stage diagnostics companies. More recently, as Head of International Sales for US-based Asuragen Inc., David led a team developing and delivering the international commercial strategy for a specialised genetic and oncology molecular diagnostic product portfolio. He is currently a Board member for two early-stage diagnostic businesses developing novel point-of-care diagnostic testing platforms, and has served on the Executive Committee of the British In Vitro Diagnostics Association (BIVDA). David has a BSc (Hons) in Biochemistry and Microbiology from the University of St. Andrews and an MBA from the Open University Business School.

Role within the company

As Commercial Director, David is responsible for the development and implementation of the commercial strategy and plan for diagnostic applications of the Affimer technology platform, driving profitable revenue growth from delivering Affimer-enabled diagnostic products through custom services and commercial licensing deals with established Diagnostics companies, and highly differentiated Diagnostic kits.

Why are you excited by the technology?

"Avacta's Affimer technology offers technical advantages over the more established antibody-based diagnostic immunoassay platforms for certain applications, addressing unmet needs and improving the clinical utility of diagnostic tests in large established markets such as therapeutic drug monitoring, and other applications based on small molecule targets. In addition, the technology is more broadly applicable where antibodies cannot provide the required specificity for a clinically relevant biomarker.

As 70% of clinical decisions are influenced by diagnostic tests, the technical development and commercialisation of new highly differentiated diagnostic tests is transforming the delivery and economics of healthcare, and Avacta's Affimer technology can make a significant contribution to this revolution in healthcare delivery."



Animal Health

Providing veterinary laboratory services, diagnostic testing and associated therapies to help vets and owners care for their animals.



Avacta Animal Health, as part of the Avacta Group, is an independent laboratory delivering evidence-based animal health solutions, centred on the work-up and management of allergic disease. Its customers include veterinary professionals, laboratories, large commercial organisations, SMEs and academic groups.

Avacta Animal Health develops and manufactures its own test panels, which are either run in house for veterinary professionals in the companion animal and equine field, or sold to laboratories servicing the industry outside of the UK. The research and development team behind the company's products also undertake a variety of internal and contract research projects which employ the latest tools and techniques.

While successfully competing in both UK and global markets, Avacta Animal Health has continued to place a personal approach at the forefront of its work. Maintaining this method in the fast-paced veterinary industry is highly valued and results in unrivalled service and support that is trusted.

Competitive strengths

The only UK laboratory with end-to-end test control, Avacta Animal Health's years of dedication to research and development underpin its constant drive to make a real-life difference to animal health.

- Experts in the work-up and management of allergic disease
- Experienced and innovative R&D team
- Evidence-based test and therapy solutions
- Dedicated technical team including dermatology consultants
- Comprehensive and practical veterinary literature
- Informative, easy-to-use pet owner resources

Market focus

As the change within the veterinary industry continues at a rapid pace both in practice, for suppliers and for pet owners, Avacta Animal Health's commitment to innovation within the field of allergy remains its core focus and its key to success.

In addition to providing UK specific testing services and therapy options via its own laboratory, Avacta Animal Health's

authorised laboratories now serve much of Continental Europe as well as parts of the Asian and Latin American markets. Further projects will look to expand the company's export reach and international customer base, whilst continuing its dedicated provision of tailored and trusted support to veterinary professionals across the UK.

Avacta Animal Health's 2020 programme of events includes attendance at numerous UK conferences in addition to international events such as the World Small Animal Veterinary Association Congress, allowing the business to stay informed of developments within the industry and personally convene with customers and academics.

Development focus

Alongside the science, Avacta Animal Health understands the importance of ensuring its successes in the laboratory make a difference in practice. As well as having qualified vets and vet nurses in its teams, it values the regular conversations it has with veterinary professionals and academics, allowing it to analyse and review what is clinically relevant at any given time.

The year has seen Avacta Animal Health's Senior Veterinary Technical Manager become the first graduate of the BSAVA's Master's Degree in Clinical Veterinary Research (MRes), as well as two of its Territory Managers completing the BSAVA Veterinary Nurse Merit Award in Dermatology. Achievements such as this build on Avacta Animal Health's perfect combination of skills and knowledge which allow it to be agile to both customer requirements and the market needs; delivering high quality projects and tests which remain at the forefront of allergy analysis.

Via Avacta's Affimer Diagnostics business there is an opportunity to scope out new projects using the Affimer technology and, with experience in reproducible research and statistical analysis, all future work will continue to see a strong steer towards data-driven projects involving machine learning and data visualisation. Such analytical techniques will benefit both internal projects and contracted project work.





Team Profile: Emma Rixon, Project Manager Animal Health

Professional background

Emma joined the Avacta Animal Health team in September 2019, bringing with her a range of technical, marketing and business development skills and experience from across the veterinary, pharmaceutical, nutraceutical and feed sectors..

Role within the Company

She brings energy and drive to her role as Project Manager at Avacta Animal Health, providing oversight, management and support of development, technical and commercial projects; with a view to enhancing the current customer offerings and commercial opportunities, both nationally and globally.

Why are you excited by Avacta Animal Health?

"What excites me about Avacta Animal Health? It's simple... the dream and the team!"

We have a highly skilled team of people across all areas of the business, with the opportunity to research, develop and bring to market innovative ideas and solutions. This team is motivated and driven by an exceptional leader who nurtures and develops both talent and opportunities, to allow both the business and the people within it to achieve and succeed.

The icing on the cake is that the success of this business not only brings with it commercial benefits, but also brings improvements to the health and wellbeing of animals globally. I'd say that is pretty exciting!"





“We strive to deliver outstanding products and services with a personal touch that will set us apart in an increasingly competitive industry.”

Mary Bronserud, General Manager Animal Health

Financial Review:

Reported Group revenues for the 17-month period ended 31 December 2019 increased to £5.51 million (year ended 31 July 2018 (2018): £2.76 million).

Revenue

Revenues for Avacta Life Sciences increased to £3.33 million (2018: £1.19 million) boosted by the upfront technology access fee arising from the LG Chem collaboration and increasing numbers of custom Affimer projects and funded FTE development projects. Avacta Life Sciences during the period has been separated out into two distinct operating segments, reflecting the Therapeutics operations based from our Cambridge site and the Diagnostics operations at our Wetherby site. Revenues in Avacta Animal Health increased to £2.18 million (2018: £1.57 million) as the division focused on its core pet/equine allergy tests together with expanding its overseas products/services.

The Group adopted the new accounting standard IFRS15 *Revenue from Contracts with Customers* with effect from 1 August 2018. The adoption of the standard had no material impact on the way the Group recognises revenue from contracts with customers. Further details on the adoption of IFRS15 are disclosed in the Accounting Policies.

Research and amortisation of development costs

During the year, the Group expensed through the income statement £7.86 million (2018: £2.79million) in relation to research costs which relate primarily to the costs associated with the in-house Affimer therapeutic programmes which, in line with other therapeutics-based companies, are expensed given their pre-clinical stage of development. In addition, development costs capitalised in prior periods from the custom Affimer diagnostics programmes and new Animal Health allergy tests are amortised resulting in a charge of £2.20 million (2018: £0.99 million).

Furthermore, development costs amounting to £1.88 million (2018: £1.94 million) were capitalised within intangible assets during the period and will be amortised over future periods.

Selling, general and administrative expenses

Administrative expenses have increased during the year to £10.06 million (2018: £7.24 million) proportionately in-line with the 17-month period compared to the prior 12-month period. Depreciation

also increased proportionately relative to the extended reporting period at £1.64 million (2018: £0.97 million).

Net finance costs

The Group chose to early adopt the new accounting standard IFRS16 *Leases* with effect from 1 August 2018. As a result of adopting the new standard, an interest charge of £0.01m (2018: £nil) was recognised. Further details on the adoption of IFRS16 are disclosed in the Accounting Policies.

Losses before taxation

Losses before taxation from continuing operations for the year were £18.05 million (2018: £10.39 million).

Taxation

The Group claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount is included within the taxation line of the consolidated statement of profit and loss in respect of amounts received and receivable for the surrender of research and development expenditure amounting to £2.44 million (2018: £1.56 million). The Group has not recognised any tax assets in respect of trading losses arising in the current financial year or accumulated losses in previous financial years.

Loss for the period

The reported loss for the period was £15.62 million (2018: £8.83 million). The loss per ordinary share reduced to 12.98 pence (13.49 pence) based on an average number of shares in issue during the period of 120,336,858 (2018: 65,437,007).

Cash flow

The Group reported cash and short-term deposit balances of £8.79 million at 31 December 2019 (2018: £5.22 million).

Operating cash outflows from operations amounted to £14.44 million (2018: £6.77 million). Within the net operating cash outflows there were cash receipts in respect of research and development tax credits amounting to £1.63 million (2018: £1.26 million) which represented the tax refund for the previous financial year.

During the year, capital expenditure remained consistent at £0.62 million (2018: £0.58 million) and capitalised development costs were also consistent at £1.88 million (2018: £1.95 million).

The Group completed two fund-raises via placings during the reporting period. The first fund-raise, which was announced in July 2018, completed in August 2018 and raised £11.62 million gross (£10.89 million net). The second fund-raise announced in October 2019, completed in November 2019 and raised £8.97 million gross (£8.41 million net).

Financial position

Net assets as at 31 December 2019 were £25.81 million (2018: £21.41 million) of which cash and cash equivalents amounted to £8.79 million (2018: £5.22 million).

Intangible assets reduced marginally to £11.80 million (2018: £12.20 million) due to the amortisation charge of £2.20 million (2018: £1.06 million) exceeding the capitalised development costs in the period of £1.88 million (2018: £1.95 million).

The adoption of IFRS16 *Leases* using the modified retrospective approach has resulted in the recognition of a 'right-of-use' asset amounting to £0.78 million in relation to the Group's three leasehold properties together with a corresponding lease liability of £0.82 million. Further details on the adoption of IFRS16 are disclosed in the Accounting Policies.

Dividends

No dividends have been proposed for the period ended 31 December 2019 (2018: £nil).

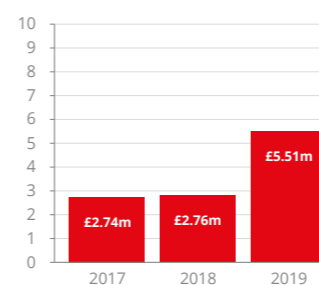
Key performance indicators

At this stage of the Group's development, the non-financial key performance indicators focus around the development of the Affimer technology and customer projects, together with the progress of the first Affimer drug candidate into Phase I clinical trials. In addition, the number of customers evaluating the Affimer technology which may lead to commercial licensing agreements is seen as a growing acceptance of the technology. Both of these are discussed in more detail within the Operational Review on pages 20 to 47.

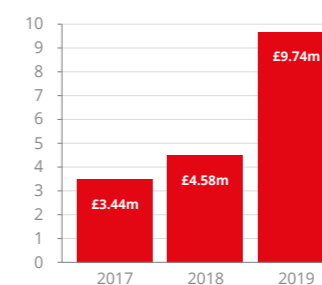
The financial key performance indicators focus around three areas:

- Group revenues
- Research and development expenditure, which is either expensed through the Income Statement or capitalised
- Cash and short-term deposit balances.

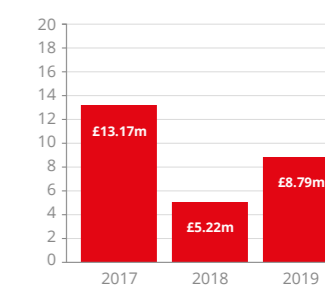
Group revenues



Research and development expenditure



Cash and short-term deposits



*2017 is the 12 months ended 31 July 2017; 2018 is the 12 months ended 31 July 2018; 2019 is the 17 months ended 31 December 2019.

Financial Review (Continued...)

Going concern

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £15.6 million and operating cash outflows of £14.4 million for the period ended 31 December 2019. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend to the end of the financial year ended 31 December 2021. The forecasts take into account the Directors' views of current and future economic conditions that are expected to prevail over the period. These forecasts include assumptions regarding the status of therapeutic development collaborations, diagnostic customer development projects and sales pipeline, future revenues and costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. The forecasts also include assumptions regarding the timing and quantum of investment in the therapeutic and diagnostic research and development programmes.

Whilst there are inherent uncertainties regarding the cash flows associated with the development of both the therapeutic and diagnostic platforms, together with the timing of signature and delivery of customer development projects and future collaboration transactions, the Directors are satisfied that there is sufficient discretion and control as to the timing and quantum of cash outflows to ensure that the Company and Group are able to meet their liabilities as they fall due through into the first quarter of 2022. The key factors considered in reaching this conclusion are summarised below:

- The Group continues to develop its therapeutic and diagnostic platform technologies. This is expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows. The announcement in January 2020 of the establishment of the joint venture with Korean based pharmaceutical company Daewoong will generate significant early stage development income during 2020 and subsequent periods.
- As at 31 December 2019, the Group's short-term deposits and cash and cash equivalents were £8.8 million (2018: £5.2 million).
- In April 2020, the Group announced and completed a fund-raise of £5.4 million (net of expenses) which combined with existing cash balances will provide

sufficient working capital through the remainder of 2020 and 2021 to continue to develop the therapeutic and diagnostic platform technologies. The Group has a tax refund in relation to R&D tax credits due in the second half of 2020 amounting to £2.5 million (a comparable tax refund of £1.6 million was received in July 2018). The Group has a tax refund in relation to R&D tax credits due in the second half of 2020 amounting to £2.5 million (a comparable tax refund of £1.6 million was received in July 2018).

- In November 2019, following completion of a fund-raise, the Group raised £8.4 million (net of expenses) to support the development of the therapeutic and diagnostic technologies. This follows on from the fund-raise completed in August 2018, which raised £10.9 million (net of expenses).
- 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 Directors have also reviewed these cash flow forecasts in the light of potential impacts from the COVID-19 pandemic. The adjusted forecasts include a severe but plausible downside scenario where access to laboratory sites is prohibited for a period of three months, resulting in lost or delayed revenues, delayed milestone payments, delayed development activities (including slippage on clinical trial programmes), and a slow build back up to previous revenue levels. These adjustments have a minimal impact on forecast short-term cash flows during 2020. The medium-term impact centres around the commencement of clinical trials for the AVA6000 programme which are due to commence towards the end of 2020 or early 2021, the ability to recruit patients to the trial given potential COVID-19 follow-on issues and any delay this may have on the initial Phase I study readouts. This could potentially push the cash spend profile peak from the end of 2020 further into 2021, but with sufficient working capital through into 2022 this should not cause the Company and Group any issues in meeting their liabilities as they fall due during the remainder of 2020 and 2021. The Directors also considered the impact of uncertainties due to the UK exiting the European Union and no significant impact on forecast short-term cash flows is expected.

The Directors continue to explore additional sources of income and finance available to the Group to continue the development of the therapeutic and diagnostic platforms beyond 2021. The sources of income could come through additional therapeutic collaborations, similar to the LG Chem and Daewoong collaborations, which may include up-front technology access fees and significant early stage development income, with discussions underway with several potential collaborators.

Based on these indications, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on pages 52 to 54.

Cautionary statement

The Strategic report, containing the Operational and Financial reviews of the Group, contains forward-looking statements that are subject to risk factors associated with, amongst other things, economic and business circumstances occurring from time to time within the markets in which the Group operates. The expectations expressed within these statements are believed to be reasonable but could be affected

by a wide variety of variables outside of the Group's control. These variables could cause the results to differ materially from current expectations. The forward-looking statements reflect the knowledge and information available at the time of preparation.

Events since the end of the financial year

On 8 January 2020, the Group announced that it had formed a joint venture with Daewoong Pharmaceutical ('Daewoong') which would be based in South Korea. The joint venture, named AffyXell Therapeutics ('AffyXell'), has been established to develop Affimer proteins which will be used by AffyXell for the generation of new cell and gene therapies. A collaboration agreement has been signed between Avacta, Daewoong and AffyXell. AffyXell will fund Avacta's own research and development costs associated with the generation of the Affimer proteins for the joint venture.

On 6 April 2020, the Group announced that it had completed a fundraising of £5.75 million gross (£5.35 million net) through the placing of 20,833,333 Placing Shares and 11,111,110 Subscription Shares with new and existing investors at a price of 18 pence per share. The issue of the new shares and receipt of the proceeds from the fundraising were received after the General Meeting which was held on 23 April 2020.



Principal Risks and Uncertainties

The Board is responsible for risk management and reviewing the internal controls systems. The internal control systems are 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 that may impact on the business as part of the risk management procedures in the form of a Risk Register. The Board receives these regular reports and monitors the position at Board meetings. There are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group, which are reviewed on a regular basis. The review process involves a review of each area of the business to identify material risks and the controls in place to manage these risks. The process is undertaken by the Chief Financial Officer and senior managers with responsibility for specific controls. Commercial, Operational, Development and Quality teams, in addition to project teams, meet at least once a month to review progress of all key projects and identify key issues for discussion with the Senior Management Team. Where any significant weakness or failing is identified, implementation of appropriate remedial action is completed following approval by the Board.

The principal risks and uncertainties that could have a significant impact on the Group are set out below.

COVID-19 pandemic Change ^

The Board is continuing to monitor and assess the impact of COVID-19, which is a rapidly changing issue across the world, and the impact it has on the Group's businesses.

As noted above, many clinical trials have been halted due to the pressure on clinicians and hospitals during the current COVID-19 pandemic and the regulators are prioritising submissions related to COVID-19 therapies. Our contract manufacturing and clinical operations partners have reduced staffing levels to maintain social distancing as has the Group. It is prudent to assume a

short delay in starting the AVA6000 phase I study. We expect to obtain regulatory approval for the AVA6000 clinical trial from the MHRA in Q3 and dose first patients late in the year or, more likely, early in 2021. This also means that the associated costs are delayed and there is sufficient cash on the balance sheet to complete the phase I trial as well as progressing our other programmes.

Our Animal Health business has seen a slow down as veterinary practices are now focusing on emergency cases, with more routine appointments in relation to allergy or therapy testing being put on hold given the limitations of travel on the UK population at the moment. This will have an impact on revenues in the coming weeks until we emerge from the lock-down caused by the pandemic.

Conversely, the opportunity created by the unique strength of the Affimer platform to rapidly provide highly specific diagnostic reagents for SARS-COV-2 antigen testing is difficult to quantify but clearly very large indeed. The Group has established two commercial partnerships and is in discussion with several others to establish multiple routes to market for the Affimer reagents. This will minimise risk and time to market and maximise the commercial opportunity which is likely to far outweigh the negative impacts of the COVID-19 pandemic.

Funding Change < >

The development of the Group's Affimer and pre|CISION technology, in particular in the therapeutic areas, is resource and cash intensive. The Group raised two separate tranches of funding in July 2018 and October 2019 to continue to develop its technology.

As at 31 December 2019, the Group had cash and short-term deposits of £8.8 million. The Group raised a further £5.4 million in April 2020 and expects its cash resources to run through 2021 into 2022 based on the current assumptions around the Group's developments which include taking its first drug, a pre|CISION targeted form of the standard-of-care doxorubicin, into the clinic in late 2020 or early 2021

Should the Group decide to accelerate the Affimer platform development programme into additional therapeutic areas to increase shareholder value then further funding would need to be raised. As with all fundraising activities, there are external market and economic factors which may impact the timing and amount of funding available.

Reliance on third parties Change ^

Avacta relies heavily upon other parties (including clinical research organisations) for many important stages of its therapeutic development programmes, including execution of some pre-clinical studies and later-stage development for its compounds and drug candidates, management of its clinical trials, including medical monitoring and data management. Underperformance by any of these other parties could adversely impact the Group's ability to operate effectively.

The Board regularly reviews the status of the therapeutic development programmes and with that the performance of the third parties that are contracted to provide services to ensure that the quality and timeliness of these services is acceptable.

