Shaping the future of medicine

2021 Report & Accounts

Avacta®

Contents

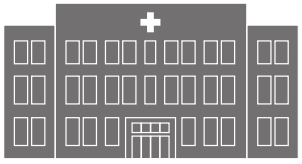
Highlights 2021

Avacta's Therapeutics Division transitions to a clinical stage oncology drug company following initiation of Phase I clinical study for AVA6000 pro-doxorubicin in the UK and US.

Operating highlights Therapeutics

UK Medicines and Healthcare products Regulatory Agency ('MHRA') **approved the Clinical Trial Application ('CTA') for AVA6000 pro-doxorubicin** for a Phase I, first-in-human, open label, dose-escalation and expansion study ('ALS-6000-101') in patients with locally advanced or metastatic selected solid tumours.

AVA6000 is the first therapeutic product based on Avacta's proprietary pre|CISION™ platform.



First patient dosed in the **ALS-6000-101 study** at the Royal Marsden Hospital in August 2021.

US Federal Drug Administration ('FDA') **approved the Investigational New Drug ('IND') application** to allow patients in the US to be dosed as part of ALS-6000-101.

Licensing agreement with **POINT Biopharma Inc**., to provide access to Avacta's pre|CISION™ technology for the development of tumour-activated radiopharmaceuticals.

AffyXell

DAEWOONG

Series A venture capital investment round closed for AffyXell Therapeutics ('AffyXell'), the joint venture with **Daewoong Pharmaceuticals ('Daewoong').**

Operating highlights Therapeutics

Dr Fiona McLaughlin appointed as Chief Scientific Officer of the Therapeutics Division.

Post-period – next pre|CISION™ drug candidate, **AVA3996,** selected for pre-clinical development with potential for a first-in-human Phase I clinical trial beginning in the second half of 2023.

LG Chem

Pre-clinical milestones achieved in **LG Chem Life Sciences** partnership, triggering an undisclosed milestone payment.

Appointments to the **Therapeutics Scientific Advisory Board**, reflecting the progress of the Therapeutics Division and Avacta's transition to a clinical stage company:

Professor James Spicer MB., BA., PhD., FRCP.

Professor Krishnan Komanduri, MD.

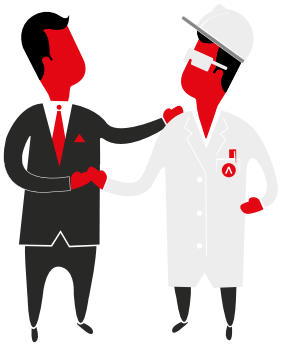
Dr Stéphane Champiat MD, PhD.

Post-period - dose increased from 80 mg/m^2 to 120 mg/m^2 in the ALS-6000-101 Phase Ia dose escalation trial of **AVA6000 pro-doxorubicin** following a positive review of the safety data from first cohort dosing.

Highlights 2021

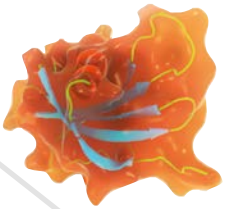
Transformation of Diagnostics Division to become an ISO 13485 accredited, fully integrated *in vitro* diagnostic ('IVD') products business

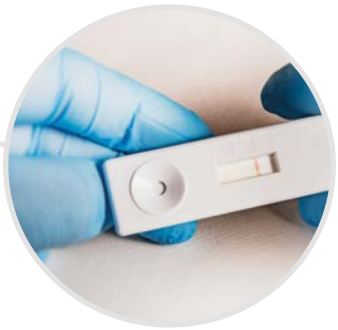
Establishment of fully integrated **IVD product development** and commercial functions and ISO13485 certification attained to transition Avacta Diagnostics Division from an Affimer® reagents supplier to an IVD product company.



Multiple **collaborations and commercial partnerships** entered into during the period.

Operating highlights Diagnostics





Establishment of **AffiDX® brand** for all future Affimer-powered IVD products via launch of AffiDX® SARS-CoV-2 antigen lateral flow test.

AffiDX®

First ever **CE approval** obtained for an Affimer-based IVD product (AffiDX® SARS-CoV-2 antigen lateral flow test) for professional use, and subsequently for consumer self-testing.

Refocus of product development resources on pipeline of **in-house IVD products** following concentration of efforts to bring SARS-CoV-2 antigen test to market.

Post-period - update on the performance of the **AffiDX® SARS-CoV-2 antigen lateral flow test ('LFT')** against the Omicron variant and decision to pause sales whilst the high performance of the test experienced with all previous variants is achieved for Omicron.

