Shaping the future of medicine

2020 Report & Accounts

Avacta®

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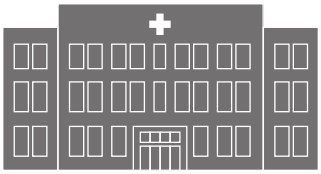
Highlights 2020 and 2021

Operating highlights Diagnostics

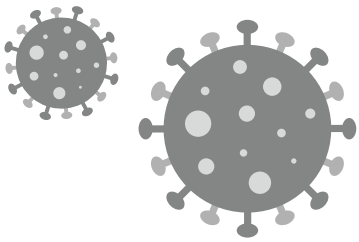


Initiated clinical evaluation of **BAMS™ SARS-CoV-2 antigen test** at a UK NHS hospital site.

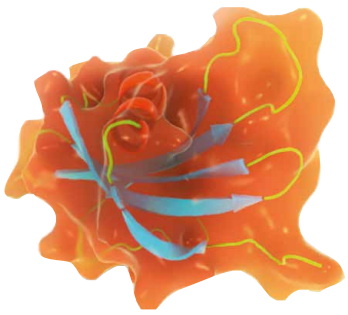
Strengthened and expanded **diagnostics management team** with the appointment of a Product Manager, Head of Product Development and Operations Director.

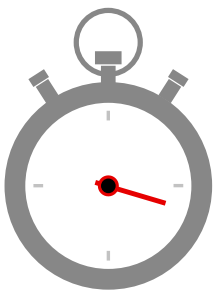
Successfully **passed first audit by the Group's Notified Body** (BSI Group) of the Company's Quality Management System as **first step in establishing ISO13485 accreditation**, a critical quality assurance system for a developer and legal manufacturer of diagnostic products and medical devices. The final audit will take place in April 2021.

Announced launch of an **ELISA laboratory test** for the SARS-CoV-2 spike protein to support global research efforts into the coronavirus that causes COVID-19.



Rapid generation of a range of **Affimer® reagents that bind to the SARS-CoV-2 coronavirus spike antigen** for diagnostic testing applications.





Collaboration with several partners to develop a **rapid test** for the COVID-19 infection for **mass population screening**.

Operating highlights Diagnostics

Major licensing agreement with **Astrea Bioseparations Limited** ('Astrea') for the use of the Affimer® platform in affinity purification applications.

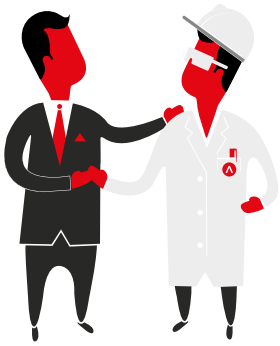
Entered a collaboration with the **Liverpool School of Tropical Medicine ('LSTM')** to provide analytical and clinical validation of the rapid coronavirus antigen test.

Collaboration with **Adeptrix** (Beverly, MA, USA) to develop a high throughput Affimer-based SARS-CoV-2 antigen bead-assisted mass spectrometry test ('BAMS™' test) to be used on hospitals' existing installed base of mass spectrometers to diagnose COVID-19 infection.

Appointed **BBI Solutions**, part of BBI Group ('BBI'), and **Abingdon Health** to manufacture the saliva-based rapid SARS-CoV-2 antigen test.

Exclusive distribution agreement announced with **Medusa19 Limited** ('Medusa19') for direct-to-consumer sales of a rapid antigen self-test for Covid-19.

Post-period highlights Diagnostics



On 28 January 2021, we entered a **collaboration agreement with Bruker Corporation** to evaluate the clinical utility and commercial potential of the BAMS™ SARS-CoV-2 Antigen Test.

On 8 February 2021, we established a **commercial partnership with Mologic** following several months of collaborative work to provide Avacta with a faster route to market for the lateral flow rapid antigen test by CE marking it for professional use under Mologic's existing ISO13485 quality system. The CE mark will then be transferred to Avacta after it receives ISO13485 accreditation, which is expected in April 2021.

The collaboration with Mologic also provides initial manufacturing capacity with the benefit of a short set-up time for the lateral flow test with **Global Access Diagnostics ('GAD'), in addition to the agreements with BBI Group, Abingdon Health and others**, that will provide manufacturing capabilities that can be scaled to several millions of tests per month.

AffiDX® SARS-CoV-2 Antigen Lateral Flow Test shows excellent analytical sensitivity of 50 pg/ml of S1 spike protein with a **read time of 20 minutes**. As far as the Group is aware, and on the basis of laboratory testing to date, this is currently **the most sensitive S1 spike lateral flow test available.**

On 16 February 2021, we announced the initial clinical evaluation of this test using anterior (front) nasal swab samples (30 positive and 26 negative samples) which demonstrated a sensitivity of 96.7% for samples with an infectious viral load (PCR Ct value < 26) and a specificity of 100%. Subsequently, on 20 April we announced the completion of the clinical validation of the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test with excellent performance data (clinical sensitivity of 98.0% for samples with Ct values up to 31 and clinical specificity of 99.0%).

On 9 March 2021 we announced a **royalty bearing licence agreement with Biokit,** a Werfen Company, to develop and commercialise an Affimer® based *in vitro* diagnostic test.

Financial & Corporate

Increased R&D investment across Diagnostics and Therapeutics programmes, leading to reported loss of **£18.9 million**

(17-month period to 31 December 2019: £15.6 million)

Cash and short-term deposit balances at 31 December 2020 of **£47.9 million**

(31 December 2019: £8.8 million)

Fundraisings completed during the period raising **£53.8 million** to expand Diagnostics and Therapeutics programmes.

Revenues of **£3.6 million** for year ended 31 December 2020

(17-month period to 31 December 2019: £5.5 million)

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.

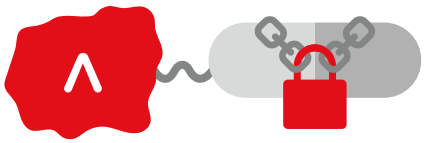
Loss per ordinary share **8.4 pence**

(17-month period to 31 December 2019: 13.0p)

Operating loss of **£21.3 million** for year ended 31 December 2020

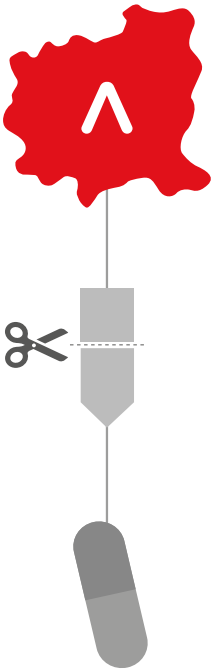
(17-month period to 31 December 2019: £18.0 million)

Operating highlights Therapeutics



Demonstrated initial proof-of-concept for its proprietary new class of drug conjugate, **'TMAC®'**, in a pre-clinical animal model of cancer.

Submitted the Clinical Trial Authorisation (CTA) to the UK Medicines and Healthcare products Regulatory Agency (MHRA) for a phase I dose-escalation and expansion study of **AVA6000 pro-doxorubicin**, Avacta's first pre|CISION™ FAP-activated prodrug.



pre|CISION™ progress

On schedule to select the next **pre|CISION™** prodrug chemotherapy clinical development candidate from the pipeline by the end of 2021.

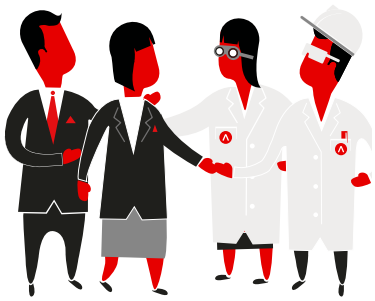
Appointment of **Neil Bell** as **Chief Development Officer** responsible for the late stage pre-clinical and early clinical development of Avacta's pipeline of pre|CISION™ prodrugs and Affimer® immunotherapies.

Significant progress with in-house Affimer® bispecific programmes towards selection of a clinical development candidate by the end of 2021. Two new programmes initiated, building on the **AVA004 PD-L1** antagonist programme: **AVA027**, a PD-L1/TGfβ receptor trap combination, and **AVA028**, a PD-L1/IL2 bispecific.

Expanded the existing multi-target collaboration and development agreement with **LG Chem Life Sciences ('LG Chem')** to include new programmes incorporating Avacta's Affimer XT™ serum half-life extension system. Deal worth up to **$98.5 million** plus royalties.

Established a partnered programme **('AffyXell Therapeutics')** in South Korea with **Daewoong Pharmaceutical Co. Ltd**., to develop the next generation of cell and gene therapies, incorporating Affimer® proteins to enhance the immune-modulatory effects. Programme subsequently expanded to provide access to the Affimer® platform for neutralising Affimer® therapies for the treatment of seriously ill patients with COVID-19 and to also prepare to rapidly develop similar therapies for future global pandemics.

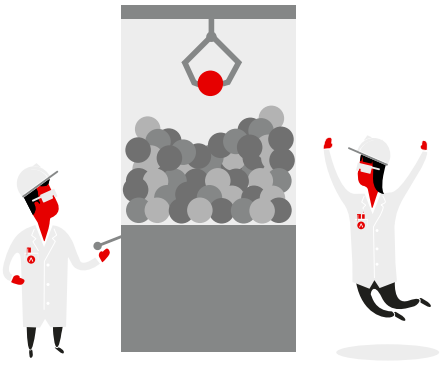
On 7 January 2021, we announced the licensing agreement with **Point Biopharma Inc.** to provide access to Avacta's pre|CISION™ technology for the development of tumour-activated radiopharmaceuticals.



On 1 February 2021, **AffyXell Therapeutics ('AffyXell')**, the partnered programme with **Daewoong Pharmaceuticals ('Daewoong')**, closed a series A venture capital investment of **$7.3 million** to further develop its pipeline of next generation cell and gene therapies.

Post-period highlights Therapeutics

Key appointments of Head of Chemistry, Manufacturing and Controls (CMC), Head of Clinical Operations and Head of Translational Sciences will together manage an extensive outsourced network of drug development service providers.



On 18 February 2021, the Medicines and Healthcare products Regulatory Agency ('MHRA') **approved the CTA for AVA6000 pro-doxorubicin** for a phase I, first-in-human, open label, dose-escalation and expansion study in patients with locally advanced or metastatic selected solid tumours.

The Group anticipates dosing first patients in mid-2021 subject to COVID-19 restrictions on hospital resources with first pharmacokinetics read-out possible before the year end.

Affimer® Technology

Affimer® reagents are small proteins that can be engineered to bind to a molecule of interest, in the same way that an antibody does, but with a number of competitive advantages over antibodies.

Binding to a specific molecule so that it can be detected enables the development of a diagnostic, research assay, or to enrich or purify it from a complex mixture. If the target is involved in a disease pathway and 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.

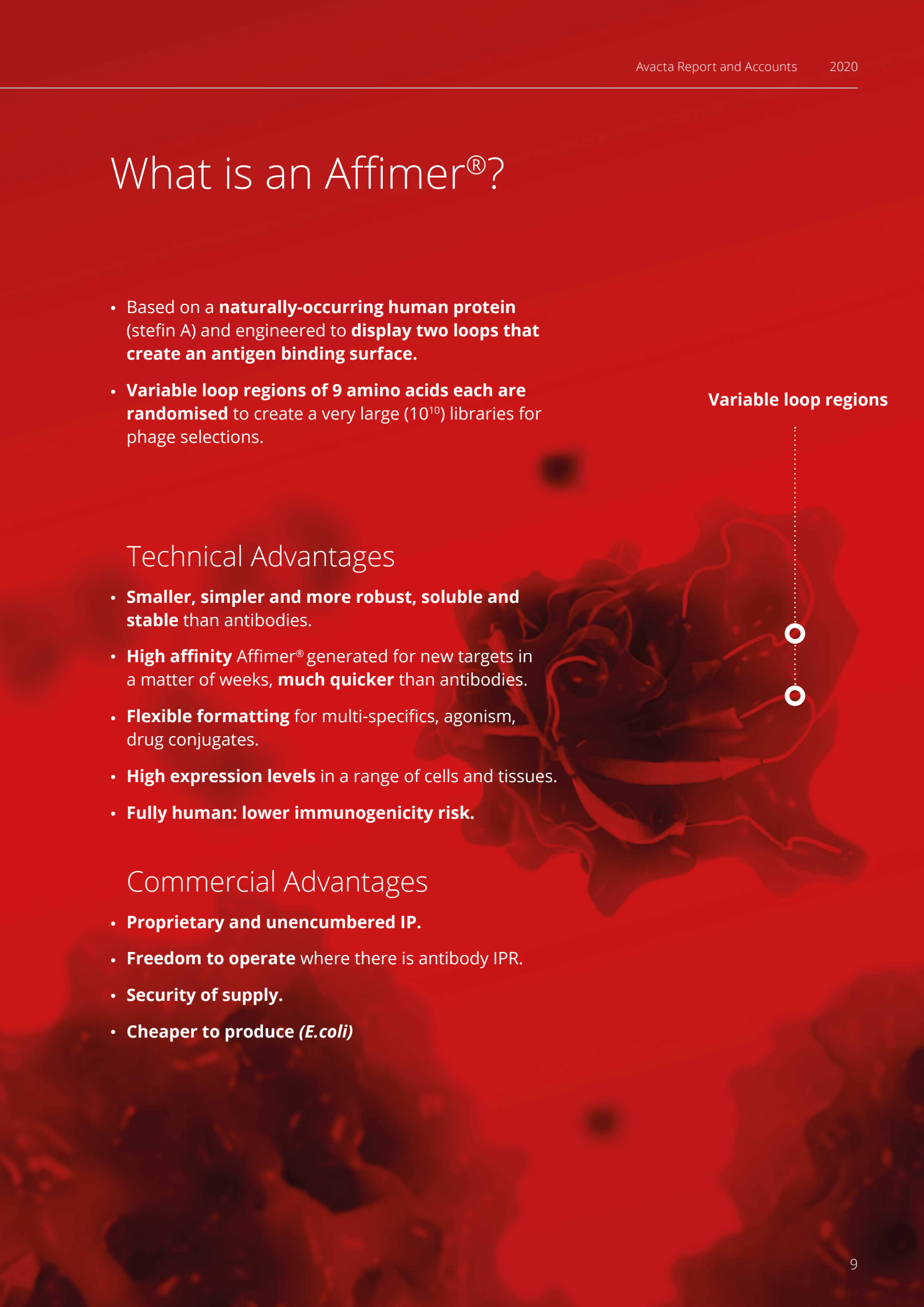
Affimer® molecules are ten times smaller than antibodies and very stable, being resistant to extremes of pH and temperature, which makes them better suited to some applications where harsh conditions are experienced or where their small size leads to better sample penetration or a higher density of binding 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 Affimer® technology is very large with the potential to generate near-term revenue from diagnostics, as well as potentially generating much higher rewards from therapeutics but with associated greater development risk.

Affimer®

What is an Affimer®?

- Based on a **naturally-occurring human protein** (stefin A) and engineered to **display two loops that create an antigen binding surface.**
- **Variable loop regions of 9 amino acids each are randomised** to create a very large (10^{10}) libraries for phage selections.



Technical Advantages

- **Smaller, simpler and more robust, soluble and stable** than antibodies.
- **High affinity** Affimer® generated for new targets in a matter of weeks, **much quicker** than antibodies.
- **Flexible formatting** for multi-specifics, agonism, drug conjugates.
- **High expression levels** in a range of cells and tissues.
- **Fully human: lower immunogenicity risk.**

Commercial Advantages

- **Proprietary and unencumbered IP.**
- **Freedom to operate** where there is antibody IPR.
- **Security of supply.**
- **Cheaper to produce *(E.coli)***

pre|CISION™ Technology

Chemotherapies activated only in tumours

Avacta's proprietary pre|CISION™ platform is a targeted delivery mechanism incorporating a substrate that is sensitive to cleavage by fibroblast activation protein alpha ('FAPα'), which is highly upregulated in the tumour microenvironment of most solid tumours compared with healthy tissues. This means that safety and tolerability are improved, compared to standard chemotherapy.

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

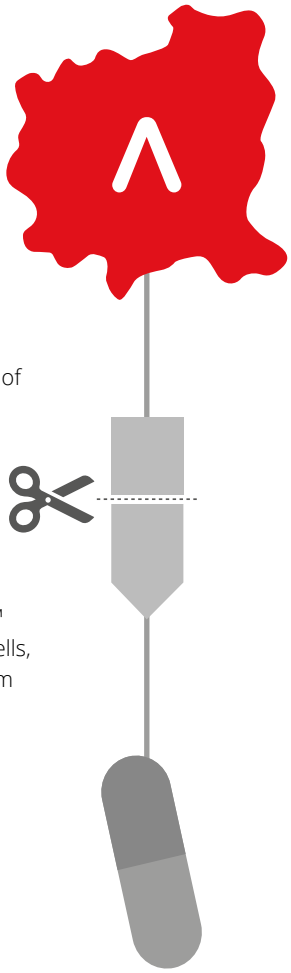
When added to a chemotoxin, the pre|CISION™ substrate prevents the chemotoxin from entering cells and therefore renders it inert until the substrate is cleaved in the tumour microenvironment. Using this prodrug approach, the systemic exposure to the chemotoxin is dramatically reduced, and the safety 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®').

- pre|CISION™ is **highly specific** to cleavage by an enzyme, **fibroblast activation protein-α (FAPα)** that is **highly upregulated in the tumour microenvironment of most solid tumours**
- pre|CISION™ substrate prevents chemotoxins from entering cells **rendering them inert until activated in the tumour** by FAP
- Substrate can also be incorporated into a **drug conjugate linker**
- Substrate exclusively licensed from **Tufts**

Tufts UNIVERSITY

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.

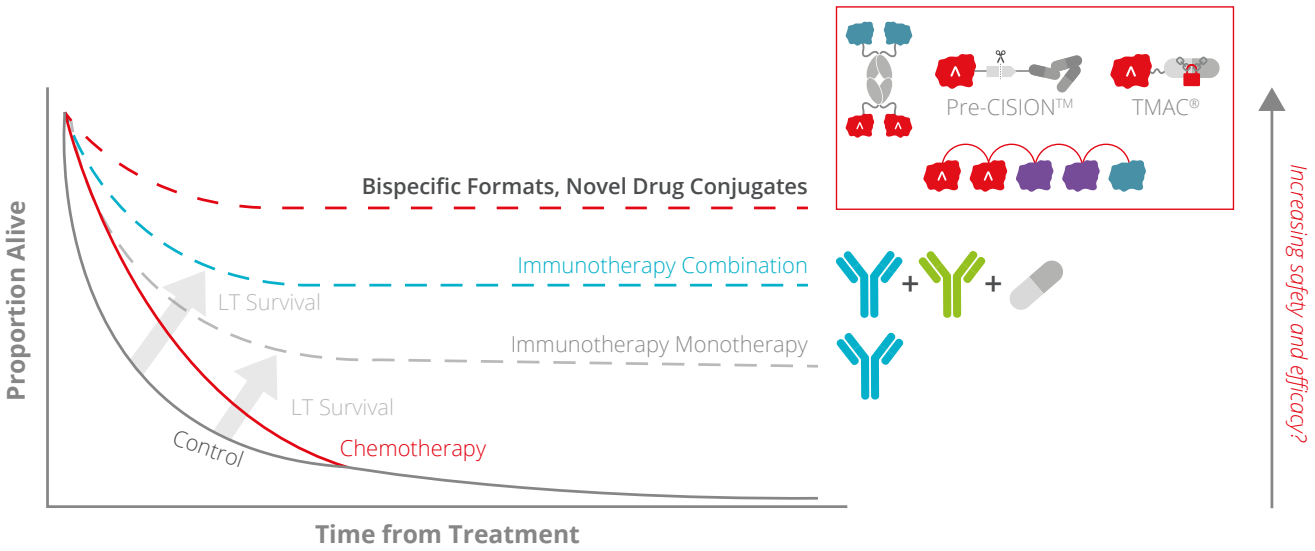
Prodrugs

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 prodrug 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.

TMAC® Technology

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®).

Addressing The Challenge for Cancer Therapies



- Therapies that alter the TME to activate the immune system locally (turning 'cold' tumours 'hot')
- Safer therapies with reduced side effects have a significant positive socioeconomic impact

In-house programmes

pre|CISION™

Only activated by FAP-α

Inactivated prodrug that cannot enter cells prior to activation that allows:

- Higher more frequent dosing
- Reduced systemic toxicity
- Broader patient population

AVA6000 (pro-Doxorubicin)
AVA7000 (pro-Paclitaxel)
AVA7500 (pro-Oxaliplatin)

TMAC®

Only activated by FAP-α

TME targeted prodrugs that allow:

- Higher dosing with low systemic toxicity
- Direct targeting to the TME
- Additional immune modulation via the Affimer®
- Payload does not require internalisation for cell killing

AVA04 TMAC
XT VbP TMAC

Affimer® Bispecifics

Targeting multiple pathways which allows:

- Greater efficacy than single combination therapies
- Tumour targeting to reduce systemic toxicity
- Single dose administration
- Single manufacturing campaign

AVA27 (AVA04-TGFβ)
AVA28 (AVA04-IL2)

Investment Proposition

Affimer® pre|CISION™

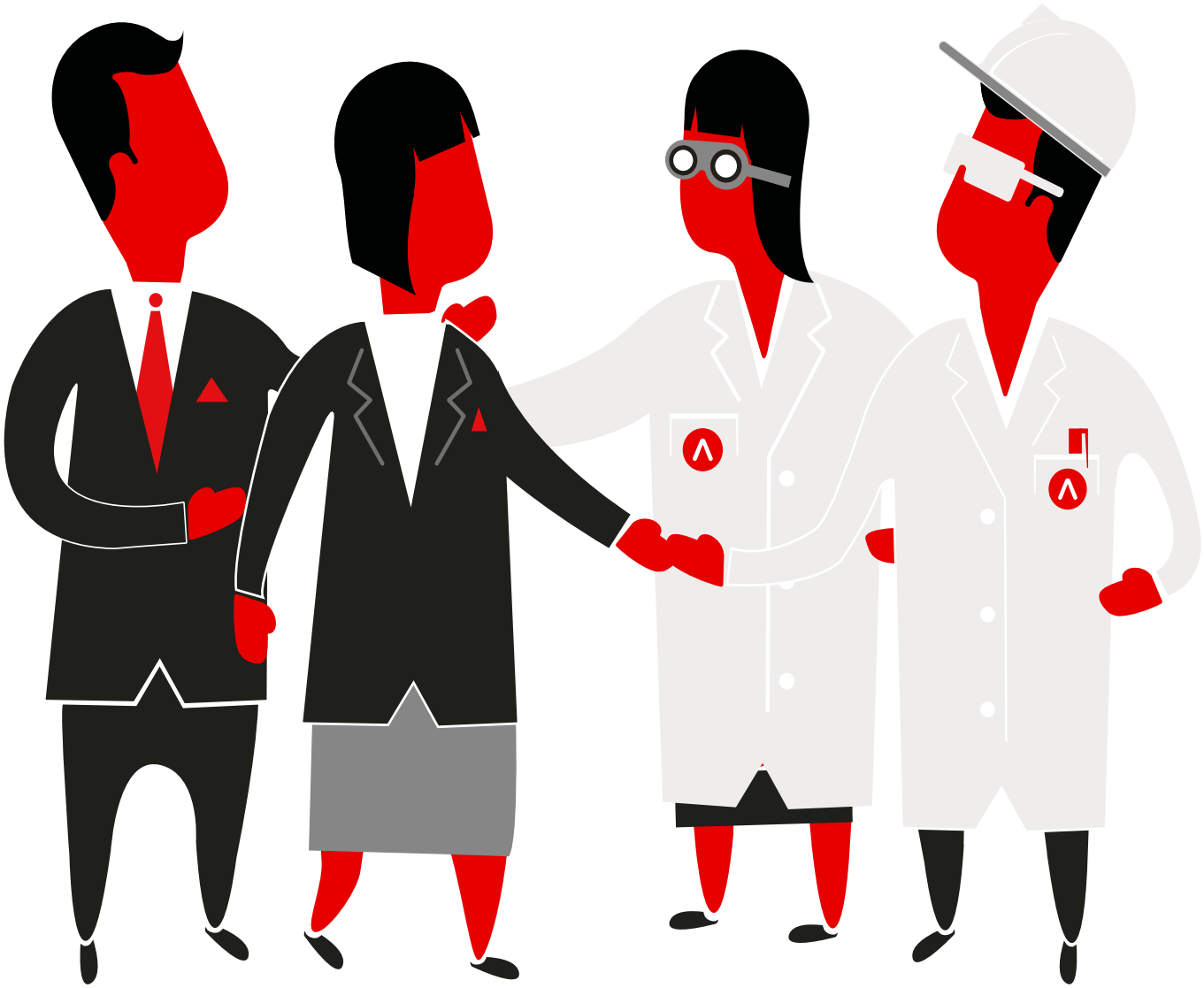
Our Mission is to shape the future of medicine by developing novel cancer therapies and powerful diagnostics using our proprietary Affimer® and pre|CISION™ platforms.