Research and development Change < >

There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientists involved are unable to produce the results required for specific internal development programmes, customer-related projects or third-party collaborations. This risk is in specific applications of Affimer technology rather than in the Affimer technology platform as a whole.

The development teams continue to work on improving the core Affimer technology platform and expanding the potential areas where the technology has significant benefits over existing antibody technologies with oversight from the Board and Scientific Advisory Board.

Timing Change < >

There is a risk that the development of the Affimer technology may take longer than planned to meet the requirements of current and potential customers.

Given the proprietary nature of the Affimer technology and its early stage development, it may take some time for customers to evaluate and utilise the technology instead of more established antibody technologies. This could delay the completion of commercial licences for the technology and the resultant revenues from these licences.

Intellectual property Change < >

The success of the Group's Affimer technology platform depends on its ability to obtain and maintain patent protection for its proprietary technology.

Failure to protect the Affimer technology platform, or to obtain patent protection with a scope that is sufficiently wide, could significantly impact the ability to commercialise the technology.

Should the patents be challenged, there could be a considerable cost in defending the patent rights, with an uncertain outcome.

The Board regularly reviews the patent portfolio and its protection. Specialist patent attorneys are engaged to apply for and defend intellectual property rights in appropriate territories.

Brexit Change < >

The Board is continuing to monitor the Brexit position and the uncertainty that surrounds the trade agreement which the UK will be able to negotiate with the European Union and the impacts it may have on the Group, in particular:

- Imports of laboratory supplies – the majority of these supplies are sourced through UK suppliers who source from their worldwide network. Those goods that come directly from the EU could face customs procedures which delay their delivery. The Group has assessed this impact and is carrying higher levels of certain laboratory supplies to mitigate this risk.
- Exports to customers – the Group engages with customers based in the EU mainly via its Animal Health business. Exports relate to veterinary diagnostic tests and are usually shipped on a monthly basis. To mitigate any delay in supplying customers, the business has worked closely with customers to ensure they are carrying sufficient stocks of tests should there be any delays in going through customs procedures.
- Patents/Trade Marks – the risk is that third parties may seek to exploit the Group's patents and trade marks if they are not sufficiently protected following the end of the transition period. The Group has registered national trade marks in the UK and is also pursuing registration of national trade marks in additional core territories whilst closely following the potential transition arrangements regarding EU trade marks.
- Employees – the Group has publicised the UK government's Settled Status Scheme and where appropriate has assisted employees with the application process.

Principal Risks and Uncertainties (Continued...)

Key staff [Change <>](#)

The Group has in place an experienced and motivated Senior Leadership Team together with a significant number of highly skilled senior scientists.

Loss of key staff could lead to a delay in the Group's plans and operations.

The Group aims to provide remuneration packages and working conditions that will attract and retain staff of the required level, informally benchmarking the level of benefits provided to its staff against comparator companies.

Cybersecurity [Change <>](#)

The Group continues to place reliance on third-party cloud-hosted applications, which provide cost-effective services with significant redundancies and disaster prevention and recovery strategies:

Loss of facilities [Change <>](#)

Should the Group's facilities become damaged, the ability to carry on development programmes and meet customer deadlines may be affected.

The Group has purpose-built facilities in both Wetherby and Cambridge and has business continuity plans in place together with adequate insurance to cover any business damage or interruption.

This Strategic Report which outlines our performance against our strategic objectives, performance and financial position, as well as our outlook for the future was approved by the Board on 6 May 2020 and signed on its behalf.



Alastair Smith
Chief Executive Officer



Tony Gardiner
Chief Financial Officer

Governance

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Board of Directors

The Avacta Group Board of Directors provide experienced strategic and practical guidance to the Company to help ensure that the interests of all shareholders are met and that corporate good practice is followed.



Top row:
Dr Eliot Forster
Dr Alastair Smith

Middle row:
Tony Gardiner
Dr Mike Owen

Bottom row:
Dr Trevor Nicholls
Paul Fry

Dr Eliot Forster Non-executive Chairman

Eliot was appointed as Chairman to the Board in June 2018, bringing with him over 25 years of experience in the pharmaceutical and biotechnology industry. He is currently the Chief Executive Officer of F-star, a leading clinical stage biopharmaceutical company developing immuno-oncology bispecific antibody therapeutics.

Prior to joining F-star, Eliot was Chief Executive Officer of Immunocore helping it to become a world-leading immuno-oncology biotech, raising over £230 million in equity funding, as well as securing partnerships with AstraZeneca and the Bill & Melinda Gates Foundation. He has also served as Chief Executive Officer to Creabilis Therapeutics and Solace Pharmaceuticals Inc.

The early part of Eliot's career was at GSK and then at Pfizer where he became Head of Development and Operations for the EU and Asia, where he was responsible for drug development activities, bringing several drugs to market, including Celebrex® (celecoxib) and Relpax® (eletriptan).

Eliot holds a PhD in neurophysiology from Liverpool University and an MBA from Henley Management College. He is Chairman of the MedCity project that promotes the Life Sciences in London. He is an Honorary Visiting Professor at the University of Liverpool and University of Pavia, a Board member of OSCHR (Office for Strategic Coordination of Health Research) and the National Genomics Board.

Eliot is a member of the Remuneration Committee and the Audit Committee.

Dr Alastair Smith Chief Executive Officer

Alastair has been Chief Executive Officer of Avacta since its inception in 2005 and has been responsible for the management and strategic development of the Company, having led the IPO in 2006 and subsequent fund-raising and M&A activities of the Group, and has overseen the product development programmes. Alastair combines world-class scientific and technical knowledge with a highly commercial mindset. 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.

Tony Gardiner Chief Financial Officer

Tony is a member of the Institute of Chartered Accountants of England and Wales and joined Avacta in January 2016 as Chief Financial Officer. He has over 20 years' experience of senior financial and operational management roles across a number of different sectors. Between 2007 and 2011, Tony was the Chief Financial Officer of AIM-listed Fusion IP plc, an IP commercialisation company, which was subsequently acquired by IP Group plc in 2014. He played a key role in supporting the growth of the business and oversaw all finance activities as well as directly supporting life sciences and health technology companies in Fusion's portfolio. Tony joined Avacta from AHR, an international architecture and building consultancy practice where he had been Finance Director since 2011. Tony has also held senior finance roles within Eversheds LLP, KCOM Group plc and Hickson International plc.

Dr Mike Owen Senior Independent 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 Sareum plc, Zealand Pharma, Chairman and Non-executive Director of Ossianix Inc., and a Non-executive Director of ReNeuron plc, GammaDelta Therapeutics and Glythera. He also advises the private equity CRT Pioneer Fund. Mike is Chairman of the Scientific Advisory Board and a member of the Remuneration Committee and the Audit Committee.

Dr Trevor Nicholls Non-executive Director

Trevor is currently Chief Executive Officer of CAB International, a not-for-profit 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 Chairman of Iota Sciences Limited, a company spin-out from the University of Oxford which is commercialising innovative microfluidic technology for the life sciences sector. In addition, he is a Non-executive Director at hVivo plc and Conidia Bioscience. Trevor brings considerable experience in the commercialisation of life science systems and reagents from his previous roles as Chief Commercial Officer at Affymetrix, founder and Chief Executive Officer of UK biotech company Oxagen Ltd and Commercial Director of the Life Sciences business at Amersham International (now part of GE Healthcare). Trevor is Chairman of the Remuneration Committee and has been the interim Chairman of the Audit Committee during 2019.

Paul Fry Non-executive Director

Paul was appointed as a Non-executive Director in February 2020. Paul has extensive financial experience across a number of industries including biotech, pharmaceutical and telecommunications. He is currently Chief Financial Officer of Vectura Group plc, an industry leading inhaled drug delivery specialist listed on the FTSE Main Market.

Prior to his current position, he was Chief Financial Officer of Immunocore Limited, a leading biotech company focused on the development of a new class of immunotherapeutic drugs based on proprietary T-cell receptor technology. Paul has also served as Director of Global Finance Operations at Vodafone plc and spent more than 25 years at GlaxoSmithKline ('GSK'), where he held a number of senior roles including Head of Global Finance Services and Chief Financial Officer for GSK's Italian pharmaceutical business.

Paul is Chair of the Audit Committee and a member of the Remuneration Committee.

Scientific Advisory Board

The Scientific Advisory Board (SAB) has been established by the Company to guide therapeutic strategy including target selection and to provide critical review of progress. The SAB meets periodically and is chaired by Dr Mike Owen, Senior Independent Director.



Professor Adrian Hayday (FMedSci)

Professor Hayday is the Kay Glendinning Professor of Immunobiology at the Francis Crick Institute, King's College London, co-Leader of the Clinical Academic Grouping in Genetics, Rheumatology, Immunology, Infection, and Dermatology at Guy's Hospital, and a Senior Group Leader at the London Research Institute of Cancer Research UK.

Professor Terence H Rabbitts (FMedSci, FRS)

Professor Rabbitts is a molecular biologist, working at the University of Oxford John Radcliffe Hospital, whose examination of the organisation and rearrangement of human genes over the past four decades has helped to shape our understanding of immunity and cancer. He was responsible for determining the genetic basis of human antibody diversity, which enables the immune system to fight countless pathogens, and revealed genetic translocations that cause some cancers.

Professor Paul Moss (MRCP, FRCPath)

Professor Moss leads the University of Birmingham's world-class cancer research as Director of the School of Cancer Sciences. His research is centred on the application of translational immunological research in the study of human malignancies. His group is particularly interested in developing strategies to optimise stem cell transplantation for patients with haematological malignancies.

Professor Gerard Evan (FRS)

Professor Evan's research focuses on the molecular basis of cancer. He has developed a novel class of genetically engineered mouse in which individual oncogenes / tumour suppressor genes may be toggled off and on, reversibly and at will. In this way the most effective therapeutic targets can be identified. His research has directly ascertained the therapeutic impact, efficacy and side effects of Myc inhibition and p53 restoration.



Top row:
Professor Adrian Hayday

Middle row:
Professor Terence H Rabbitts
Professor Paul Moss

Bottom row:
Professor Gerard Evan



Senior Leadership Team

The Senior Leadership Team bring a wealth of commercial, technical, scientific and operational experience to the Group. Working with the Board of Directors, the team defines the Group's strategy and provides experienced management of the Group's activities to deliver that strategy.



Top row:
Dr Matt Johnson
Dr Amrik Basran

Middle row:
Dr Jose Saro
Dr Matt Vincent
David Wilson

Bottom row:
Emma Wright
Mary Bronserud

Dr Matt Johnson Chief Technical Officer

Matt studied Genetics and Microbiology at the University of Sheffield and stayed on to complete a PhD in Molecular Biology with Dr Anne Moir investigating novel surface proteins of the *B. cereus* endospore. As part of his PhD, he completed an EMBO short-term fellowship at the Pasteur Institute in Paris with Dr Michele Mock, looking at the same proteins in *B. anthracis*, the causative agent of anthrax.

After completing his PhD, Matt took a Postdoctoral position in the Department of Biochemistry at Cambridge University with Professor George Salmond. The focus of the project was characterising a novel toxin-antitoxin phage resistance mechanism discovered on a cryptic plasmid in *E. carotovora*. Matt joined Abcam in 2005 as a development scientist producing and characterising antibodies. His career at Abcam developed as the company grew to become the leading provider of research-grade antibodies in the life sciences market. He held several roles over his eight years in the company, culminating in the post of Head of R&D.

His experience at Abcam includes building an imaging team for ICC and IHC, being responsible for managing the antibody characterisation group, running a team responsible for process improvements and QA, project managing a team of developers implementing a new LIMS system and management team of the Product Development and Manufacturing facility. As Head of R&D, he built and ran a research group with interests in recombinant antibody/binder technologies, alternative detection methodologies, immunoassay development and antibody characterisation. His other responsibilities included contributing to M&A strategy, licensing deals and technology scouting. To support this, he completed a Postgraduate Certificate in Intellectual Property Law at the University of Bournemouth in 2012.

Dr Amrik Basran Chief Scientific Officer

Amrik Amrik has over 14 years' experience of both the biotech and pharma industries. He completed his

degree and PhD at the University of Leicester and has a background in protein biochemistry/engineering. He then spent six years as a post-doctoral researcher at the Institute of Biotechnology, Cambridge University isolating novel bacterial pathways involved with the metabolism of illicit drugs and high explosives.

In 2002, Amrik then joined Domantis, a start-up biotech company based in Cambridge developing domain antibodies (dAbs), a novel antibody fragment technology. As Director of Protein Sciences, he was responsible for characterising the lead dAbs from early discovery for their suitability for drug development, supporting pre-clinical evaluations and tech transfer to CMOs. Domantis was acquired by GSK in 2006, after which Amrik became Head of Topical Delivery (Biopharm Discovery Unit), supporting the development of biotherapeutics across the GSK portfolio. The group focused on discovering and developing a wide range of therapeutic antibodies, dAbs and proteins for delivery into the eye, skin and lung. This included developing formulation and delivery strategies for biotherapeutics for Phase I clinical studies.

Amrik left GSK in 2012 and joined Avacta in 2013 as Chief Scientific Officer to develop the Affimer platform for therapeutic use, focusing on immuno-oncology where there is a high unmet medical need for new novel drugs to improve the long-term clinical outcome for cancer patients.

Dr Jose Saro Chief Medical Officer

Jose brings over 20 years' experience in the pre-clinical, translational and early clinical development of oncology assets, spanning small molecules, biologics and drug conjugates. Jose joins Avacta from Roche where he held the role of Senior Translational Medicine Leader at the Roche Innovation Center Zurich in which he focused on immuno-oncology and the development of combination products. He led the translational research and entry into human studies of tumour antigen targeted cytokines and tumour targeted T cell engager bi-specific antibodies and their combination with checkpoint inhibitors.

Prior to his position at Roche, Jose was Executive Director Oncology Global Development and Medical Affairs at Bristol Myers Squibb, based in Paris, where he led and contributed to many oncology clinical development programmes, including Sprycel, Ipilimumab (Yervoy anti-CTLA4), Nivolumab (anti-PD1), anti-PDL1, anti KIR, anti LAG3, Brivanib, MEK inhibitor and Elotuzumab.

Previously, Jose was Executive Director of Translational Medicine and Early Clinical Development (Oncology) at Novartis. Prior to that, he held senior positions at Eisai, and Wyeth. He has also experience of the small biotech environment, having spent several years as Vice-President Oncology Clinical Development at PharmaMar, an oncology-focused biotech. There, he was Head of Clinical Research & Development teams, comprising approximately 45 people, located in both Madrid and Boston, MA.

Dr Matt Vincent VP Therapeutics Business Development

Matt joined the company in 2017 with over 30 years of experience in the life science industry in both law firm settings and in business development roles that provided him with a robust deal sheet developed through extensive transaction/negotiation lead experience. In each of his various previous roles, he has specialised in collaboration management and therapeutic development, and with Avacta as Vice President of Business Development and Therapeutic Innovation Strategy he brings his overall background to bear through coordinating the company's business, intellectual property, drug pricing and regulatory strategies.

His experience has provided him with shrewd analytical skills and market research capabilities founded on a broad science-based business background, as well as the ability to collaborate cross-functionally with scientific and legal teams. Areas of deep technical expertise include drug development relating to oncology (with particular strengths in immuno-oncology), inflammatory, autoimmune, metabolic and cardiovascular diseases, ophthalmology (both front-of-the-eye

Senior Leadership Team (Continued...)

and back-of-the-eye diseases) and cell therapies. At Ocata Therapeutics, he led the business development efforts, contract negotiations and due diligence team through the acquisition of Ocata by Astellas Pharmaceuticals for an almost 100% premium over market cap.

Matt holds a BS in Chemistry from Worcester Polytechnic Institute, a PhD in Biochemistry from Tufts University School of Medicine, and a J.D. from Suffolk University School of Law. He is also a co-inventor on a number of patents and a co-author on recent papers in such high impact journals as *The Lancet*, *Nature* and *Cell*. He has co-founded several companies, including with Amazon founder and CEO Jeff Bezos.

David Wilson Commercial Director, Diagnostics

David brings to Avacta over 25 years' international experience in business development, marketing and sales management in the *in vitro* diagnostic medical devices industry, having held senior commercial and Board level positions in global corporations, angel and venture capital funded start-ups and a sector-specific trade association. Following a twelve-year period at Genzyme Corporation, where David led the international sales, marketing and business development functions for the Diagnostics Products division, he joined US/Israeli start-up Molecular Detection as Vice-President Commercial Operations to lead the commercial development of a molecular diagnostics technology platform applied to the rapid, accurate detection of antibiotic-resistant bacteria.

Building on his experience supporting the development of early stage businesses and technologies in the *in vitro* diagnostics sector, David joined London/Boston-based specialist life sciences consulting firm Alacrita and led the development of their diagnostics consulting practice, providing both strategic and operational support to early-stage diagnostics companies entering new markets. More recently, as Head of International Sales for US-based Asuragen Inc., David led a team developing and delivering the international commercial strategy for a specialised genetic and oncology molecular diagnostic product portfolio.

He is currently a Board member for two early-stage diagnostic businesses developing novel point-of-care diagnostic testing platforms, and has served on the Executive Committee of the British In Vitro Diagnostics Association (BIVDA). David has a BSc (Hons) in Biochemistry and Microbiology from the University of St. Andrews and an MBA from the Open University Business School.

Emma Wright In-house Counsel

Emma Wright has 20 years' experience in advising on, drafting and negotiating commercial and intellectual property contracts. She joined Avacta Group plc in 2014 from Walker Morris Solicitors, where she headed the Life Sciences and Pharmaceuticals Group for the practice. Emma has previous in-house experience, working at the global FTSE 100 medical devices company, Smith & Nephew plc. She was also a member of the Legal and Regulatory Committee and Adjudication Panel of the Association of British Healthcare Industries (ABHI). Emma has a wealth of experience in commercial contracts relating to research, development and commercialisation in the life sciences sector, including cross-jurisdictional research and collaboration agreements; supply agreements; manufacturing and outsourcing agreements; and multi-jurisdictional intellectual property licensing. Emma is a member of the Senior Management Team and advises all divisions within the Avacta Group.

Mary Bronserud General Manager, Animal Health

Mary Bronserud has 20 years' experience in senior leadership positions within FMCG and Animal Health. She joined Avacta Animal Health in 2018, from a global management consultancy that specialised in organisation design, enabling companies to realise their potential. Mary has a wealth of experience in sales, marketing and supply chain/logistics which provide a strong commercial perspective, alongside strategic leadership. Mary is a member of the Senior Management Team within Avacta Group.



Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 Dec 2019.

Principal activity

The principal activity of the Group is to provide high-quality Affimer reagents for licensing into third-party research and diagnostic products, and for creating new Affimer medicines for development in-house and licensing to large pharmaceutical companies. The Group also provides veterinary laboratory services and develops market-leading veterinary diagnostic tests.

Business review and future developments

A review of the Group's operations and future developments is covered in the Strategic Report on pages 15 to 52. 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 page 90.

The Directors have reviewed the results for the 17-month period ended 31 December 2019 and the year ended 31 July 2018, 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.

Financial key performance indicators ('KPIs')

A review of the Group's KPIs are included within the Financial Review on pages 48 to 51.

Dividends

The Directors do not recommend the payment of a dividend (2018: £nil).

Going concern

As at 31 December 2019, the Group had £8.79 million of cash and cash equivalents together with £2.78 million of net current assets (excluding cash and cash equivalents) available to it. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current cash forecasts and assumptions as well as the main risk factors facing the Group as set out on pages 52 to 54.

The Group expects its cash resources to run through to the beginning of 2022 based on the current assumptions around the Group's developments, which include taking its first drug, a pre|CISION targeted form of the standard-of-care doxorubicin, into the clinic in late 2020 or early 2021.

Management have also reviewed these forecasts in the light of potential impacts from COVID-19 and the UK exiting the European Union. The net impact of the adjustments arising from these events on forecast short-term cash flows during 2020 was minimal.