Financial & Corporate

Post-period - **Dr Christina Coughlin,** a medical oncologist and immunologist and Chief Executive Officer of CytoImmune Therapeutics, Inc., appointed as **Non-executive Director** to the Board of Directors of Avacta.

Cash and short-term deposit balances at 31 December 2021 of **£26.2 million**

(31 December 2020: £47.9 million).

Increased R&D and manufacturing investment within the Diagnostics Division and clinical development costs in the Therapeutics Division, leading to reported loss from continuing operations of £26.4 million

(year ended 31 December 2020: £16.4 million).

Post-period - **Animal Health Division** sold to Vimian Group AB in March 2022 for an upfront payment of £0.9 million and additional deferred contingent consideration of up to £1.4 million dependent on the combined performance of the consolidated business.

Dr Mark Goldberg, a medical oncologist and haematologist at the faculty of Brigham & Women's Hospital and Harvard Medical School and a veteran biotech executive, appointed as **Non-executive Director** to the Board of Directors of Avacta.

Revenues of **£2.9 million** for year ended 31 December 2021

(year ended 31 December 2020: £2.1 million).

Loss per ordinary share from continuing operations of **10.6p**

(year ended 31 December 2020: 7.3p).

Operating loss of **£29.1 million** for year ended 31 December 2021

(year ended 31 December 2020: £18.8 million).

pre|CISION™ Technology

FAPα-activated chemotherapy

Avacta's proprietary pre|CISION™ platform is a tumour targeted drug activation mechanism. It incorporates a substrate that is sensitive to cleavage by an enzyme called fibroblast activation protein alpha ('FAPα'), which is highly upregulated (10-100-fold above background) in the tumour microenvironment of most solid tumours (including breast, pancreatic, liver, lung and ovarian tumours) compared with healthy tissues.

Avacta's pre|CISION™ substrate, which was invented by Professor Bill Bachovchin at Tufts University, Boston US, is unique in that it is specifically cleaved by FAPα and not by any other enzyme in humans, providing an exquisitely targeted activation mechanism that ensures localised activation of drugs in the tumour reducing the systemic exposure to the drug and improving safety and therapeutic index.

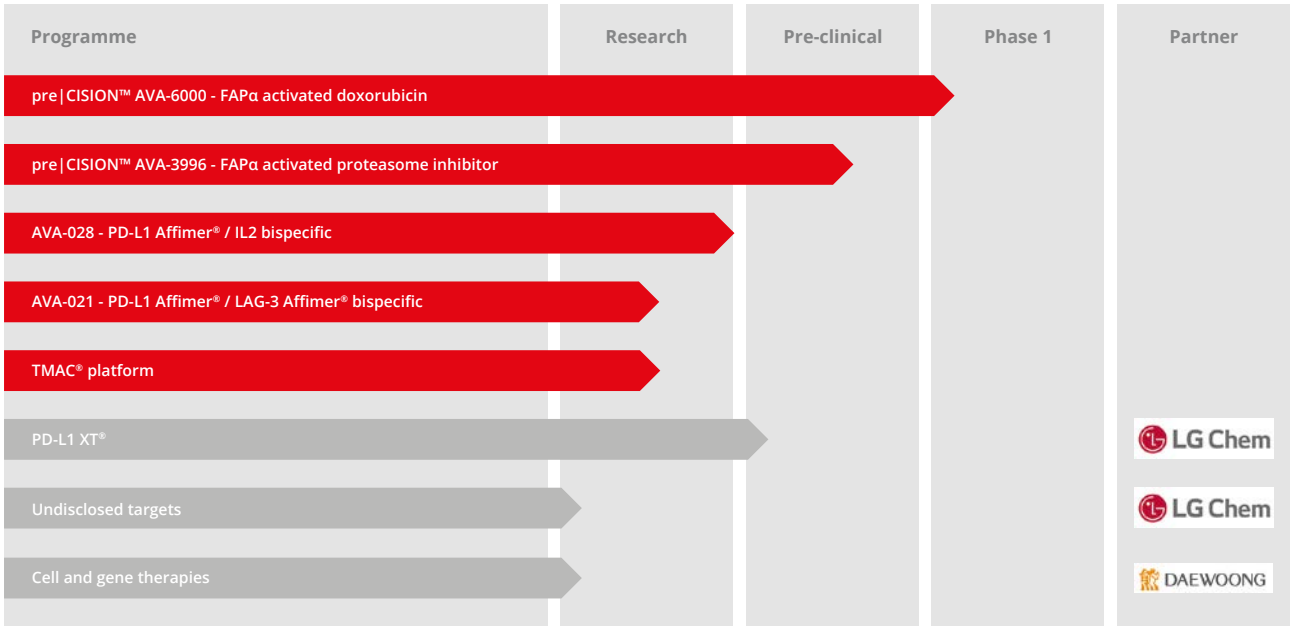
When added to a chemotherapeutic the pre|CISION™ substrate prevents the chemotherapy from entering cells and therefore renders it inert until the substrate is cleaved, which occurs predominantly in the tumour microenvironment, sparing healthy tissues from exposure to these toxic drugs.