Investment opportunity

- Avacta's proprietary Affimer® and pre|CISION™ platforms are delivering a robust portfolio of differentiated therapeutic and diagnostic products that address multiple multi-billion dollar markets.
- Affimer® binders are engineered alternatives to antibodies that have significant competitive advantages including size, stability, versatility, rapid development and ease of production. Despite their shortcomings, antibodies currently dominate markets, such as diagnostics and therapeutics, worth in excess of $100 billion.
- Avacta's Affimer-based rapid Covid-19 antigen test due for commercial roll-out by end Q1.
- The pre|CISION™ targeted chemotherapy platform releases active chemotherapy directly in the tumour, limiting systemic exposure and side effects associated with many commonly used cancer treatments. Phase I trial for first candidate, AVA6000, due to start by mid-2021.
- Significant potential of Affimer® drug conjugates to be the next generation cancer treatments. Combination of both platforms allowing immunotherapy to be fused with a chemotherapy in a single molecule.
- Platforms validated through leading industry partnerships including Moderna, LG Chem, Daewoong Pharma, ADC Therapeutics and POINT Biopharma.
- The Company plans to generate additional Affimer® and pre|CISION™ drug development candidates in 2021 to further support its growing, innovative pipeline.
- With its strong balance sheet, the Group expects to deliver major value inflection points from its well-funded therapeutic programmes over the next twelve months and deliver near to medium term revenues from its diagnostic business, driving long-term shareholder value.

Our strategy

- Build a portfolio of novel, clinically differentiated cancer therapies leveraging the key benefits of the Affimer® and pre|CISION™ platforms.
- Create a fast-paced, nimble, delivery-focused drug discovery and development organisation to transform Avacta into a clinical stage biotech with multiple clinical programmes and an exciting pre-clinical pipeline.
- Establish partnerships with global pharmaceutical companies for our technology platforms and pipeline.
- Grow a profitable revenue stream from Affimer® diagnostics through partnerships and licensing as well as in-house product development.



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Chairman and Chief Executive Officer's Joint Statement

The significant progress achieved in both the Diagnostics and Therapeutics divisions during 2020 has already enabled us to deliver major value inflection points during the first four months of 2021.

We are very excited by the commercial potential of our scalable, rapid coronavirus test. The recently announced excellent clinical validation data (sensitivity of 98.0% for samples with Ct values up to 31 and specificity of 99.0%) strongly reflects the excellent analytical performance demonstrated in the lab and suggests that it may be, to date, the most sensitive S1 spike protein lateral flow test.

Despite unprecedented pressures on the Diagnostics division, we now have the infrastructure in place to support the commercial launch of this test. Importantly, we are close to completing the establishment of a complex supply chain for the scalable manufacture of the test kits and we are making timely progress in instituting a quality management system to support the required ISO13485 accreditation for medical devices.

In line with commitments we made during the fund-raise last summer, in the Therapeutics division we expanded our in-house pre-clinical pipeline and kept our partnered programmes moving forwards despite the restrictions of COVID-19 safe-working. We also appointed Neil Bell as Chief Development Officer, who has now established a clinical development team to drive the Company's transition to a clinical stage biotech.

In December, we submitted a Clinical Trial Authorisation ('CTA') to the UK's MHRA for our lead pre|CISION™ platform drug candidate, AVA6000 pro-doxorubicin, and I am delighted that we recently received approval from the Agency to proceed with the phase I study, which we expect will dose first patient around the middle of the year.

Fund-raising

During 2020, the Group completed two fund-raises, which delivered a combined £53.8 million, transforming the Group's abilities to develop both its diagnostics and therapeutics businesses. These fund-raises have significantly strengthened the Group balance sheet, with £47.9 million of cash and short-term deposits at 31 December 2020 and will provide funding for the Group through 2021 to 2022 and into 2023.

Board changes

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 several sectors including biotech, pharmaceutical and telecommunications.

On 24 March 2021, Dr Mike Owen stepped down from his Board role as Non-executive Director having served as a Director since 2015. We would like to thank Mike for his significant commercial and scientific input to the Board. Mike will continue to chair the Scientific Advisory Group in a non-Board role.

Our people

The commitment of our employees during the last year has been exceptional. Despite significant restrictions on normal working practices due to the pandemic their efforts have transformed the Group. Our employees are actively engaged in our strategic plans and in delivering shareholder value, and many of them are also shareholders in the Group. Their work in implementing quality systems, developing Affimer® reagents for COVID-19 development projects in very short timescales, submitting the relevant submissions for our first clinical trials and maintaining development programmes with our partners across the world has been truly inspiring.

Effects of the COVID-19 pandemic

The ability of the Group's Diagnostics division to react to the COVID-19 pandemic and help provide a solution which could bring the impacts of pandemic on daily life to an end has been transformational for the Group. The interest generated with shareholders created the opportunity to raise significant funds to support the Group in developing its diagnostics and therapeutics platforms.

The downsides of the pandemic have led to many challenges in working practices across the Group, with scientific staff working shifts to ensure safe laboratory working practices and support staff working from home where possible to reduce the number of staff at each site. Additional premises have been taken on in both Cambridge and Wetherby and either have been fitted out, or are being fitted out, to provide further laboratory space for all the scientific teams to return to the laboratories full time and allow for the expansion of the teams over the coming months.

There has been an impact on the therapeutic programmes and some changes to work programmes were necessary in the early lockdown period whilst we managed staff numbers on site. Our contract manufacturing and clinical operations partners also reduced staffing levels, which caused some delays to programmes. This also had an impact on our partnered programme revenues recognised during 2020, with some revenues based on FTE work slipping back into 2021. However, the teams are now focused on bringing the programmes to fruition with our partners.

The dosing of first patients in our AVA6000 phase I study, now that we have regulatory approval, is due to commence in the middle of 2021. The exact timings of this will be determined by how quickly the pressure on clinicians and hospitals is reduced from the COVID-19 pandemic.

Our Animal Health division's revenues were impacted during the first lockdown as veterinary practices were focusing on emergency cases, with more routine appointments in relation to allergy or therapy testing being put on hold. The division took the opportunity to assess its product portfolio and routes to market during this time. Whilst some staff transferred across to our diagnostics team there were unfortunately two redundancies because of this process and new routes to market. Following a non-cash impairment charge of £1.74 million, and with the business recovering strongly in the second half of the year to deliver a small operating profit, it is positioned well for trading in 2021.

The Board continues to monitor and assess the impact of COVID-19 and the impact it has on the Group's businesses.

Outlook

We are very proud of the Avacta team and how they have overcome the substantial challenges presented by the pandemic and continued to progress our programmes and generate significant shareholder value. There are several significant milestones to deliver during 2021, with the dosing of the first patient in the AVA6000 clinical trial, the anticipation of initial pharmacokinetic data for AVA6000 and the pre|CISION™ platform before year end, and the launch of the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test with the potential to generate substantial revenues. We look forward to updating the market on these very exciting milestones ahead of us in due course.

Alastair Smith
Chief Executive Officer

22 April, 2021

Eliot Forster
Non-executive Chairman

22 April, 2021

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 new therapeutic partnerships and expanding existing ones, and building commercial traction in the Affimer® diagnostics business. The COVID-19 rapid antigen testing opportunity has highlighted the significant potential of the Affimer® platform for diagnostics and dramatically increased shareholder value in the last twelve months. The enormous hard work leading to substantial technical and commercial 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 pre-clinical data for AVA6000 are very compelling: we see a substantial improvement in the distribution of the active chemotherapy to the tumour and a substantial increase in the therapeutic window compared with doxorubicin. 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 anticipate dosing first patient in the middle of 2021 and, given the progress in vaccinations in the UK and reduction in the number of COVID-19 patients in hospitals, we do not expect there to be a significant delay because of the pandemic.

How has the strategy of the Diagnostics division changed in 2020?

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 can be slow. The time taken by Avacta to develop an Affimer® that meets their requirements is a small part of the process. It is the time taken by the partner to develop and evaluate the Affimer® binders, 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. We will launch the first Affimer-based diagnostic in 2021 when the AffiDX® SARS-Cov-2 rapid antigen test is on the market. In addition to developing our own products, recently we have seen tangible progress with the licensing deals with Astrea for bioseparations and with Biokit for a diagnostics application and, going forwards, I expect to see further such deals for Affimer® reagents to go into third-party products alongside the development of our own pipeline of products.

What newsflow might we expect from the Group during 2021?

Clearly there is going to be a significant focus on the commercialisation of the COVID-19 diagnostic test during 2021 and we very much look forward to keeping the market updated. Having announced the results of the clinical validation study in April, we anticipate CE marking the test for professional-use in May. This will be Avacta's first in-house diagnostic product with regulatory approval and it will be a major milestone for Avacta's diagnostics business. Our focus is on manufacturing and supply of the product post-CE marking and in building the commercial routes to market with partners in Europe and the UK.

The dosing of first patient with AVA6000 will mark another momentous development milestone for Avacta as it transitions to a clinical stage biotech and we expect to see whether the pre|CISION™ chemistry works in humans as well as it does in the preclinical models from initial pharmacokinetic data before the end of the year. If those data are positive then we will have opened up an extensive pipeline of pre|CISION™ prodrug chemotherapies with multi-billion dollar markets and created significant, and long-term, shareholder value in addition to the near-term revenues and shareholder value driven by COVID-19 testing.

Operational Review

Business overview

Avacta Group is developing novel cancer immunotherapies through its Therapeutics division and powerful diagnostics through its Diagnostics division, based on its two proprietary platforms - Affimer® biologics and pre|CISION™ tumour-targeted chemotherapies.

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

Avacta's pre|CISION™ targeted chemotherapy platform releases active chemotherapy in the tumour, which limits the systemic exposure that causes damage to healthy tissues, and thereby improves the overall safety and therapeutic potential of these powerful anti-cancer treatments.

The Group comprises two Life Sciences divisions - Therapeutics and Diagnostics - and an Animal Health division. Therapeutics development activities are based in Cambridge, UK and the Group is generating near-term revenues from Affimer® reagents for diagnostics, bioprocessing and research through a separate diagnostics business unit based in Wetherby, UK and an Animal Health division also based in Wetherby.

Avacta's Diagnostics division works with partners world-wide to develop bespoke Affimer® reagents for third-party products. The Group is also developing an in-house pipeline of Affimer-based diagnostic assays including the AffiDX® SARS-CoV-2 Lateral Flow Rapid Antigen Test and an AffiDX® BAMS™ SARS-CoV-2 Assay in partnership with Adeptrix Inc.

Avacta's Therapeutics division is addressing a critical gap in current cancer treatment - the lack of a durable response to current immunotherapies experienced by most patients. By combining its two proprietary platforms, the Group is building a wholly owned pipeline of novel cancer therapies designed to be effective for all cancer patients. In 2021 Avacta will commence a phase I first-in-human, open label, dose-escalation and expansion study of AVA6000 pro-doxorubicin, the Group's lead pre|CISION™ prodrug, in patients with locally advanced or metastatic selected solid tumours.

Avacta has established drug development partnerships with pharma and biotech, including a research collaboration with ModernaTX,Inc. (formerly Moderna Therapeutics Inc.), a multi-target deal with LG Chem worth up to $400 million, a joint venture in South Korea with Daewoong Pharmaceutical focused on cell and gene therapies incorporating Affimer® immune-modulators, a partnership with ADC Therapeutics to develop Affimer-drug conjugates and a collaboration with Point Biopharma to develop radiopharmaceuticals based on the pre|CISION™ platform. Avacta continues to actively seek to license its proprietary platforms in a range of therapeutic areas.


Avacta

Avacta Diagnostics

Diagnostics Division

- Poised to capitalise on a substantial commercial opportunity for high quality rapid testing for COVID-19.
- A pipeline of non-COVID-related in-house diagnostic tests for a range of diseases and conditions being developed to be brought to market from 2022 onwards, adding to long-term COVID-19 testing revenues.
- Affimer® reagent licensing deals for diagnostic and other applications now being delivered for a pipeline of Affimer® technology evaluations creating the potential for long-term royalty income.

AffiDX® SARS-CoV-2 Antigen Lateral Flow Test for potential mass deployment

During the past year Avacta, in conjunction with its partners, has made substantial progress in the development of its Affimer® based, SARS-CoV-2 antigen lateral flow test.

Laboratory studies showed that it may be the most sensitive S1 spike protein lateral flow test available to date and recent clinical validation data has reflected this strong analytical performance. The clinical study tested 98 positive COVID-19 samples across a broad range of high and low viral loads (31 with Ct<26; 65 with Ct 26-30 and 2 with Ct 30-31). The test identified 96/98 of these correctly as positive with a 20 minute read time resulting in a clinical sensitivity of 98.0% for samples within this broad range down to low viral loads. Out of a total of 102 negative samples tested with the lateral flow device, the test correctly identified 101 as negative, giving a clinical specificity of 99.0%.

The test is therefore capable of identifying individuals with infectious viral loads using an anterior nasal swab sample. Such a test is suitable for mass deployment to identify those people who are likely to infect others so that they can isolate and reduce the spread of the infection.

Lateral flow tests are a complement to, not a replacement for, PCR testing.

How a diagnostic test is used, called the 'Intended Use Case', is extremely important and it must be adhered to in order to avoid a test being used inappropriately. A rapid antigen test with high specificity and good sensitivity can be used effectively to identify the majority of people with a high viral load that makes them infectious so that they can isolate themselves.

Frequent testing, at least once every few days and ideally daily, is important so that as soon as the viral load of an infected person becomes high enough to be infectious that person is identified.

The first challenge in developing a clinically useful rapid coronavirus test for mass population screening is to understand what viral load should be considered infectious.

Patient samples can be characterised in a number of ways, but the most common are as follows:

- Genome copies per millilitre (i.e., how many copies of the virus RNA are present in a millilitre of sample)
- Plaque forming units ('pfu') per millilitre (i.e., how many viable viruses that can infect cells and multiply are present in a millilitre of sample). The number of pfu/ml and genomes/ml are different because there is RNA present in samples that is not assembled into viable virus particles (i.e., the genomes per ml is higher than the pfu per ml). These two measures of infection vary in a way which has not yet been fully characterised, but there is probably between 10 - 10,000 more genomes/ml than pfu/ml in a sample
- Cycle time ('Ct'), which is the number of amplification cycles of PCR required to detect the virus (i.e., a low Ct value means that the person has higher viral load because it took fewer amplification cycles to become detectable). Ct values vary between different PCR tests, and even between different laboratories running the same test, so this should also be taken into account

A reasonable assumption, based upon the growing combined understanding of SARS-CoV-2 and COVID-19, is that a person is infectious and likely to infect others if their viral load is > 10,000 genomes/ml (i.e., approximately > 100 pfu/ml and Ct < 25).

According to recently published data from the Liverpool Covid Smart Pilot, a viral load of < 10,000 genome/ml leads to a likelihood of infecting others of around 10%. Therefore, at this low end of the infectious range the risk of infecting others appears to be quite low. Whereas the risk of a person with a viral load ~1,000,000 genome copies/ml is around 50%. Highly infectious people can have viral loads > 100,000,000 genome copies/ml.

With all this in mind, for a rapid antigen test to have clinical utility (and therefore sustainable commercial value) it should be able to detect SARS-CoV-2 viral load of a few hundred pfu/ml, or Ct of 25 or below, or > 10,000 genomes/ml. Clearly, the lower the detection limit the better, and a test must be able to achieve this limit of detection in real patient samples and not just in contrived 'clean' laboratory samples

Laboratory testing suggests that the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test could be the most sensitive spike antigen test so far available.

The AffiDX® SARS-CoV-2 Antigen Lateral Flow Test detects the SARS-CoV-2 S1 spike protein and has an analytical limit of detection ('LOD') in nasal swab samples of 50 pg/ml. This can be achieved with a visual read time of 10 minutes. The test line is clearer if a longer read time is used, therefore a read time of 20 minutes has been adopted as the standard for this test.

How does this analytical sensitivity translate into pfu/ml of virus, which is the clinically relevant measure? Avacta has established this relationship using Avacta's research ELISA for S1 protein and inactivated virus provided by Public Health England (Porton Down, UK). Using this safe form of the virus, we have shown that an analytical LOD of 50pg/ml corresponds to the amount of S1 spike protein in a virus sample containing 500 pfu/ml.

A significant proportion of the development time of the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test has been focused on achieving this level of sensitivity in human saliva and nasal swab clinical samples. The development work has been carried out in-house and with our development partners using saliva and anterior nasal swab samples taken from healthy volunteers to which the S1 spike protein has subsequently been added to known concentrations to generate a contrived clinical sample. The key challenge in developing the test has been to get these complex human fluids to flow properly in the device and to eliminate false positive results arising from unknown material in nasal samples and saliva. This has been achieved through detailed studies evaluating a range of different additives to the lateral flow test and sample extraction buffer for both nasal and saliva samples. The Group announced in Q4 2020 that it would focus on anterior nasal sampling because of the variability of saliva samples, although the test works with both sample types. The UK Department of Health and Social Care has also recently focused on nasal and other swab samples rather than saliva.

In summary, the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test has excellent analytical sensitivity (LOD) of 50 pg/ml S1 spike protein, which appears sensitive enough to detect the lowest viral loads of relevance to the Intended Use Case, with a read time of 20 minutes. As far as the Group is aware, this is the most sensitive S1 spike lateral flow test available.

The analytical specificity of the Affimer® reagents has been reported previously with no cross-reactivity with the S1 spike proteins from closely related coronaviruses: MERS-CoV S1, SARS-CoV-1 S1, HC0V-229E S1, HCoV-HKU1 S1, HCoV-NL63 S1 or HCoV-OC43 S1.

The test detects the D641G mutant of the original coronavirus, and the Group expects that the test will also detect the newer coronavirus variants. Work is ongoing with Public Health England to confirm this.

Diagnostics Division (Cont)

Clinical evaluation of AffiDX® SARS-CoV-2 Antigen Lateral Flow Test

The clinical performance of a diagnostic test cannot simply be inferred from the analytical performance because of the complex pathology of diseases which control the amount of a biomarker that is available in a sample when added to the test. In the case of COVID-19, there is a complex series of biological processes that determine how much of the virus spike protein is actually present in the anterior (front) part of the nose to be picked up on a swab and then released into a buffer to be added to the lateral flow test strip. A clinical evaluation of the test is the only way to determine whether it is capable of identifying infectious individuals.

The initial evaluation of Avacta's lateral flow rapid antigen test with clinical samples was carried out at two sites, one in the EU and one in the UK using patient samples with viral loads confirmed by PCR. 30 positive samples were tested with Ct values of 26 and below, with half of those in the range 22-26, and the lateral flow test identified 29/30 of these correctly as positive. This indicates a clinical sensitivity of 96.7% for samples with a Ct value below 26. Importantly, out of a total of 26 negative samples tested with the lateral flow device, the test correctly identified all 26 as negative, giving a clinical specificity of 100%. High specificity is critical for a lateral flow test for mass screening so that large numbers of false positives are not generated, which would create a major burden on follow-on testing resources, and result in a significant socio-economic cost of unnecessarily isolating people.

The second clinical validation for CE marking purposes was carried out at a single site in Europe and reported on recently. The study tested 98 positive samples (31 with Ct<26; 65 with Ct 26-30 and 2 with Ct 30-31). Avacta's rapid antigen test identified 96/98 of these correctly as positive with a 20 minute read time resulting in a clinical sensitivity of 98.0% for samples within this broad range down to low viral loads. Out of a total of 102 negative samples tested with the lateral flow device, the test correctly identified 101 as negative, giving a clinical specificity of 99.0%.

On the basis of these excellent clinical data, the Group will now complete the technical file, including accelerated stability data, for CE marking the test for professional use early in May followed immediately by commercial roll-out.

Avacta Diagnostics division expects ISO13485 accreditation early in Q2 2021.

Avacta's Diagnostics division has completed the two audits of the Group's Quality Management System that are required by its external auditor in order to award ISO13485 accreditation and is awaiting confirmation of the outcome.

Medical device manufacturing is a highly regulated sector in which stringent quality systems and product performance requirements must be satisfied. These regulatory requirements are intended to ensure that manufacturers consistently design, produce and place onto the market medical devices that are safe and fit for their intended purpose. ISO13485 certification provides a practical foundation for diagnostics and medical device manufacturers to address these regulatory requirements and obligations of the industry, as well as demonstrating a commitment to device safety and quality.

The Diagnostics division has established a Quality Management System and the first external audit by the Group's Notified Body (BSI Group) was passed in December successfully. The second and final audit was scheduled in March 2021, but due to a COVID-19 case at Avacta's Wetherby site, the second audit has been split into two with the final site visit now occurring in early April. The Group is awaiting confirmation of a positive outcome to this second audit. This certification sets the organisational and operational framework for all current and future diagnostic product developments and it is an essential accreditation that underpins future commercial success.