The Group continues to develop its pipeline of drug assets and its business development work focuses on generating non-dilutive income through further commercial deals and collaborations, similar to those with LG Chem and Daewoong Pharmaceutical which provides an opportunity to generate non-dilutive income, including potential for signature fees, milestone payments and development cost funding.

The Directors are therefore confident the Group has adequate financial resources to fund its activities for the forthcoming period. 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 were in office during the year and up to the date of signing the Report and Accounts, unless otherwise stated were:

- Dr Eliot Forster
- Dr Trevor Nicholls
- Dr Mike Owen
- Paul Fry, Appointed 3 February 2020
- Dr Sam Williams Appointed 28 January 2019, Resigned 4 November 2019
- Alan Aubrey, Resigned 21 January 2019
- Dr Alastair Smith
- Tony Gardiner

Under the Articles of Association of the Company, Directors are subject to re-election at the Annual General Meeting following their appointment. In addition, one third of the Directors are required to retire at the forthcoming Annual General Meeting, notice of which accompanies this Report & Accounts. Paul Fry, having been appointed as a Director since the last Annual General Meeting, will also be due for re-election by shareholder vote. The Directors retiring by rotation at the forthcoming Annual General Meeting are Alastair Smith and Tony Gardiner. Both Alastair Smith and Tony Gardiner, being eligible, offer themselves for re-election. In relation to the re-elections of each of the Directors, the Board is satisfied that both of these Directors continue 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 56 and 57.

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 6 May 2020, 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
Premier Miton Group	16,900,813	8.1%
Baillie Gifford & Co	14,817,856	7.1%
Lombard Odier Asset Management	9,979,863	4.8%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 December 2019 and at 6 May 2020 were as follows:

	31 December 2019 number of shares	6 May 2020 number of shares
Non-executive Directors		
Eliot Forster	153,333	153,333
Trevor Nicholls	107,455	107,455
Mike Owen	7,763	7,763
Paul Fry	-	-
Executive Directors		
Alastair Smith	679,643	679,643
Tony Gardiner	8,196	8,196

In addition, Alastair Smith has a joint interest in 1,640,000 shares and Tony Gardiner has a joint interest in 150,000 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 between Alastair Smith (dated 9 January 2012 and 15 February 2016) or Tony Gardiner (dated 15 February 2016), as the case may be, and Avacta Group Trustee Limited and Avacta Group plc in both cases.

None of the Directors have 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 74 to 78.

The middle market price of the Company's ordinary shares on 31 December 2019 was 17.25p and the range during the period was 47.0p to 15.25p with an average price of 27.0p.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee Report on pages 74 to 78.

Research and development

During the year, the Group expensed through the income statement £7.86 million (2018: £2.79 million) in relation to research costs which relate primarily to the costs associated with the in-house Affimer therapeutic programmes which, in line with other therapeutics-based companies, are expensed given their pre-clinical stage of development. In addition, development costs capitalised in prior periods from the custom Affimer diagnostics programmes and new Animal Health allergy tests are amortised resulting in a charge of £2.20 million (2018: £0.99 million).

Furthermore, development costs amounting to £1.88 million (2018: £1.94 million) were capitalised within intangible assets during the period and will be amortised over future periods.

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.

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 period to 31 December 2019 and the amount owed to its trade creditors at 31 December 2019, was 13 days (2018: 22 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.

Directors' Report (Continued...)

Re-appointment of auditor

A resolution for the re-appointment as auditor of KPMG LLP and the fixing of their remuneration will be put to the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Walker Morris LLP, 33 Wellington Street, Leeds LS1 4DL, on Monday 22 June 2020 at 14.00. Full details of the business to be transacted at the Annual General Meeting can be found in the Notice of Annual General Meeting on pages 131 to 134 of this report.

Events since the end of the financial year

On 8 January 2020, the Group announced that it had formed a joint venture with Daewoong Pharmaceutical ('Daewoong') which would be based in South Korea. The joint venture, named AffyXell Therapeutics ('AffyXell'), has been established to develop Affimer proteins which will be used by AffyXell for the generation of new cell and gene therapies. A collaboration agreement has been signed between Avacta, Daewoong and AffyXell. AffyXell will fund Avacta's own research and development costs associated with the generation of the Affimer proteins for the joint venture.

On 6 April 2020, the Group announced that it has completed a fundraising of £5.75 million gross (£5.35 million net) through the placing of 20,833,333 Placing Shares and 11,111,110 Subscription Shares with new and existing investors at a price of 18 pence per share. The issue of the new shares and receipt of the proceeds from the fundraising were received after the General Meeting which was held on 23 April 2020.

By order of the Board



Tony Gardiner
Company Secretary

Avacta Group plc (Registered number - 4748597)

6 May 2020

Corporate Governance Report

Our approach to corporate governance, and how the Board and its committees operate, is explained in the statement below.

Chairman's Statement on Corporate Governance

All members of the Board believe strongly in the value and importance of good corporate governance and in our accountability to all of the Company's stakeholders, including shareholders, staff, customers and suppliers. In the statement below, we explain our approach to governance, and how the Board and its committees operate.

The corporate governance framework which the Company operates, including Board leadership and effectiveness, Board remuneration, and internal control, is based upon practices which the Board believes are proportional to the size, risks,

complexity and operations of the business and is reflective of the Group's values. The Board adopts the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures.

Delivering growth		
1	Establishing a strategy and business model which promote long-term value for shareholders.	See Business Overview on page 20.
2	Seek to understand and meet shareholder needs and expectations.	See this section and the 'Corporate Governance' section of our website www.avacta.com .
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success.	See this section and the 'Corporate Governance' section of our website.
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation.	See this section and the 'Principal Risks and Uncertainties' on pages 52 to 54.
Maintain a dynamic management framework		
5	Maintain the board as a well-functioning, balanced team led by the Chairman.	See this section and the 'Corporate Governance' section of our website.
6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	See this section and the 'Board of Directors' section on pages 56 and 57.
7	Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.	See this section.
8	Promote a corporate culture that is based on ethical values and behaviours.	See this section and the 'Corporate Governance' section of our website.
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	See this section and the 'Corporate Governance' section of our website.
Build trust		
10	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.	See this section and the 'Corporate Governance' section of our website.

The Board considers that it does not depart from any of the principles of the QCA Code.

Corporate Governance Report (Continued...)

Establishing a strategy and business model which promotes long-term value for shareholders

The purpose of the Group is to unlock the significant potential of the Affimer technology and gain a share of the antibodies market, which across therapeutic and other markets is worth tens of billions of US dollars.

The Group has established two ways of addressing these opportunities through shorter-term and longer-term opportunities.

The first shorter-term area is the building of a profitable business through licensing of Affimer reagents to developers of research tools and diagnostic tests in order that they can power their products with Affimers.

The second longer-term opportunity is to develop a pipeline of Affimer therapeutic candidates for in-house development and licensing. The key value driver is the progression of the first Affimer into the clinic to demonstrate safety and tolerability in man. This will validate the Affimer platform technology and provide the opportunity to develop higher value partnering and licensing deals with large pharmaceutical companies across the world.

The Board believes it has the right strategy in place and the support of shareholders, as demonstrated by the recent fund-raise to deliver the significant value growth over the next few years.

Board structure, skills and compliance

The Board has a collective responsibility and legal obligation to promote the interests of the Company and to define the corporate governance arrangements. At 31 December 2019, the Board comprised three Non-executive Directors (four from February 2020) and two Executive Directors. The profiles of the Directors are set out on pages 56 and 57.

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 is not involved in the day-to-day business of the Group. The Chief Executive 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 Chairman, Dr Eliot Forster, was appointed as Chairman to the Board in June 2018. Prior to his appointment to the Board, he was not involved with any part of the Avacta Group and has been considered to be independent since his appointment. Eliot has significant experience within Life Science companies, in particular in the therapeutics area where the Group's Affimer technology has a significant focus. Eliot's time commitment is one to two days per month.

The Chief Executive Officer, Dr Alastair Smith, was appointed to the Board in September 2007. Alastair has 13 years' experience as Chief Executive Officer of an AIM-listed business, having founded the business and has been responsible for the strategic development of the Group, leading fund-raising and M&A activities during this time. Alastair's time commitment is full time.

Dr Mike Owen was appointed as a Non-executive Director in September 2015 and has undertaken the role of Senior Independent Director since September 2017. The Board determines him to be independent of the executive management and free from any relationship that could materially affect the exercise of his independent judgement. Mike also chairs the Avacta Life Sciences Scientific Advisory Board, which comprises independent key opinion leaders who provide a challenging review of the ongoing therapeutic programmes and areas such as immuno-oncology target selection. Mike has significant experience within large pharmaceutical companies and a broad range of experience as a Non-executive within Life Science companies. Mike's time commitment is one to two days per month.

Dr Trevor Nicholls, was appointed as Non-executive Director in August 2013 and was Chairman from August 2013 to June 2018. Prior to his appointment to the Board, he was not involved with any part of the Avacta Group and has been considered to be independent since his appointment. Trevor has vast experience with life science and reagents companies and has provided significant oversight into the development of the Affimer diagnostics proposition. During the period Trevor has been Chairman of the Remuneration Committee and from February 2019 was the interim Chairman of the Audit Committee. Trevor's time commitment is one to two days per month.

Paul Fry, was appointed as a Non-executive Director in February 2020. Prior to his appointment to the Board, he was not involved with any part of the Avacta Group and has been considered independent since his appointment. Paul has an extensive financial background within the Life Sciences sector and replaces Dr Nicholls as Chairman of the Audit Committee. Paul's time commitment is 1 to 2 days per month.

During the reporting period, Alan Aubrey served as a Non-executive Director up to January 2019 and was replaced by Dr Sam Williams who served as a Non-executive Director from January 2019 to November 2019. Both individuals were senior employees within IP Group plc, a significant shareholder of the Avacta Group, hence were not considered to be independent. Following the resignation of Dr Williams, all of the Non-executive Directors were considered to be independent.

Tony Gardiner was appointed as an Executive Director in January 2016 and fulfils the role of Chief Financial Officer for the Group. Tony has over 20 years' experience in senior financial and operational roles across small and large organisations and has previously served as CFO in an AIM-listed business. In addition to this role, Tony is also Company Secretary and provides advice and guidance to the Board and Non-executive Directors. The Board acknowledges that best corporate governance practice would not combine the role of an Executive Director and Company Secretary; however, given the relative size of the Group at this stage, the Board is comfortable with Tony performing both roles but will review the position as the Group grows. Tony's time commitment is full time.

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 to acceptable levels. 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 an auditor, 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. Given the relative size of the Company, there is currently no separate Nomination Committee and the Board, with advice from the Remuneration Committee, take responsibility for any recruitment of Executive and Non-executive Directors together with succession planning. Board papers are circulated before Board meetings in sufficient time to allow meaningful review and preparation by all Board members.

Conflicts of interest

Each Director has a duty to avoid situations in which he has or can have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Group. The Board requires each Director to declare to the Board the nature and extent of any direct or indirect interest in a proposed transaction or arrangement with the Group and the Company Secretary maintains a register of Directors' other interests. The Board has power to authorise any potentially conflicting interests that are disclosed by a Director.

Board evaluation and performance

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 by means of Board presentations on insurance as well as issues covering pensions, social, ethical, environmental and health and safety.

In the furtherance of their duties or in relation to acts carried out by the Board or the Company, each Director has been informed that they are 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 is appraised by the Chairman, the executive Board members by the Chief Executive and the non-executive Board members by the Chairman. The Senior Independent Director seeks the views of all the Directors on the performance of the Chairman and discusses their combined views with him. 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. The Non-executive Directors 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 remuneration from the Company other than the Directors' fees. During the period, Dr Eliot Forster, shortly after his appointment to the Board, received an award of share options, which were equivalent to one year's fee for his services as Chairman. The share options vest equally over a three-year period and do not carry any performance obligations (further details are provided within the Remuneration Report). The Board and Company's advisors do not consider the share options, given their relatively low value in relation to Dr Forster's fee for his services and his income from other roles outside of the Avacta Group, to impact his independence.

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.

The table below shows the number of Board meetings and Committee meetings held during the period and the attendance of each Director.

	Board meetings		Committee meetings			
	Position	Attended	Audit		Remuneration	
			Position	Attended	Position	Attended
Eliot Forster	Non-executive Chairman	9/9	Member	1/1	Member	1/1
Trevor Nicholls	Non-executive	9/9	Member	1/1	Chairman	1/1
Mike Owen	Non-executive	8/9	Member	1/1	Member	1/1
Alan Aubrey	Non-executive	3/3	Chairman	1/1	Member	1/1
Sam Williams	Non-executive	5/5	Member	-	Member	-
Paul Fry ¹	Non-executive	-	-	-	-	-
Alastair Smith	Executive CEO	9/9	-	1/1	-	1/1
Tony Gardiner	Executive CFO	9/9	-	1/1	-	1/1

¹ Paul Fry was appointed as Non-executive Director after the period ended 31 December 2019.

Corporate Governance Report (continued...)

Audit Committee

The Audit Committee (the Committee) is established by and is responsible to the Board.

Paul Fry is the Chair of the Committee and is considered to be an independent Non-executive Director. Paul is a member of the Chartered Institute of Management Accountants and brings significant breadth of recent and relevant financial experience including his current role as Chief Financial Officer of Vectura plc, which is listed on the Main Market of the London Stock Exchange. Prior to Paul's appointment, Trevor Nicholls held the position as Interim Chair of the Committee, having taken over the role from Alan Aubrey after he resigned as a Non-executive Director in January 2019. The current members of the Committee - Eliot Forster, Trevor Nicholls and Mike Owen, all of whom are Non-executive Directors - have gained wide experience in regulatory, commercial and risk issues. Sam Williams was also a member of the Committee during his term as a Non-executive Director.

The terms of reference of the Audit Committee include the following responsibilities:

- 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 auditor and their remuneration, following appointment by the shareholders in the Annual 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 auditor

Risk management

The Board is responsible for risk management and reviewing the internal controls systems. The internal control systems are 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. Given the relative size of the Group, there is not currently a separate internal audit function.

The Group highlights potential financial and non-financial risks which may impact on the business as part of the risk management procedures in the form of a Risk Register. The Board receives these regular reports and monitors the position at Board meetings. There are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group, which are reviewed on a regular basis. The review process involves a review of each area of the business to identify material risks and the controls in place to manage these risks. The process is undertaken by the Chief Financial

Officer and senior managers with responsibility for specific controls. Where any significant weakness or failing is identified, implementation of appropriate remedial action is completed following approval by the Board.

The Group maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed on a periodic basis.

Remuneration Committee

The Remuneration Committee is chaired by Trevor Nicholls and the other current members of the Committee are Eliot Forster, Mike Owen and Paul Fry, all of whom are Non-executive Directors. Alan Aubrey and Sam Williams were also members of the Committee during their terms as Non-executive Directors. The Committee meets at least once a year with the Chief Executive in attendance as appropriate.

The terms of reference of the Remuneration Committee include the following responsibilities:

- To determine the framework and policy, together with the individual packages of the remuneration of the Executive Directors and certain other senior executives of the Group
- To determine targets for performance-related pay schemes
- To review employee benefit structures
- To produce an annual report of the Committee's remuneration policy

Shareholder communications and engagement

Responsibility for investor relations sits with the Chief Executive Officer, supported by the Chief Financial Officer and input from other members of the Senior Management Team as required.

The Company is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the Annual General Meeting, and we encourage shareholders' participation in face-to-face meetings.

A range of corporate information (including the Annual Report & Accounts) is also available to shareholders, investors and the public on our website, www.avacta.com. The Company uses intermediaries such as Proactive Investors and Edison Research to ensure that key updates provided via RNS releases are relayed to as many shareholders as possible. 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 and published on the Company's website.

The Chief Executive Officer and Chief Financial Officer meet regularly with institutional shareholders to foster a mutual understanding of objectives and communicate back to the Board. The Chairman and Senior Independent Director are also available to discuss governance and other matters directly with major shareholders.

During the period, the Company also held a science day, where investors and significant private shareholders were provided with an update on the Group's scientific activities by members of the Board and Senior Management Team.

Share dealing code

The Company has adopted a code on dealings in relation to the securities of the Group. The Company requires the Directors and other relevant employees of the Group to comply with the Share Dealing Code and takes proper and reasonable steps to secure their compliance.

Corporate culture and social responsibility

The Executive Directors provide regular updates to staff, most of whom are either shareholders or holders of share options, on the progress of the Group. These updates follow key events within the financial reporting calendar and aim to give staff the same level of insight provided to institutional shareholders and analysts, providing details of the business objectives, strategy and business model, together with sharing of technical progress across the various teams within the Group. Senior management work across all the Group's facilities and actively seek regular feedback from staff to ensure that the strategy and aims of the Group are readily understood.

The Board recognises the importance of considering corporate social responsibility in operating the business and, in particular, the impact of its activities relating to health, safety and environmental issues.

The Group has well-defined health and safety policies and procedures, complying with current legislation and safeguarding staff, contractors and visitors. Alastair Smith is the Executive Director responsible for health and safety, chairing quarterly Group meetings and reporting on health and safety matters to the Board. The Group's policies and procedures form a part of staff induction and training programmes. Regular internal safety audits are carried out and no significant issues have been identified by these audits.



Dr Eliot Forster
Chairman

6 May 2020

Audit Committee Report

Introduction

The Audit Committee is a sub-committee of the Board and is responsible for reviewing all aspects of the financial reporting of the business and all aspects of internal control. The Committee represents the interests of our shareholders in relation to the integrity of information and the effectiveness of the audit processes in place.

The terms of reference of the Audit Committee include the following responsibilities:

- 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 auditor and their remuneration, following appointment by the shareholders in the Annual 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 auditor

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 or twice per year 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 auditor is invited to these meetings and meets with the Audit Committee at least once a year. At its meeting, the Committee 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 auditor and considering 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.

Due to its size and structure, the Group does not have an internal audit function. This is a matter which the Committee reviews annually.

External auditor

The external auditor is 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 auditor and the Company to ensure that they do not compromise the auditor's judgement or independence, particularly with the provision of non-audit services.

KPMG LLP were appointed auditor to the Group following a tender process in 2010. The Audit Committee considers that the Company's relationship with the Group's auditor is working well and the Committee remains satisfied with the effectiveness of the auditor. Accordingly, the Company does not consider it necessary to put the audit out to tender. There are no contractual obligations restricting the Company's choice of external auditor.

Financial Reporting Council review

During the reporting period, in June 2019, the Group received correspondence from the Financial Reporting Council ('FRC') following their review of the 31 July 2018 Report and Accounts. The FRC sought responses and additional information in relation to the following areas:

- The judgements exercised around the capitalisation of development costs
- Goodwill impairment testing
- Research and development tax credits
- The recoverability of intercompany receivables and investments in subsidiaries by the parent company, Avacta Group plc

Details of the enquiry raised by the FRC and the Group's proposed response were discussed with the Committee prior to issuing the response. The response included the commitment to make some presentation and disclosure enhancements to our Report and Accounts. The FRC subsequently closed its enquiry with no further action.

The FRC review, under the scope and limitations of their review, provides no assurance that the 31 July 2018 Report and Accounts were correct in all material respects. The FRC's role is not to verify the information provided, but to consider compliance with reporting requirements. The FRC accepts no liability for reliance placed on them by the Group or any third party, including but not limited to investors and shareholders.

Significant issues relating to the financial statements

The specific issues considered by the Audit Committee in the period under review, in relation to the financial statements, are shown below.

Use of judgements and estimates

In preparing the consolidated financial statements, the Group has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements and estimates made by the Group that have the most significant effects on the amounts recognised in the financial statements are given overleaf.

Judgements:

The Committee consider that the key judgements made in preparation of the financial statements are:

Going concern - The judgement of whether or not the accounts should be prepared on a going concern basis, as detailed in the Financial Review.

Capitalised development costs - Judgements are required in the assessment of whether research and development expenditure meets the relevant capitalisation criteria.