The pre|CISION™ technology can also be incorporated into the linker of drug conjugates. A drug conjugate combines an Affimer® or antibody that binds specifically to certain tumour biomarkers with a cytotoxic payload. If the linker between the Affimer® and the cytotoxic incorporates the pre|CISION™ technology then the cytotoxic payload is released in the tumour microenvironment when it encounters FAPα, ensuring localised, extracellular release of a chemotherapy payload. This new class of drug conjugate is called a tumour microenvironment activated drug conjugates ('TMAC®').

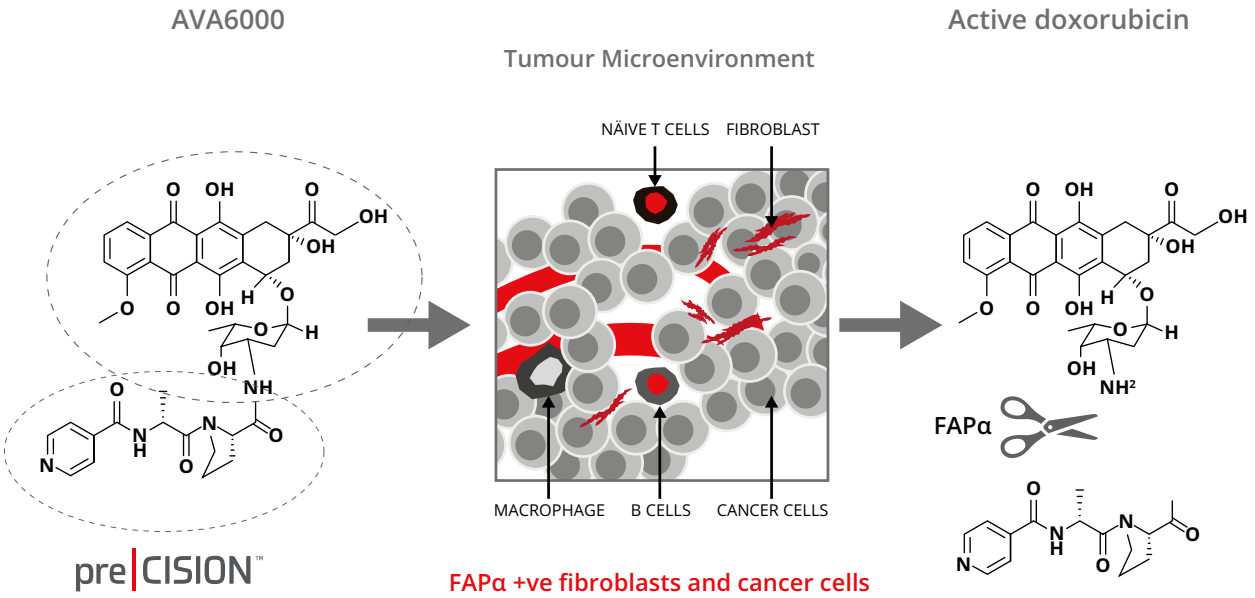
This mechanism overcomes the need to target an internalising cancer marker, as required by conventional drug conjugates, allowing the Affimer® to be selected to target an immune checkpoint and cytotoxins to be selected with novel mechanisms of action.

Avacta is exploiting the pre|CISION™ technology both in-house and through partnerships in its Therapeutics Division. Avacta's lead clinical asset, AVA6000 is a pre|CISION™ activated form of the generic chemotherapy doxorubicin and the company is building a pipeline of other pre|CISION™ chemotherapies designed to have improved safety and tolerability, and therefore improved efficacy. Avacta is also developing the TMAC® concept and through a licensing arrangement with POINT Biopharma, the pre|CISION™ platform is also being applied to tumour specific activation of radiopharmaceuticals.

Pipeline



Reducing the side-effects of chemotherapy by tumour-specific activation



Affimer® Technology

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

This property enables the development of diagnostic and research assays, or enrichment or purification of a target 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 identified in the library for a particular application.

Affimer® molecules are ten times smaller than antibodies and are 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 tissue 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.