AffiDX®

Mologic partnership enables near-term AffiDX® CE mark for professional use

Whilst the Group establishes its own ISO13485 accreditation, in order to achieve the fastest possible and lowest risk route to CE marking, Avacta has established a partnership with Mologic Ltd. so that the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test can be CE marked for professional use quickly under Mologic's established ISO13485 Quality System. The CE mark will then be transferred to Avacta when it achieves ISO13485 accreditation, which is expected early in May 2021. As part of the collaboration between the two companies, Avacta and Mologic are also exploring the possibility of combining Avacta's spike antigen test with Mologic's nucleocapsid antigen test in a single device which would be a world first and has the potential to deliver the most sensitive rapid antigen test possible. The two companies will evaluate whether the two tests can be combined in a single device and then make a commercial decision on whether to pursue this second generation COVID-19 diagnostic.

Avacta will immediately be able access initial manufacturing capacity through Mologic's close partner Global Access Diagnostics (GAD), in addition to scale-up manufacturing capacity with BBI and Abingdon Health. Combined, these manufacturing partnerships can scale up to several million tests per month and potentially much higher with further investment. Avacta is also continuing its discussions with other manufacturers in the UK and overseas in order to be able to access additional capacity to ensure that it can meet the expected demand.

The Group continues its commercial discussions with potential customers for the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test and expects demand to be present for rapid testing for at least two years and probably for longer. Only by having a high-quality test that identifies the majority of infectious individuals can this clinical need be translated into commercial success and the Group believes that the recent initial clinical data are extremely encouraging in that regard.

Healthcare services providers and governments are likely to be the largest volume customers of a professional use rapid antigen test and with an estimated price point in the mid-single digit GBP range. A higher price point is anticipated for sales to corporates for workforce testing.

BAMS™ SARS-CoV-2 assay

In collaboration with Adeptrix Inc, Avacta has developed a mass spectrometry assay on Adeptrix's BAMS™ platform which combines enrichment of the sample using Avacta's SARS-CoV-2 spike protein Affimer® binders to improve sensitivity with the power of mass-spectrometry for analysis. Up to one thousand samples per day can be analysed by a single technician using BAMS, exceeding the capacity of a single PCR machine.

In January, Avacta established a collaboration with Bruker Corporation (Billerica, MA) (NASDAQ: BRKR, 'Bruker') to evaluate the Affimer-based SARS-CoV-2 BAMS™ assay and assess the suitability of the test as a professional-use *in-vitro* diagnostic ('IVD') product for SARS-CoV-2 infection to run on Bruker's MALDI-TOF instruments.

Bruker is one of the world's leading analytical instrumentation companies, providing high-performance scientific instruments and high-value analytical and diagnostic solutions to scientists globally. It is also one of the foremost suppliers of mass spectrometers with a significant installed based in clinical microbiology laboratories in hospitals world-wide.

Having successfully developed a prototype test with Adeptrix, Avacta, has been working with its clinical partners in the UK to refine the assay to fit into the typical workflows in a clinical microbiology laboratory and to work well on the type of simplified mass spectrometer that is found in this setting. Avacta is working closely with Bruker and Adeptrix on this process.

There is now a well-established PCR-testing capacity in most countries that is capable of dealing with current demand, making the commercial case for mass spectrometer based additional capacity less compelling than anticipated by the two companies. In light of this rapidly changing COVID-19 hospital testing market Avacta is working closely with Bruker and Adeptrix to review the commercial strategy for the SARS-CoV-2 assay and for a wider range of BAMS proteomics tests in general.

Diagnostics Division (Cont)

Non-COVID diagnostics update

Post-period end, the Group entered into a licence agreement with Astrea for the use of the Affimer® platform in affinity purification applications.

Astrea is a leading provider of affinity separation solutions to the pharmaceutical and biomanufacturing industries. It is a division of Gamma Biosciences, the life sciences tools platform created by KKR, to build a leading position in next generation bioprocessing for advanced therapies.

This is an important validation of one part of the Group's business model for non-therapeutic Affimer® applications – that of third-party technical evaluations of bespoke Affimer® reagents generated for a specific application leading to licensing of those Affimer® reagents and long-term royalty-based revenue streams. Astrea has evaluated certain Affimer® reagents for affinity separation, resulting in the agreement between the two companies for a non-exclusive licence for the use of the Affimer® technology in this field.

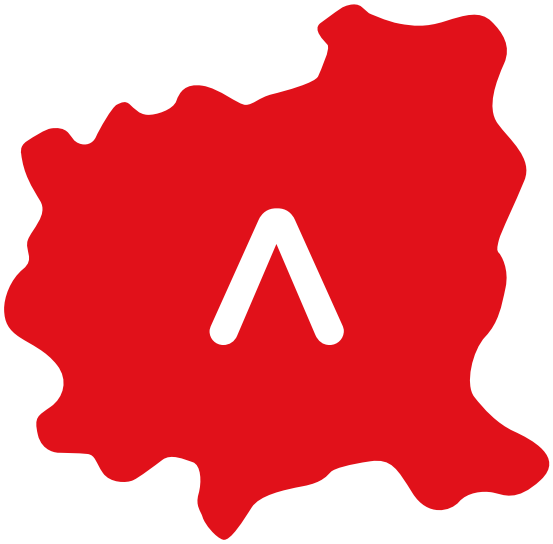
The agreement includes a £0.5 million upfront payment to Avacta which gives Astrea the rights to generate and develop Affimer® reagents in-house for affinity separation using an Affimer® library to be provided by Avacta. It also provides Astrea with an option to convert the agreement into an exclusive licence if certain commercial performance criteria are met over the next three years and subject to the payment of an additional undisclosed option exercise fee.

Avacta will receive royalties on future sales of Astrea's purification products that contain Affimer® reagents.

Although the pandemic has affected the Group's business development activities, it continues to generate new projects and to work on established Affimer® evaluations with partners to generate further licensing agreements.

The Group is also developing an in-house pipeline of Affimer-based diagnostic tests. Resources have been focused during 2020 primarily on the immediate COVID testing opportunities, and since the lateral flow test is now in clinical evaluation the Group is in a position to begin to refocus its research and development resources onto non-COVID diagnostic tests, which include assays for D-dimer, cortisol, vitamins D and B12 and C-reactive protein, a test with regard to liver function. Avacta has recently appointed a Product Manager who joined the Group in March whose role is to define the market opportunity and performance requirements for new tests to feed the product development pipeline in the future. This appointment is part of a wider expansion of the Diagnostics division's management team which also includes a Head of Product Development and Operations Director.

During the pandemic, in order to maintain a COVID safe working environment the Group has not been able to have all laboratory staff on site at the same time and has worked in two teams. New CAT 2 laboratory facilities in Wetherby have been completed and equipment that has been installed and validated to satisfy the requirements of ISO13485. The new facilities can house about 20 staff and all scientific staff are now able to work full time in the laboratories.




QIAGEN

Diagnostics Division (Cont)

Case Study: Dx – AffiDX® SARS-CoV-2 Antigen Lateral Flow Test

Avacta has developed the AffiDX® SARS-CoV-2 Lateral Flow Antigen Test, an Affimer-based *in vitro* diagnostic ('IVD') test to detect SARS-CoV-2 antigen in human anterior nasal swab samples.

The test is to be used to identify individuals with higher viral loads of SARS-CoV-2 that increase the likelihood of transmitting the infection to others.

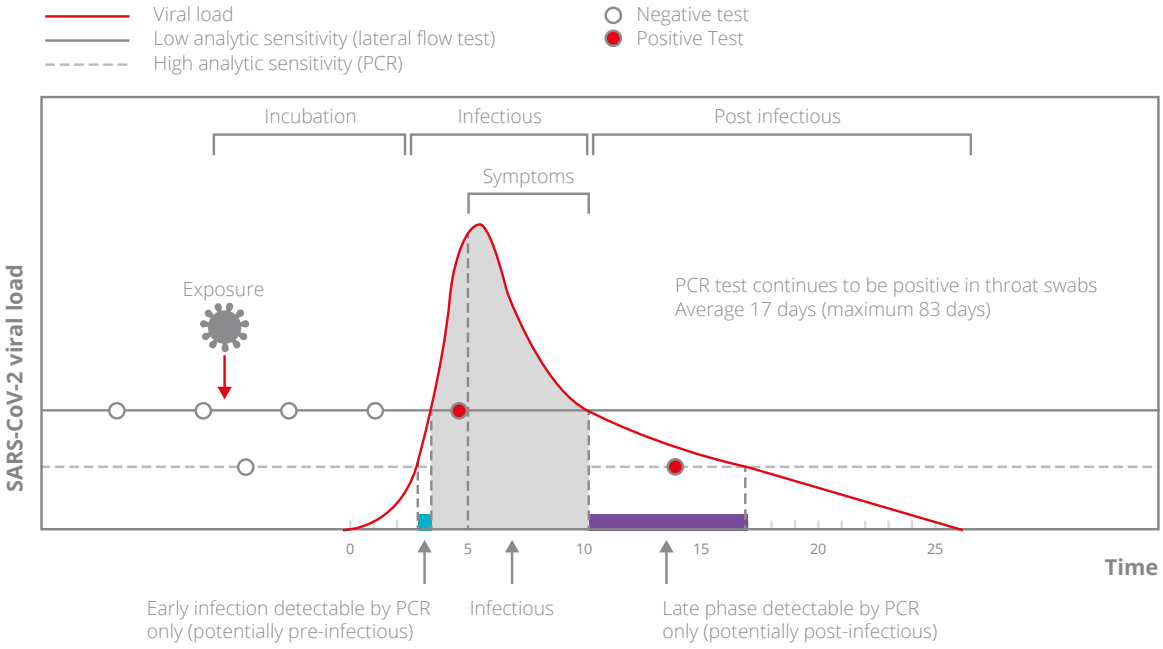
Avacta began screening for the Affimer® molecules against the SARS-CoV-2 spike antigen in April 2020, generating a number of binders in just four weeks. Over the course of 2020 and early 2021 the test architecture was developed whilst the Diagnostics division also scaled up internal resources, manufacturing and logistics. The test was brought to market around one year after initial development began. This is a very fast development time for an IVD, particularly given it is the first product brought to market by the Company.

The case for lateral flow tests

One key benefit of the lateral flow antigen ('LFA') tests are their effectiveness to detect a high viral load, therefore enabling infectious people to isolate quickly whilst helping to reduce the number of people who are not infectious having to isolate. Studies have shown that the more virus present in the nose and throat, the more infectious a person is[1]. Consequently, assessing this viral load will enable faster identification and isolation of these highly infectious individuals, to ultimately minimise further transmission and reduce the R rate.

Another benefit is that LFA tests are mobile and rapid, suitable for use at the point-of-care without the need for specialist equipment. In this format, the tests can be rapidly deployed across multiple locations without stringent infrastructure or training requirements.

In addition, LFA tests can provide much faster results than PCR tests, with most displaying a result within 30 minutes. PCR test results can take several days from testing to results, leaving a window in which infection can spread. Rapid testing means a faster start to quarantine for infectious individuals, and so greater control over disease spread.



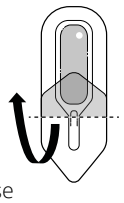
High frequency testing with low analytic sensitivity versus low frequency testing with high analytic sensitivity. A person's infection trajectory (solid grey line) is shown in the context of two surveilance regimens (circles) with different analytic sensitivity. Higher frequency testing is more likely to test in the infectious window. Therefore, although both testing regimens detect the infection (orange circles), the high frequency lateral flow test is more likely to detect it during the transmission window (shading),despite its lower analytic sensitivity. The figure is not an accurate representation of exactly when a positive test is likely to signify that a case is infectious. Crozier et al, BMJ 2021; 372:n208

Diagnostics Division (Cont)

TEST PROCEDURE

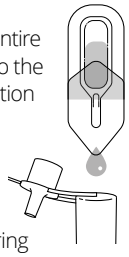
Swab Sample Collection & Processing

1. Peel back the film on the buffer capsule to expose the outlet only.



2. Empty the entire contents into the swab extraction tube.

Place the tube in an upright position during the swabbing process.

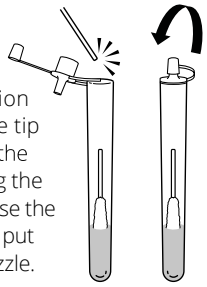


3. Remove the swab from the peel pouch without touching or allowing the tip to come in to contact with any surfaces.

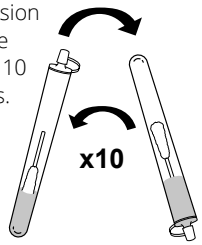
4. Insert the swab tip in to one nostril to a depth of around 1-2cm and hold against the inner wall of the nostril. Move the swab around the nostril wall, whilst rotating the swab between the fingertips. Continue this process for a minimum of 10 seconds.

5. Repeat with the other nostril using the same swab.

6. Place the swab (tip end first) in the swab extraction tube and snap the tip of the swab off at the breakpoint, leaving the tip in the tube. Close the lid of the tube and put the cap on the nozzle.



7. Mix by rapid inversion of the tube 10 times.



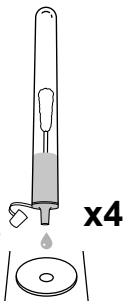
8. This sample can be stored for up to X hours (TBD) at X°C prior to running the lateral flow test procedure.

Lateral Flow Test Procedure

1. Allow the test device to equilibrate to within the operational temperature range (15-30°C) before opening the foil pouch.

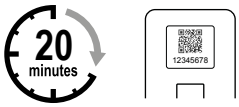
2. Tear open the foil pouch at the nick provided, remove the lateral flow test device from the foil pouch and lay it on a flat surface.

3. Remove the nozzle cap of the swab extraction tube and holding the tube vertically carefully dispense 4 drops into the sample well of the lateral flow test device.



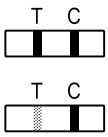
4. Put the cap back on the nozzle and discard the tube safely as biohazardous waste.

5. Using a timer, leave the device on a flat surface for 20 minutes. A test identification label can be affixed to the device.

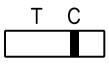


6. Read test results after 20 minutes. Test results **MUST NOT** be interpreted after 30 minutes.

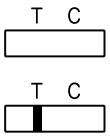
INTERPRETATION OF RESULTS



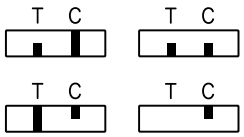
POSITIVE
SARS-CoV-2 antigen was detected in patient sample. A faint line also confirms a positive result. Higher risk of the patient being infectious. Local guidelines for suspected SARS-CoV-2 infection should be followed immediately.



NEGATIVE
SARS-CoV-2 antigen was **NOT** detected in patient sample. Lower risk of the patient being infectious but a negative result does not mean that the patient does not have SARS-CoV-2 infection. Local COVID-19 transmission prevention guidance should still be followed.



INVALID
No control line observed. Test failed. Repeat test with a new test device.



INVALID
Partial or incomplete bands on the test or control lines should be considered invalid results. Repeat test with a new test device.

If persistent invalid results are observed please check that the Instructions For Use are being carefully followed. If this does not resolve the issue, please contact technical support.

Test principle

The sample buffer provided in the buffer capsule is dispensed into the swab extraction tube. An anterior nasal swab sample is collected from the patient using the swab provided, which is then placed into the swab extraction tube and the tip of the swab is snapped off, leaving the swab tip in the swab extraction tube.

This is then mixed, lysing the virus and releasing the SARS-CoV-2 antigen into the sample buffer. The sample buffer is added to the sample well on the lateral flow device, using the nozzle on the swab extraction tube. If SARS-CoV-2 antigen is present in the patient sample, this will bind to biotinylated Affimer® highly specific to SARS-CoV-2 antigen. This antigen-Affimer® complex is then in turn specifically bound to conjugated microparticles, with the antigen-Affimer-microparticle complex migrating along the lateral flow strip by capillary action until it reaches the test line. Immobilised poly-streptavidin is present on the test line, which binds the complex via the available biotin label on the Affimer®. Remaining unbound microparticles continue to migrate along the lateral flow strip until they reach the control line, where they are captured by an immobilised antibody specific to the conjugated microparticles. The test result is then read after 20 minutes by visual determination of the presence or absence of a band at the test line in conjunction with the presence of a band at the control line.

New variants

Avacta has demonstrated that the AffiDX® SARS-CoV-2 test detects the dominant new variants of the coronavirus, known as the B117, or 'Kent', variant, and the D614G variant, as well as the original strain.

The SARS-CoV-2 virus, like most viruses, mutates over time into slightly different variants. Some of these variants are more infectious, and therefore more rapidly transmissible, and have the potential to become dominant strains.

Early on in the pandemic a variant referred to as D614G appeared, which rapidly became the dominant strain globally. The B117 variant, which was first observed in Kent, is prevalent in the UK, has been found in more than 50 countries and, according to Professor Sharon Peacock (Professor of Public Health and Microbiology at Cambridge University), is likely to become the next dominant strain globally.

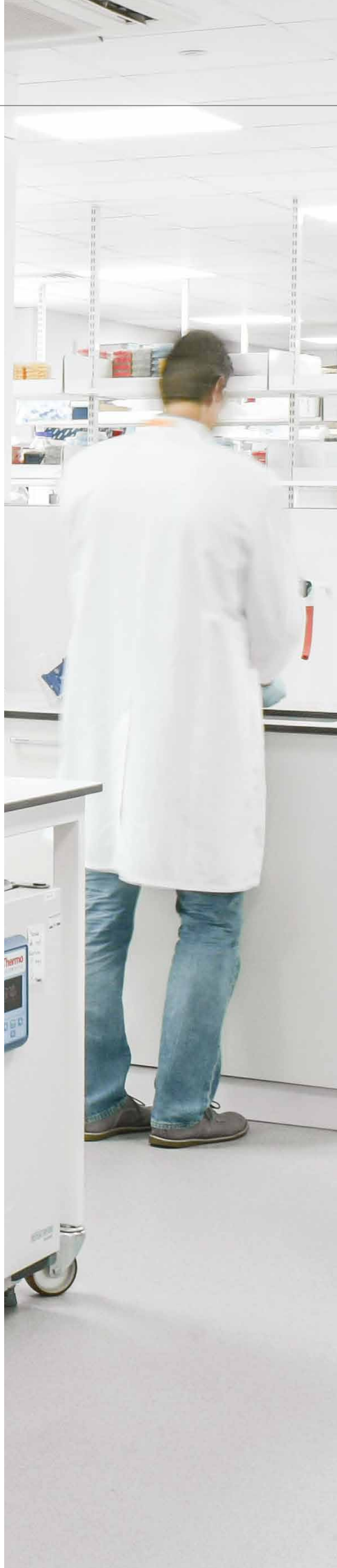
Avacta has carried out analytical tests with the spike proteins isolated from both the B117 and D614G variants, and has confirmed that its AffiDX® SARS-CoV-2 Rapid Antigen Lateral Flow Test detects both of these variants as well as the original strain.

The Company will continue to monitor the performance of the Affimer® reagents with future dominant variants as they become available to us. Since the Affimer® reagents we use in Avacta's range of SARS-CoV-2 tests do not bind in the region of the spike protein where the dominant mutations appear, we do not anticipate that the performance of the tests will be affected. Now that we have developed a robust lateral flow test architecture, we can easily insert Affimer® reagents that can be very rapidly developed for new variants if necessary, and indeed in response to any other future pandemic virus.

1. 'Lateral flow devices detect most infectious COVID-19 cases and could allow a safer relaxation of the current lockdown'

https://www.ox.ac.uk/news/2021-01-21-lateral-flow-devices-detect-most-infectious-covid-19-cases-and-could-allow-safer

Avacta Therapeutics



Therapeutics Division

Wholly-owned Therapeutic Pipeline

- Poised to transition into a clinical stage biotech with the dosing of first patient in mid-2021 with the first pre|CISION™ prodrug, AVA6000 pro-doxorubicin, in a phase I study in patients with locally advanced or metastatic selected solid tumours.
- Pipeline of multiple Affimer® and pre|CISION™ clinical candidates to be generated in 2021 and 2022 for pre-clinical and clinical development.

Approval of CTA for AVA6000, the Group's lead pre|CISION™ prodrug, is a key milestone.

The Group achieved a significant milestone with the submission in Q4 2020 and subsequent approval on 19 February 2021 from the MHRA (Medicines and Healthcare products Regulatory Agency) of the Clinical Trial Authorisation (CTA) for AVA6000 pro-doxorubicin, the Group's lead pre|CISION™ prodrug, for a phase I, first-in-human, open label, dose-escalation and expansion study in patients with locally advanced or metastatic selected solid tumours.

The Group anticipates dosing first patients in mid-2021, subject to COVID-19 restrictions on hospital resources, with first pharmacokinetics read-out possible before the year-end.

Instrumental in achieving the CTA submission milestone was the appointment of Chief Development Officer, Neil Bell, who has rapidly established a highly experienced clinical development team including a Head of Chemistry, Manufacturing and Controls (CMC), Head of Clinical Operations and Head of Translational Medicine appointed in-house to manage an extensive outsourced network of service providers.

In AVA6000, Doxorubicin has been modified with Avacta's pre|CISION™ chemistry, which renders the modified drug inactive in the circulation until it enters the tumour micro-environment. Here it is activated by an enzyme called FAP (fibroblast activation protein), which is in high abundance in most solid tumours but not in healthy tissue such as the heart. AVA6000 has been shown in animal models to significantly increase the amount of active drug in a tumour compared with the heart and should thereby improve tolerability and achieve better clinical outcomes for patients

Phase I study will be clinical proof-of-concept of the pre|CISION™ platform

The phase I study is a first-in-human, open-label, multi-centre study to be carried out in the UK in patients with locally advanced or metastatic solid tumours which are known to be FAP positive, including pancreatic, colorectal, breast, ovarian, bladder and non-small cell lung cancers, squamous cell carcinoma of the head and neck and soft-tissue sarcoma.

The dose-escalation phase of the study, which will be carried out in 15 to 20 patients, is designed to evaluate the safety of AVA6000 in humans and establish the appropriate dosing levels for the dose expansion phase of the study.

The dose expansion phase will consist of up to three studies in specific tumour types to further evaluate safety and tolerability and to explore the anti-tumour activity of AVA6000 when administered asa monotherapy. This phase of study will comprise 45 to 60 patients in total.

If the AVA6000 study shows that the pre|CISION™ chemistry is effective in reducing systemic toxicity of Doxorubicin in humans, then it can be applied to a range of other established chemotherapies to improve their safety and efficacy. This would open up a pipeline of next generation chemotherapies for the Group, with significant clinical and commercial value in a chemotherapy market that is expected to grow to $56 billion by 2024.