Revenue recognition - Judgements arise from the application of IFRS 15 to the Group's revenue streams, as disclosed in Note 1(C) to the financial statements. In particular, the key judgement arising from this application was whether revenue from licence-related income in the period was recognised over time or at a point in time.

Estimates:

The Committee also considered the assumptions and estimation uncertainties as at 31 December 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts and liabilities in the next financial year are:

Impairment - Impairment tests have been performed on the carrying amounts of the Group's cash generating units. Key assumptions underlie the recoverable amounts used in these impairment tests, including the recoverability of development costs. Information on the key assumptions used is disclosed in Note (10) to the financial statements.



Paul Fry
Chairman of the Audit Committee

6 May 2020

Remuneration Committee Report

This report sets out the remuneration policy for the year ended 31 December 2019.

Introduction

The Company is listed on AIM and therefore is not required to prepare a remuneration report complying with the disclosure requirements of Directors' Remuneration Report Regulations 2002 or to comply with the UKLA Listing Rules and disclosure provisions under Schedule 8 of the Companies Act 2006.

The Company aims to adhere to a high level of compliance with corporate governance guidelines and therefore the Company has prepared this unaudited report voluntarily so that shareholders can clearly understand remuneration paid to the directors.

At the Company's Annual General Meeting, a resolution to approve the Remuneration Report will be proposed, with details provided within the Notice of Meeting. The vote will be advisory.

Remuneration Committee

The Remuneration Committee consists of Trevor Nicholls (Chairman), Eliot Forster, Mike Owen and Paul Fry. Alan Aubrey and Sam Williams were also members during their terms as Non-executive Directors. All current members of the Committee are Non-executive Directors of the Company and are considered by the Board to be independent. 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-to-day involvement in the running of the Company.

The Remuneration Committee has responsibility for the following:

- Determining the framework and policy, and the individual packages of the remuneration of the Executive Directors and certain other senior executives, including pension rights and any compensation payments
- Determining targets for performance-related pay and share incentive schemes
- Reviewing employee benefit structures
- The use of remuneration consultants
- To produce an annual report of the Committee's remuneration policy

Remuneration policy of Executive Directors

Avacta's remuneration policy for Executive Directors is designed to attract, retain and motivate executives of the highest calibre to ensure that the Group is managed successfully for the benefit of shareholders. The policy is to pay base salary at lower quartile levels with attractive short-term and longer-term performance incentives. 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.

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 January following the change of the accounting year end to 31 December. The last increase, applied on 1 November 2018 (prior to the accounting year change), was 3.0% based on an RPI measure and consistent with other staff across the Group. There are no proposed changes to the basic salaries for the Executive Directors with effect from 1 January 2020.

Performance-related bonus

The Company operates an annual performance-related bonus scheme for Executive Directors. The bonus scheme is discretionary and is based around significant value creation milestones, covering financial, commercial, technical and operational parameters, which are set at the start of the financial year. The maximum bonus that can be earned by an Executive Director is 100% of basic salary. The Committee determines on an annual basis the composition of the award which can be split between cash, deferred share awards and share options.

In respect of the bonus award for the year ended 31 July 2018, which was agreed in September 2018 by the Committee, the bonus for Executive Directors was split into two components. 50% of the bonus award was paid in cash, split 25% in December 2018 and 25% in May 2019. The remaining 50% of the bonus award was awarded as fully vested options which had an exercise price of 25p per share, equal to the placing price of the fundraising announced in July 2018. No bonus is proposed for the Executive Directors for the period ending 31 December 2019.

Benefits in kind

The Company provides private medical, critical illness and income protection insurance for the Executive Directors.

Pensions

The Company makes matched payments into defined contribution Personal Pension Plans on behalf of the Executive Directors. These payments are at a rate up to 6% of basic salary consistent with terms offered to other staff across the Group.

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, operating an EMI-approved share option scheme, an unapproved Executive Share Option Scheme and a Long-Term Incentive Plan ('LTIP').

The individual interests and joint interests (where applicable) of the Directors in the share capital of the Company are set out on page 76 and their interests in options held over shares in the Company are set out on page 77.

Executive Directors are expected to build a direct stake in the Company's shares over time, either through the purchase of shares in the market from time to time and/or through the future exercise of share options.

The Committee, following consultation with shareholders, agreed the framework for a LTIP for Executive Directors and certain senior executives in 2018. Share options may be granted from time to time, with the number of share options awarded determined in relation to the Executive Director's base salary. The first LTIP award was awarded later in January 2019.

The LTIP option vesting is based on a combination of achievement of commercial and technical strategic objectives together with the performance of the Company's share price. The share price performance targets are calculated based on the average share price in the preceding 30-day period, with lower and upper share price targets set in order to trigger the vesting on the third anniversary. Vested options can be exercised at any time, but may not be disposed of until at least the fifth anniversary of the award grant.

The Company has the ability to grant share options under its share option schemes subject to a cap, agreed with shareholders, to be up to 15% of total issued share capital in any ten-year period.

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
Tony Gardiner	4 January 2016	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.

The details of the service contracts of the Non-executive Directors are shown below.

	Date of service contract	Initial term of contract	Notice period following initial term
Eliot Forster	11 June 2018	Nil	1 month
Trevor Nicholls	2 August 2013	Nil	1 month
Mike Owen	17 September 2015	Nil	1 month
Paul Fry	9 January 2020	Nil	1 month

The Non-executive Directors (with the exception of Eliot Forster) do not hold any interest in share options or the joint share ownership plan of the Company. During the period, Eliot Forster, shortly after his appointment to the Board, received an award of share options, which were equivalent to one year's fee for his services as Chairman. The share options vest equally over a three-year period and do not carry any performance obligations (further details are provided within the table on page 77). The Committee and Company's advisors do not consider the share options, given their relatively low value in relation to Dr Forster's fee for his services and his income from other roles outside of the Avacta Group, to impact his independence.

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.

Remuneration Committee Report (continued...)

Directors' remuneration – audited

The remuneration of each of the Directors of the Company for the 17-month period ended 31 December 2019 is set out below. These values are included within the audited accounts.

	2019 Basic salary and fees £000	2019 Bonus £000	2019 Benefits in kind £000	2019 Total £000	2019 Pension contributions £000	2018 Total £000	2018 Pension contributions £000
Non-executive Directors							
Eliot Forster ¹	120	-	-	120	-	12	-
Trevor Nicholls	46	-	-	46	-	35	-
Mike Owen	44	-	-	44	-	30	-
Alan Aubrey ²	12	-	-	12	-	25	-
Sam Williams ³	24	-	-	24	-	-	-
Michael Albin ⁴	-	-	-	-	-	20	-
Paul Fry ⁵	-	-	-	-	-	-	-
Executive Directors							
Alastair Smith	282	24	5	311	17	196	12
Tony Gardiner	221	10	1	232	13	152	9
	749	34	6	789	30	470	21

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

¹ Eliot Forster was appointed as a Director on 11 June 2018.

⁴ Michael Albin resigned as a Director on 30 March 2018.

² Alan Aubrey resigned as a Director on 21 January 2019.

⁵ Paul Fry was appointed as a Director on 3 February 2020.

³ Sam Williams was appointed as a Director on 28 January 2019 and resigned on 4 November 2019. Sam's services as Director were provided by IP2IPO Limited.

The number of Directors accruing benefits under money purchase pension schemes was two (2018: two).

The share-based payments charge to the Consolidated Income Statement in respect of Directors share options was £120,000 (2018: £71,000). The aggregate gain made by Directors on the exercise of share options was £nil (2018: £nil).

Details of Directors' joint interests in the Joint Share Ownership Plan ('JSOP') – audited

	At 31 July 2018	Granted	Waived	Exercised	At 31 Dec 2019	Date of agreement
Alastair Smith	1,144,149	-	-	-	1,144,149	9 Jan 2012
Alastair Smith	495,851	-	-	-	495,851	15 Feb 2016
	1,640,000	-	-	-	1,640,000	-
Tony Gardiner	150,000	-	-	-	150,000	15 Feb 2016

Alastair Smith and Tony Gardiner hold an interest in the shares of the Company, which 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 Share Ownership Agreements between the individual, Avacta Group Trustee Limited and Avacta Group plc are described within Note 4.

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

	At 31 Jul 2018	Granted	Waived	Exercised	At 31 Dec 2019	Exercise price pence	Date from which exercisable	Date of grant	Expiry date
Eliot Forster	-	340,000	-	-	340,000	25.0p	Note 1	9 Jan 2019	7 Jan 2029
	-	340,000	-	-	340,000				
Alastair Smith	141,176	-	-	-	141,176	50.0p	9 Jan 2016	9 Jan 2012	9 Jan 2022
Alastair Smith	128,764	-	-	-	128,764	118.5p	Note 2	15 Feb 2016	15 Feb 2026
Alastair Smith	74,325	-	-	-	74,325	74.0p	16 Dec 2016	16 Dec 2016	16 Dec 2026
Alastair Smith	520,550	-	-	-	520,550	72.5p	Note 3	27 Jan 2017	27 Jan 2027
Alastair Smith	-	96,900	-	-	96,900	25.0p	7 Jan 2019	7 Jan 2019	7 Jan 2029
Alastair Smith	-	599,100	-	-	599,100	25.0p	Note 4	7 Jan 2019	7 Jan 2029
	864,815	696,000	-	-	1,560,815				
Tony Gardiner	210,968	-	-	-	210,968	118.5p	Note 2	15 Feb 2016	15 Feb 2026
Tony Gardiner	22,973	-	-	-	22,973	74.0p	16 Dec 2016	15 Feb 2016	16 Dec 2026
Tony Gardiner	306,000	-	-	-	306,000	72.5p	Note 3	27 Jan 2017	27 Jan 2027
Tony Gardiner	-	56,960	-	-	56,960	25.0p	7 Jan 2019	7 Jan 2019	7 Jan 2029
Tony Gardiner	-	313,000	-	-	313,000	25.0p	Note 4	7 Jan 2019	7 Jan 2029
	539,941	369,960	-	-	909,901				

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 third on or after 11 June 2019, one third on or after 11 June 2020 and the remaining third on or after 11 June 2021.

the range between 200p and 250p on the third anniversary of the date of grant. The share price will be calculated as the average over a 30-day period either immediately before or immediately after the third anniversary of the date of grant (27 January 2020), using the daily closing mid-market share price.

Note 2 – 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.

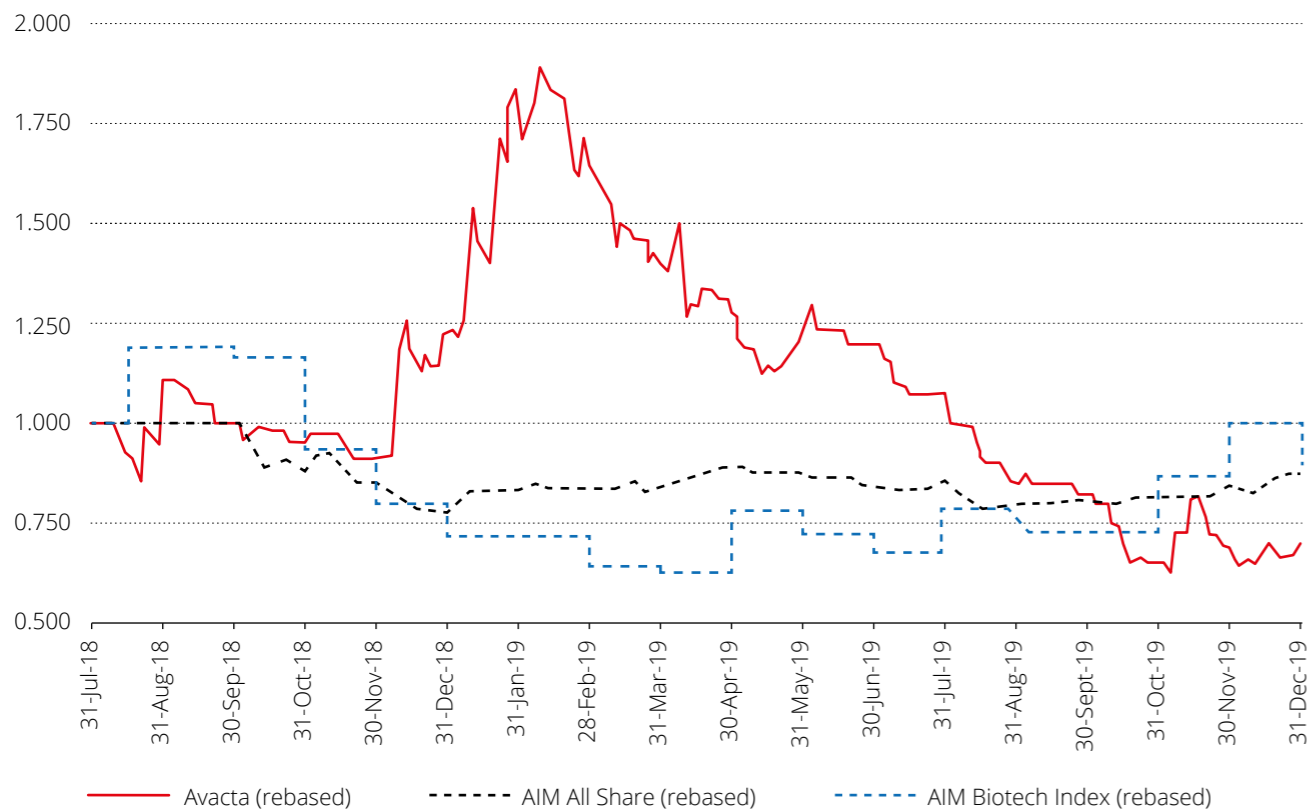
Note 4 – This option provides that, unless waived at the discretion of the Remuneration Committee of the Board and it has not lapsed, it will vest as to one quarter of the award if the share price on 31 December 2021 is at or above 150p per share. If the share price on 31 December 2021 is at or above 300p per share then one half of the award will vest. A linear sliding scale will operate should the share price fall in the range between 150p and 300p on 31 December 2021. The remaining one half of the award is based on achieving certain technical and commercial milestones subject to a minimum share price floor of 37.5p per share on 31 December 2021. On the assumption that the vesting conditions are met and the options are exercised then the option holder cannot sell the shares prior to 31 December 2023.

Note 3 – This option provides that, unless waived at the discretion of the Remuneration Committee of the Board and it has not lapsed, it will vest as to one half if the share price on the third anniversary of the date of grant (27 January 2020) is at or above 200p per share. If the share price on third anniversary of the date of grant (27 January 2020) is at or above 250p per share the option shall vest in full. A linear sliding scale will operate should the share price fall in

Remuneration Committee Report (continued...)

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE AIM (rebased) and a comparator group of FTSE AIM Biotech companies (rebased) for the period ended 31 December 2019.



The Remuneration Committee has selected the above comparators because they are most relevant for the Company's size and sector.

This report was approved by the Board of Directors and authorised for issue on 6 May 2020 and was signed on its behalf by:

Dr Trevor Nicholls
Chairman of the Remuneration Committee
6 May 2020

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual 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 International Financial Reporting Standards as adopted by the European Union (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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 judgements and estimates that are reasonable, relevant, reliable 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;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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



Independent auditor's report

to the members of Avacta Group plc

1. Our opinion is unmodified

We have audited the financial statements of Avacta Group plc ("the Company") for the 17 month period ended 31 December 2019 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 1 and note 24.

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 December 2019 and of the Group's loss for the 17 month period then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality:	£800k (2018:£450k)
group financial statements as a whole	4.4% (2018: 4.3%) of loss before tax
Coverage	99.9% (2018:99.8%) of group loss before tax

Key audit matters vs 2018

Recurring risks		vs 2018
Valuation of intangible assets		◀▶
Valuation of investments in subsidiaries and intercompany receivables		◀▶
Completeness and existence of capitalised development costs		◀▶
Event driven	New: Going concern	▲
	New: Revenue recognition	▲
	New: The impact of uncertainties due to the UK exiting the European Union	▲

Independent Auditor's Report to the Members of Avacta Group plc (continued...)

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Group: The impact of uncertainties due to the UK exiting the European Union on our audit</p> <p><i>Refer to: page 53 (Principal Risks and Uncertainties).</i></p>	<p>Unprecedented levels of uncertainty: All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of intangible assets, valuation of investments in subsidiaries and intercompany receivables below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance.</p> <p>Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.</p>	<p>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p> <p>Our Brexit knowledge: We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks;</p> <p>Sensitivity analysis: – When addressing valuation of intangible assets, valuation of investments in subsidiaries and intercompany receivables, going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty;</p> <p>Assessing transparency: – As well as assessing individual disclosures as part of our procedures on valuation of intangibles and valuation of investments and intercompany receivables we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks;</p> <p>However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</p>



2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
<p>Going concern</p> <p><i>Refer to: page 72 (Audit Committee Report) page 94 (Accounting policy).</i></p>	<p>Disclosure quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Group's and Company's available financial resources over this period were:</p> <ul style="list-style-type: none"> • The impact of a prolonged shut down of laboratories as a result of government intervention or staff illness prompted by COVID-19. • The impact of a continued depression in demand from customers facing similar levels of disruption as a result of COVID-19. • The impact of disruption to the supply chain or the distribution network bringing operations to a halt as a result of COVID-19. <p>There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.</p> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>Our procedures included:</p> <p>Funding assessment: We assessed the level of funding available to the Group taking into account cash resources at the balance sheet date and the impact of post balance sheet events such as performance to date and the fundraising completed in April 2020;</p> <p>Historical comparisons: We analysed management's previous projections against actual outcomes to form a view of historical forecasting accuracy and guide our challenge of the 2020/21 forecasts prepared by management;</p> <p>Key dependency assessment: We identified the critical factors in determining whether there is a risk of business failure based on our detailed knowledge of the business and specific risk assessments for the impact of COVID-19 and Brexit, taking input from management where appropriate;</p> <p>Sensitivity analysis: We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. We modelled the impact of a six month period of no revenue generating business with a gradual recovery;</p> <p>Evaluating directors' intent: We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We considered the impact of specific mitigations such as reductions in discretionary expenditure;</p> <p>Assessing transparency: We assessed the completeness and accuracy of the matters covered in the going concern disclosure in light of the conclusions reached in the above procedures.</p>



Independent Auditor's Report to the Members of Avacta Group plc (continued...)

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
<p>Group: Valuation of intangible assets (£11.8 million; 2018: £12.2 million)</p> <p><i>Refer to: page 72 (Audit Committee Report), pages 98 and 99 (Accounting policy) pages 112 to 115 (Financial disclosures)</i></p>	<p>Forecast-based valuation: Goodwill and other intangible assets are significant and the estimated recoverable amounts are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the carrying amount of goodwill and other intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 10) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Our sector experience: We evaluated the assumptions used, in particular those relating to projected revenues and the discount rate applied to cash flows; — Benchmarking assumptions: We compared the group's assumptions to externally derived data in relation to key inputs such as cost inflation and discount rates; — Sensitivity analysis: We performed breakeven analysis on the assumptions noted above; — Comparing valuations: We compared the sum of the discounted cash flows to the group's market capitalisation to assess the reasonableness of those cash flows and considered the reasons for the current variance, including reference to analyst forecasts; — Assessing transparency: We assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and other intangible assets.
<p>Parent company: Valuation of investments in subsidiaries and intercompany receivables (£54.3 million; 2018: £39.2 million)</p> <p><i>Refer to: page 72 (Audit Committee Report) pages 124 and 125 (Accounting policy) pages 126 and 127 (Financial disclosures)</i></p>	<p>Forecast-based valuation: The carrying amount of the parent company's investments in subsidiaries and intra-group debtor balances are significant and at risk of irrecoverability due to the carrying amount being in excess of the Company's market capitalisation at the year end. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the carrying amount of the cost of investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 24) disclose the sensitivity estimated by the Company.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Test of detail: With reference to our audit of the valuation of intangible assets (see above) we compared the carrying value of the parent company's investments in each of the subsidiaries and intra-group debtor balances against the estimated recoverable amount of the relevant cash generating units assessed above; — Assessing transparency: We assessed whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of investments and intercompany receivables.