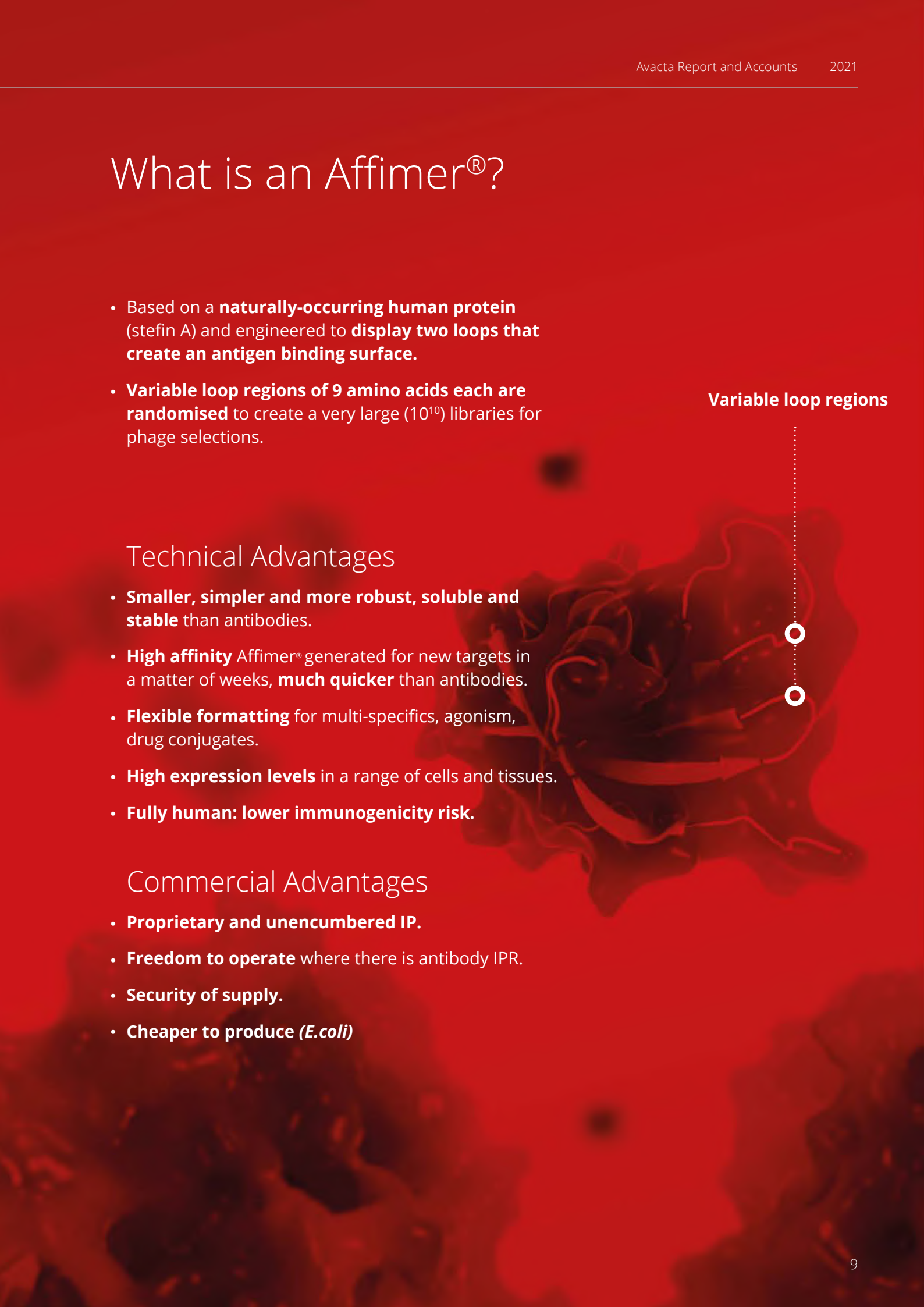
Despite the limitations outlined above, antibodies have become the dominant technology in markets worth in excess of $100 billion annually. Therefore, the opportunity for an alternative such as Affimer® technology is very large with the potential to generate near-term revenue from diagnostics, as well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

Avacta is exploiting the Affimer® platform in both its Diagnostics and Therapeutics divisions, in-house and with commercial partners, to develop powerful new *in vitro* diagnostic tests for a range of diseases and conditions, purification products for bioprocessing, and novel immunotherapeutics for the treatment of cancer and autoimmune diseases.