The Group is on schedule to select the next clinical development candidate by the end of 2021 from the

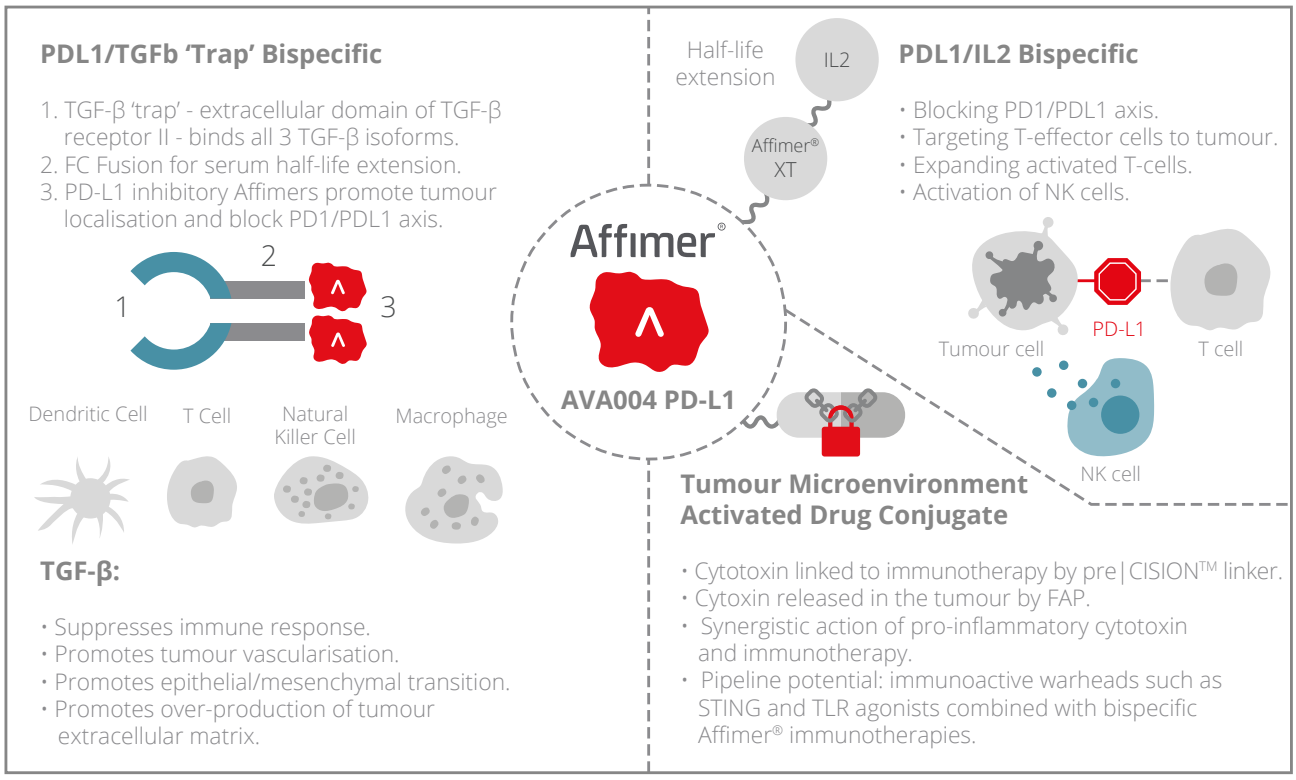
pre|CISION™ prodrug pipeline. Lead programmes include: AVA3996, a FAPα activated proteasome inhibitor; AVA7500, a FAPα activated platin; and AVA7000, a FAPα activated taxane. These are being developed in close collaboration with Professor William Bachovchin at Tuft's University School of Medicine.

Building a pre-clinical pipeline of valuable chemotherapy/immunotherapy drug assets

In the oncology field it has become clear in recent years that cancer immunotherapies used singly, so-called 'monotherapies' 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 clinical need.

The Company's strategy is to harness the benefits of the Affimer® platform to build single Affimer® drug molecules that can hit two drug targets simultaneously, called 'bispecifics', and to bring together Affimer® immunotherapies with the pre|CISION™ targeted chemotherapies, in order to develop superior cancer treatments with better patient outcomes.

Figure: Addressing the gap in immunotherapy: bispecifics and novel tumour microenvironment activated drug conjugates



Therapeutics Division (Cont)

Bispecifics Affimer® immunotherapies

Good progress has also been made with the in-house Affimer® bispecific programmes towards selection of a clinical development candidate by the end of 2021. Two new programmes have been initiated that build upon the AVA004 PD-L1 antagonist programme: AVA027, a PD-L1/TGF-β receptor trap combination, and AVA028, a PD-L1/IL2 bispecific.

TGF-β largely plays a pro-tumour signalling role by suppressing the immune response and helping to build the blood supply to the tumour, as well as promoting the growth of the tumour in other ways. Reducing the amount of TGF-β in the tumour microenvironment is therefore expected to have an anti-cancer effect which can be combined with PD-L1 checkpoint inhibition to support the immune response to the tumour. In AVA027 this is being achieved by combining a TGF-β trap that helps to mop up the TGF-β in the tumour along with an Affimer® PD-L1 blockade in a single drug molecule.

IL-2 is a cytokine that plays a signalling role in expanding the number of activated immune cells (T and NK cells). It has been developed as a cancer therapy, but it suffers from challenging systemic toxicity and therefore the concept in AVA028 is to combine IL-2 with an Affimer® PD-L1 inhibitor in a bispecific drug molecule to not only support the immune response in the tumour through blocking of the PD-L1 / PD-1 interaction but also to help target the IL-2 to tumours which have an increased level of PD-L1 compared with healthy tissue.

The Group has set the objective of selecting a bispecific clinical candidate from either the AVA027 or AVA028 programmes by the end of 2021 to be taken into pre-clinical development.

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 Val-boro-Pro (VbP)) that kills macrophage in the tumour microenvironment leading to a significant inflammatory event that attracts the immune system to the tumour. The postulated mechanism of action is that the immune response to the pro-inflammatory cell killing in the tumour is then supported by the presence of the Affimer® PD-L1 blockade.

In vivo studies of the lead TMAC® programmes are ongoing to support the selection of a clinical development candidate from the pipeline. The first of these programmes is AVA04-VbP, a TMAC® combining a PD-L1 Affimer® antagonist with VbP. The second TMAC® programme combines an Affimer® against an undisclosed target with VbP.

These *in vivo* studies will continue through 2021and are expected to support the selection of the first TMAC® drug candidate during 2022 for pre-clinical and clinical development.

Therapeutics Division (Cont)

Case Study: AVA6000 Clinical Trial

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

FAP expression is difficult to detect in non-diseased adult organs, but is greatly upregulated in sites of tissue remodelling, which include liver fibrosis, lung fibrosis, atherosclerosis, arthritis, tumours and embryonic tissues.

Due to its restricted expression pattern and dual enzymatic activities, FAP is emerging as a unique therapeutic target. FAP expression is seen on activated stromal fibroblasts of more than 90% of all human carcinomas.

The pre|CISION™ substrate can be chemically attached to a chemotherapy to generate a chemotherapy prodrug which renders the chemotherapy inactive when it is infused into the bloodstream. Once the prodrug reaches the tumour microenvironment the high concentration of FAP present in the tumour cleaves the substrate from the chemotherapy which then becomes activated. This precision targeting of a chemotherapy into the TME provides a means of concentrating the chemotherapy into the tumour where it most needed and reduces the toxicity to healthy tissues such as the heart and bone marrow. By using this prodrug targeted approach, the systemic exposure in the human body to the damaging effects of the chemotherapy is dramatically reduced in healthy tissues and the safety and therapeutic window of these powerful anti-cancer treatments is improved.

Doxorubicin

Doxorubicin is one of the most effective anticancer chemotherapy drugs used for the treatment of a broad range of solid tumours and haematological malignancies including breast, ovarian, soft-tissue sarcoma and lymphoma. However, despite this, the clinical use of doxorubicin has been limited because of a significant risk for cardiac damage. The chances of this life-threatening side effect depend on cumulative dosage and can occur both acutely or decades after exposure. Doxorubicin is readily distributed into almost all tissues, resulting in indiscriminative toxic effects on all cells exposed to it. The most dangerous side effect of doxorubicin is cardiomyopathy, leading to congestive heart failure. The rate of cardiomyopathy is dependent on its cumulative dose and there are several ways in which doxorubicin is believed to cause cardiomyopathy.

How does AVA6000 address the drawbacks of doxorubicin?

Prodrugs are derivatives of drugs which are designed to remain inactive when they are first administered to the body allowing the prodrug to bypass key tissues or systems to reach the relevant target tissue where they are eventually metabolized to generate the active drug at the intended site of action. They are particularly useful in the development of novel antitumour chemotherapeutics leading to reduced toxicity, improved specificity or precision targeting and the avoidance of multi-drug resistance. Several doxorubicin prodrug candidates are in clinical development, but none have been commercialised to date.

AVA6000 is a prodrug of doxorubicin designed to limit cell penetration and biological activity of the chemotherapeutic agent until it is specifically released by the enzymatic activity of fibroblast activation protein α (FAP) in the tumour microenvironment. The FAP-activated doxorubicin prodrug, AVA6000, has the potential to deliver doxorubicin directly to the tumour microenvironment while exposing the patient to a lesser degree of doxorubicin-associated toxicities. AVA6000 is expected to have a significantly larger therapeutic window in comparison with available doxorubicin treatments. Non-clinical studies have shown that the toxicity of AVA6000 is significantly reduced compared to conventional doxorubicin. Furthermore, the anti-tumour activity of elevated doses of AVA6000 significantly exceeded the modest effect of doxorubicin administered at its maximum tolerated dose, in a mouse xenograft efficacy model.

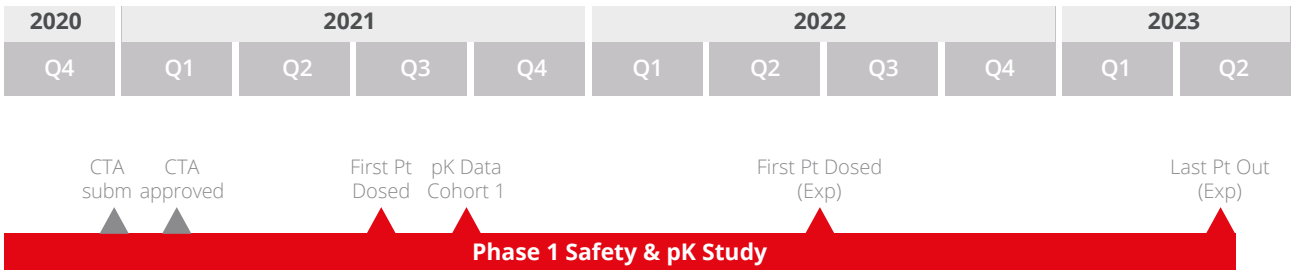
Moving into the Clinic with AVA6000

We are now planning to move AVA6000 into the clinic and we have designed a first into human clinical study (Protocol Number: ALS-6000-101) which will be run at a small number of UK investigator sites. The aim of this clinical study is to determine the maximum tolerated dose (MTD) and/or the recommended phase 2 dose (RP2D) of AVA6000 when administered as monotherapy with the aim to deliver an active dose of AVA6000 with fewer toxicities than those observed with standard doxorubicin (or other anthracycline) administration.

ALS-6000-101 is a first into human study designed as a dose escalation and dose expansion in patients with locally advanced and/or metastatic selected solid tumours who have progressed on standard of care treatment. Patients with solid tumours with a stroma shown in the scientific literature to express FAP will be enrolled in the dose escalation. These include patients with pancreatic, colorectal, breast, ovarian, NSCLC, SCCHN, bladder and soft-tissue sarcoma. The proposed starting dose is 80 mg/m2 AVA6000 given by iv infusion, with dose escalation in subsequent cohorts being based on safety, tolerability and PK data for AVA6000 in the preceding dose level(s).

In conclusion, AVA6000 is expected to have an improved therapeutic index relative to conventional doxorubicin as a consequence of increased intra-tumoural doxorubicin levels. This should translate into patients being able to tolerate higher doses and/or increased number of treatment cycles of AVA6000 relative to conventional doxorubicin. AVA6000 will also enable a decreased systemic exposure of released doxorubicin, resulting in decreased levels of doxorubicin to tissues including heart and bone marrow. The attributes of AVA6000-released doxorubicin are anticipated to lead to increased efficacy and reduced toxicity compared to conventional doxorubicin.

AVA6000 Phase I Design and Timeline



Approval & Study Set Up

Phase 1a - Dose Escalation

Phase 1a

- **Objective:** Assess safety and tolerability of AVA6000; determine MTD and/or recommended dose for further development.
- Approximatley 4 Cohorts to Achieve MTD.
- **15 to 20 patients.**
- **Patient Population:** Locally advanced and/or metastatic pancreatic, colorectal, non-small cell lung, breast, head and neck (SCCHN), soft tissue sarcoma, ovarian and bladder cancer.

Phase 1b - Dose Expansion

Phase 1b

- **Objective:** Confirm safety and tolerability of AVA6000 at the MTD (or recommended dose) determined in Part 1: explore preliminary anti-tumour activity.
- Up to 3 cohorts & 15-20 patients/cohort.
- **Patient Population:** selected on the basis of Part 1 data.

MTD - Maximum Tolerated Dose

Therapeutics Division (Cont)

Drug Development Collaborations

- Good progress in existing partnered programmes during 2020 despite the restrictions imposed by COVID safe working.
- Expansion of the partnership with LG to include Affimer XT™ half-life extension platform.
- AffyXell, a partnered programme with Daewoong Pharmaceutical, established in South Korea to develop next-generation cell and gene therapies incorporating Affimer® immuno-therapies; successful series A funding for AffyXell of $7.3 million post-period end.
- Establishment of new collaboration with POINT Biopharma for pre|CISION™ radiopharmaceuticals.

The Group has established several significant therapeutic partnerships with biotech and pharma partners including Moderna Therapeutics Inc., LG Chem Life Sciences, Daewoong Pharmaceuticals, ADC Therapeutics and recently with POINT Biopharma. Despite the effects of the pandemic, the Group has continued to make solid progress on those programmes in which Avacta plays an active research and development role (LG Chem, Daewoong and ADC Therapeutics).

In August 2020 Avacta agreed to expand the existing multi-target collaboration and development agreement with LG Chem to include new programmes incorporating Avacta's Affimer XT™ serum half-life extension system. The expansion of the partnership includes an undisclosed additional upfront payment, plus near-term pre-clinical milestones and longer-term clinical development milestones totalling up to $98.5 million for two therapeutics to be developed using the Affimer XT™ technology. Under the terms of the extended agreement, LG Chem has the exclusive rights to develop and commercialise, on a world-wide basis, Avacta's Affimer® PD-L1 inhibitor with Affimer XT™ serum half-life extension.

The expanded partnership also provides LG Chem with rights to develop and commercialise other Affimer® and non-Affimer® biotherapeutics combined with Affimer XT™ half-life extension for a range of indications and Avacta could earn up to an additional $55 million in milestone payments for each of these new products. In addition, under the agreement Avacta will earn royalties on all future Affimer XT™ product sales by LG Chem.

The Group is working with ADC Therapeutics SA (Lausanne, CH) to develop conventional Affimer-drug conjugates combining Avacta's Affimer® technology with ADC Therapeutics' pyrrolobenzodiazepine (PBD)-based warhead and linker technologies.

As part of the multi-target collaboration, Avacta is in the process of generating and optimising Affimer® binders against three undisclosed cancer targets so that ADC Therapeutics can use these to target its cytotoxic 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.

The Group continues to make excellent progress in its collaboration with Daewoong Pharmaceutical through the joint venturepartnered programme, AffyXell. AffyXell was established in January 2020 by Avacta and Daewoong as a joint venturepartnered programme to develop novel stem cell therapies. AffyXell is combining Avacta's Affimer® platform with Daewoong's mesenchymal stem cell (MSC) platform such that the stem cells are primed to produce and secrete therapeutic Affimer® proteins *in situ* in the patient.

The Affimer® proteins are designed to enhance the therapeutic effects of the stem cells, creating a novel, next -generation cell therapy platform.

The Group recently announced, post-period end, that the joint venture with Daewoong Pharmaceuticals calledAffyXell has closed a Series A venture capital investment of $7.3 million to further develop its pipeline of next-generation cell and gene therapies. The Series A funding has been raised from a group of venture funds including Samsung Venture Investment Corporation, Shinhan Venture Investment, Smilegate Investment, Shinhan Investment Corporation, Kolon Investment, Stonebridge Ventures, and Gyeongnam Venture Investment.

The capital raised will be used by AffyXell to continue the development of MSCs engineered to produce Affimer® molecules generated by Avacta that inhibit inflammatory and autoimmune pathways and promote tissue regeneration.

While initially focusing on inflammatory and autoimmune diseases and prevention of organ transplant rejection, longer term goals could also include applications in regenerative medicine, infectious diseases and oncology.

Post-period end the Group entered into a new licensing agreement with POINT Biopharma Inc. to provide access to Avacta's pre|CISION™ technology for the development of tumour-activated radiopharmaceuticals.

The radiopharmaceutical market is expected to grow to $15 billion by 2025[1] and there is a substantial opportunity to grow much faster if safety and tolerability of these effective treatments can be improved. POINT Biopharma is a clinical-stage pharmaceutical company focused on developing radioligands[2] as precision medicines for the treatment of cancer.

Avacta's proprietary pre|CISION™ chemistry can be used to modify a radioligand drug to form a tumour-activated prodrug. The prodrug form is inactive in circulation until it enters the tumour micro-environment, where it is activated by an enzyme called fibroblast activation protein (or FAP) that is present in high abundance in most solid tumours but not in healthy tissue. Avacta's pre|CISION™ technology therefore has the potential to improve the tolerability and achieve better clinical outcomes for patients compared with standard radiopharmaceuticals by targeting the radioligand treatment more specifically to cancer cells.

The agreement provides POINT with an exclusive licence to the pre|CISION™ technology for use in the first radiopharmaceutical prodrug the company intends to develop, and a non-exclusive licence to the pre|CISION™ platform for the development of a broader pipeline of FAP-activated radiopharmaceuticals.

Under the terms of the agreement, Avacta will receive an upfront fee and development milestones for the first radiopharmaceutical prodrug totalling $9.5 million. Avacta will also receive milestone payments for subsequent radiopharmaceutical prodrugs of up to $8 million each, a royalty on sales of FAP-activated radiopharmaceuticals by POINT and a percentage of any sublicensing income received by POINT.

1. https://www.marketresearchfuture.com/reports/radio-pharmaceutical-market-1650

2. For more information about radioligands visit https://www.radioligands.org

Our Drug Development Partnerships

AffyXell / DAEWOONG

A joint venture in South Korea to develop engineered mesenchymal stem cells that express and secrete immuno-modulatory Affimer® molecules to treat autoimmune diseases

LG Chem

A multi-target development partnership and licensing deal worth up to $310 million with a focus on oncology and inflammatory diseases

ADC THERAPEUTICS (Innovating Science. Inspiring Hope.)

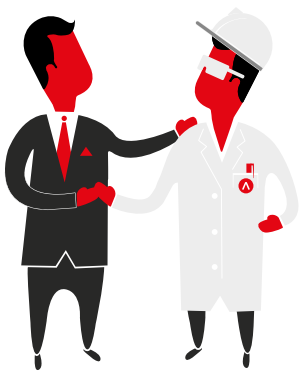
A research partnership and option agreement to develop tumour targeting Affimer® Fc fusions to deliver cytotoxic payloads to cancerous cells for oncology

moderna

A research collaboration and option agreement to develop Affimer® molecules against oncology targets that can be encoded as mRNA and expressed directly from human tissue

POINT BIOPHARMA

A licence to the pre|CISION™ platform for the development of tumour-targeting radiopharmaceuticals



Avacta Animal Health

Animal Health Division

Avacta's Animal Health division, is a UK-based laboratory, research and development business focused on delivering evidence-based animal health solutions, centred on the work-up and management of allergic disease.

The business works in partnership with veterinary professionals and allergy experts to offer unrivalled service and technical support to its customers, with a tailored and personal approach. Its customers include veterinary professionals, laboratories, large commercial organisations, SMEs and academic groups.

The division's revenues were impacted during the first UK lockdown as veterinary practices were forced to focus only on emergency cases, meaning more routine consultations, including allergy or therapy testing, were put on hold. Face-to-face contact with customers also ceased but the launch of Avacta Animal Health's new website in April 2020 allowed them to continue providing veterinary practices with a wealth of valuable digital resources throughout, via the dedicated Practice Portal. This was supported by a strengthening of the social media campaign.

During this time, the division took the opportunity to assess its product portfolio and routes to market. Following a non-cash impairment charge of £1.74 million, and with the business recovering strongly in the second half of the year to deliver a small operating profit, it is now positioned well for trading in 2021.

Products and 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. The development of the new Avacta Allergy+ portfolio (launched in March 2021) was a key focus throughout 2020 and now offers veterinary practices a range of testing options with enhanced performance. Avacta Animal Health continues to support vets in their interpretation of results and supply tailor-made allergen-specific immunotherapy ('ASIT') to aid with the long-term management of allergic skin disease for veterinary practices in the UK.

Avacta Animal Health's export reach and international customer base is growing, alongside dedicated provision of tailored and trusted support to veterinary professionals across the UK. In addition to providing UK-specific testing services and therapy options via its own authorised laboratories. it continues to expand in Europe, as well as in parts of the Asian and Latin American markets.

Competitive strengths

Avacta Animal Health remains the only UK laboratory with end-to-end test control, with years of dedication to research and development that underpins its constant drive to make a real-life difference to animal health.

- Experts in the work-up and management of allergic disease
- Strong veterinary focused team including a number of qualified vets and vet nurses
- Experienced and innovative research and development team
- Evidence-based test and therapy solutions
- Dedicated technical team including dermatology consultants
- Renowned for exceptional level of service and support
- Practice Portal providing a wealth of comprehensive and practical veterinary literature
- Informative pet owner resources
- Educational and training resources for veterinary professionals

Animal Health Division (Cont)

Research and development

The dedicated in-house team of development scientists are highly regarded in the field of dermatology and work alongside world-leading dermatologists to develop, manufacture and run our own tests, allowing them the aforementioned end-to-end control. Development of the new Avacta Allergy+ tests were a key focus of the research and development team in 2020, with enhancements to both the canine and feline environmental tests, as part of the focused new portfolio.

Avacta Animal Health have a strong team, including a number of qualified vets and vet nurses, who maintain regular communication to gain insight from veterinary professionals and experts in the field, allowing them to analyse and review what is clinically relevant on a regular basis.

Avacta Animal Health will attend and support a number of UK conferences and events throughout 2021, providing visibility within the industry and ensuring it remains informed of developments. These events also provide the opportunity to convene and converse in person with new and existing customers, as well as with industry experts and academics.

Via Avacta's 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.

Financial Review

Revenue

Reported Group revenues for the year ended 31 December 2020 decreased to £3.64 million compared to the longer 17-month period ended 31 December 2019 ('2019'): £5.51 million.