2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
<p>Group: Revenue recognition (£5.5 million; 2018: £2.8 million)</p> <p><i>Refer to: page 72 (Audit Committee Report) page 97 (Accounting policy) pages 105 and 106 (Financial disclosures)</i></p>	<p>Accounting treatment: During the financial period the Group has entered into contracts with third parties concerning the licencing of IP and provision of services. These contracts have multiple milestones which translate into multiple performance obligations. There are elements of fixed and variable consideration linked to the milestones.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined there are a number of subjective judgements involved in the correct application of the accounting standards to ensure revenue is recognised appropriately in relation to these contracts.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Accounting analysis: We assessed the Group's accounting policies for revenue recognition for compliance with accounting standards; — Testing application: We selected significant contracts and evaluated the group's identification of the relevant performance obligations and assessment of whether revenue should be recognised at a point in time or over time for those performance obligations. — Assessing transparency: We assessed whether the Group's disclosure of the transition to IFRS 15 and the judgements related to revenue recognition were adequate.
<p>Group: Completeness and existence of capitalised development costs (£7.9 million; 2018: £8.3 million)</p> <p><i>Refer to: page 72 (Audit Committee Report) page 98 (Accounting policy) page 112 (Financial disclosures)</i></p>	<p>Accounting treatment: The Group conducts significant level of development activity. Project development costs are capitalised if they meet the criteria of relevant accounting standards which require, among other things, an assessment of the technical feasibility of the project.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined there are a number of subjective judgements involved in the correct application of the accounting standards to ensure capitalised costs exist and are complete.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Accounting analysis: We critically assessed the additions to development costs with regard to specific employees in line with corroborative discussions held with senior management in the development team; — Testing application: We tested a sample of capitalised consumables and staff costs in the period to ensure they adhered to the capitalisation criteria; — Assessing transparency: We assessed whether the disclosures regarding significant judgements were adequate based on the knowledge and understanding gained from our audit.



Independent Auditor's Report to the Members of Avacta Group plc (continued...)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £800k (2018: £450k), determined with reference to a benchmark of group loss before tax, of which it represents 4.4% (2018: 4.3%).

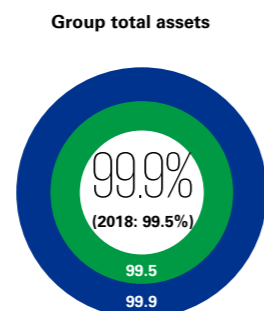
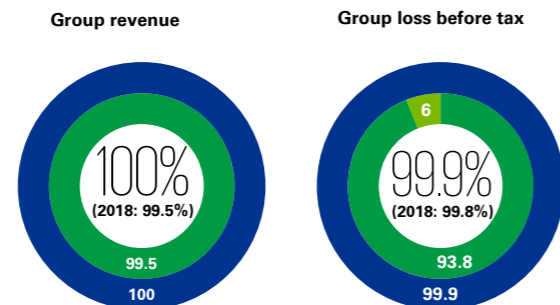
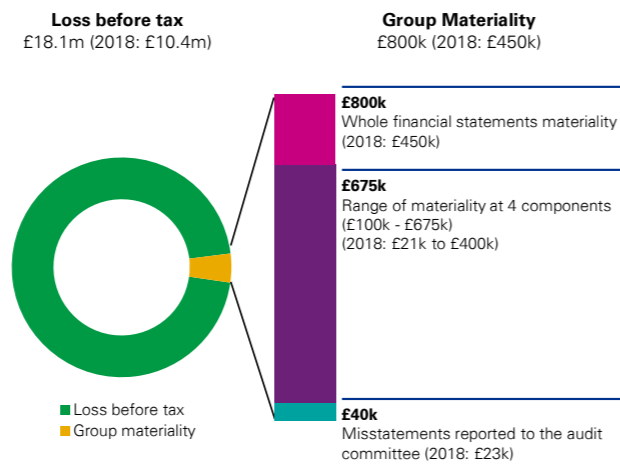
Materiality for the parent company financial statements as a whole was set at £275k (2018: £400k), determined with reference to a benchmark of company net assets, of which it represents 0.4% (2018: 0.9%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £40k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 7 (2018: 7) reporting components, we subjected 4 (2018: 3) to full scope audits for group purposes and none (2018: 1) to specified risk-focused audit procedures.

The components within the scope of our work accounted for the percentages illustrated opposite.

Component materiality, which ranged from £100k to £675k, was calculated having regard to the mix of size and risk profile of components across the Group. All component audits including the audit of the parent company were performed under the direction and supervision of the Group Engagement Partner.



- Full scope for group audit purposes 2019
- Specified risk-focused audit procedures 2018
- Full scope for group audit purposes 2019
- Specified risk-focused audit procedures 2018
- Residual components



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.



6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 79, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and, parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the Members of Avacta Group plc (continued...)

8. The purpose of our audit work and to whom we owe our responsibilities

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.



Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

6 May 2020



Financial Statements

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the 17 months ended 31 December 2019

	Note	2019* £000	2018 £000
Revenue	3	5,511	2,763
Cost of sales		(1,440)	(893)
Gross profit		4,071	1,870
Research costs		(7,860)	(2,794)
Amortisation of development costs	10	(2,202)	(989)
Selling, general and administrative expenses		(10,064)	(7,239)
Depreciation expense	11,21	(1,636)	(971)
Share-based payment charge	5	(338)	(308)
Operating loss	6	(18,029)	(10,431)
Finance income	7	73	41
Finance costs	21	(98)	-
Net finance costs		(25)	41
Loss before tax		(18,054)	(10,390)
Taxation	8	2,439	1,561
Loss and total comprehensive loss for period		(15,615)	(8,829)
Loss per ordinary share			
• Basic and diluted	9	(12.98p)	(13.49p)

• These results relate to the 17-month period ended 31 December 2019

All activities relate to the continuing operations of the Group.

The notes on pages 94 to 122 form an integral part of these financial statements.

Consolidated Statement of Financial Position as at 31 December 2019

	Note	2019 £000	2018 £000
Assets			
Property, plant and equipment	11	2,304	3,054
Right-of-use assets	21	780	-
Intangible assets	10	11,800	12,204
Non-current assets		14,884	15,258
Inventories	12	156	187
Trade and other receivables	13	2,082	1,288
Income tax receivable		2,500	1,500
Cash and cash equivalents	14	8,788	5,220
Current assets		13,526	8,195
Total assets		28,410	23,453
Liabilities			
Lease liabilities	21	(646)	-
Non-current liabilities		(646)	-
Trade and other payables	15	(1,778)	(2,040)
Lease liabilities	21	(177)	-
Current liabilities		(1,955)	(2,040)
Total liabilities		(2,601)	(2,040)
Net assets		25,809	21,413
Equity			
Share capital	17	17,671	6,976
Share premium	18	9,877	770
Capital reserve	18	-	1,899
Other reserve	18	(1,729)	(1,729)
Reserve for own shares	18	(2,932)	(2,802)
Retained earnings	18	2,922	16,299
Total equity		25,809	21,413

The notes on pages 94 to 122 form an integral part of these financial statements.

The financial statements on pages 90 to 122 were approved by the Board of Directors on 6 May 2020 and signed on its behalf by:



Alastair Smith
Chief Executive Officer



Tony Gardiner
Chief Financial Officer

Consolidated Statement of Changes in Equity for the 17 Months Ended 31 December 2019

	Share capital £000	Share premium £000	Other reserve £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
Balance at 1 August 2017	6,917	633	(1,729)	1,899	(2,651)	24,820	29,889
Total comprehensive loss for the period	-	-	-	-	-	(8,829)	(8,829)
<i>Total transactions with owners of the company:</i>							
Issue of shares	2	9	-	-	-	-	11
Exercise of share options	34	-	-	-	-	-	34
Own shares acquired	23	128	-	-	(151)	-	-
Equity-settled share-based payment	-	-	-	-	-	308	308
	59	137	-	-	(151)	308	353
Balance at 31 July 2018	6,976	770	(1,729)	1,899	(2,802)	16,299	21,413
Total comprehensive loss for the period	-	-	-	-	-	(15,615)	(15,615)
<i>Total transactions with owners of the company:</i>							
Issue of shares	10,625	8,674	-	-	-	-	19,299
Exercise of share options	32	341	-	-	-	-	373
Own shares acquired	38	92	-	-	(130)	-	-
Equity-settled share-based payment	-	-	-	-	-	338	338
Transfer ¹	-	-	-	(1,899)	-	1,899	-
	10,695	9,107	-	(1,899)	(130)	2,237	20,011
Balance at 31 December 2019	17,671	9,877	(1,729)	-	(2,932)	2,922	25,809

¹ The transfer from the capital reserve to retained earnings relates to the elimination of the original acquisition accounting of Avacta Health Limited, which was dissolved during the period.

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

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Cash Flows for the 17-Month Period Ended 31 December 2019

	2019* £000	2018 £000
Cash flow from operating activities		
Loss for the period	(15,615)	(8,829)
Adjustments for:		
- Amortisation and impairment losses	2,313	1,885
- Depreciation	1,636	971
- Net loss on disposal of property, plant and equipment	19	6
- Loss on disposal of intangible assets	-	155
- Equity-settled share-based payment charges	338	308
- Net finance costs	25	(41)
- Taxation	(2,439)	(1,561)
Operating cash outflow before changes in working capital	(13,723)	(7,106)
Decrease/(increase) in inventories	30	(29)
Increase in trade and other receivables	(825)	(11)
Increase in trade and other payables	78	376
Operating cash outflow from operations	(14,440)	(6,770)
Interest received	72	41
Interest elements of lease payments	(86)	-
Tax credit received	1,631	1,261
Withholding tax paid	(192)	-
Net cash used in operating activities	(13,015)	(5,468)
Cash flows from investing activities		
Purchase of plant and equipment	(618)	(578)
Purchase of intangible assets	(34)	-
Development expenditure capitalised	(1,875)	(1,945)
Decrease in balances on short-term deposit	-	4,000
Net cash used in investing activities	(2,527)	1,477
Cash flows from financing activities		
Proceeds from issue of shares	19,331	45
Principal elements of lease payments	(221)	-
Net cash flow from financing activities	19,110	45
Net increase / (decrease) in cash and cash equivalents	3,568	(3,946)
Cash and cash equivalents at 1 August 2018	5,220	9,166
Cash and cash equivalents at 31 December 2019	8,788	5,220

*These results relate to the 17-month period ended 31 December 2019

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated Financial Statements

1 Accounting policies

Avacta Group plc (the 'Company') is a company incorporated and domiciled in the UK. These consolidated financial statements for the 17-month period ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the 'Group').

Basis of preparation

The Group's 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 applicable UK accounting standards, including Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102), and with the Companies Act 2006. These parent company financial statements and notes appear after the notes to the consolidated financial statements.

The financial statements have been prepared on the historical cost basis.

During the period, the Group has changed its accounting period to 31 December to bring it in line with the calendar year and therefore the accounts are showing a 17-month period to the comparative 12-month financial year. As such, amounts presented in the financial statements are not entirely comparable.

Functional and presentation currency

These consolidated financial statements are presented in pound sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Going concern

The Strategic Report on pages 15 to 54 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on page 48 along with details of its cash flow and liquidity. Note 19 to the financial statements sets out the Group's financial risks and the management of those risks.

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £15.6 million and operating cash outflows of £14.4 million for the period ended 31 December 2019. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend to the end of the financial year ended 31 December 2021. The forecasts take into account the Directors' views of current and future economic conditions that are expected to prevail over the period. These forecasts include assumptions regarding the status of therapeutic development collaborations, diagnostic customer development projects and sales pipeline, future revenues and costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. The forecasts also include assumptions regarding the timing and quantum of investment in the therapeutic and diagnostic research and development programmes.

Whilst there are inherent uncertainties regarding the cash flows associated with the development of both the therapeutic and diagnostic platforms, together with the timing of signature and delivery of customer development projects and future collaboration transactions, the Directors are satisfied that there is sufficient discretion and control as to the timing and quantum of cash outflows to ensure that the Company and Group are able to meet their liabilities as they fall due through into the first quarter of 2022. The key factors considered in reaching this conclusion are summarised below:

- The Group continues to develop its therapeutic and diagnostic platform technologies. This is expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows. The announcement in January 2020 of the establishment of the joint venture with Korean based pharmaceutical company, Daewoong, will generate significant early stage development income during 2020 and subsequent periods.
- As at 31 December 2019, the Group's short-term deposits and cash and cash equivalents were £8.8 million (2018: £5.2 million).
- The Group has a tax refund in relation to R&D tax credits due in the second half of 2020 amounting to £2.5 million (a comparable tax refund of £1.6 million was received in July 2018).
- In April 2020, the Group announced and completed a fund-raise of £5.4m (net of expenses) which combined with existing cash balances will provide sufficient working capital through the remainder of 2020 and 2021 to continue to develop the therapeutic and diagnostic platform technologies.
- 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 Directors have also reviewed these cash flow forecasts in the light of potential impacts from the COVID-19 pandemic. The adjusted forecasts include a severe but plausible downside scenario where access to laboratory sites is prohibited for a period of three months, resulting in lost or delayed revenues, delayed milestone payments, delayed development activities (including slippage on clinical trial programmes), and a slow build back up to previous revenue levels. These adjustments have a minimal impact on forecast short-term cash flows during 2020. The medium-term impact centres around the commencement of clinical trials for the AVA6000 programme which are due to commence towards the end of 2020 or early 2021, the ability to recruit patients to the trial given potential COVID-19 follow-on issues and any delay this may have on the initial Phase I study readouts. This could potentially push the cash spend profile peak from the end of 2020 further into 2021, but with sufficient working capital through into 2022 this should not cause the Company and Group any issues in meeting their liabilities as they fall due during the remainder of 2020 and 2021.

The Directors also considered the impact of uncertainties due to the UK exiting the European Union, no significant impact on forecast short-term cash flows is expected. Directors are continuing to explore additional sources of income and finance available to the Group to continue the development of the therapeutic and diagnostic platforms. The sources of income could come through additional therapeutic collaborations, similar to the LG Chem and Daewoong collaborations, which may include up-front technology access fees and significant early stage development income, with discussions underway with several potential collaborators.

Based on these indications, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements and estimates made by management that has the most significant effects on the amounts recognised in the financial statements is given below.

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

Going concern – The judgement of whether or not the accounts should be prepared on a going concern basis has been disclosed above.

Capitalised development costs – Judgements are required in the assessment of whether research and development expenditure meets the relevant capitalisation criteria. The specific judgements involved are disclosed in Note 1 I.

Revenue recognition – Judgements arise from the application of IFRS 15 to the Group's revenue streams, as disclosed in Note 1 C. In particular, the key judgement arising from this application was whether revenue from licence-related income in the period was recognised over time or at a point in time.

The Directors consider that the assumptions and estimation uncertainties at 31 December 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts and liabilities in the next financial year are:

Impairment – Impairment tests have been performed on the carrying amounts of the Group's cash generating units. Key assumptions underlie the recoverable amounts used in these impairment tests, including the recoverability of development costs. Information on the key assumptions used is disclosed in Note 10.

The estimates and judgements relevant to the Company financial statements have been disclosed in Note 24.

New standards and interpretations not applied

A number of new standards are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to IFRS 9, IAS 39 and IFRS17: *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8: *Definition of Material*
- Amendments to References to the Conceptual Framework in IFRS Standards
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures* (issued on 12 October 2017)
- IFRIC 23: *Uncertainty over Income Tax Treatments* (issued on 7 June 2017)

Changes in significant accounting policies

The Group has initially applied IFRS 15 and IFRS 9 from 1 August 2018. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at 1 August 2018. Accordingly, the information for 2018 has not been restated – it is presented, as previously reported, under IAS 18. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. Further information on the Group's accounting policies with respect to revenue recognition, see Note 1C. The impact of adopting IFRS 15 has not had a material effect on the Group's financial statements.

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments Recognition and Measurement*. See Note 1J for further information on the Group's accounting policies with respect to financial instruments. The impact of adopting IFRS 9 has not had a material effect on the Group's financial statements.

Notes to the Consolidated Financial Statements (continued...)

IFRS 16

The Group early adopted IFRS 16 *Leases* from 1 August 2018. The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 August 2018. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 1L.

As a lessee, the Group leases a small number of properties for office and laboratory use. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. As such, the property leases were classified as operating leases under IAS 17. On transition, the Group

recognises right-of-use assets and lease liabilities for these leases – i.e. the leases are on-balance sheet. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 August 2018. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

The impact on transition is summarised below.

£'000	1 August 2018
Right-of-use assets	1,067
Lease liabilities	(1,033)
Trade and other receivables	(34)

For the impact of IFRS 16 on profit or loss for the period, see Note 21.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments based on the incremental borrowing rate relevant to the lease. The weighted-average rate applied is 7.5%.

£'000	1 August 2018
Operating lease commitments as at 31 July 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	1,176
Adjustment to include commitments where reasonably certain not to exercise an option to terminate a lease	200
Discounted using the incremental borrowing rate as at 1 August 2018	(343)
Lease liabilities recognised at 1 August 2018	1,033

A number of other standards are also effective from 1 August 2018 but they do not have a material effect on the Group's financial statements.

Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise.

A - Basis of consolidation

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for

impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value to the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured

and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. 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 considered. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

B - Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within administrative expenses.

C - Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service	Segment	Nature and timing of satisfaction of performance obligations	Revenue recognition policies
Custom Affimer development projects	Diagnostics	The Group has determined that for custom Affimer development projects, the customer controls the output of the contract as the service is being provided. This is because under these contracts, the service provided is bespoke to a customer's specification and the Group is entitled to certain value earned to date on cancellation of a project. Invoices are issued at set milestones as defined within the contract and are payable within standard commercial credit terms.	Revenue is recognised over time, with progress being determined based on costs incurred to date relative to the total expected costs incurred in satisfaction of the performance obligation.
Research and development licences	Therapeutics	The Group consider that up-front payments received during the period in relation to R&D licences are as consideration for a right-to-use the relevant IP. Therefore, the associated performance obligation is satisfied at the point in time access is granted. For work performed under R&D licences (presented as provision of services in Note 3), performance obligations are satisfied over time as the relevant work is performed. For future milestone payments specified under licence agreements, performance obligations are satisfied at the point in time that the milestone is achieved.	Revenue is recognised at the point in time that the performance obligations under R&D licences are satisfied for milestone payments. For work performed under R&D licences, the practical expedient to recognise revenue at an amount that corresponds directly to that invoiced to the customer for performance to date is taken.
Allergy diagnostic tests	Animal Health	Customers obtain control of the service once test results have been sent. Invoices are generated at this point in time and are payable within standard commercial credit terms.	Revenue is recognised at the point in time that the test results are sent.
Immunotherapy vaccine / export sales	Animal Health	Customers obtain control of the goods once the goods are delivered to and have been accepted at the customer's premises. Invoices are generated at this point in time and are payable within standard commercial credit terms.	Revenue is recognised at the point in time that the goods are delivered and have been accepted by customers at their premises.

Notes to the Consolidated Financial Statements (continued...)

D - Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-market vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

E - Finance income and finance costs

The Group's finance income and finance costs include:

- interest income
- interest expense on lease liabilities (see note 1L)

Interest income on cash deposits is recognised in the profit or loss as it is earned.

F - Income tax

The income tax credit comprises current and deferred tax. It is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The current tax credit relates to the expected Small and Medium Sized Enterprise R&D relief receivable for the year, and any adjustment to the amount receivable in respect of previous years. The amount of current tax receivable is the best estimate of the tax amount expected to be received that reflects the related uncertainty. It is measured using the applicable rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except for when they arise on the initial recognition of goodwill. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has

become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

G - Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first in, first out principle. Appropriate provisions for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired.