Revenues for the Diagnostics division were £0.52 million (2019: £0.81 million), with the reduction due to a decrease in the number of custom Affimer® reagent projects given the working restrictions with some customers and a re-focus of the business on developing the COVID-19 lateral flow tests and other related COVID-19 projects.

Revenues for the Therapeutics division were £1.63 million (2019: £2.52 million), with the 2019 revenue including an upfront technology access fee arising from the LG Chem collaboration, whilst 2020 revenues reflected a much smaller milestone payment in the LG Chem collaboration and reduced revenues from funded FTE development projects due to restricted working practices at the Cambridge site.

Revenues for the Animal Health division were £1.49 million (2019: £2.18 million), with the revenues in the second quarter of 2020 severely restricted due to the closure of most veterinary practices during the first lockdown. Revenues for the second half of 2020 recovered and were only slightly behind the corresponding period for 2019.

Research and amortisation of development costs

During the year, the Group expensed through the income statement £8.96 million (2019: £7.86 million) research costs relating to the in-house Affimer® and pre|CISION™ therapeutic programmes which are expensed given their pre-clinical stage of development in addition to research costs on Affimer® diagnostics products which have not yet completed product development and obtained regulatory approval to become commercial products.

In addition, development costs capitalised in prior periods from the development of the Affimer® reagents and diagnostics platform together with new Animal Health allergy tests have been amortised, resulting in a charge of £1.01 million (2019: £2.20 million).

Furthermore, development costs amounting to £0.17 million (2019: £1.88 million) were capitalised within intangible assets during the period and will be amortised over future periods.

The share of losses from the research costs of the therapeutics partnered programme with Daewoong Pharmaceutical, AffyXell Therapeutics, accounted for as an investment in associate, amounting to £0.22 million (2019: £nil) have been expensed using the equity method.

Following completion of the annual impairment reviews, an impairment charge of £1.74 million (2019: £nil) has been recognised against the intangible assets associated with the Animal Health division comprising goodwill and capitalised development costs. The charge arose as the business restructured, in the light of the COVID-19 pandemic and how the business intends to operate in the veterinary industry, with short-term revenue estimates being revised downwards.

Selling, general and administrative expenses

Administrative expenses have fallen during the year to £7.32 million (2019: £10.06 million) alongside depreciation at £1.13 million (2019: £1.64 million) due to the 12-month versus 17-month reporting comparative reporting period.

Net finance costs

The Group adopted the new accounting standard IFRS16 Leases during the previous reporting period, which resulted in an interest charge of £0.1 million (2019: £0.1 million) being recognised.

Losses before taxation

Losses before taxation from continuing operations for the year were £21.34 million (2019: £18.05 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 £2.45 million (2019: £2.44 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 £18.89 million (2019: £15.62 million). The loss per ordinary share reduced to 8.37 pence (2019: 12.98 pence) based on an average number of shares in issue during the period of 229,673,873 (2019: 120,336,858).

Cash flow

The Group reported cash and short-term deposit balances of £47.91 million at 31 December 2020 (2019: £8.79 million).

Operating cash outflows from operations amounted to £13.35 million (2019: £14.44 million). Within the net operating cash outflows there were cash receipts in respect of research and development tax credits amounting to £2.75 million (2019: £1.63 million) which represented the tax refund for the previous 17-month financial period.

During the year, capital expenditure increased to £1.28 million (2019: £0.62 million) as facility expansion at both Wetherby

and Cambridge sites were underway. Capitalised development costs fell during the year to £0.17 million (2019: £1.88 million) as the majority of diagnostic development work was not at the stage of gaining regulatory approval for commercial launch of products.

The Group completed two fund-raises via a combination of placings and subscriptions during the reporting period. The first fund-raise, which was announced in April 2020, raised £5.75 million gross (£5.36 million net). The second fund-raise was announced in June 2020 and raised £48.00 million gross (£45.43 million net).

Financial position

Net assets as at 31 December 2020 were £61.93 million (2019: £25.81 million) of which short-term deposits, cash and cash equivalents amounted to £47.91 million (2019: £8.79 million).

Intangible assets reduced to £9.42 million (2019: £11.80 million) following the impairment of the Animal Health goodwill and the amortisation charge of £1.01 million (2019: £2.20 million) exceeding the capitalised development costs in the period of £0.17 million (2019: £1.88 million).

The adoption of IFRS16 Leases and the expansion of leasehold premises in both Wetherby and Cambridge results in the recognition of a 'right-of-use' asset amounting to £2.10 million (2019: £0.78 million) in relation to the Group's three leasehold properties together with a corresponding lease liability of £2.04 million (2019: £0.82 million).

Dividends

No dividends have been proposed for the year ended 31 December 2020 (2019: £nil).

Key performance indicators

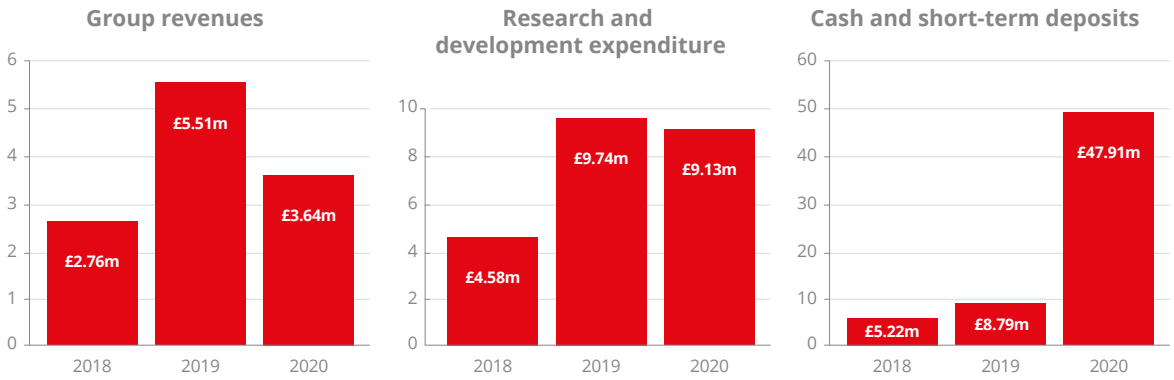
At this stage of the Group's development, the non-financial key performance indicators focus around two areas:

- the progression of the Affimer® and pre|CISION™ technologies into clinical trials within the Therapeutics division; and
- the development of Affimer® diagnostic products and the number of customers evaluating Affimer® reagents which might lead to commercial licensing agreements within the Diagnostics division.

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



*2018 is the 12 months ended 31 July 2018; 2019 is the 17 months ended 31 December 2019, 2020 is the 12 months ended 31 December 2020.

Financial Review
(Continued...)

Going concern

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £18.89 million and operating cash outflows of £13.35 million for the year ended 31 December 2020. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend at least 12 months from the date of approval of the financial statements. 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, the AVA6000 pro-doxorubicin phase I clinical trials, diagnostic product 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 and delivery of diagnostic product development projects and future therapeutic 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 for at least 12 months from the date of approval of the financial statements. The key factors considered in reaching this conclusion are summarised below:

- The Group continues to develop its therapeutic and diagnostic platform technologies. The development of the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test, which is in the late stages of clinical validation and CE marking, could generate significant revenue and profits for the Group in the near term, which have not been included in the base case assessment.
- As at 31 December 2020, the Group's short-term deposits and cash and cash equivalents were £47.91 million (2019: £8.79 million).
- The Group has a tax refund in relation to R&D tax credits due in the second half of 2021 amounting to £2.20 million (a comparable tax refund of £2.75 million was received in October 2020 relating to the 17-month period to 31 December 2019).
- 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 short-term impact centres around the commencement of clinical trials for the AVA6000 pro-doxorubicin phase I clinical trials which are due to commence in mid-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 delay expenditures and reduce cash burn during the forecast period. The Directors are confident that the current level of funding will be sufficient for the Group and Company to meet their liabilities for the forecast period.

Based on these indications, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared 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 54 to 56.

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.

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 continues to monitor and assess the impact of COVID-19 and the impact it has on the Group's businesses.

The ability of the Group's Diagnostics division to react to the COVID-19 pandemic and help provide a solution which could bring the impacts of pandemic on daily life to an end has been transformational for the Group. The interest generated with shareholders created the opportunity to raise significant funds to support the Group in developing its diagnostics and therapeutics platforms.

The downsides of the pandemic have led to many challenges in working practices across the Group, with scientific staff working shifts to ensure safe laboratory working practices, and support staff working from home where possible to reduce the number of staff on each site. Additional premises have been taken on in both Cambridge and Wetherby and have been fitted out to provide further laboratory space for all the scientific teams to return to the laboratories full time and allow for the expansion of the teams over the coming months.

There has been an impact on the therapeutic programmes and some changes to work programmes were necessary in the early lockdown period whilst we managed staff numbers on site. Our contract manufacturing and clinical operations partners also reduced staffing levels, which caused some delays to programmes. This also had an impact on our partnered programme revenues recognised during 2020, with some revenues based on FTE work slipping back into 2021. However, COVID-safe working systems are now in place and the teams are focused on bringing the programmes to fruition with our partners.

The dosing of first patients in our AVA6000 phase I study, now that we have regulatory approval, is due to commence in the middle of 2021. The exact timings of this will be determined by how quickly the pressure on clinicians and hospitals is reduced from the COVID-19 pandemic.

Our Animal Health division's revenues were impacted during the first lockdown as veterinary practices were focusing on emergency cases, with more routine appointments in relation to allergy or therapy testing being put on hold. The division took the opportunity to assess its product portfolio and routes to market during this time and whilst some staff transferred across to the Diagnostics division there were unfortunately two redundancies as a result of this process. The business has recovered strongly in the second half of the year and delivered a small operating profit, positioning it well for trading in 2021.

Manufacturing and supply risk - Diagnostics **Change ^**

With its partners, the Group has developed a SARS-CoV-2 antigen lateral flow test, which is in the process of completing formal clinical validation and CE marking.

The Group's ability to successfully scale up production with third-party manufacturing partners and establish an appropriate supply chain for the approved AffiDX® SARS-CoV-2 Antigen Lateral Flow Test will be vital to the commercial success of the product.

Product manufacture requires successful clinical validation and verification of production scale batches which is subject to continual regulatory control in order to achieve and maintain CE marking and similar regulatory approvals. Any changes to the approved process may require further regulatory approval which could delay the commercial launch of the product.

Substantial cost increases of kit components and delays in production / sourcing could adversely impact the ability to produce tests in sufficient quantities to meet market demands.

The Group has established contractual relationships with several key manufacturers and suppliers of kit components in order to ensure availability of supply and not place over-reliance on any one supplier or manufacturer. Regulatory and supply chain specialists have been engaged to support the Group with risk mitigation plans in place where supply or production challenges are identified.

Commercial risk - Diagnostics **Change ^**

The transition of the Diagnostics business has been significant because of the SARS-CoV-2 antigen lateral flow test opportunity. In 2019 the division was focused on providing custom Affimer® development projects for commercial partners which could lead to commercial royalty-based deals. In 2020 the business has progressed to developing its own diagnostic products, such as the COVID-19 lateral flow test, and working on collaborative projects with partners.

In order to participate in tender contracts offered by the UK Government, the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test has to pass an evaluation process at the UK Government's Porton Down facility. The first stage of the evaluation process does not use the lateral flow test in the manner that it was designed for and there is therefore uncertainty as to whether the test can pass the Porton Down evaluation process which could delay the ability to tender for government contracts. The Group is progressing the clinical validation and CE marking of the product so that sales channels (other than the UK Government) can be exploited regardless of any delays in obtaining UK Government approval or tenders.

Establishing commercial sales channels within the UK, Europe and other countries for the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test will involve substantial business development and management/legal time to ensure the partnerships established are as commercially rewarding as possible and sustainable without creating any significant commercial risk in terms of working capital.

Building collaboration partnerships with large pharma/biotech companies can be a lengthy process and normal business development channels, such as conferences, have changed because of the pandemic. However, the Astrea licence and collaboration deal for affinity separation signed in December 2020 shows the potential for significant diagnostic partnerships.

Reliance on third parties supporting clinical and pre-clinical programmes - Therapeutics **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. There is also a risk that changes in the wider regulatory environment as a result of clinical trial outcomes from other biotech companies could stop or slow down Avacta's clinical trial programmes whilst regulatory guidance is clarified.

With the Group about to commence phase I trials on its first clinical programme (AVA6000) there has been significant recruitment to build a clinical development team, led by Neil Bell, and they are working to ensure the performance of the third parties that are contracted to ensure that the quality and timeliness of these services provided are acceptable.

The Group consults, where appropriate, with regulatory advisers and regulatory approved bodies to ensure that all regulatory requirements are met, as demonstrated by the submission, timely approval and positive feedback of the CTA submission to the MHRA for the AVA6000 programme.

The Group uses experienced and reputable clinical research organisations and requires its clinical and manufacturing partners to comply with Good Clinical Practice and Good Manufacturing Practice.

Research and development **Change < >**

The Group's research and development activities continue to focus around the Affimer® technology within the Diagnostic division and the Affimer® and pre|CISION™ technologies in the Therapeutics division.

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, product development projects, customer-related evaluations or third-party collaborations. This risk is in specific applications of the Affimer® or pre|CISION™ technologies rather than in the individual technology platform as a whole. There is a risk that poor clinical data from the AVA6000 clinical trial highlights a problem, not only with the AVA6000 programme but also with the wider pre|CISION™ platform, which may delay or limit the ability to progress the programme or the wider platform.

The development teams continue to work both internally and with CROs on improving the core Affimer®, pre|CISION™ and TMAC® technology platforms and expanding the potential areas where the technology has significant benefits over existing antibody technologies with oversight from the Senior Management Team, the Board and the Scientific Advisory Board.

Funding **Change v**

The development of the Group's Affimer® and pre|CISION™ technologies in the Therapeutics division, is resource and cash intensive. The Group successfully raised two separate tranches of funding in April and June 2020 totalling £53.75 million to continue to develop its technology.

As at 31 December 2020, the Group had cash and short-term deposits of £47.91 million, which leaves it in a strong position to deliver on its short- to medium -term objectives, including the potential significant cash generation that the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test could contribute to Group funding.

Principal Risks and Uncertanties
(Continued...)

Should the Group decide to accelerate the Affimer® and pre|CISION™ therapeutic development programmes and take more programmes into clinical trials 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.

Intellectual property **Change < >**

The success of the Group's Affimer® and pre|CISION™ technology platforms depends on its ability to obtain and maintain patent protection for its proprietary technology.

Failure to protect the Affimer® and pre|CISION™ technology platforms, 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.

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.

During the year, the Group has successfully recruited senior specialist roles within the Therapeutics division covering clinical development areas and further senior staff have joined during 2021. The Diagnostics division has recruited senior staff skilled in product development of diagnostic devices and built a quality assurance and regulatory team to support the division in its introduction of an ISO 13485 quality system.

The Group aims to provide remuneration packages, including share incentive plans, 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 < >**

Unexpected events such as IT systems failures or targeted cyber attacks could disrupt the Group's operations from any of its sites or lead to a loss of data.

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.

The Group has in place disaster recovery plans which are periodically tested and third-party specialists are used to assess any potential vulnerabilities in the Group's systems.

The Group ensures that all software and systems are regularly updated to latest software versions and firmware updates. Its cyber security plans are reviewed on a regular basis and has recently upgraded its security access levels working with a UK government backed organisation given the number of staff now working remotely from Avacta sites. It also provides training to staff on dealing with potential cyber attacks and security risk.

Loss of facilities **Change < >**

Should the Group's facilities become inaccessible through damage caused by fire, flooding or theft, the ability to carry on development programmes and meet customer deadlines may be affected depending on the severity of the incident.

The Group has purpose-built facilities in both Wetherby and Cambridge which have specialist equipment and working environments which potentially may not be easily repaired or replaced.

The Group has established business continuity plans in place for each location which are regularly reviewed and tested. Resilience exists between sites so that certain operations could be quickly transferred from one facility to another where appropriate. Health and Safety procedures and policies exist for each site with routine checks on facilities, equipment and infrastructure. The Group also maintains 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 22 April 2021 and signed on its behalf.

Alastair Smith
Chief Executive Officer

22 April 2021

Tony Gardiner
Chief Financial Officer

22 April 2021

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 Trevor Nicholls

Bottom row:
Paul Fry
Dr Mike Owen

Dr Eliot Forster
Non-executive Chairman

Eliot was appointed as Chairman to the Board in June 2018, bringing with him three decades of experience in the pharmaceutical and biotechnology industry. He is currently the Chief Executive Officer of F-star (NASDAQ FSTX), a clinical stage biopharmaceutical company developing immuno-oncology bispecific antibody treatments. He is also Non-executive Director of Immatics NV, a clinical stage biopharmaceutical company developing TCR-based therapeutics for the treatment of cancer (NASDAQ IMTX).

Prior to joining F-star, Eliot was Chief Executive Officer at Immunocore, Creabilis Therapeutics and Solace Pharmaceuticals Inc. The early part of Eliot's career was at GSK and then at Pfizer, where he was involved in 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 an Honorary Visiting Professor at the University of Liverpool and at the University of Pavia. He is a Board member of OSCHR (UK 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 was Founder of Avacta and has been Chief Executive Officer since its inception in 2005. Alastair has extensive management, strategic planning and transactional experience, having led the public and private M&A activities of the Group including the IPO of the Group in 2006 via a reverse merger. He is well known in the UK public markets; a respected and trusted executive with many years' experience of investor relations in the UK, Europe and USA. He has successfully delivered multiple follow-on fundraisings for the Group.

Alastair is a scientist by training with a degree and PhD in Physics from Manchester University. Following a period of working in the USA, he returned in 1995 to take up an academic position at Leeds University, becoming Professor of Molecular Biophysics at the age of 38. Over a ten-year period, through close collaboration with life scientists, he built one of the leading biophysics research groups in Europe before leaving his academic career in 2007 to focus full time on delivering value to Avacta shareholders.

Tony Gardiner
Chief Financial Officer

Tony joined Avacta in January 2016 as Chief Financial Officer and is a member of the Institute of Chartered Accountants of England and Wales. He has over 25 years' experience of senior financial and operational management roles across several 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 Trevor Nicholls
Non-executive Director

Trevor brings considerable experience in the commercialisation of innovative life science technologies 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 Danaher Corporation).

At the end of 2020, after 15 years in the role, Trevor retired as Chief Executive Officer of the Centre for Agriculture and Bioscience 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.

In addition to Avacta, Trevor is also Non-executive Chairman of Iota Sciences Limited, a spin-out company from the University of Oxford which is commercialising innovative microfluidic technology for the life sciences sector, and a Non-executive Director of Conidia Bioscience Limited, which develops and sells patented lateral flow tests for the detection of microbial contamination of aviation and diesel fuels. Previously Trevor has been Non-executive Chairman of DNA sequencing company Oxford Nanopore Technologies Limited and of Activiomics Limited, a biomarker discovery specialist, as well as a Non-executive Director of hVivo plc, a clinical research organisation.

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

Paul Fry
Non-executive Director

Paul was appointed as a Non-executive Director in February 2020. Paul has extensive financial experience across several 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 several senior roles including Head of Global Finance Services and Chief Financial Officer for GSK's Italian pharmaceutical business.

Paul holds a degree from Oxford University and is a member of the Chartered Institute of Management Accounts.

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

Dr Mike Owen
Senior Independent Director[1]

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.

[1] *Mike Owen resigned from the Board on 24 March 2021 and took on the non-Board role of Chair of the Scientific Advisory Board.*

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 helps define the Group's strategy and provides experienced management of the Group's activities to deliver that strategy.







Top row:
Dr Matt Johnson
David Wilson

Middle row:
Mary Bronserud
Emma Wright
Dr Neil Bell

Bottom row:
Dr Amrik Basran
Dr Matt Vincent

Dr Matt Johnson
Chief Scientific Officer - Diagnostics

Matt studied Genetics and Microbiology at the University of Sheffield and completed 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 and his career 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

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 USA-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.

Mary Bronserud
Operations Director - Diagnostics & Animal Health

With 20 years' experience in senior leadership positions in FMCG and Animal Health, Mary joined the Animal Health division of Avacta in 2018. She came directly 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 took on the role of Operations Director for the Diagnostics division during 2020, in addition to her role of managing the Animal Health division. Mary's role oversees the Regulatory and Quality teams within the Diagnostics division, including the implementation of the ISO13485 Quality systems. The operations team includes laboratory operations, production and building the supply chain/logistics infrastructure for the future.

As General Manager of the Animal Health division, Mary successfully leads the business, working closely with team members across Research and Development, Laboratory Services, Technical Support, Sales and Marketing, driving the business forward and developing the teams. Mary has a passion for creating an authentic working environment and strongly encourages cross-functional collaboration and teamwork to innovate and succeed.

Emma Wright
Group 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.

Senior Leadership Team
(Continued...)

Dr Neil Bell
Chief Development Officer - Therapeutics

Neil is responsible for late stage pre-clinical and early clinical development of Avacta's pipeline of pre|CISION™ prodrugs and Affimer® immunotherapies. Neil has over 30 years' experience in the drug development industry, having held senior positions in global pharmaceutical companies and innovative biotechs. The early part of his career was spent in clinical development at Eisai and Pfizer before becoming Therapeutic Area Head for Gastroenterology and Neurology at Ipsen. In each of these roles he led numerous phase I to III clinical studies, gaining significant experience across all facets of drug development: from strategy to pre-clinical development, manufacturing and regulatory, to clinical study design and implementation.

In his role as Head of Global Clinical Operations for Teva Pharmaceuticals, Neil led an international team responsible for the delivery of clinical programmes in neurology, autoimmune and oncology therapeutic areas. During this period, he contributed to the development of Copaxone, achieving leadership in the treatment for multiple sclerosis globally, as well as successfully introducing Azilect to global markets.

Following this period at Teva, Neil joined Daichi-Sankyo as Head of Clinical Operations, where he led the clinical operations team through early and late-stage development activities across cardiovascular, pain and oncology, and was responsible for building an effective drug development organisation in Europe serving the global clinical programmes and leading to the successful global approval of Edoxaban.

Most recently, Neil held the role of Senior Vice President, Head of Global Clinical Operations at Autolus, a UK cell and gene therapy company backed by Syncona, which listed in the USA in 2018 (NASDAQ: AUTL); a process in which Neil played a key role. At Autolus Neil was responsible for building a global clinical operations team delivering phase I/II clinical studies across the UK, Europe and USA in acute lymphoblastic leukemia, multiple myeloma, B-cell lymphoma, and T-cell lymphoma, and implemented the first commercially sponsored CAR-T study in the UK.

Dr Amrik Basran
Chief Scientific Officer - Therapeutics

Amrik has over 15 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 Matt Vincent
Senior Vice President, Business Development and Innovation Strategy - Therapeutics

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, 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 strengths in immuno-oncology), inflammatory, autoimmune, metabolic and cardiovascular diseases, ophthalmology (both front-of-the-eye 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 capitalisation.

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 several patents and a co-author on recent papers in such high impact journals as *The Lancet, Nature and Cell.*

Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 December 2020.

Principal activity

The principal activities of the Group are based on developing safe and efficacious drugs, and high-performing diagnostics, based on its proprietary Affimer® and pre|CISION™ platforms.

The Therapeutics division, based in Cambridge, UK, develops novel cancer immunotherapies combining its two proprietary platforms – Affimer® biotherapeutics and pre|CISION™ tumour-targeted chemotherapy – aiming to address the lack of a durable response to current immunotherapies experienced by most patients.

The Diagnostics division, based in Wetherby, UK, utilises its proprietary Affimer® platform to develop high-performing diagnostics and works with partners world-wide to develop Affimer® reagents with the objective of establishing royalty-bearing licensing deals.

The Group also provides veterinary laboratory services and develops market-leading veterinary diagnostic tests through its Animal Health division.

Business review and future developments

A review of the Group's operations and future developments is covered in the Strategic Report on pages 16 - 56. This report includes sections on strategy and markets and considers key risks and key performance indicators.

Financial results

Details of the Group's financial results are set out in the Consolidated Income Statement and other components on pages 90 to 127.

The Directors have reviewed the results for the year ended 31 December 2020 and the 17-month period ended 31 December 2019, including the Annual Report & 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 50 to 52.

Dividends

The Directors do not recommend the payment of a dividend (2019: £nil).

Going concern

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £18.9 million and operating cash outflows of £13.3 million for the period ended 31 December 2020. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend to at least 12 months from the date of approval of the financial statements. 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, the AVA6000 pro-doxorubicin phase I clinical trials, diagnostic product 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 and delivery of diagnostic product development projects and future therapeutic 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 for at least 12 months from the date of approval of the financial statements. The key factors considered in reaching this conclusion are summarised below:

- The Group continues to develop its therapeutic and diagnostic platform technologies. The development of the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test, which is in the late stages of clinical validation and CE marking, could generate significant revenue and profits for the Group in the near term, which have not been included in the base case assessment.
- As at 31 December 2020, the Group's short-term deposits and cash and cash equivalents were £47.9 million (2019: £8.8 million).
- The Group has a tax refund in relation to R&D tax credits due in the second half of 2021 amounting to £2.2 million (a comparable tax refund of £2.5 million was received in October 2020).
- 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 short-term impact centres around the commencement of clinical trials for the AVA6000 pro-doxorubicin phase I clinical trials, which are due to commence in mid-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 delay expenditures and reduce cash burn during the forecast period. The Directors are confident that the current level of funding will be sufficient for the Group and Company to meet their liabilities for the forecast period.

Based on these indications, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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 - Resigned 24 March 2021
- Paul Fry - Appointed 3 February 2020
- 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 and Accounts. The Directors retiring by rotation at the forthcoming Annual General Meeting are Eliot Forster and Trevor Nicholls. Both Eliot Forster and Trevor Nicholls, being eligible, offer themselves for re-election. In relation to the re-elections of each of the Directors, the Board is satisfied that both 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 58 and 59.

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 22 April 2021, 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	11,609,794	4.7%
Baillie Gifford & Co Limited	11,515,758	4.6%
Conifer Management, LLC	8,333,333	3.5%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 December 2020 and at 22 April 2021 were as follows:

	31 December 2020 number of shares	22 April 2021 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	431,100	431,100
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) 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 2020 was 114p and the range during the period was 14p to 202p with an average price of 107p.

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 £8.96 million (2019: £7.86 million) in relation to research costs which relate to the costs associated with the pre-clinical Affimer® and pre|CISION™ therapeutic programmes and the early-stage development costs of the diagnostic programmes. In addition, development costs capitalised in prior periods from the custom Affimer® reagents and diagnostics programmes, and new Animal Health allergy tests are amortised, resulting in a charge of £1.01 million (2019: £2.20 million).

Furthermore, development costs amounting to £0.17 million (2019: £1.88 million) were capitalised within intangible assets during the period and will be amortised over future periods.

Directors' Report
(Continued...)

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. The Executive Directors regularly engage with employees to seek their views and provide briefings and presentations on key developments and strategy. Employees are encouraged to offer suggestions and views, and to raise queries with the Directors and senior leadership teams.

The Group is a committed equal opportunities employer, and its employees and job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. 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 2020 and the amount owed to its trade creditors at 31 December 2020, was 14 days (2019: 13 days).

Disclosure of information to auditor

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

Re-appointment of 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 28 June 2021 at 10.00. 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 128 to 129 of this report.

By order of the Board

Tony Gardiner
Company Secretary

Avacta Group plc (Registered number - 4748597)

22 April 2021

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 the Company's stakeholders, including shareholders, staff, customers and suppliers.

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	Consider 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 54 to 56.
	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 58 and 59.
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 mission statement of the Group is to shape the future of medicine by developing novel cancer therapies and powerful diagnostics using our proprietary Affimer® and pre|CISION™ platforms.

Our strategy is to:

- build a portfolio of novel, clinically differentiated cancer therapies leveraging the key benefits of the Affimer® and pre|CISION™ platforms;
- create a fast-paced, nimble, delivery-focused drug discovery and development organisation to transform Avacta into a clinical stage biotech with multiple clinical programmes and an exciting pre-clinical pipeline;
- establish partnerships with global pharmaceutical companies for our technology platforms and pipeline;
- grow a profitable revenue stream from Affimer® diagnostics through partnerships and licensing as well as in-house product development.

The Board believes that following the significant fund-raise during 2020 and its strong balance sheet, it has the right strategy in place to be able to deliver major value inflection points from its well-funded therapeutic programmes and from its diagnostic business' revenue generation in the near to medium term that should drive significant future shareholder value.

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 2020, the Board comprised four Non-executive Directors and two Executive Directors. The profiles of the Directors are set out on pages 58 to 59.

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 US and European life science companies, in particular in the therapeutics area where the Group's Affimer® and pre|CISION™ technologies have 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 14 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 Therapeutics Scientific Advisory Board, which is currently being updated with independent key opinion leaders who provide a challenging review of the ongoing pre-clinical and clinical programmes covering 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® reagents and diagnostics proposition. During the period Trevor has been Chairman of the Remuneration 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 has been Chairman of the Audit Committee since his appointment to the Board. Paul's time commitment is one to two days per month.

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 25 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, largely via video conferencing methods, 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, takes 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 risk and compliance matters 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. Dr Eliot Forster, shortly after his appointment to the Board in 2018, 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.

As the Group evolves and develops the composition of the Board will change to reflect the priorities of the Group. There are currently no female or ethnic minority Board members, however the Group is satisfied that as further Directors are added to the Board that there will be no limitation of opportunities due to diversity (including gender).

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			
			Audit		Remuneration	
	Position	Attended	Position	Attended	Position	Attended
Eliot Forster	Non-executive Chairman	10/10	Member	1/1	Member	3/3
Trevor Nicholls	Non-executive	10/10	Member	1/1	Chairman	3/3
Mike Owen	Non-executive	10/10	Member	1/1	Member	3/3
Paul Fry[1]	Non-executive	8/9	Chairman	1/1	Member	3/3
Alastair Smith	Executive CEO	10/10	-	1/1	-	2/3
Tony Gardiner	Executive CFO	10/10	-	1/1	-	2/3

1 *Paul Fry was appointed as Non-executive Director on 3 February 2020.*

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. 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.

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 given the rapid acceleration of production, regulatory and supply chain considerations within the Diagnostics division and the preparations for Avacta's first clinical trials in the Therapeutics division. 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. The Committee meets at least once a year with the Chief Executive and Chief Financial Officer 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 & Accounts, full-year and half-year announcements, trading updates and the Annual General Meeting, and we encourage shareholders' participation using technology platforms such the Investor Meet Company.

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 Vox Markets and Directors Talk 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.

The Company also holds science days, where investors and significant private shareholders are 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, social and environmental 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 the impact of its activities relating to health, safety and environmental issues. Due to the nature of the Group's divisions, it has a low environmental impact, and it seeks to minimise any environmental impact of its operations and complies with relevant regulations and legislation.

The Group has well-defined health and safety policies and procedures, complying with current legislation and safeguarding staff, contractors and visitors. All Group sites have been regularly assessed as we have worked through the COVID-19 pandemic to ensure that facilities are COVID-safe, with the levels of staff on site carefully managed to ensure a safe and secure working environment for those staff who have been unable to work from home. 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

22 April 2021

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. During the year, the engagement partner, John Pass, has rotated off the audit, having worked with the Group for seven years, and Stuart Burdass has taken over the role of engagement partner. There are no contractual obligations restricting the Company's choice of external auditor.

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 below.

Judgements:

During the year, the Committee considered the following key judgements made in preparation of the financial statements:

Going concern - The judgement of whether or not the accounts should be prepared on a going concern basis, as detailed in the Financial Review. The Committee has reviewed detailed cash flow forecasts that extend to at least 12 months from the date of approval of the financial statements. The forecasts consider 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, the AVA6000 pro-doxorubicin phase I clinical trials, diagnostic product 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 and delivery of diagnostic product development projects and future therapeutic 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 throughout the forecast period. Based on these indications, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

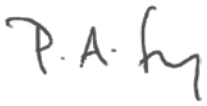
Revenue recognition – Judgements arise from the application of IFRS 15 to the Group's revenue streams, as disclosed in Note 1(C) to the financial statements. In particular, the key judgement arising from this application was whether revenue from licence-related income in the period was recognised over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

Estimates:

The Committee also considered the assumptions and estimation uncertainties as at 31 December 2020 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. Management have prepared detailed value-in-use models to assess the recoverable amount of the three cash generating units ('CGUs'). These models use the approved budget as the basis for short-term forecast revenues and costs, extending these forecasts over a longer-term period using assumptions on shorter and longer-term revenue and cost growth to capture the longer-term value in the Diagnostics and Therapeutics business units in particular.

The Animal Health division restructured during the period and focused on core revenue streams. As a result of this restructure and the assumptions made in the value-in-use models, an impairment charge of £1.74 million was identified in relation to previously capitalised development costs and goodwill arising from historic acquisitions into the division. Further information on the key assumptions used in arriving at the impairment charge are disclosed in Note 10 to the financial statements.



Paul Fry
Chairman of the Audit Committee

22 April 2021

Remuneration Committee Report

This report sets out the remuneration policy for the year ended 31 December 2020.

Introduction

This report sets out the remuneration policy for the period ended 31 December 2020. 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. All 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 median quartile levels with attractive short-term and longer-term performance incentives. Share ownership is encouraged and all the Executive Directors are directly interested in the share capital of the Company or hold share options over the share capital. 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 operating in a specialised field and positions are benchmarked against comparable roles in AIM companies, with the most recent exercise carried out in July 2020. The next planned review will take place in 2022.

Executive Directors – Short-term incentives

Basic salary

Basic salary is based on several factors including market rates, together with the individual Director's experience, responsibilities and performance. Individual salaries of Directors were subject to review in June 2020 when the Committee carried out a review of the Executive Director salaries in relation to a group of comparable AIM-listed companies. The Committee recommended that the salary of the Chief Executive Officer be increased to £275,000 per annum and the salary of the Chief Financial Officer be increased to £190,000 per annum. The increases brought both positions in line with the median salary of the comparator companies. No further changes to base salaries will take place until 1 January 2022. During the review process, the salaries of the Senior Leadership Team were also reviewed to ensure that their remuneration levels were also consistent with those of similar professionals within the biotech sector.

Performance-related bonus

The Company operates an annual performance-related bonus scheme for Executive Directors. Payments under the bonus scheme are at the discretion of the Board (as recommended by the Remuneration Committee) and are 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 following the review which took place in June 2020 has been reduced to 50% 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.

There was no bonus award for the period ended 31 December 2019. The Committee agreed a one-off exceptional cash bonus of 10% of base salary for the two Executive Directors in July 2020 following the significant successful fund-raise.

For the year ending 31 December 2020, the Remuneration Committee reviewed the performance of the Executive Directors against the agreed targets for the year and concluded that the Chief Executive Officer should be paid a bonus equivalent to 44% of his current basic salary and the Chief Financial Officer should be paid a bonus equivalent to 33% of his current basic salary. The bonuses will be paid in two equal instalments in March and September 2021.

Benefits in kind

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

Pensions

The Company makes 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 can elect to take these pension contributions as additional salary payments if they so choose.

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 65 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 has an established framework of LTIP awards for Executive Directors and certain senior executives. The first LTIP award was originally granted in January 2019 and the second award, having been deferred by the Committee, was granted in June 2020 following the release of the Group preliminary results.

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 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.

Having reviewed the overall remuneration package for Executive Directors and certain senior executives, the Committee granted a further one-off LTIP award to Executive Directors and certain senior executives in June 2020 to bring the long-term equity incentives in line with the group of comparable AIM-listed companies. The additional award had vesting conditions based on the share price performance of the Group being maintained over a three-year period ending on 31 December 2022. The options once vested cannot be exercised until at least the 31 December 2022, subject to Board having discretion to review the exercise conditions in exceptional circumstances.

The Company can 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 are encouraged to maintain a shareholding within the Company and their current holdings are set out on page 65. None of the Non-executive directors (except for Eliot Forster) hold any interest in share options or the joint share ownership plan of the Company. Eliot Forster, shortly after his appointment to the Board in 2018, 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.

Remuneration Committee Report (continued...)

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.

Directors' remuneration – audited

The remuneration of each of the Directors of the Company for the year ended 31 December 2020 is set out below. These values are included within the audited accounts.

	2020 Basic salary and fees £000	2020 Bonus £000	2020 Benefits in kind £000	**2020 Total £000**	**2020 [4]Pension contributions £000**	2019 Total £000	2019 Pension contributions £000
	12 months to 31 December 2020					**17 months to 31 December 2019**	
Non-executive Directors							
Eliot Forster	85	-	-	**85**	**-**	120	-
Trevor Nicholls	31	-	-	**31**	**-**	46	-
Mike Owen	31	-	-	**31**	**-**	44	-
[1]Paul Fry	28	-	-	**28**	-	-	-
[2]Alan Aubrey	-	-	-	**-**	**-**	12	-
[3]Sam Williams	-	-	-	**-**	-	24	-
Executive Directors							
Alastair Smith	237	20	4	**261**	**14**	311	17
Tony Gardiner	165	15	1	**181**	**10**	232	13
	577	35	5	**617**	**24**	789	30

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

1. *Paul Fry was appointed as a Director on 3 February 2020.*
2. *Alan Aubrey resigned as a Director on 21 January 2019.*
3. *Sam Williams resigned as a Director on 4 November 2019. Sam's services as Director were provided by IP2IPO Limited.*
4. *Pension contributions consist of employer defined contribution benefits, excluding salary sacrifice contributions made by the employees, plus cash payments in lieu of pension.*

The number of Directors accruing benefits under money purchase pension schemes was two (2019: two).

The share-based payments charge to the Consolidated Income Statement in respect of Directors' share options was £1,076,000 (2019: £120,000). The aggregate gain made by Directors on the exercise of share options was £nil (2019: £nil).

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

	At 1 Jan 2020	Granted	Waived	Exercised	At 31 Dec 2020	Date of agreement
Alastair Smith	1,144,149[1]	-	-	-	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 5.

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

	At 1 Jan 2020	Granted	Waived / Lapsed	Exercised	At 31 Dec 2020	Exercise price pence	Date from which exercisable	Date of grant	Expiry date
Eliot Forster	340,000	-	-	-	340,000	25.0p	Note 1	7 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	15 Feb 2020	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 2	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 3	7 Jan 2019	7 Jan 2029
Alastair Smith	-	868,260	-	-	868,260	17.25p	Note 3	14 May 2020	14 May 2030
Alastair Smith	-	4,000,000	-	-	4,000,000	10.0p	Note 4	14 May 2020	14 May 2030
	1,560,815	**4,868,260**	**(520,550)**	**-**	**5,908,525**				
	-								
Tony Gardiner	210,968	-	-	-	210,968	118.5p	15 Feb 2020	15 Feb 2016	15 Feb 2026
Tony Gardiner	22,973	-	-	-	22,973	74.0p	16 Dec 2016	16 Dec 2016	16 Dec 2026
Tony Gardiner	306,000	-	(306,000)	-	-	72.5p	Note 2	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 3	7 Jan 2019	7 Jan 2029
Tony Gardiner	-	453,620	-	-	453,620	17.25p	Note 3	14 May 2020	14 May 2030
Tony Gardiner	-	1,000,000	-	-	1,000,000	10.0p	Note 4	14 May 2020	14 May 2030
	909,901	**1,453,620**	**(306,000)**	**-**	**2,057,521**				

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.

Note 2 – This option lapsed as the share price targets which had to be met at 31 December 2020 were not met.

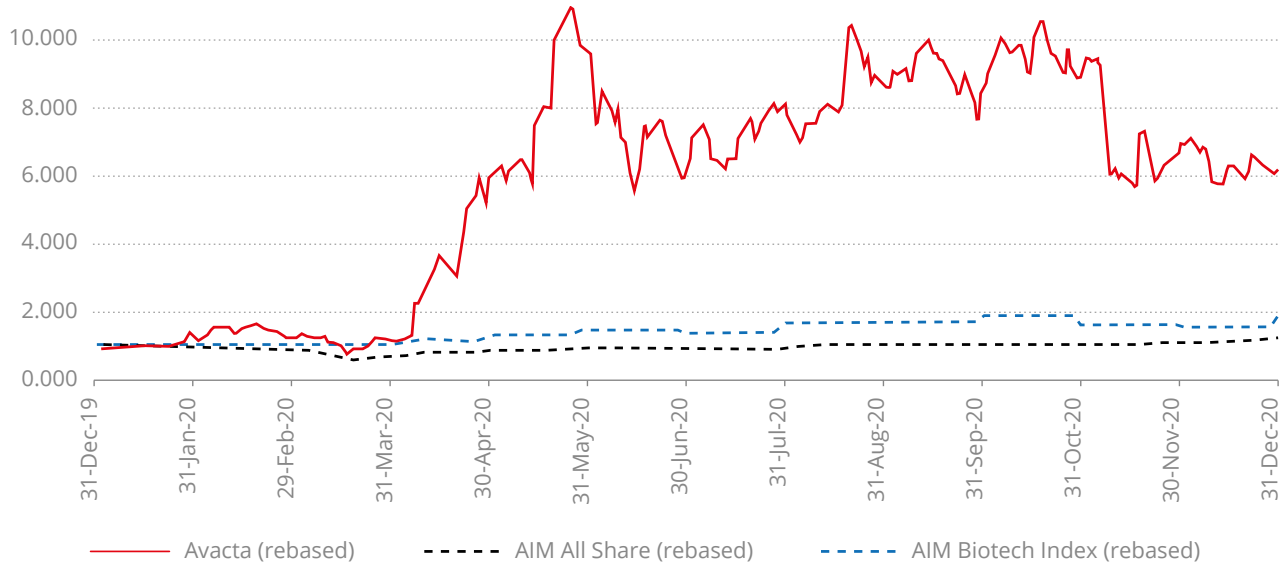
Note 3 – This option provides that, unless waived at the discretion of the Remuneration Committee of the Board and it has not lapsed, it will vest as to one quarter of the award if the share price on 31 December 2021 is at or above 150p per share. If the share price on 31 December 2021 is at or above 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 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 exceeds an average of 44p per share between 1 January 2020 and 31 December 2022. If the share price between 1 January 2020 and 31 December 2020 exceeds an average of 110p per share, then one quarter of the award will vest. If the share price between 1 January 2021 and 31 December 2021 exceeds an average of 110p per share, then one quarter of the award will vest. If the share price between 1 January 2022 and 31 December 2022 exceeds an average of 110p per share, then one quarter of the award will vest. A linear sliding scale will operate should the share price fall in the range between 44p and 110p for any of the three calendar periods 2020, 2021 and 2022. On the assumption that the vesting conditions are met, the option holder cannot exercise or sell the shares prior to 31 December 2022.

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 2020.



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 22 April 2021 and was signed on its behalf by:

Dr Trevor Nicholls
Chairman of the Remuneration Committee

22 April 2021

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

KPMG

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 year ended 31 December 2020 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.

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 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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: group financial statements as a whole	£600k (2019:£800k) 2.8% (2019: 4.4%) of loss before tax
Coverage	99.9% (2019:99.9%) of group loss before tax

Key audit matters		vs 2019
Recurring risks	Recoverability of intangible assets (goodwill and development costs)	◀▶
	Recoverability of investments in subsidiaries and intercompany receivables	◀▶
	Going concern	▼

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

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

Key audit matters are those matters that, in our professional judgement, 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. 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. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows.

	The risk	Our response
Group: Recoverability of intangible assets (goodwill and development costs) (£9.2 million; 2019: £11.8 million) *Refer to:* *page 72 (Audit Committee Report)* *page 97 (Accounting Policy)* *page 110 (Financial Disclosures)*	**Forecast-based assessment:** Goodwill and development costs are significant and the estimated recoverable amounts are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. Auditor judgement is required to assess whether the directors' overall estimate, taking into account key discount rate and growth rate assumptions, falls within an acceptable range. 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. The financial statements (note 10) disclose the sensitivity estimated by the Group.	Our procedures included: — **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 growth, where available, 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 development costs.
Parent company: Recoverability of investments in subsidiaries and intercompany receivables (£66.4 million; 2019: £54.3 million) *Refer to:* *page 72 (Audit Committee Report)* *page 123 (Accounting Policy)* *page 124 (Financial Disclosures)*	**Forecast-based assessment:** The carrying amount of the parent company's investments in subsidiaries and intra-group debtor balances are significant. The risk of irrecoverability arises as the estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. 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. The financial statements (note 24) disclose the sensitivity estimated by the Company.	Our procedures included: — **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.

KPMG

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

	The risk	Our response
Going concern *Refer to:* *page 72 (Audit Committee Report)* *page 94 (Accounting Policy)*	**Disclosure quality** 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. 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 12 months from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: • The impact of additional government lock-downs resulting in temporary closure of laboratories or staff illness prompted by 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. 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. 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.	Our procedures included: **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; **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 2021/22 forecasts prepared by management; **Key dependency assessment:** We identified the critical factors in determining whether there is a risk of business failure based on our knowledge of the business and specific risk assessments for the impact of COVID-19; **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably plausible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; **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.

We continue to perform procedures over the completeness and existence of capitalised development costs. However, given the amount capitalised in the year is well below materiality, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over revenue recognition. However given that no new material contracts have been entered into in the current year the level of subjective judgement involved has decreased, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over the UK's departure from the European Union. However, given the foreseen impact of the UK's departure from the European Union on the Group is expected to be low, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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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 £600k (2019: £800k), determined with reference to a benchmark of group loss before tax, of which it represents 2.8% (2019: 4.4%).

Materiality for the parent company financial statements as a whole was set at £210k (2019: £275k), determined with reference to a benchmark of company net assets, of which it represents 0.2% (2019: 0.4%).