H - Property, plant and equipment

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

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

I - Intangible assets and goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Research and development – Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred.

Development expenditure relating to Therapeutics work is expensed in the period it is incurred, consistent with pharmaceutical industry practice. Given the stage of development of the technology and the significant risk through the product development stages up to regulatory approval that a commercial product may not materialise, there is not sufficient certainty that the relevant expenditure satisfies the commercial or technical feasibility criteria.

For Diagnostics and Animal Health, an assessment is made of the research and development expenditure on a project

by project basis to identify which expenditure satisfies the above capitalisation criteria. The key judgements involved are considered to be the assessment of whether a project has commercial or technical feasibility, and ensuring that those direct people costs and bought-in materials relating to development projects are properly segregated from research and customer projects. For direct people costs, this requires a judgement of the proportion of each relevant staff member's time that is spent on development projects. A broader judgement is also made around the availability of sufficient financial resources to complete resources, which is fundamentally linked to the going concern assessment discussed in earlier in Note 1

Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses. A periodic review of existing capitalised development costs is performed to identify costs relating to projects which are no longer considered to satisfy the capitalisation criteria. For such costs the amortisation charge is accelerated during the period and the development costs are disposed of.

Other intangible assets, including software and patents that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

- Development expenditure relating to Diagnostics products are amortised on a straight-line basis over a period reducing from 15 years down to 10 years.
- Development expenditure relating to the new diagnostic tests within the Animal Health business are amortised on a straight-line basis over five years.
- Software: amortised over the useful life of the software, three to five years
- Patents: amortised over the same period as the length of the life of the patent, being either 14 or 15 years.

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units ('CGUs' – defined under 'Goodwill' on page 113). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss had been recognised.

J - Financial instruments

From 1 August 2018, the Group applied IFRS 9. Comparative information has not been restated and as a result the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss)
- Those to be measured at amortised cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash

Notes to the Consolidated Financial Statements (continued...)

flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as a separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/ (losses) in the period in which it arises.

From 1 August 2018, the Group assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. In the current financial period, this expected credit loss did not have a material impact on the financial statements.

Accounting policies applied until 31 July 2018

Previously, the Group classified its financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held to maturity investments
- Available-for-sale financial assets

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluated this designation at the end of each reporting period.

The measurement at initial recognition did not change on adoption of IFRS 9; see description above.

Subsequent to the initial recognition, loans and receivables and held to maturity investments were carried at amortised cost using the effective interest method. The Group and Company had no financial assets at fair value through profit or loss and no available-for-sale financial assets

K - 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.

In accordance with IFRS 8 *Operating Segments*, the Group determines and presents operating segments based on the information that internally is provided to the Board of Directors. Accordingly, the Board of Directors, which reviews internal monthly management reports, budget and forecast information is deemed to be the Group's chief operating decision-maker ('CODM').

L - Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 August 2018

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 August 2018.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group

will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group's incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable under a residual value guarantee
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 August 2018

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output;
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Notes to the Consolidated Financial Statements (continued...)

2 Segment Reporting

Operating segments

In the view of the Board of Directors, the Group has three (2018: two) distinct reportable segments, which are Diagnostics, Therapeutics and Animal Health (2018: Life Sciences and Animal Health), and segment reporting has been presented on this basis. During the 17-month period ended 31 December 2019, the structure of the Group's Life Sciences internal organisation and the format of the information reported internally to the Board has diverged to the extent that the Directors now consider Diagnostics and Therapeutics to be distinct operating segments. The Directors recognise that the operations of the Group are dynamic and therefore this position will be monitored as the Group develops.

The principal activities of each reportable segment are as follows:

- Diagnostics: development of custom Affimer proteins for incorporation into customer products and in-house diagnostic assays.
- Therapeutics: development of novel cancer immunotherapies combining proprietary platforms.
- Animal Health: provision of tools and contract services to assist diagnosis of conditions in animals to enable faster treatment for veterinarians.

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.

The Group's revenue to destinations outside the UK amounted to 69% (2018: 60%) of total revenue. The revenue analysis below is based on the country of registration of the customer:

	17 months ended 31 December 2019	Year ended 31 July 2018
	£'000	£'000
UK	1,691	1,117
Rest of Europe	851	601
North America	496	999
Asia	2,473	46
	5,511	2,763

During the period, transactions with one single external customer, in the Therapeutics segment, amounted to 10% or more of the Group's revenues, £2,442,000. In the year ended 31 July 2018 transactions with two individual customers amounted to 10% or more of the Group's revenues. These revenues were £694,000 for a customer in the Life Sciences segment and £402,000 for a customer in the Animal Health segment.

Operating segment analysis 2019

	Diagnostics £000	Therapeutics £000	Life Sciences Total £000	Animal Health Total £000	Total £000
Revenue	812	2,515	3,327	2,184	5,511
Cost of goods sold	(454)	(284)	(738)	(702)	(1,440)
Gross profit	358	2,231	2,589	1,482	4,071
Research costs	(620)	(7,240)	(7,860)	-	(7,860)
Amortisation of development costs	(1,600)	-	(1,600)	(602)	(2,202)
Selling, general and administrative expenses	(3,605)	(2,269)	(5,874)	(1,776)	(7,650)
Depreciation expense	(612)	(678)	(1,290)	(52)	(1,342)
Share-based payment expense	(55)	(101)	(156)	(34)	(190)
Segment operating loss	(6,134)	(8,057)	(14,191)	(982)	(15,173)
Central overheads					(2,856)
Operating loss					(18,029)
Finance income					73
Finance expense					(98)
Loss before taxation					(18,054)
Taxation					2,439
Amount attributable to equity holders of the Company					15,615

Operating profit/loss is the measure of profit or loss regularly reviewed by the Board. Central overheads, which relate to operations of the Group function, are not allocated to the segments.

The information reported to the Board does not include balance sheet information at the segment level. The key segmental balance sheet information is considered to be the segment's non-current assets which are disclosed in Note 10.

All material segmental non-current assets are located in the UK.

Notes to the Consolidated Financial Statements (continued...)

Operating segment analysis 2018

	Diagnostics	Therapeutics	Life Sciences	Animal Health	Total
	£000	£000	Total £000	Total £000	Total £000
Revenue	345	849	1,194	1,569	2,763
Cost of goods sold	(138)	(229)	(367)	(526)	(893)
Gross profit	207	620	827	1,043	1,870
Research costs	-	(2,647)	(2,647)	(147)	(2,794)
Amortisation of development costs	(676)	-	(676)	(313)	(989)
Selling, general and administrative expenses	(2,543)	(1,024)	(3,567)	(1,183)	(4,750)
Depreciation expense	(511)	(414)	(925)	(50)	(975)
Share-based payment expense	(90)	(66)	(156)	(28)	(184)
Segment operating loss	(3,613)	(3,531)	(7,144)	(678)	(7,822)
Central overheads					(2,609)
Operating loss					(10,431)
Finance income					41
Loss before taxation					(10,390)
Taxation					1,561
Amount attributable to equity holders of the Company					(8,829)

The Group has changed the structure of its internal organisation during the period which has caused a change in the composition of the reportable segments. As a result, the corresponding segmental information from the previous financial period has been restated above by disclosing how the prior period Life Sciences segment relates to the current period reportable segments.

3 Revenue

See accounting policy and discussion of main revenue streams in Note 1C. The Group's revenue is all derived from contracts with customers. As discussed in Note 1, there was no material impact of initially applying IFRS 15 in the current period.

a) Disaggregation of revenue

In the following table, revenue is disaggregated by both its nature and the timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 2). As discussed in Note 2, there has been a change in reportable operating segments during the period. The comparative information for the prior financial period has been restated by disclosing how the prior period Life Sciences segment relates to the current period reportable segments.

17 months ended 31 December 2019

	Diagnostics	Therapeutics	Life Sciences	Animal Health	Total
	£000	£000	Total £000	Total £000	Total £000
Nature of revenue					
Sale of goods	-	-	-	1,101	1,101
Provision of services	812	556	1,368	1,083	2,451
Licence-related income	-	1,959	1,959	-	1,959
	812	2,515	3,327	2,184	5,511
Timing of revenue recognition					
Products or services transferred at a point in time	13	1,959	1,972	2,031	4,003
Products or services transferred over time	799	556	1,355	153	1,508
	812	2,515	3,327	2,184	5,511

12 months ended 31 July 2018

	Diagnostics	Therapeutics	Life Sciences	Animal Health	Total
	£000	£000	Total £000	Total £000	Total £000
Nature of revenue					
Sale of goods	-	-	-	825	825
Provision of services	345	849	1,194	744	1,938
Licence-related income	-	-	-	-	-
	345	849	1,194	1,569	2,763
Timing of revenue recognition					
Products or services transferred at a point in time	13	-	13	1,548	1,561
Products or services transferred over time	332	849	1,181	21	1,202
	345	849	1,194	1,569	2,763

Notes to the Consolidated Financial Statements (continued...)

b) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	31 December 2019 £'000	1 August 2018 £'000
Receivables	650	304
Contract assets	40	66
Contract liabilities	(40)	(82)

The contract assets primarily relate to the Group's rights to consideration for work completed but not invoiced at the reporting date. The contract assets are transferred to receivables when the rights become unconditional, this usually occurs when the Group issues an invoice to the customer. The contract liabilities primarily relate to the advance consideration received from customers.

The full amount of £66,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the 17 months ended 31 December 2019 (2018: £154,000).

The amount of revenue recognised in 2019 from performance obligations satisfied (or partially satisfied) in previous periods was £nil (2018: £nil).

No significant changes in contract asset or liability balances has occurred in the period.

4 Employees

	2019 £'000	2018 £'000
Staff costs:		
Wages and salaries	8,044	5,092
Social security costs	799	484
Contributions to defined contribution plans	396	234
Share-based payment charges	338	308
	9,577	6,118

Average number of employees (including Directors) during the year:

Commercial and operational	102	100
Administrative	17	14
	119	114

The remuneration of the Directors (including the details of the highest paid Director) is set out within the audited sections of the Remuneration Committee Report on pages 74 to 78.

5 Share-based payments

The Group operates the following schemes:

- An HM Revenue and Customs ('HMRC') approved enterprise management incentive plan ('EMI scheme')
- An unapproved share option plan ('Unapproved scheme')
- An HMRC approved employee share incentive plan ('SIP')
- A Joint Share Ownership Plan ('JSOP')

Options have also been granted during the period to Bach Biosciences LLC in relation to a collaboration agreement for the co-development of the TMAC drug conjugate technology with option vesting based on the achievement of certain development/regulatory milestones.

The Group recognised a total share-based payment charge to the income statement of £338,000 (2018: £308,000).

EMI and unapproved options

Details of the EMI, unapproved and collaboration options currently granted and unexercised, which are all equity settled, 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						
6 September 2011	1	20,689	Contractual performance	72.5	Vested	6 September 2021
9 January 2012	1	141,176	Time served	50.0	Vested	9 January 2022
16 September 2013	1	250,000	Time served	81.5	Vested	16 September 2023
21 February 2014	1	200,000	Time served	118.0	Vested	16 June 2024
16 June 2014	1	111,607	Time served and commercial performance	118.0	Vested	16 June 2024
25 November 2014	1	1,000	Unconditional	66.0	Vested	25 November 2024
15 May 2015	1	138,366	Time served	85.5	Vested	15 May 2025
15 February 2016	4	589,172	Time served	118.5	Note 1	15 February 2026
16 December 2016	3	128,650	Unconditional	74.0	Vested	16 December 2026
27 January 2017	2	826,550	Share price performance	72.5	Note 2	27 January 2027
24 August 2018	48	906,958	Time served	25.0	Vested	23 August 2028
24 August 2018	2	179,550	Time served	25.0	Note 3	23 August 2028
24 August 2018	6	439,177	Time served and technical milestones	25.0	Note 4	23 August 2028
24 August 2018	1	256,000	Time served and commercial performance	25.0	Note 5	23 August 2028
7 January 2019	2	153,860	Unconditional	25.0	Vested	6 January 2029
7 January 2019	1	340,000	Time served	25.0	Note 6	6 January 2029
7 January 2019	5	1,900,854	Technical, commercial and share price performance	25.0	Note 7	6 January 2029
7 January 2019	1	1,732,000	Time served and technical milestones	25.0	Note 8	6 January 2029
1 July 2019	3	400,998	Time served	30.0	Note 9	30 June 2029
1 July 2019	1	138,333	Time served and technical milestones	30.0	Note 10	30 June 2029
Options granted in relation to collaboration agreements						
31 May 2019	1	1,742,373	Technical/regulatory milestones	29.2	Note 11	31 May 2026

Note 1 – This option provides that they can, if they have not lapsed, be exercised as to 494,621 at 31 December 2019 and as to 147,293 on or after 15 February 2020.

Note 2 – This option provides that they can, if they have not lapsed, be exercised as to 413,275 if the share price is 200p on a sliding scale up to 826,550 if the share price is 250p on 27 January 2020.

Notes to the Consolidated Financial Statements (continued...)

Note 3 – This option provides that they can, if they have not lapsed, be exercised as to 85,275 at 31 December 2019 and as to 85,275 on or after 1 September 2020.

Note 4 – This option provides that they can, if they have not lapsed, be exercised as to 146,392 once the first technical milestone is achieved, 146,392 once the second technical milestone is achieved and 146,393 once the individual has completed either three or five years' employment with the Group.

Note 5 – This option provides that they can, if they have not lapsed, be exercised as to 192,000 at 31 December 2019 and as to 38,400 on achieving a commercial milestone and as to 25,600 on or after 18 September 2022.

Note 6 – This option provides that they can, if they have not lapsed, be exercised as to 113,333 at 31 December 2019, as to 113,333 on or after 11 June 2020 and as to 113,334 on or after 11 June 2021.

Note 7 – This option provides that they can, if they have not lapsed, be exercised as to 950,427 on or after 31 December 2021 based on achieving certain technical and commercial milestones provided that the share price on 31 December 2021 is a minimum of 37.5p. The second batch of 950,427 options can be exercised on or after 31 December 2021 on a sliding scale if the share price range as at 31 December 2021 falls between 150p and 300p.

Note 8 – This option provides that they can, if they have not lapsed, be exercised as to 433,000 once the first technical milestone is achieved, as to 433,000 once the second technical milestone is achieved, as to 433,000 once the third technical milestone is achieved and 433,000 on or after 1 December 2022.

Note 9 – This option provides that they can, if they have not lapsed, be exercised as to 200,499 on or after 1 June 2020 and as to 200,499 on or after 1 June 2021.

Note 10 – This option provides that they can, if they have not lapsed, be exercised as to 46,111 once the first technical milestone is achieved, as to 46,111 once the second technical milestone is achieved and as to 46,111 on or after 1 November 2021.

Note 11 – This option provides that they can, if they have not lapsed, be exercised as to 580,791 once the first technical/regulatory milestone is achieved, as to 580,791 once the second technical/regulatory milestone is achieved and as to 580,791 once the third technical/regulatory milestone is achieved.

These options are share-based payments and are measured at fair value at the date of grant. 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. 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.

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 share-based payment. 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.

The fair value of the options granted in relation to collaboration agreement during the period has also been measured using the above method, on the basis that the fair value of the services provided cannot be measured reliably.

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

	2019	2018
Weighted average share price at date of grant	26.16p	63.50p
Weighted average exercise price	26.16p	63.50p
Weighted average fair value at date of grant	10.97p	28.25p
Expected volatility	50.0%	48.3%
Expected life	5.0 years	5.0 years
Risk-free rate	1.0%	1.0%
Expected dividends	Nil	Nil

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

	Year ended 31 December 2019		Year ended 31 July 2018	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At start of period	4,709,820	81.80	4,816,953	81.98
Granted during the year	8,667,005	26.16	428,842	62.33
Exercised during the year	(323,086)	10.00	(219,956)	10.00
Forfeited or lapsed during the year	(2,465,426)	71.92	(316,019)	108.09
Outstanding at end of period	10,588,313	40.74	4,709,820	81.80
Exercisable at end of period	2,965,364	61.62	2,298,059	83.27

The options outstanding at 31 December 2019 had a range of exercise prices from 25p to 118.5p (2018: 10p to 187.5p) and a weighted average exercise price of 40.74p (2018: 81.80p), and a weighted average remaining contractual life of 6 years and 33 weeks (2018: 7 years and 4 weeks).

Joint Share Ownership Plan

The Joint Share Ownership Plan ('JSOP') covers certain employees who have a joint interest in shares with Avacta Group Trustee Limited as trustee of The Avacta Employees' Share Trust. At 31 December 2019, six employees (2018: six) had joint interests in 3,232,306 (2018: 3,232,306) ordinary shares in the Company. The Joint Share Ownership Agreements are dated 15 February 2016, or 21 February 2014, or 9 January 2012 between each employee individually, Avacta Group Trustee Limited and Avacta Group plc. Each employee has purchased 1% of the ordinary shares and the Avacta Group Trustee Limited owns 99% of the ordinary shares. The agreements operate when a Capital event occurs, being the sale or partial sale of the Company's ordinary shares. If the proceeds per ordinary share are in excess of the original market price on the date the agreement was entered into then a formula sets out the sharing of the gain between the employee and Avacta Group Trustee Limited.

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.

Share Incentive Plan

The Group operates an HMRC-approved Share Incentive Plan (SIP). The SIP is operated on behalf of the Group by Link Market Services Trust Limited as Trustee for the SIP. Certain employees based on eligibility criteria are issued free shares up to a maximum £3,000 as part of their annual performance review. On 18 January 2019 372,826 ordinary shares of 10p each were issued in relation to the Free Share award based on the previous day's closing middle market price of 34.7p.

In addition to the free share awards, the Group also operates a matching and partnership share arrangement whereby for each one share purchased by the employee via salary deduction a matching share was awarded by the Group. The maximum amount that can be subscribed for by employees via salary deduction is £1,800 per annum. As at 31 December 2019, 38 eligible employees, had made binding commitments to subscribe for partnership shares during the period ending 31 December 2019.

Free share and matching share awards to date have generally been met from continued on-market purchases by Link Market Services Trustees Limited as trustee of the SIP. To the extent that ordinary shares are not available in the volume required through the market, the Company will issue new ordinary shares to meet these awards.

As at 31 December 2019, the Trustee held 970,213 (2018: 265,943) ordinary shares of 10p on behalf of the SIP.

Notes to the Consolidated Financial Statements (continued...)

6 Operating loss

	Note	2019 £000	2018 £000
Operating loss is stated after charging/(crediting):			
Lease expense	21	2	245
Depreciation of property, plant and equipment	11	1,350	971
Depreciation of right-of-use assets	21	288	-
Net loss on disposal of property, plant and equipment		18	6
Amortisation of intangible fixed assets	10	2,313	1,063
Loss on disposal of intangible fixed assets		-	155
Impairment of intangible fixed assets	10	-	822
Employee benefit expense, including share-based payment charges	4	9,577	6,118
Auditors remuneration:			
• Audit services in respect of the Company's financial statements		58	25
• Audit services in respect of the Company's subsidiaries' financial statements		25	20
• Tax compliance services		18	11
• Tax advisory services		20	4

7 Net finance costs

	2019 £000	2018 £000
Interest income	73	41
Interest expense on lease liabilities	(98)	-
	(25)	(41)

8 Taxation on loss on ordinary activities

	2019 £000	2018 £000
Current tax:		
Current period	(2,305)	(1,500)
Changes in estimates related to prior years	(134)	(61)
Deferred taxation:		
Current period	-	-
Tax on loss on ordinary activities	(2,439)	(1,561)

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained below.

	2019 £000	2018 £000
Loss on ordinary activities before taxation	(18,054)	(10,390)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)	(3,430)	(1,974)
Effects of:		
• Expenses not deductible for tax purposes	95	89
• Deferred tax losses not recognised	3,335	1,885
• Government tax incentives	(2,631)	(1,561)
• Withholding tax expense	192	-
	(2,439)	(1,561)

9 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 excluding own shares held jointly by the Avacta Employees' Share Trust and certain employees and the shares held within the Avacta Share Incentive Plan ('SIP').

At 31 December 2019, 10,588,313 options (2018: 4,709,820) have been excluded from the diluted weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive, further details are set out in Note 5.

	2019	2018
Loss (£000)	(15,615)	(8,829)
Weighted average number of shares (number)	120,336,858	65,437,007
Basic and diluted loss per ordinary share (pence)	(12.98p)	(13.49p)

Notes to the Consolidated Financial Statements (continued...)

10 Intangible fixed assets

	Goodwill £000	Customer-related intangible assets £000	Development costs £000	Software* £000	Patents £000	Total £000
Cost						
At 1 August 2017	4,655	150	8,638	243	112	13,798
Internally developed/additions	-	-	1,936	6	3	1,945
Disposals	-	-	(236)	-	-	(236)
At 31 July 2018	4,655	150	10,338	249	115	15,507
Internally developed/additions	-	-	1,875	34	-	1,909
Disposals	-	(150)	(1,129)	(83)	(115)	(1,477)
At 31 Dec 2019	4,655	-	11,084	200	-	15,939
Amortisation and impairment						
At 1 August 2017	-	150	1,171	160	18	1,499
Charge for the year	-	-	989	64	10	1,063
Impairment	822	-	-	-	-	822
Disposals	-	-	(81)	-	-	(81)
At 31 July 2018	822	150	2,079	224	28	3,303
Charge for the period	-	-	2,202	24	87	2,313
Disposals	-	(150)	(1,129)	(83)	(115)	(1,477)
At 31 Dec 2019	822	-	3,152	165	-	4,139
Net book value						
At 31 Dec 2019	3,833	-	7,932	35	-	11,800
At 31 July 2018	3,833	-	8,259	25	87	12,204
At 31 July 2017	4,655	-	7,467	83	94	12,299

Development costs

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

- the Affimer diagnostics-based technologies;
- the additional companion animal diagnostic testing capability

The specific judgements applied by management when capitalising development costs are discussed in Note 11. Development expenditure relating to Therapeutics work is expensed in the period it is incurred, consistent with pharmaceutical industry practice. Given the stage of development of the technology and the significant risk through the product development stages up to regulatory approval that a commercial product may not materialise, there is not sufficient certainty that the relevant expenditure satisfies the commercial or technical feasibility criteria.

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 three (2018: two) CGUs reflecting the core areas of technological focus. The change in CGUs in the period is consistent with the change in reportable segments disclosed in Note 2 and arises from a divergence in operational structure resulting in revenues of the prior period's Life Sciences cash-generating unit becoming separable. Goodwill is not amortised, but is tested annually for impairment. The goodwill can be allocated, on an operating segment (see Note 2) basis, as follows:

	2019 £000	2018 £000
Therapeutics	1,538	1,538
Diagnostics	-	-
Life Sciences	1,538	1,538
Animal Health	2,295	2,295
Goodwill	3,833	3,833

Impairment review

An impairment review of the Group's intangible and tangible non-current assets was conducted at 31 December 2019. No impairment was identified as a result of this review. Impairment tests are mandatory for CGUs containing goodwill acquired in a business combination. Impairment tests for other CGUs are carried out when an indication of impairment is considered to exist, such as operating losses.

Therapeutics

The recoverable amount of this CGU was based on a value-in-use calculation, using discounted cash-flow projections. The key assumptions used in the estimation of the recoverable amount are considered to be as follows:

- Modelled growth over a twelve-year period, this timeframe reflecting management's best estimate of the period at which revenue growth of the CGU would be above the long-term background growth rate. This timeframe exceeds the usual five-year period due to the stage of ongoing contracts, and wider pipeline, and the length of time between entering into such contracts and the generation of ongoing commercial revenues
- Revenue growth is forecasted to increase to circa £15 million over a five-year timeframe, equivalent to a 42.9% compound annual growth rate (CAGR), with growth rates declining from 30% in Year 6 to a long-term growth rate over the remainder of the modelled growth period. Short-term growth rates are based on management's expectations of achievement of near-term milestones, and service revenue in existing research and development licence contracts. Longer-term revenue growth is based on longer-term milestones in these contracts, management's best estimate of growth from current pipeline deals, future licence deals and longer-term commercial licence revenue
- Terminal growth rate after the modelled growth phase of 2.5% (2018: 2.5%), approximating the annual average inflation rate
- Gross margins projected based on those achieved historically, and management's best estimate of the future margins arising from the growth in licencing revenue
- Pre-tax discount rate of 16.5% (2018, Life Sciences: 16%), derived from a weighted-average cost-of-capital of 15% (2018, Life Sciences: 15%)

Using the assumptions listed above, the value in use of the Therapeutics CGU exceeds its carrying amount by £50.1million.

Sensitivity analysis has been performed, where a reasonably possible delay in commercial licence revenue has been modelled, with the effect of halving the growth rates after the initial five-year period. Sensitivity analysis has also been performed in relation to the discount rate by increasing the pre-tax discount rate by 3%. In neither scenario was an impairment charge identified. With an assumption that long-term growth rates remain unchanged, the revenue growth over the initial five-year timeframe would have to reduce to the extent that Year 5 revenue was £8.5 million, equivalent to a CAGR of 28.0%, for an impairment to occur. The quantum of some longer-term milestones included in management's expectations also presents a risk that reasonably possible changes in the assumption that these longer-term milestones are achieved may result in an impairment to the CGU.

Notes to the Consolidated Financial Statements (continued...)

Diagnostics

No goodwill is allocated to the Diagnostics cash-generating unit; however, an impairment test has been performed in response to identified indicators of impairment, being an operating loss in the period. The recoverable amount of this CGU was based on a value-in-use calculation, using discounted cash-flow projections. The key assumptions used in the estimation of the recoverable amount are considered to be as follows:

- Modelled growth over a twelve-year period, the timeframe reflecting the company being part-way through the circa 20-year timeframe for the development cycle of customers incorporating patented Affimer technology into their own products. This is therefore management's best estimate of the period over which the CGU's revenue growth rate will be in excess of the long-term growth rate
- Revenue growth is forecasted to increase to £6.9 million over a six-year timeframe, equivalent to a CAGR of 47.7%, with growth rates decreasing from 30% in Year 6 to a long-term growth rate over the remainder of the modelled growth period. Growth rates have been based on historic performance, the current order book and management's best estimate of future growth in existing revenue streams, with the longer-term growth rates being driven primarily by the development of licensing revenue from existing and future customer relationships
- Terminal growth rate after the modelled growth phase of 2.5% (2018: 2.5%), approximating the annual average inflation rate
- Gross margins projected based on those achieved historically
- Pre-tax discount rate of 16% (2018, Life Sciences: 16%), derived from a weighted-average cost-of-capital of 14% (2018, Life Sciences: 15.5%)

Using the assumptions listed above, the value in use of the Diagnostics CGU exceeds its carrying amount by £13.2 million.

Sensitivity analysis has been performed with respect to the key assumptions underlying the impairment models, which did not result in an impairment charge. For the recoverable amount of the Diagnostics CGU to reduce to the level of the carrying amount, the pre-tax discount rate would need to increase to 21% or CAGR over the initial six-year period would need to reduce to 39.5%, equivalent to a drop in revenue in year 6 to £4.9 million.

Animal Health

The recoverable amount of this CGU was based on a value-in-use calculation, using discounted cash-flow projections. The key assumptions used in the estimation of the recoverable amount are considered to be as follows:

- Most recent budgets/forecasts for a five-year period
- Average revenue growth of 16% per annum over this forecast period, increasing revenue from £1.7 million to £3.2 million over this period, based on historic performance and management's best estimate of future growth
- Terminal growth rate after the modelled growth phase of 2.5% (2018: 2.5%), approximating the annual average inflation rate
- Gross margins projected based on those achieved historically
- Pre-tax discount rate of 14% (2018: 14%), derived from a weighted-average cost-of-capital of 12.5% (2018: 12.5%)

Using the assumptions listed above, the value-in-use of the Animal Health CGU exceeds its carrying amount by £455,000.

Sensitivity analysis has been performed, where a reasonably possible reduction in average revenue growth rate has been modelled. Reducing the average growth rate by 3% per annum would result value-in-use being equal to the carrying amount of the CGU. A reduction in average growth rate to 10% per annum would result in an impairment charge of £390,000.

Sensitivity analysis has also been performed in relation to the pre-tax discount rate. An increase in the pre-tax discount rate of 1% does not result in an impairment, the pre-tax discount rate would have to increase by 1.8% before an impairment charge would be recognised.

The tangible and intangible non-current assets at 31 December 2019 can be allocated as follows:

	Tangible £000	Goodwill £000	Development costs £000	Patents £000	Total £000
Therapeutics	1,163	1,538	-	9	2,710
Diagnostics	1,083	-	7,526	9	8,618
Life Sciences	2,246	1,538	7,526	18	11,328
Animal Health	41	2,295	406	4	2,746
	2,287	3,833	7,932	22	14,074

In the prior period, an impairment charge of £822,000 was recognised against goodwill within the Animal Health CGU, with the charge recorded within Selling, General and Administrative Expenses in the consolidated statement of profit or loss. The impairment charge within the Animal Health CGU arose as the business unit re-focused on its core pet/equine allergy tests.

11 Property, plant and equipment

	Leasehold improvements £000	Laboratory equipment £000	Office fixtures and fittings £000	Total £000
Cost				
At 1 August 2017	1,788	3,708	288	5,784
Additions	49	481	48	578
Disposals	-	(73)	(25)	(98)
At 31 July 2018	1,837	4,116	311	6,264
Additions	29	534	55	618
Transfers	-	6	(6)	-
Disposals	-	(188)	(16)	(204)
At 31 Dec 2019	1,866	4,468	344	6,678
Depreciation				
At 1 August 2017	285	1,885	161	2,331
Charge for the year	226	680	65	971
Disposals	-	(67)	(25)	(92)
At 31 July 2018	511	2,498	201	3,210
Charge for the period	323	935	92	1,350
Transfers	-	6	(6)	-
Disposals	-	(170)	(16)	(186)
At 31 Dec 2019	834	3,269	271	4,374
Net book value				
At 31 Dec 2019	1,032	1,199	73	2,304
At 31 July 2018	1,323	1,618	110	3,054
At 1 August 2017	1,503	1,823	127	3,453

Notes to the Consolidated Financial Statements (continued...)

12 Inventories

	2019 £000	2018 £000
Raw materials and components	142	173
Finished goods	14	14
	156	187

13 Trade and other receivables

	2019 £000	2018 £000
Trade receivables	650	304
Prepayments	889	472
Other receivables	423	272
Contract assets	40	66
Other taxes and social security	80	174
	2,082	1,288

Trade and other receivables denominated in currencies other than sterling comprise £353,000 (2018: £73,000) of trade receivables denominated in US dollars and £20,000 (2018: £8,000) denominated in euros. The fair values of trade receivables are the same as their book values.

The ageing analysis of trade receivables past due is as follows:

	2019 £000	2018 £000
Under 30 days overdue	114	19
Between 30 and 60 days overdue	40	18
Between 60 and 90 days overdue	23	-
Over 90 days overdue	10	10
	187	47

14 Cash and cash equivalents

	2019 £000	2018 £000
Cash and cash equivalents	8,788	5,220

15 Trade and other payables

	2019 £000	2018 £000
Trade payables	698	831
Other taxes and social security	160	158
Accruals	823	544
Other payables	57	425
Contract liabilities	40	82
	1,778	2,040

Trade and other payables denominated in currencies other than sterling comprise £145,000 (2018: £84,000) of trade payables denominated in US dollars, £26,000 (2018: £100,000) denominated in euros, and £11,000 (2018: £nil) denominated in CHF. The fair values of trade payables are the same as their book values.

16 Deferred tax liabilities

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

Deferred tax asset/(liability)	2019 £000	2018 £000
Development costs	(1,348)	(1,408)
Trading losses	571	838
Property, plant and equipment	777	570
	-	-

Movement in deferred tax for period ended 31 December 2019

	At 1 August 2018 £000	Income statement £000	At 31 December 2019 £000
Development costs	(1,408)	60	(1,348)
Trading losses	838	(267)	571
Property, plant and equipment	570	207	777
	-	-	-

There is no liability to corporation tax in the year. There is an unprovided deferred tax asset of approximately £5,013,000 due to trading losses in the current and prior financial years (2018: £5,569,000). This asset has not been recognised because of uncertainty around future utilisation of losses.

Notes to the Consolidated Financial Statements (continued...)

17 Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid:		
- 175,935,136 (2018: 68,989,487) ordinary shares of 10p each	17,594	6,899
- 19,327,344 deferred shares of 0.4p each	77	77
	17,671	6,976

Share issues

In August 2018, 46,472,724 ordinary shares of 10p each were allotted and issued at 25p further to a placing of shares. Placing costs of £727,000 were incurred and offset against the share premium reserve.

On 18 January 2019, 372,826 ordinary shares of 10p each were allotted and issued at 34.7p per share to Link Market Services Trust Limited as trustee to the Avacta Group plc SIP (see Note 5).

On 8 March 2019 and 23 April 2019, 323,086 ordinary shares of 10p each in total were allotted and issued following the exercise of share options which were granted to individuals from a historic acquisition in relation to the Group's animal health diagnostic tests.

On 5 and 6 November 2019, a total of 59,777,013 ordinary shares of 10p each were allotted and issued at 15p further to a placing of shares. Placing costs of £559,000 were incurred and offset against the share premium reserve.

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 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA 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 1p for each holding of deferred shares so purchased.

18 Capital reserves

Share premium

The share premium account of £9,877,000 (2018: £770,000) arose from the issue of shares at a premium to their nominal value less certain allowable costs of issue. This reserve is not distributable.

Capital reserve

The capital reserve of £nil (2018: £1,899,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited). The reserve represented the value of ordinary shares of 10p to be issued as part of the contingent consideration subject to the achievement of certain milestone objectives in the case of Avacta Health Limited. This reserve was transferred to retained earnings during the period following the dissolution of Avacta Health Limited.

Other reserve

The other reserve of negative £1,729,000 (2018: 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 of negative £2,932,000 (2018: negative £2,802,000) increased during the year following the issue of 372,826 (2018: 229,591) ordinary shares of 10p each being issued to Link Market Services Trust Limited as Trustee to the Avacta Group plc SIP (see Note 4). In addition, 3,232,306 (2018: 3,232,306) ordinary shares of 10p each are held 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. The charge and associated credits in respect of cumulative share-based payment charges (where appropriate) are also included.

19 Financial instruments and 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 strategy.

The Group has only one form of debt: credit card debt. Credit card debt is used to finance incidental expenditure, is short term and settled in the month following the incurring of the related expenditure. 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 is to invest capital in the business. The Group has not made any changes to its capital management during the year.

Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including foreign currency risk).

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 and twelve months.

Interest rate and currency profile

At 31 December 2019 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:

	2019 £000	2018 £000
Cash at bank (floating interest rate)	8,788	5,220

Cash at bank attracted interest at floating rates, which were between nil% and 0.9% at 31 December 2019 (2018: nil% and 0.57%).

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.

Fair value of financial instruments

At 31 December 2019, the difference between the book value and the fair value of the Group's financial assets and liabilities was £nil (2018: £nil).

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 December 2019.

Notes to the Consolidated Financial Statements (continued...)

Financial instruments policy

Treasury and financial risk policies are approved by the Board. All instruments utilised by the Group are for financing purposes. Short-term deposits are placed for a period of no longer than twelve months with institutions with a 'superior or strong' ability to repay short-term debt obligations. In order to manage financial exposure between different financial institutions no more than £10 million is placed on short-term deposit with any one financial institution. The day-to-day financial management and treasury function is controlled centrally for all operations. During the year, the Group had no derivative transactions.

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.

Financial assets	2019 £000	2018 £000
Trade receivables	650	304
Cash	8,788	5,220
	9,438	5,524

Financial liabilities

Trade payables	697	831
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Maturity profile of financial liabilities

In one year or on demand	697	831
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The financial liabilities due for repayment within one year relate to trade payables and other short-term liabilities.

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 £396,000 (2018: £234,000). There were outstanding contributions at 31 December 2019 of £44,000 (2018: £37,000).

21 Leases

See accounting policy in Note 1L.

The Group leases a small number of properties for office and laboratory use. All leases were previously classified as operating leases under IAS 17. Information about leases for which the Group is a lessee is presented below.

a) Amounts recognised in the balance sheet

Right-of-use assets	31 December 2019 £000	1 August 2018 £000
Buildings	780	1,067
Lease liabilities		
Current	177	172
Non-current	646	861
	823	1,033

Reconciliation of change in lease liability

	£000
As at 1 August 2018	1,033
Payment of lease liability – principal element	(221)
Payment of lease liability – interest element	(86)
Interest expense	98
As at 31 December 2019	823

The Group adopted IFRS 16 on the 1 August 2018. Previously, the Group recognised property leases as operating leases under IAS 17 *Leases*, the commitments disclosed in the prior year in relation to these leases are set out below:

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	2018 £000
Within one year	240
Later than one year but not later than five years	744
Later than five years	192
	1,176

There were no additions to the right-of-use assets during the 2019 financial period.

b) Amounts recognised in profit or loss

	2019 £000
Depreciation charge on right-of-use assets	
Buildings	286
Interest on lease liabilities	98
Expenses relating to leases of low-value assets	2

The total cash outflow for leases in the period was £307,000.

c) Capital commitments

At 31 December 2019, the Group had £nil capital commitments (2018: £nil).

Notes to the Consolidated Financial Statements (continued...)

22 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. See Note 32 for details of these transactions.

Purchase of services from related parties during the period comprises provision of Non-executive Director services and related expenses. These transactions were made on terms equivalent to those that prevail in arm's length transactions.

	17 months ended 31 December 2019 £000	12 months ended 31 July 2018 £000
Purchase of services		
IP Group plc and subsidiaries	29	-

Remuneration of key management personnel

The Group considers its key management personnel to comprise only of the Directors of the Group. Key management personnel compensation from the Group is set out below:

	17 months ended 31 December 2019 £000	12 months ended 31 July 2018 £000
Purchase of services		
Short-term employee benefits*	884	523
Post-employment benefits	30	21
Share-based payment	120	71

*Short-term employee benefits include employers' NI of £95,000 (2018: £53,000).

Full details of compensation of key management personnel are set out in the Remuneration Committee Report on pages 74 to 78.

23 Post balance sheet events

On 8 January 2020, the Group announced that it had formed a joint venture with Daewoong Pharmaceutical ('Daewoong') which would be based in South Korea. The joint venture, named AffyXell Therapeutics ('AffyXell'), has been established to develop Affimer proteins which will be used by AffyXell for the generation of new cell and gene therapies. The Group made an initial contribution of £217,000 to the joint venture; and a collaboration agreement has been signed between Avacta, Daewoong and AffyXell. Avacta's research and development costs associated with the generation of the Affimer proteins will be funded by AffyXell.

On 6 April 2020, the Group announced that it had completed a fundraising of £5.75 million gross (£5.35 million net) through the placing of 20,833,333 Placing Shares and 11,111,110 Subscription Shares with new and existing investors at a price of 18 pence per share. The issue of the new shares and receipt of the proceeds from the fundraising were received after the General Meeting which was held on 23 April 2020.