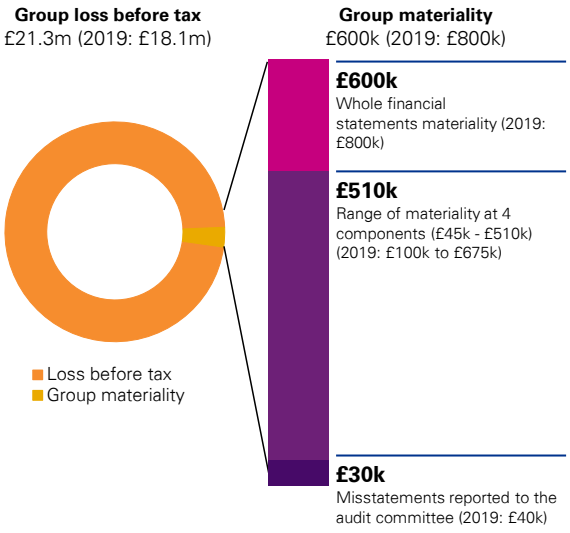
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

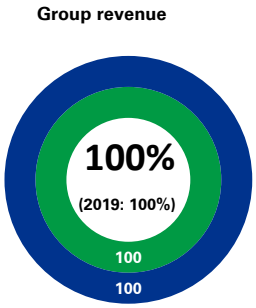
Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £450k (2019: £600k) for the group and £158k (2019: £206k) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

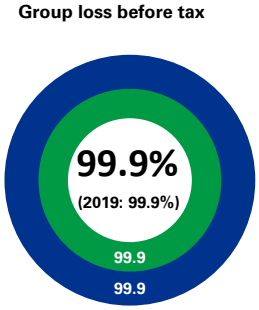
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £30k (2019: £40k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

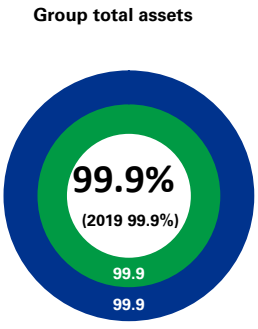
Of the group's 7 (2019: 7) reporting components, we subjected 4 (2019: 4) to full scope audits for group purposes and none (2019: none) to specified risk-focused audit procedures.

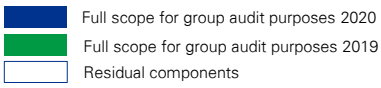
The components within the scope of our work accounted for the percentages illustrated opposite.











4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company'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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and

— we found the going concern disclosure in note 1 to be acceptable

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 above conclusions are not a guarantee that the Group and the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included :

• Enquiring of directors and in-house Group legal counsel as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.

• Reading Board minutes.

• Considering remuneration incentive schemes and performance targets for management and directors.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period, the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as impairment assumptions. We did not identify any additional fraud risks.

We performed procedures including:

• Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual account pairings.

• Evaluated the business purpose of significant unusual transactions.

• Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

5. Fraud and breaches of laws and regulations – ability to detect (cont.)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (cont).

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and employment law, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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6. 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 year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. 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

8. 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.

9. 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.

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Sovereign Square
Leeds
LS1 4DA

22 April 2021

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Financial Statements

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2020

	Note	**2020 £000**	2019* £000
Revenue	3	**3,636**	5,511
Cost of sales		**(1,455)**	(1,440)
Gross profit		**2,181**	4,071
Research costs		**(8,961)**	(7,860)
Share of loss of associate	22	**(217)**	-
Amortisation of development costs	10	**(1,007)**	(2,202)
Impairment of intangible fixed assets	10	**(1,741)**	-
Selling, general and administrative expenses		**(7,315)**	(10,064)
Depreciation expense	11, 21	**(1,125)**	(1,636)
Share-based payment charge	5	**(3,108)**	(338)
Operating loss	6	**(21,293)**	(18,029)
Finance income	7	**43**	73
Finance costs	21	**(93)**	(98)
Net finance costs		**(50)**	(25)
Loss before tax		**(21,343)**	(18,054)
Taxation	8	**2,452**	2,439
Loss and total comprehensive loss for period		**(18,891)**	(15,615)
Loss per ordinary share			
Basic and diluted	9	**(8.37p)**	(12.98p)

* 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 127 form an integral part of these financial statements.

Consolidated Statement of Financial Position as at 31 December 2020

	Note	2020 £000	2019 £000
Assets			
Property, plant and equipment	11	**2,696**	2,304
Right-of-use assets	21	**2,095**	780
Intangible assets	10	**9,417**	11,800
Non-current assets		**14,208**	14,884
Inventories	12	**248**	156
Trade and other receivables	13	**2,895**	2,082
Income tax receivable		**2,200**	2,500
Short-term deposits		**20,017**	-
Cash and cash equivalents	14	**27,894**	8,788
Current assets		**53,254**	13,526
Total assets		**67,462**	28,410
Liabilities			
Lease liabilities	21	**(1,752)**	(646)
Non-current liabilities		**(1,752)**	(646)
Trade and other payables	15	**(3,491)**	(1,778)
Lease liabilities	21	**(290)**	(177)
Current liabilities		**(3,781)**	(1,955)
Total liabilities		**(5,533)**	(2,601)
Net assets		**61,929**	25,809
Equity			
Share capital	17	**25,343**	17,671
Share premium	18	**54,137**	9,877
Other reserve	18	**(1,729)**	(1,729)
Reserve for own shares	18	**(2,961)**	(2,932)
Retained earnings	18	**(12,861)**	2,922
Total equity		**61,929**	25,809

The notes on pages 92 to 125 form an integral part of these financial statements.
The financial statements on pages 88 to 125 were approved by the Board of Directors on 22 April 2021and signed on its behalf by:


Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020

	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 2018	**6,976**	**770**	**(1,729)**	**1,899**	**(2,802)**	**16,299**	**21,413**
Total comprehensive loss for the period	-	-	-	-	-	(15,615)	**(15,615)**
Transactions with owners of the Company:							
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**
Total comprehensive loss for the period	-	-	-	-	-	(18,891)	**(18,891)**
Transactions with owners of the Company:							
Issue of shares	7,195	43,596	-	-	-	-	**50,791**
Exercise of share options	467	645	-	-	-	-	**1,112**
Own shares acquired	10	19	-	-	(29)	-	**-**
Equity-settled share-based payment	-	-	-	-	-	3,108	**3,108**
	7,672	44,260	-	-	(29)	3,108	**55,011**
Balance at 31 December 2020	**25,343**	**54,137**	**(1,729)**	**-**	**(2,961)**	**(12,861)**	**61,929**

[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 comparative 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 Year Ended 31 December 2020

	2020 £000	2019* £000
Cash flows from operating activities		
Loss for the period	**(18,891)**	(15,615)
Adjustments for:		
- Amortisation	**1,029**	2,313
- Impairment losses	**1,741**	-
- Depreciation	**1,125**	1,636
- Net loss on disposal of property, plant and equipment	**6**	19
- Share of loss of associate	**217**	-
- Equity-settled share-based payment transactions	**3,108**	338
- Net finance costs	**50**	25
- Taxation	**(2,452)**	(2,439)
Operating cash outflow before changes in working capital	**(14,067)**	(13,723)
Decrease/(increase) in inventories	**(91)**	30
Increase in trade and other receivables	**(814)**	(825)
Increase in trade and other payables	**1,627**	78
Operating cash outflow from operations	**(13,345)**	(14,440)
Interest received	**42**	72
Interest elements of lease payments	**(93)**	(86)
Tax credit received	**2,754**	1,631
Withholding tax paid	**-**	(192)
Net cash used in operating activities	**(10,642)**	(13,015)
Cash flows from investing activities		
Purchase of plant and equipment	**(1,279)**	(618)
Purchase of intangible assets	**(221)**	(34)
Investment in associate	**(217)**	-
Development expenditure capitalised	**(165)**	(1,875)
Increase in balances on short-term deposit	**(20,017)**	-
Net cash used in investing activities	**(21,899)**	(2,527)
Cash flows from financing activities		
Proceeds from issue of share capital	**53,750**	19,331
Transaction costs related to issue of share capital**	**(2,960)**	-
Proceeds from exercise of share options	**1,112**	-
Principal elements of lease payments	**(255)**	(221)
Net cash from financing activities	**51,647**	19,110
Net increase / (decrease) in cash and cash equivalents	**19,106**	3,568
Cash and cash equivalents at 1 January 2020	**8,788**	5,220
Cash and cash equivalents at 31 December 2020	**27,894**	8,788

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

*** Please see Note 18 for further information*

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 year ended 31 December 2020 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 prior period, the Group changed its accounting period to 31 December to bring it in line with the calendar year and therefore the accounts are showing a 12-month financial year to the comparative 17-month financial period. As such, amounts presented in the financial statements are not readily 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

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £18.9 million and operating cash outflows of £13.3 million for the year ended 31 December 2020. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend to at least 12 months from the date of approval of the financial statements. 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, the AVA6000 pro-doxorubicin phase I clinical trials, diagnostic product 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 and delivery of diagnostic product development projects and future therapeutic 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 for at least 12 months from the date of approval of the financial statements. The key factors considered in reaching this conclusion are summarised below:

- The Group continues to develop its therapeutic and diagnostic platform technologies. The development of the AffiDX® SARS-CoV-2 Antigen Lateral Flow Test, which is in the late stages of clinical validation and CE marking, could generate significant revenue and profits for the Group in the near term, which have not been included in the base case assessment.
- As at 31 December 2020, the Group's short-term deposits and cash and cash equivalents were £47.9 million (2019: £8.8 million).
- The Group has a tax refund in relation to R&D tax credits due in the second half of 2021 amounting to £2.2 million (a comparable tax refund of £2.8 million was received in October 2020 relating to the 17-month period to 31 December 2019).
- 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 short-term impact centres around the commencement of clinical trials for the AVA6000 pro-doxorubicin phase I clinical trials, which are due to commence in mid-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 delay expenditures and reduce cash burn during the forecast period. The Directors are confident that the current level of funding will be sufficient for the Group and Company to meet their liabilities for the forecast period.

Based on these indications, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared 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 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 above.

Revenue recognition – Judgements arise from the application of IFRS 15 to the Group's revenue streams, as disclosed in Note 1 C.

The Directors consider that the assumptions and estimation uncertainties at 31 December 2020 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 after 1 January 2020 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, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2*
- Amendments to IFRS 4 *Insurance Contracts – deferral of IFRS 9*
- Amendments to IFRS 16 *Leases Covid 19-Related Rent Concessions*
- Amendments to IFRS 3 *Business Combinations*

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

The Group's interests in equity-accounted investees comprises an interest in an associate. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence 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.

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

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	Diagnostics / 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, primarily as a result of the Group not undertaking activities that significantly affect the intellectual property to which customers have rights during the respective contracts. Therefore, the associated performance obligation is satisfied at the point in time the IP is granted, or at the point in time the work associated with the customer using the IP is completed where the licence and associated service are judged to form part of the same performance obligation. 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.

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 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 on a research and development project 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 judgement involved is considered to be the assessment of the stage of development of the project, and whether it can be demonstrated that a project has commercial or technical feasibility. For projects which are judged to meet this criteria, there is an associated judgement in ensuring that those direct people costs and bought-in materials relating to these 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 the development projects, which is fundamentally linked to the going concern assessment discussed 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, an impairment charge is recognised in profit or loss.

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.

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

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 5 years.
- Software: amortised over the useful life of the software, being three to five years
- Patents: amortised over the same period as the length of the life of the patent, being up to 20 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 111). 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.

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

- Those to be measured subsequently at fair value (either through other comprehensive income ('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.
- Fair value through other comprehensive income ('FVOCI'): FVOCI: Assets that are held for collection of contractual cash 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.

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.

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 Group's chief operating decision-maker ('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 CODM.

L - Leases

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.

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.

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

2 Segment Reporting

Operating segments

In the view of the Board of Directors, the Group has three (2020: three) distinct reportable segments, which are Diagnostics, Therapeutics and Animal Health (2019: Diagnostics, Therapeutics and Animal Health), and segment reporting has been presented on this basis. The Directors recognise that the operations of the Group are dynamic and therefore this position will be monitored as the Group develops.

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 70% (2019: 69%) of total revenue. The revenue analysis below is based on the country of registration of the customer:

	Year ended 31 December 2020	17 months ended 31 December 2019
	£'000	£'000
UK	**1,076**	1,691
Rest of Europe	**685**	851
North America	**402**	496
Asia	**1,473**	2,473
	3,636	5,511

During the year, transactions with three external customers, two in the Therapeutics segment and one in the Animal Health segment, amounted individually to 10% or more of the Group's revenues, being £768,000, £694,000 and £440,000 respectively. In the 17-month period ended 31 December 2019, transactions with one individual customer amounted to 10% or more of the Group's revenues. These revenues were £2,442,000 for a customer in the Therapeutics segment.

Operating segment analysis 2020

	Diagnostics	Therapeutics	Animal Health	**Total**
	£000	£000	£000	**£000**
Revenue	519	1,625	1,492	**3,636**
Cost of goods sold	(321)	(641)	(493)	**(1,455)**
Gross profit	**198**	**984**	**999**	**2,181**
Research costs	(2,458)	(6,432)	(71)	**(8,961)**
Share of loss of associate	-	(217)	-	**(217)**
Amortisation of development costs	(824)	-	(183)	**(1,007)**
Selling, general and administrative expenses	(2,525)	(1,702)	(966)	**(5,193)**
Impairment charge	-	-	(1,741)	**(1,741)**
Depreciation expense	(357)	(701)	(62)	**(1,120)**
Share-based payment expense	(636)	(893)	(38)	**(1,567)**
Segment operating loss	**(6,602)**	**(8,961)**	**(2,062)**	**(17,625)**
Central overheads				**(3,668)**
Operating loss				**(21,293)**
Finance income				**43**
Finance expense				**(93)**
Loss before taxation				**(21,343)**
Taxation				**2,452**
Amount attributable to equity holders of the Company				**(18,891)**

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 2019

	Diagnostics	Therapeutics	Animal Health	**Total**
	£000	£000	£000	**£000**
Revenue	812	2,515	2,184	**5,511**
Cost of goods sold	(454)	(284)	(702)	**(1,440)**
Gross profit	**358**	**2,231**	**1,482**	**4,071**
Research costs	(620)	(7,240)	-	**(7,860)**
Amortisation of development costs	(1,600)	-	(602)	**(2,202)**
Selling, general and administrative expenses	(3,605)	(2,269)	(1,776)	**(7,650)**
Depreciation expense	(612)	(678)	(52)	**(1,342)**
Share-based payment expense	(55)	(101)	(34)	**(190)**
Segment operating loss	**(6,134)**	**(8,057)**	**(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)**

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.

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).

Year ended 31 December 2020

	Diagnostics	Therapeutics	Animal Health	**Total**
	£000	£000	£000	**£000**
Nature of revenue				
Sale of goods	-	-	846	**846**
Provision of services	519	1,436	646	**2,601**
Licence-related income	-	189	-	**189**
	519	**1,625**	**1,492**	**3,636**
Timing of revenue recognition				
Products or services transferred at a point in time	8	189	1,459	**1,656**
Products or services transferred over time	511	1,436	33	**1,980**
	519	**1,625**	**1,492**	**3,636**

17 months ended 31 December 2019

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

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 2020 £000	31 December 2019 £000
Receivables	**1,415**	650
Contract assets	**158**	40
Contract liabilities	**(579)**	(40)

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 advance consideration received from customers.

Of the £40,000 (2019: £66,000) in contract liabilities at the beginning of the period, £30,000 (2019: £66,000) has been recognised as revenue for the period ended 31 December 2020.

The amount of revenue recognised in 2020 from performance obligations satisfied (or partially satisfied) in previous periods was £nil (2019 from those performance obligations satisfied in 2018: £nil).

4 Employees

	2020 £000	2019 £000
Staff costs:		
Wages and salaries	**6,011**	8,044
Social security costs	**673**	799
Contributions to defined contribution plans	**328**	396
Share-based payment charges	**3,108**	338
	10,120	9,577

Average number of employees (including Directors) during the year:		
Commercial and operational	**104**	102
Administrative	**19**	17
	123	119

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 which form part of these audited financial statements.

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 Evolution 2020 Limited in relation to a capital markets advice with options vesting based on the achievement of certain share-based milestones.

The Group recognised a total share-based payment charge to the income statement of £3,108,000 (2019: £338,000).

EMI, unapproved and collaboration 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/Vested	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 June 2014	1	111,607	Time served and commercial performance	118.0	Vested	16 June 2024
15 May 2015	1	126,666	Time served	85.5	Vested	15 May 2025
15 February 2016	3	550,700	Time served	118.5	Vested	15 February 2026
16 December 2016	2	97,298	Unconditional	74.0	Vested	16 December 2026
24 August 2018	19	417,778	Time served	25.0	Vested	23 August 2028
24 August 2018	6	296,527	Time served and technical milestones	25.0	Note 1	23 August 2028
24 August 2018	1	54,000	Time served and commercial performance	25.0	Note 2	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 3	6 January 2029
7 January 2019	5	1,900,854	Technical, commercial and share price performance	25.0	Note 4	6 January 2029
1 July 2019	3	261,332	Time served	30.0	Note 5	30 June 2029
1 July 2019	1	123,629	Time served and technical milestones	30.0	Note 6	30 June 2029
25 March 2020	35	3,982,627	Time served	25.0	Note 7	24 March 2030
14 May 2020	5	2,754,856	Technical, commercial and share price performance	17.25	Note 8	14 May 2030
14 May 2020	5	8,500,000	Share based	10.0	Note 9	14 May 2030
14 May 2020	1	1,000,000	Time served and commercial performance	25.0	Note 10	14 May 2030
14 May 2020	1	328,874	Unconditional	25.0	Vested	14 May 2030
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 7,076 as at 31 December 2020, as to 144,725 once the first technical milestone is achieved, 144,726 once the second technical milestone is achieved.

Note 2 – This option provides that they can, if they have not lapsed, be exercised as to 28,400 as at 31 December 2020 and as to 25,600 on or after 18 September 2022.

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

Note 3 – This option provides that they can, if they have not lapsed, be exercised as to 226,666 at 31 December 2020 and as to 113,334 on or after 11 June 2021.

Note 4 – 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 5 – This option provides that they can, if they have not lapsed, be exercised as to 60,833 as at 31 December 2020 and as to 200,499 on or after 1 June 2021.

Note 6 – This option provides that they can, if they have not lapsed, be exercised as to 31,407 as at 31 December 2020, as to 46,111 once the first technical milestone is achieved and as to 46,111 once the second technical milestone is achieved.

Note 7 – This option provides that they can, if they have not lapsed, be exercised in full on or after 31 December 2022.

Note 8 - This option provides that they can, if they have not lapsed, be exercised as to 1,377,428 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 1,377,428 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 9 – This option provides that they can, if they have not lapsed, be exercised as to 4,250,000 as at 31 December 2020, as to 2,125,000 on or after 31 December 2021, if the average share price is over 110p for more than 20 business days during 2021, and as to 2,125,000 on or after 31 December 2022, if the average share price is over 110p for more than 20 business days during 2022.

Note 10 – This option provides that they can, if they have not lapsed, be exercised as to 250,000 once the first commercial milestone is achieved, as to 250,000 once the second commercial milestone is achieved, as to 250,000 once the third commercial milestone is achieved and as to 250,000 on or after 5 August 2023.

Note 11 – This option provides that they can, if they have not lapsed, be exercised as to 580,791 as at 31 December 2020, 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:

	2020	2019
Weighted average share price at date of grant	**75.08p**	26.16p
Weighted average exercise price	**15.04p**	26.16p
Weighted average fair value at date of grant	**9.51p**	10.97p
Expected volatility	**63.3%**	50.0%
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:

	2020		2019	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At start of period	10,588,313	40.74	4,709,820	81.80
Granted during the year	19,726,357	15.04	8,667,005	26.16
Exercised during the year	(4,671,274)	23.80	(323,086)	10.00
Forfeited or lapsed during the year	(2,738,550)	39.34	(2,465,426)	71.92
Outstanding at end of period	**22,904,846**	**22.23**	**10,588,313**	**40.74**
Exercisable at end of period	**8,461,364**	**26.82**	**2,965,364**	**61.62**

The options outstanding at 31 December 2020 had a range of exercise prices from 10p to 118.5p (2019: 25p to 118.5p) and a weighted average exercise price of 22.23p (2019: 40.74p), and a weighted average remaining contractual life of 8 years and 1 week (2019: 6 years and 33 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 2020, five employees (2019: six) had joint interests in 2,932,306 (2019: 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 more than 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 11 February 2020 101,701 ordinary shares of 10p each were issued in relation to the Free Share award based on the closing middle market price of 28.5p on 8 February 2020.

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 2020, 41 eligible employees, had made binding commitments to subscribe for partnership shares during the period ending 31 December 2020.

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 2020, the Trustee held 1,404,230 (2019: 970,213) ordinary shares of 10p on behalf of the SIP.

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

6 Operating loss

Operating loss is stated after charging/(crediting):	Note	2020 £000	2019 £000
Lease expense on low-value assets	21	**2**	2
Depreciation of property, plant and equipment	11	**882**	1,350
Depreciation of right-of-use assets	21	**244**	288
Net loss on disposal of property, plant and equipment		**6**	18
Amortisation of intangible fixed assets	10	**1,029**	2,313
Impairment of intangible fixed assets	10	**1,741**	-
Share of loss of associate	22	**217**	-
Employee benefit expense, including share-based payment charges	4	**9,506**	9,577
Auditor's remuneration:			
• Audit services in respect of the Company's financial statements		**80**	58
• Audit services in respect of the Company's subsidiaries' financial statements		**25**	25
• Tax compliance services		**11**	18
• Tax advisory services		**3**	20

7 Net finance costs

	2020 £000	2019 £000
Interest income	**43**	73
Interest expense on lease liabilities	**(93)**	(98)
	(50)	(25)

8 Taxation on loss on ordinary activities

	2020 £000	2019 £000
Current tax:		
Current period	**(2,199)**	(2,305)
Changes in estimates related to prior years	**(253)**	(134)
Deferred taxation:		
Current period	**-**	-
Tax on loss on ordinary activities	**(2,452)**	(2,439)

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19.0% (2019: 19.0%). The differences are explained below.

	2020 £000	2019 £000
Loss on ordinary activities before taxation	**(21,343)**	(18,054)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2019: 19.0%)	**(4,055)**	(3,430)
Effects of:		
• Expenses not deductible for tax purposes	**674**	95
• Deferred tax losses not recognised	**3,381**	3,335
• Government tax incentives	**(2,452)**	(2,631)
• Withholding tax expense	**-**	192
	(2,452)	(2,439)

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 2020, 22,904,846 options (2019: 10,588,313) 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.