Company Balance Sheet as at 31 December 2019 – Registered number 4748597

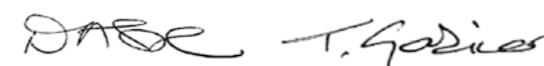
	Note	2019 £000	2018 £000
Fixed assets			
Tangible assets	25	8	10
Intangible assets	25	12	5
Investments	26	2,374	3,275
		2,394	3,290
Current assets			
Debtors*	27	52,069	36,180
Cash and cash equivalents		8,308	4,366
		60,377	40,546
Current liabilities	28	(212)	(568)
Net current assets		60,165	39,978
Net assets		62,559	43,268
Capital and reserves			
Called-up share capital	29	17,671	6,976
Share premium account	30	9,877	770
Capital reserve	30	-	1,899
Reserve for own shares	30	(2,932)	(2,802)
Retained earnings	30	37,943	36,425
Shareholders' funds		62,559	43,268

*Of which £51,923,000 (2018: £35,957,000) is expected to be recovered in more than 12 months

The notes on pages 124 to 130 form an integral part of these financial statements.

The balance sheet above was approved by the Board of Directors and authorised for issue on 6 May 2020 and signed on its behalf by:

and signed on its behalf by:



Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Company Statement of Changes in Equity for the Year Ended 31 July 2018

	Share capital £000	Share premium £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 31 July 2017	6,917	633	1,899	(2,651)	38,001	44,799
Issue of shares	2	9	-	-	-	11
Exercise of share options	34	-	-	-	-	34
Own shares acquired	23	128	-	(151)	-	-
Total comprehensive loss for the period	-	-	-	-	(2,323)	(2,323)
Share-based payment charges	-	-	-	-	747	747
At 31 July 2018	6,976	770	1,899	(2,802)	36,425	43,268
Issue of shares	10,625	8,674	-	-	-	19,299
Exercise of share options	32	341	-	-	-	373
Own shares acquired	38	92	-	(130)	-	-
Total comprehensive loss for the period	-	-	-	-	(719)	(719)
Share-based payment charges	-	-	-	-	338	338
Transfer ¹	-	-	(1,899)	-	1,899	-
At 31 December 2019	17,671	9,877	-	(2,932)	37,943	62,559

¹ The transfer from the capital reserve to retained earnings relates to the elimination of the original acquisition accounting of Avacta Health Limited, which was dissolved during the period.

The accompanying notes form an integral part of the financial statements.

Notes to the Company Balance Sheet

24 Accounting Policies

Basis of preparation

As used in the financial statements and related notes, the term 'Company' refers to Avacta Group plc.

These financial statements have been prepared in accordance with applicable UK accounting standards, including Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The individual accounts of the Company have also adopted the following disclosure exemptions:

- The requirement to present a statement of cash flows and related notes.
- The reconciliation of number of shares outstanding from the beginning to the end of the period has not been included a second time.
- Key Management Personnel compensation has not been included a second time.
- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1; and
- Certain disclosures required by FRS 102.26 *Share Based Payments*.

These financial statements have been prepared on a going concern basis, the rationale for this assessment is given in Note 1.

Notes to the Company Balance Sheet (Continued...)

Use of judgements and estimates

In preparing the Company financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements and estimates made by management that have the most significant effects on the amounts recognised in the financial statements is given below.

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

Going concern - The judgement of whether or not the accounts should be prepared on a going concern basis has been disclosed in Note 1.

The Directors consider that the assumptions and estimation uncertainties at 31 December 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts and liabilities in the next financial year are:

Carrying amount of investments in subsidiaries and amounts owed by subsidiary undertakings – An impairment indicator exists in that the carrying amount of investments in and amounts owed by subsidiary undertakings exceeds the market capitalisation of the Group as at 31 December 2019. Management perform an impairment assessment on this carrying amount by comparing the aggregate balance relevant to each subsidiary with the corresponding recoverable amount. The recoverable amount is considered to be the value in use of the corresponding cash-generating unit forming the basis of the Group impairment testing. Where the aggregate carrying amount of investment in subsidiary and amount owed by subsidiary exceeds the recoverable amount, an impairment charge is recognised. The impairment is first allocated against the investment, with any residual impairment recognised against the amount owed by subsidiary. Management recognise that there is inherent uncertainty in the recoverable amount; and that the aggregate carrying amount relevant to Avacta Animal Health Ltd has been impaired to its recoverable amount such that an adverse change in assumptions would increase the quantum of impairment. A 1% increase in the discount rate used in the Animal Health value in use calculation would result in an increase in the provision against amounts owed by subsidiary undertakings by £403,000. More broadly, were the values in use in the Group's impairment models all to reduce to the break-even scenarios disclosed in Note 10, there would be an associated increase in the provision against investments in subsidiary and amounts owed by subsidiary undertakings of £40.2 million.

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

Intangible fixed assets

Intangible fixed assets are held at cost less accumulated amortisation and impairment charges. Amortisation is provided for to write off the cost less estimated residual value of intangible assets over the estimated useful lives as follows:

Software 3 to 5 years

Investments

Fixed Fixed asset investments are stated at cost less accumulated 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 provided for any timing 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 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.

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, considering 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.

Share-based payments made to employees of subsidiary undertakings are treated as capital contributions to subsidiary undertakings from the parent company, increasing the cost of investment in subsidiary.

Notes to the Company Balance Sheet (Continued...)

25 Tangible and intangible fixed assets

	Tangible £000	Intangible £000	Total £000
Cost at 31 July 2018	51	63	114
Additions	8	15	23
Disposals	(7)	-	(7)
At 31 December 2019	52	78	130
Depreciation at 31 July 2018	41	58	99
Charge for the year	7	8	15
Disposal	(4)	-	(4)
At 31 December 2019	44	66	110
Net book value			
At 31 December 2019	8	12	20
At 31 July 2018	10	5	15

26 Investments

	£000
Cost at 1 August 2018	8,111
Additions	189
Disposal	(4,191)
At 31 December 2019	4,109
Provision at 1 August 2018	4,836
Transfer from provision against the amount owed by subsidiary undertakings*	1,057
Charge for the year	33
Disposal	(4,191)
At 31 December 2019	1,735
Net book value	
At 31 December 2019	2,374
At 31 July 2018	3,275

* The transfer from provision against amounts owed by subsidiary undertakings (note 27) reflects the amount of provision against intercompany receivables made in the prior period that should first have been allocated against investments.

Additions in the year are capital contributions relating to share-based payments to employees of subsidiary undertakings.

Avacta Health Limited, Reactivlab Limited and Avacta Nottingham Asset Limited were all dissolved during the period.

During the current year, an impairment assessment of the investment in and loan to subsidiaries was undertaken. This assessment involved comparing the future discounted cashflows of the subsidiary to the aggregated carrying value of the relevant investments and intercompany balance. Where the aggregated carrying value exceeded the future

discounted cashflows, an impairment was taken first against the investment in subsidiary and secondly against the intercompany receivable balance.

The companies in which Avacta Group plc has an interest at 31 December 2019 and form part of the consolidated Group financial statements are as follows:

	Principal activity	Country of Incorporation	Class and percentage of voting shares held	Holding
Subsidiary undertakings				
Avacta Limited	Non-trading	¹ England	Ordinary 100%	Direct
Avacta Analytical Limited	² Dormant	¹ England	Ordinary 100%	Indirect
Crossco (1127) Limited	² Intermediate holding company	¹ England	Ordinary 100%	Direct
Avacta Animal Health Limited	Contract services	¹ England	Ordinary 100%	Indirect
Avacta Animal Health Inc.	Contract services	¹ USA	Ordinary 100%	Indirect
Avacta Life Sciences Limited	Technology development	¹ England	Ordinary 100%	Direct
Avacta Life Sciences Inc.	Technology development	¹ USA	Ordinary 100%	Indirect
Affimer Limited (formerly Promexus Limited)	² Dormant	¹ England	Ordinary 100%	Indirect
Avacta Group Trustee Limited	² Dormant	¹ England	Ordinary 100%	Direct

Avacta Analytical Limited is a subsidiary of Avacta Limited. Avacta Animal Health Limited is a subsidiary of Crossco (1127) Limited. Affimer Limited (formerly Promexus Limited) is a subsidiary of Avacta Life Sciences Limited.

¹ Registered address: Unit 20, Ash Way, Thorp Arch Estate, Wetherby, West Yorkshire.

² Dormant status accounts will be filed for the 17-month period ended 31 December 2019.

27 Debtors

	2019 £000	2018 £000
Other taxes and social security	10	15
Prepayments and other debtors	136	208
Amounts owed by subsidiary undertakings* (which are expected to be recovered in more than 12 months)	64,242	49,802
Less: provision against amounts owed by subsidiary undertakings	(12,319)	(13,845)
	52,069	36,180

* The terms of the intercompany loans are disclosed in Note 32

The decrease in the provision against amounts owed by subsidiary undertakings reflects an additional impairment of £1.0m against loan assets due from Avacta Animal Health Ltd offset by a £1.1m transfer to the impairment provision against investment in subsidiaries (see Note 26) and the derecognition of a £1.5m provision against subsidiaries that were dissolved in the period (see Note 26).

Notes to the Company Balance Sheet (Continued...)

28 Current liabilities

	2019 £000	2018 £000
Trade creditors	50	51
Other taxes and social security	28	28
Accruals and other creditors	134	489
	212	568

29 Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid:		
- 175,935,136 (2018: 68,989,487) ordinary shares of 10p each	17,594	6,899
- 19,327,344 deferred shares of 0.4p each	77	77
	17,671	6,976

Share issues

In August 2018, 46,472,724 ordinary shares of 10p each were allotted and issued at 25p further to a placing of shares. Placing costs of £727,000 were incurred and offset against the share premium reserve.

On 18 January 2019, 372,826 ordinary shares of 10p each were allotted and issued at 34.7p per share to Link Market Services Trust Limited as trustee to the Avacta Group plc SIP (see Note 5).

On 8 March 2019 and 23 April 2019, 323,086 ordinary shares of 10p each in total were allotted and issued following the exercise of share options which were granted to individuals from a historic acquisition in relation to the Group's animal health diagnostic tests.

On 5 and 6 November 2019, a total of 59,777,013 ordinary shares of 10p each were allotted and issued at 15p further to a placing of shares. Placing costs of £559,000 were incurred and offset against the share premium reserve.

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 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA or from its website, www.avacta.com. The rights of the holders of the deferred shares are set out at Note 17.

30 Reserves

Share premium

The share premium account of £9,877,000 (2018: £770,000) arose from the issue of shares at a premium to their nominal value less certain allowable costs of issue. This reserve is not distributable.

Capital reserve

The capital reserve of £nil (2018: £1,899,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited). The reserve represented the value of ordinary shares of 10p to be issued as part of the contingent consideration subject to the achievement of certain milestone objectives in the case of Avacta Health Limited. This reserve was transferred to retained earnings during the period following the dissolution of Avacta Health Limited.

Reserve for own shares

The reserve for own shares of negative £2,932,000 (2018: negative £2,802,000) increased during the year following the issue of 372,826 (2018: 229,591) ordinary shares of 10p each being issued to Link Market Services Trust Limited as Trustee to the Avacta Group plc SIP (see Note 4). In addition, 3,232,306 (2018: 3,232,306) ordinary shares of 10p each are held 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. The charge and associated credits in respect of cumulative share-based payment charges (where appropriate) are also included.

31 Commitments

(a) Capital commitments

At 31 December 2019, the Company had £nil capital commitments (2018: £nil).

(b) Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 December 2019 was £nil (2018: £nil).

(c) Operating lease commitments

The Company maintains non-cancellable operating lease commitments on three properties.

	2019 £000	2018 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	232	240
• Between one and five years	430	744
• Over five years	172	192
	834	1,176

32 Related party transactions

The Company holds the Group's treasury balances and provides funds to the Group's subsidiaries in order to fund their operating activities. Amounts owed from these entities are interest free and repayable on demand. The Company makes management charges to its subsidiaries each year, which are disclosed in the table below.

Purchase of services from related parties during the period comprises provision of Non-executive Director services and related expenses. These transactions were made on terms equivalent to those that prevail in arm's length transactions.

	17 months ended 31 December 2019 £000	12 months ended 31 July 2018 £000
Purchase of services		
IP Group plc and subsidiaries	29	-
Management charges made to subsidiaries		
Avacta Life Sciences Limited	2,562	1,616
Avacta Animal Health Limited	594	294

Notes to the Company Balance Sheet (Continued...)

Intercompany loans during and at the end of the period (before provisions against amounts owed) were as follows:

£000	At 31 July 2018	(Repayment) /Advance in the period	Disposal on dissolution of subsidiary	At 31 December 2019
Avacta Limited	10,719	2,037	-	12,756
Avacta Analytical Limited	3,833	-	-	3,833
Avacta Animal Health Limited	3,665	659	-	4,324
Avacta Life Sciences Limited	30,109	13,220	-	43,329
Avacta Health Limited	722	-	(722)	-
ReactivLab Limited	540	-	(540)	-
Avacta Nottingham Asset Limited	214	-	(214)	-
	49,802	15,916	(1,476)	64,242

Remuneration of key management personnel

The Group considers its key management personnel to comprise only of the Directors of the Group. Key management personnel compensation from the Group is set out below:

	17 months ended 31 December 2019 £000	12 months ended 31 July 2018 £000
Short-term employee benefits*	884	523
Post-employment benefits	30	21
Share-based payment	120	71

*Short-term employee benefits includes employers' NI of £95,000 (2018: £53,000)

Full details of compensation of key management personnel are set out in the Remuneration Committee Report on pages 74 to 78.

33 Post balance sheet events

On 6 April 2020, the Group announced that it had completed a fundraising of £5.75 million gross (£5.35 million net) through the placing of 20,833,333 Placing Shares and 11,111,110 Subscription Shares with new and existing investors at a price of 18 pence per share. The issue of the new shares and receipt of the proceeds from the fundraising were received after the General Meeting which was held on 23 April 2020.

Notice of Annual General Meeting

Avacta Group PLC

(Incorporated in England and Wales with registered number 04748597)

NOTICE IS GIVEN that the Annual General Meeting of Avacta Group plc (the 'Company') will be held at the offices of Walker Morris LLP at 33 Wellington Street, Leeds LS1 4DL on Monday 22 June 2020 at 14:00 for the following purposes:

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

- To adopt and receive the audited accounts, the strategic report, the Directors' report and the auditor's report of the Company for the year ended 31 December 2019.
- To approve the remuneration report contained within the report and accounts for the year ended 31 December 2019.
- To re-appoint Paul Fry as a Director of the Company in accordance with article 30.2 of the Company's articles of association (the Articles) who offers himself for re-appointment as a Director.
- To re-appoint Dr Alastair Smith as a Director of the Company in accordance with article 35 of the Articles who offers himself for re-appointment as a Director.
- To re-appoint Tony Gardiner as a Director of the Company in accordance with article 35 of the Articles who offers himself for re-appointment as a Director.
- To appoint KPMG LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.
- To authorise the audit committee of the board of Directors of the Company to determine the auditor's remuneration.
- To authorise the Directors of the Company generally and unconditionally pursuant to section 551 of the Companies Act 2006 (the Act) (in substitution for all existing authorities granted to the directors of the Company under section 551 of the Act (to the extent that they remain in force and unexercised)) to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares (Rights) up to an aggregate nominal amount of £6,935,000 (being approximately one third of the issued ordinary share capital of the Company as at the date of this notice), provided that this authority shall expire on the earlier of the date falling six months from the expiry of the Company's current financial year and the conclusion of the next Annual General Meeting of the Company after the passing of this resolution unless varied, revoked or renewed by the Company in general meeting, save that the Company may, before the expiry of the authority granted by this resolution, make a further offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors of the Company may allot shares and grant Rights in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

- To empower the Directors of the Company (subject to the passing of resolution 8 and in substitution for all existing like powers granted to the Directors of the Company (to the extent that they remain in force and unexercised)) pursuant to sections 570 and 573 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred upon them by resolution 8 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561(1) of the Act and sections (1) - (6) of sections 562 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- 9.1 In connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and
- 9.2 (otherwise than pursuant to sub-paragraph 9.1 above) up to an aggregate nominal amount of £3,120,000 (being approximately 15 per cent. of the issued ordinary share capital of the Company as at the date of this notice),

and shall expire on the earlier of the date falling six months from the end of the current financial year of the Company and the conclusion of the next Annual General Meeting after the passing of this resolution, save that the Company may, before the expiry of any power contained in this resolution, make a further offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors of the Company may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

For the purpose of this resolution 9:

Pre-emptive offer means a rights issue, open offer or other pre-emptive issue or offer to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date(s) for such allotment; and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical

Notice of Annual General Meeting (Continued...)

difficulties which may arise under the laws of any jurisdiction, the requirements of any recognised regulatory body or any stock exchange in any territory or any other matter whatsoever.

10. To authorise the Directors of the Company generally and unconditionally for the purpose of section 701 of the Act and in accordance with article 22 of the Articles, to make market purchases (within the meaning of section 693 of the Act) of ordinary shares of 10p each in the capital of the Company on such terms and in such manner as the Directors of the Company may determine provided that:

10.1 the maximum number of ordinary shares that may be purchased under this authority is restricted to 20,800,000 (being approximately 10 per cent. of the issued ordinary share capital of the Company as at the date of this notice);

10.2 the maximum price which may be paid for any and each ordinary share purchased under this authority shall not be more than the higher of (i) an amount equal to 105% of the average of the middle market prices shown in the quotations for the ordinary shares in the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased and (ii) the price stipulated by EU Commission adopted Regulatory Technical Standards, pursuant to article 5 (6) of the EU Market Abuse Regulation being the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out (in each case exclusive of expenses); and

10.3 the minimum price which may be paid shall be the nominal value of that ordinary share (exclusive of expenses payable by the Company in connection with the purchase),

and shall expire on the earlier of the date falling six months from the end of the current financial year of the Company and the conclusion of the next Annual General Meeting after the passing of this resolution, save that the Company may make a contract or contracts to purchase ordinary shares under this authority before its expiry which will or may be executed wholly or partly after the expiry of this authority and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board



Tony Gardiner
Company Secretary

6 May 2020

Registered Office:
Unit 20, Ash way, Thorp Arch Estate, Wetherby LS23 7FA

Notice of Meeting Notes

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf:

- To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at 19:30 on 18 June 2020. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
- Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend, speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company. **However, in light of the Coronavirus pandemic, shareholders are strongly urged to appoint the chairman of the Meeting as his or her proxy as, given the Coronavirus situation and current Government advice, attendance in person is not advised and members and their proxies may be refused entry if circumstances permit or require.**
- The Company is actively following developments and will issue further information through an RIS and/or on its website at <https://avacta.com/investors/> if it becomes necessary or appropriate to make any alternative arrangements for the Meeting. In particular, the Company has noted the UK Government's announcement, made on 28 March 2020, that it will introduce legislation to ensure that general meetings will be able to be held safely and in accordance with current restrictions on movement and gatherings.**
- In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
- A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
- You can vote/appoint a proxy:
 - by logging on to www.signalshares.com and following the instructions;
 - by requesting a hard copy form of proxy directly from the registrar, Link Asset Services, on Tel: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales; or
 - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
- In order for a proxy appointment to be a valid, the form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent BR3 4TU, by 14:00 on 18 June 2020.
- If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
- The return of a completed proxy form, electronic filing or any CREST Proxy Instructions (as described in note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so. However, in light of the Coronavirus pandemic situation and current Government advice, attendance in person is not advised and members and their proxies may be refused entry if circumstances permit or require.
- CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST manual (available from www.euroclear.com/site/public/EUI). CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

Notice of Meeting Notes (Continued...)

11. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 14:00 on 18 June 2020. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
12. CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed (a) voting service provider(s), to procure that his/her CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system provider(s) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
13. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.
14. As at 6 May 2020 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 207,981,280 ordinary shares, carrying one vote each, and 19,327,344 deferred shares, which carry no voting rights. Therefore, the total voting rights in the Company as at 6 May 2020 were 207,981,280.
15. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
16. Under the articles of association of the Company, resolutions 1 to 9 set out in this Notice are ordinary business, and resolution 10 is special business.

Secretary and Advisors

Secretary and Registered Office

Tony Gardiner
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Nominated Adviser and Broker

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Banker

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Joint Broker

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