	2020	2019
Loss (£000)	**(18,891)**	(15,615)
Weighted average number of shares (number)	**225,578,759**	120,336,858
Basic and diluted loss per ordinary share (pence)	**(8.37p)**	(12.98p)

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 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 December 2019	4,655	-	11,084	200	-	**15,939**
Internally developed/additions	-	-	165	15	206	**386**
Disposals	-	-	(1,049)	-	-	**(1,049)**
At 31 December 2020	**4,655**	**-**	**10,200**	**215**	**206**	**15,276**
Amortisation and impairment						
At 1 August 2018	822	150	2,079	224	28	**3,303**
Amortisation	-	-	2,202	24	87	**2,313**
Disposals	-	(150)	(1,129)	(83)	(115)	**(1,477)**
At 31 December 2019	822	-	3,152	165	-	**4,139**
Amortisation	-	-	1,007	18	4	**1,029**
Impairment	1,518	-	223	-	-	**1,741**
Disposals	-	-	(1,050)	-	-	**(1,050)**
At 31 December 2020	**2,340**	**-**	**3,332**	**183**	**4**	**5,859**
Net book value						
At 31 December 2020	**2,315**	**-**	**6,868**	**32**	**202**	**9,417**
At 31 December 2019	3,833	-	7,932	35	-	**11,800**
At 31 July 2018	3,833	-	8,259	25	87	**12,204**

Development costs

Development costs relate to the internally generated intangible assets associated with the development of the Affimer® diagnostics-based technologies.

The specific judgements applied by management when capitalising development costs are discussed in Note 1I.

Research and 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 (2019: three) CGUs reflecting the core areas of technological focus. 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:

	2020 £000	2019 £000
Therapeutics	**1,538**	1,538
Diagnostics	**-**	-
Animal Health	**777**	2,295
Goodwill	**2,315**	3,833

Impairment review

An impairment review of the Group's intangible and tangible non-current assets was conducted at 31 December 2020. 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 £16 million over a five-year timeframe, equivalent to a 44.4% 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% (2019: 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 licensing revenue
- Pre-tax discount rate of 17% (2019: 16.5%), derived from a weighted-average cost-of-capital of 15% (2019: 15%)

Using the assumptions listed above, the value in use of the Therapeutics CGU exceeds its carrying amount by £50.3 million.

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 £8.3 million, equivalent to a CAGR of 26.9%, 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 an eleven-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 £9.7 million over a five-year timeframe, equivalent to a CAGR of 42%, with growth rates decreasing from 30% in Year 5 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% (2019: 2.5%), approximating the annual average inflation rate
- Gross margins projected based on those achieved historically
- Pre-tax discount rate of 16% (2019: 16%), derived from a weighted-average cost-of-capital of 14% (2019: 14%)

Using the assumptions listed above, the value in use of the Diagnostics CGU exceeds its carrying amount by £29.9 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 27.5% or CAGR over the initial six-year period would need to reduce to 30%, equivalent to a drop in revenue in year 5 to £6.3 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 5% per annum over this forecast period, increasing forecast revenue from £1.5 million to £1.9 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% (2019: 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 in the forecast period
- Pre-tax discount rate of 15% (2019: 14%), derived from a weighted-average cost-of-capital of 12.5% (2019: 12.5%)

Using the assumptions listed above, the recoverable amount of the Animal Health CGU is determined to be £962,000 resulting in an impairment charge of £1,518,000 (2019: £nil) recognised against goodwill. The impairment charge within the Animal Health CGU arose as the business restructured, in light of the impact of the COVID-19 pandemic on the Company and the wider veterinary industry, and revised its estimates of short-term revenue growth. This impairment charge is in addition to the specific impairment charge of £223,000 identified of development costs prior to the CGU-level impairment review, and arising from the restructure of the business and the re-focussing on core revenue streams. After impairment of the remaining carrying amount, these development costs were disposed of, resulting in the £1.05 million disposal of cost and accumulated amortisation.

Sensitivity analysis with respect to this impairment has been performed, where a reasonably possible change in average revenue growth rate has been modelled. Reducing the average growth rate by 1% per annum would result in the impairment charge increasing by £406,000. Conversely, increasing the average growth rate by 1% per annum would reduce the impairment charge by £421,000.

Sensitivity analysis has also been performed in relation to the discount rate. An increase in the pre-tax discount rate by 1% increases the impairment charge by £84,000 whilst a decrease in the pre-tax discount rate by 1% would reduce the impairment charge by £98,000.

The tangible and intangible non-current assets at 31 December 2020 can be allocated as follows:

	Tangible £000	ROU Assets £000	Goodwill £000	Development costs £000	Patents £000	Software £000	**Total £000**
Therapeutics	1,175	1,184	1,538	-	-	8	**3,905**
Diagnostics	1,491	747	-	6,868	202	6	**9,314**
Animal Health	19	164	777	-	**-**	3	**963**
	2,685	**2,095**	**2,315**	**6,868**	**202**	**17**	**14,182**

11 Property, plant and equipment

	Assets in the course of constructions £000	Leasehold improvements £000	Laboratory equipment £000	Office fixtures and fittings £000	**Total £000**
Cost					
At 1 August 2018	3	1,834	4,116	311	**6,264**
Additions	7	29	527	55	**618**
Transfers	-	-	6	(6)	**-**
Disposals	-	-	(188)	(16)	**(204)**
At 31 December 2019	10	1,863	4,461	344	**6,678**
Additions	318	50	854	57	**1,279**
Transfers	(27)	-	23	4	**-**
Disposals	-	-	(249)	(3)	**(253)**
At 31 December 2020	**301**	**1,913**	**5,089**	**402**	**7,705**
Depreciation					
At 1 August 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 December 2019	-	834	3,269	271	**4,374**
Charge for the period	-	232	598	52	**882**
Transfers	-	-	-	-	**-**
Disposals	-	-	(243)	(4)	**(247)**
At 31 December 2020	**-**	**1,066**	**3,624**	**319**	**5,009**
Net book value					
At 31 December 2020	**301**	**847**	**1,465**	**83**	**2,696**
At 31 December 2019	10	1,029	1,192	73	**2,304**
At 1 August 2018	-	1,323	1,618	110	**3,054**

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

12 Inventories

	2020 £000	2019 £000
Raw materials and components	**207**	142
Finished goods	**41**	14
	248	156

13 Trade and other receivables

	2020 £000	2019 £000
Trade receivables	**1,415**	650
Prepayments	**1,039**	889
Other receivables	**187**	423
Contract assets	**158**	40
Other taxes and social security	**96**	80
	2,895	2,082

Trade and other receivables denominated in currencies other than sterling comprise £639,000 (2019: £353,000) of trade receivables denominated in US dollars and £14,000 (2019: £20,000) 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:

	2020 £000	2019 £000
Under 30 days overdue	**80**	114
Between 30 and 60 days overdue	**4**	40
Between 60 and 90 days overdue	**9**	23
Over 90 days overdue	**76**	10
	169	187

14 Cash and cash equivalents

	2020 £000	2019 £000
Short-term deposits	**20,017**	-
Cash and cash equivalents	**27,894**	8,788
	47,911	8,788

15 Trade and other payables

	2020 £000	2019 £000
Trade payables	**856**	698
Other taxes and social security	**232**	160
Accruals	**1,819**	823
Other payables	**5**	57
Contract liabilities	**579**	40
	3,491	1,778

Trade and other payables denominated in currencies other than sterling comprise £47,000 (2019: £145,000) of trade payables denominated in US dollars, £38,000 (2019: £26,000) denominated in euros, and £nil (2019: £11,000) 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)	2020 £000	2019 £000
Development costs	**(1,305)**	(1,348)
Trading losses	**1,006**	571
Property, plant and equipment	**299**	777
	-	-

Movement in deferred tax for period ended 31 December 2020

	At 1 January 2020 £000	Income statement £000	At 31 December 2020 £000
Development costs	(1,348)	43	**(1,305)**
Trading losses	571	435	**1,006**
Property, plant and equipment	777	(478)	**299**
	-	-	-

There is no liability to corporation tax in the year. There are unprovided deferred tax assets of approximately £5,414,000 due to trading losses in the current and prior financial years (2019: £5,013,000) and of £1,271,000 (£nil) relating to deductible temporary differences where it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

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

17 Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid:		
- 252,652,554 (2019: 175,935,136) ordinary shares of 10p each	**25,266**	17,594
- 19,327,344 deferred shares of 0.4p each	**77**	77
	25,343	17,671

Share issues

On 10 February 2020, 101,701 ordinary shares of 10p each were allotted and issued at 28.5p per share to Link Market Services Trust Limited as Trustee of the Avacta Group plc SIP (see Note 5).

On 24 April 2020, 31,944,443 ordinary shares of 10p each were allotted and issued at 18p further to a placing of shares. Placing costs of £391,000 were incurred and offset against the share premium reserve.

On 15 and 26 May 2020, a total of 816,535 ordinary shares of 10p each were allotted and issued following the exercise of vested EMI options.

On 10 and 25 June, a total of 40,000,000 ordinary shares of 10p each were allotted and issued at £1.20 further to a placing of shares. Placing costs of £2,567,843 were incurred and offset against the share premium reserve.

On 7 July, 18 August, 20 August, 7 October and 13 November, a total of 3,854,739 ordinary shares of 10p each were allotted and issued following the exercise of vested EMI and unapproved options.

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 £54,137,000 (2019: £9,877,000) 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 (2019: £nil) 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 considerations subject to the achievement of certain milestone objectives in the case of Avacta Health Limited. This reserve was transferred to retained earnings during the prior period following the dissolution of Avacta Health Limited.

Other reserve

The other reserve of negative £1,729,000 (2019: 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 £2,961,000 (2019: negative £2,932,000) increased during the year following the issue of 101,701 (2019: 372,826) 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 (2019: 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.

Transaction costs related to the issue of share capital

In the prior period, the Consolidated Statement of Cash Flows presented proceeds from the issue of share capital, £20,617,000, net of transactions related to the issue of share capital, £1,286,000. The Directors have reviewed this prior year presentation and have not restated the prior year figures as they have concluded that the net presentation was not material to the financial statements.

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 2020 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:

	2020	2019
	£000	£000
Cash at bank (floating interest rate)	**27,894**	8,788
Short-term deposits (floating interest rate)	**20,017**	-

Cash at bank attracted interest at floating rates, which were between nil% and 0.15% at 31 December 2020 (2019: nil% and 0.9%).

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. This policy includes restricting the maximum value of cash and short-term deposits held with any one financial institution. 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 2020, the difference between the book value and the fair value of the Group's financial assets and liabilities was £nil (2019: £nil).

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

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 December 2020.

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 £30 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	**2020 £000**	2019 £000
Trade receivables	**1,415**	650
Short-term deposits	**27,894**	-
Cash	**20,017**	8,788
	49,326	9,438
Financial liabilities		
Trade payables	**856**	697

Maturity profile of financial liabilities		
In one year or on demand	**856**	697

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 £316,000 (2019: £396,000). There were outstanding contributions at 31 December 2020 of £49,000 (2019: £44,000).

21 Leases

See accounting policy in Note 1L.

The Group leases a small number of properties for office and laboratory use, as well as some laboratory equipment. Information about leases for which the Group is a lessee is presented below.

a) Amounts recognised in the balance sheet

Right-of-use assets	**Property £000**	**Laboratory equipment £000**	**Total £000**
As at 1 August 2018	1,067	-	**1,067**
Depreciation charge	(288)	-	**(288)**
As at 31 December 2019	**779**	-	**779**
Additions	1,382	179	**1,561**
Depreciation charge	(235)	(9)	**(244)**
As at 31 December 2020	**1,926**	**170**	**2,096**

Lease liabilities	31 December 2020 Property £000	Laboratory equipment £000	Total £000	31 December 2019 Property £000
Current	232	58	**290**	177
Non-current	1,659	93	**1,752**	646
	1,891	**151**	**2,042**	823

Reconciliation of change in lease liability

	£000
As at 1 August 2018	1,033
Payment of lease liability – principal element	(222)
Payment of lease liability – interest element	(86)
Interest expense	98
As at 31 December 2019	**823**
Additions to lease liability	1,474
Payment of lease liability – principal element	(255)
Payment of lease liability – interest element	(93)
Interest expense	93
As at 31 December 2020	**2,042**

b) Amounts recognised in profit or loss

	2020 £000	2019 £000
Depreciation charge on right-of-use assets		
Property	**235**	286
Equipment	**9**	-
	244	286
Interest on lease liabilities	**93**	98
Expenses relating to leases of low-value assets	**2**	2

The total cash outflow for leases in the period was £348,000.

c) Capital commitments

At 31 December 2020, the Group had £84,000 of capital commitments (2019: £nil).

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

22 Equity-accounted investees

During the year ended 31 December 2020, the Group formed an entity with Daewoong Pharmaceutical, AffyXell Therapeutics Co., Ltd based in South Korea, through an initial contribution of £217,000. The Group has significant influence and, at 31 December 2020, a 12% ownership interest. The entity, accounted for as an investment in associate, has been established to develop Affimer® proteins which will be used for the generation of new cell and gene therapies.

The associate is measured using the equity method and the Group has recognised an investment in associate of £nil at 31 December 2020 due to recognition of a share of losses of the associate of £217,000 during the year. At 31 December 2020, the Group has an unrecognised share of losses of £108,000 in excess of the initial contribution.

23 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.

Provision of services to related parties in the period relate to research and development services provided to an associate of the Group, AffyXell Therapeutics Co., Ltd, as set out in Note 22. Purchase of services from related parties during the prior 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.

	Year ended 31 December 2020 £000	17 months ended 31 December 2019 £000
Provision of services Associate - AffyXell Therapeutics Co., Ltd	**694**	-
Purchase of services IP Group plc and subsidiaries	**-**	29
Amounts receivable Associate – AffyXell Therapeutics Co., Ltd	**473**	-

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:

	Year ended 31 December 2020 £000	17 months ended 31 December 2019 £000
Short-term employee benefits*	**897**	884
Post-employment benefits	**24**	30
Share-based payment	**1,076**	120

*Short-term employee benefits include employers' NI of £101,000 (2020: £95,000).

Full details of compensation of key management personnel are set out in the audited sections of the Remuneration Committee Report on pages 74 to 78 which form part of these audited financial statements.

Company Balance Sheet as at 31 December 2020 – Registered number 4748597

	Note	2020 £000	2019 £000
Fixed assets			
Tangible assets	25	**11**	8
Intangible assets	25	**15**	12
Investments	26	**3,902**	2,374
		3,928	2,394
Current assets			
Debtors*	27	**62,697**	52,069
Short-term deposits		**20,017**	-
Cash and cash equivalents		**27,547**	8,308
		110,261	60,377
Current liabilities	28	**(484)**	(212)
Net current assets		**109,777**	60,165
Net assets		**113,705**	62,559
Capital and reserves			
Called-up share capital	29	**25,343**	17,671
Share premium account	30	**54,137**	9,877
Reserve for own shares	30	**(2,961)**	(2,932)
Retained earnings	30	**37,186**	37,943
Shareholders' funds		**113,705**	62,559

*Of which £62,516,000 (2019: £51,923,000) is expected to be recovered in more than 12 months

The notes on pages 122 to 127 form an integral part of these financial statements.

The balance sheet above was approved by the Board of Directors and authorised for issue on 22 April 2021 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Company Statement of Changes in Equity for the Period Ended 31 December 2020

	Share capital £000	Share premium £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	**Total equity £000**
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**
Issue of shares	7,194	43,597	-	-	-	**50,791**
Exercise of share options	468	644	-	-	-	**1,112**
Own shares acquired	10	19	-	(29)	-	**-**
Total comprehensive loss for the period	-	-	-	-	(3,865)	**(3,865)**
Share-based payment charges	-	-	-	-	3,108	**3,108**
At 31 December 2020	**25,343**	**54,137**	**-**	**(2,961)**	**37,186**	**113,705**

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 2020 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 – Management perform an impairment assessment by comparing the aggregate balance of investment in subsidiaries and amounts owed to subsidiary undertakings 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 measure the impairment recognised against the amount owed by the subsidiary by discounting the future cash flows by the original effective interest rate of the intercompany loans. 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 £84,000, and a 1% decrease in the average revenue growth rate would increase the provision by £406,000. More broadly, were the values in use in the Group's impairment models all to reduce to the carrying amount of the CGUs disclosed in Note 10, there would be an associated increase in the provision against investments in subsidiary and amounts owed by subsidiary undertakings of £25.8 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

ntangible 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 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 December 2019	52	78	**130**
Additions	8	8	**16**
Disposals	-	-	-
At 31 December 2020	**60**	**86**	**146**
Depreciation at 31 December 2019	44	66	**110**
Charge for the year	5	5	**10**
Disposal	-	-	-
At 31 December 2020	**49**	**71**	**120**
Net book value			
At 31 December 2020	**11**	**15**	**26**
At 31 December 2019	8	12	**20**

26 Investments

	£000
Cost at 1 January 2020	4,109
Additions	1,567
At 31 December 2020	**5,676**
Provision at 1 January 2020	1,735
Charge for the year	39
At 31 December 2020	**1,774**
Net book value	
At 31 December 2020	**3,902**
At 31 December 2019	2,374

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

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 2020 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.	[2]Dormant	[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 year ended 31 December 2020.

27 Debtors

	2020 £000	2019 £000
Other taxes and social security	**8**	10
Prepayments and other debtors	**172**	136
Amounts owed by subsidiary undertakings* (which are expected to be recovered in more than 12 months)	**77,468**	64,242
Less: provision against amounts owed by subsidiary undertakings	**(14,951)**	(12,319)
	62,697	52,069

* The terms of the intercompany loans are disclosed in Note 32

28 Current liabilities

	2020 £000	2019 £000
Trade creditors	**41**	50
Other taxes and social security	**50**	28
Accruals and other creditors	**393**	134
	484	212

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

29 Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid:		
- 252,652,554 (2019: 175,935,136) ordinary shares of 10p each	**25,266**	17,594
- 19,327,344 deferred shares of 0.4p each	**77**	77
	25,343	17,671

Share issues

In 10 February 2020, 101,701 ordinary shares of 10p each were allotted and issued at 28.5p per share to Link Market Services Trust Limited as trustee of the Avacta Group plc SIP (see Note 5).

On 24 April 2020, 31,944,443 ordinary shares of 10p each were allotted and issued at 18p further to a placing of shares. Placing costs of £391,000 were incurred and offset against the share premium reserve.

On 15 and 26 May 2020, a total of 816,535 ordinary shares of 10p each were allotted and issued following the exercise of vested EMI options.

On 10 and 25 June 2020, a total of 40,000,000 ordinary shares of 10p each were allotted and issued at £1.20 further to a placing of shares. Placing costs of £2,567,843 were incurred and offset against the share premium reserve.

On 7 July, 18 August, 20 August, 7 October and 13 November 2020, a total of 3,854,739 ordinary shares of 10p each were allotted and issued following the exercise of vested EMI and unapproved options.

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 £54,137,000 (2019: £9,877,000) 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 (2019: £nil) 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 considerations subject to the achievement of certain milestone objectives in the case of Avacta Health Limited. This reserve was transferred to retained earnings during the prior period following the dissolution of Avacta Health Limited.

Reserve for own shares

The reserve for own shares of negative £2,961,000 (2019: negative £2,932,000) increased during the year following the issue of 101,701 (2019: 372,826) 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 (2019: 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 2020, the Company had £nil capital commitments (2019: £nil).

(b) Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 December 2020 was £nil (2019: £nil).

(c) Operating lease commitments

The Company maintains non-cancellable operating lease commitments on three properties.

	2020 £000	2019 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**362**	232
• Between one and five years	**1,250**	430
• Over five years	**432**	172
	2,044	834

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 prior 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.

	Year ended 31 December 2020 £000	17 months ended 31 December 2019 £000
Purchase of services		
IP Group plc and subsidiaries	**-**	29
Management charges made to subsidiaries		
Avacta Life Sciences Limited	**2,016**	2,562
Avacta Animal Health Limited	**416**	594

Intercompany loans during and at the end of the period (before provisions against amounts owed) were as follows:

	At 31 December 2019 £000	(Repayment)/Advance in the period £000	**At 31 December 2020 £000**
Avacta Limited	12,756	(6,887)	**5,869**
Avacta Analytical Limited	3,833	-	**3,833**
Avacta Animal Health Limited	4,324	1,886	**6,210**
Avacta Life Sciences Limited	43,329	18,225	**61,554**
	64,242	13,224	**77,466**

Remuneration of key management personnel

The disclosures relating to remuneration of key management personnel for the Company or equivalent to those for the Group disclosed in Note 23.

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 28 June 2021 at 10:00 a.m. for the following purposes:

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. 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 2020.
2. To approve the remuneration report contained within the report and accounts for the year ended 31 December 2020.
3. To re-appoint Dr Eliot Forster as a Director of the Company in accordance with article 35 of the Articles who offers himself for re-appointment as a Director of the Company.
4. To re-appoint Dr Trevor Nicholls as a Director of the Company in accordance with article 35 of the Articles who offers himself for re-appointment as a Director of the Company.
5. 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.
6. To authorise the audit committee of the board of Directors of the Company to determine the auditor's remuneration.
7. 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 unutilised)) 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 £8,440,000 (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 end of the current financial year of the Company 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 special resolutions:

8. To empower the Directors of the Company (subject to the passing of resolution 7 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 Companies Act 2006 (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 7 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:

   8.1 in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and

   8.2 (otherwise than pursuant to sub-paragraph 8.1 above) up to an aggregate nominal amount of £1,266,000 (being approximately 5% 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 of the Company 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 8:

   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 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.

9. To authorise the Directors of the Company generally and unconditionally for the purpose of section 701 of the Companies Act 2006 (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:

   9.1 the maximum number of ordinary shares that may be purchased under this authority is restricted to 12,662,000 (being approximately 5% of the issued ordinary share capital of the Company as at the date of this notice);

   9.2 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 (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and (ii) an amount equal to 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

   9.3 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 of the Company 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

22 April 2021

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 Annual General Meeting (the 'Meeting') or to appoint someone else to vote on your behalf:

1. 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 8.00 p.m. on 24 June 2021. 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.
2. Registered 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. **Given the uncertainty, in light of the COVID-19 pandemic, around whether Shareholders will be able to attend the Meeting it is recommended that all Shareholders appoint the Chairman of the Meeting as their proxy to vote in accordance with their instructions. This will ensure that their vote will be counted even if attendance is restricted or they are unable to attend in person.**
3. **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.**
4. 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).
5. 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.
6. 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 Group, 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 9:00 a.m. to 5.30 p.m., 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.
7. 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 Group at 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL, by 10.00 a.m. on 24 June 2021.
8. 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.
9. 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 (should this be permitted under applicable COVID-19 restrictions) if he or she wishes to do so.
10. 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.
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 10.00 a.m. on 24 June 2021. 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 or 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 22 April 2021 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 253,395,434 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 22 April 2021 were 253,395,434.

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 8 set out in this Notice are ordinary business, and resolution 9 is special business.

Advisers

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Avacta®