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)***

Investment Proposition

Affimer® pre|CISION™

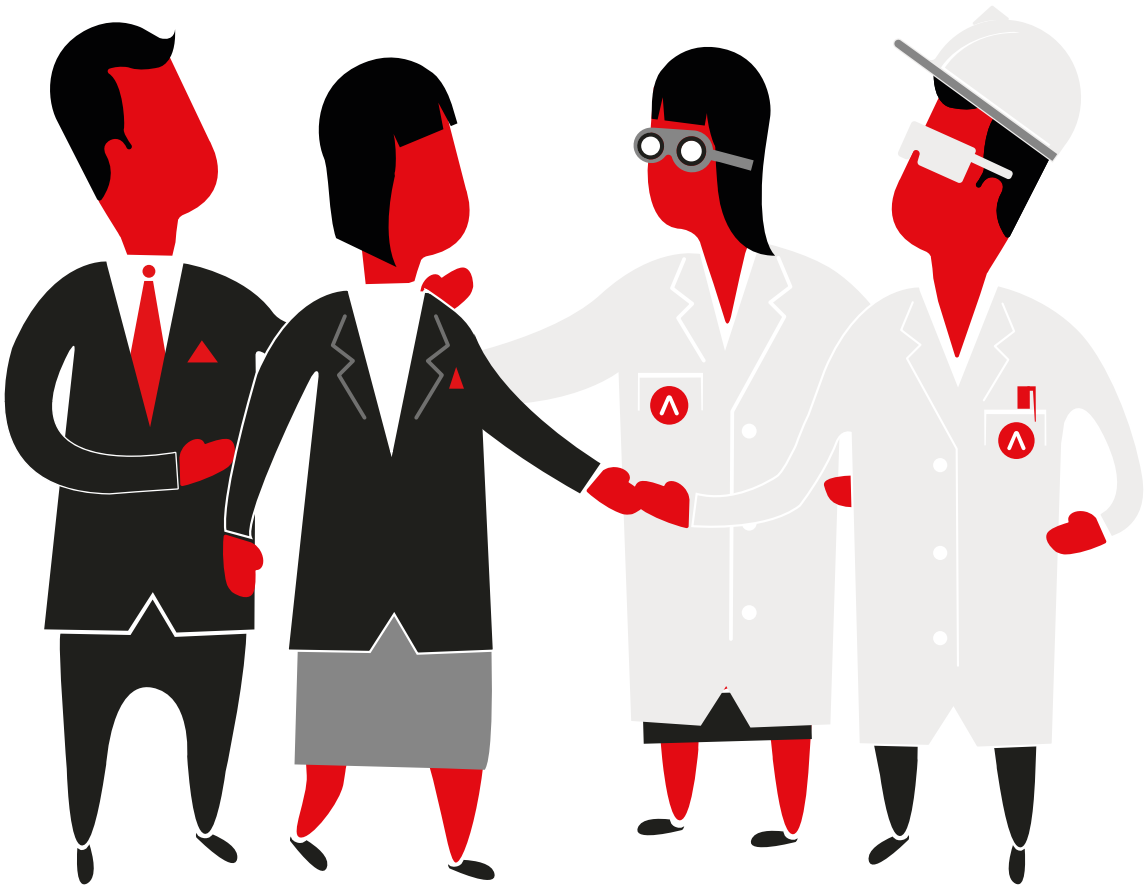
Our Mission is to shape the future of medicine by developing novel cancer therapies and powerful diagnostics using our proprietary Affimer® and pre|CISION™ platforms.

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® molecules 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.
- 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. The Phase I trial for the first candidate, AVA6000, started in August 2021 and FDA approval of its Investigational New Drug ('IND') application was announced in November 2021. The Phase Ia dose escalation study is expected to complete in the middle of 2022 and the Phase Ib dose expansion study to commence shortly afterwards.
- There is also significant longer term potential to combine the two platforms to create next generation targeted 'drug conjugate' cancer treatments.
- The platforms are also being developed through leading industry partnerships including LG Chem, Daewoong Pharmaceutical and POINT Biopharma.
- The second pre|CISION™ tumour targeted chemotherapy candidate for development was announced in January 2022 and is a proteasome inhibitor referred to as AVA3996. The Company plans to generate additional Affimer® and pre|CISION™ drug development candidates in 2022, to further support its growing, innovative therapeutic pipeline.
- The Diagnostics Division is developing a range of *in vitro* diagnostic products with a focus on rapid tests for professionals and the consumer.
- 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.
- The Group also anticipates further commercial partnerships and licensing arrangements that will allow its technology platforms to be further developed leading to long term royalty based revenue in both the therapeutics and other markets.

Our Strategy

- Strongly drive shareholder value by building a portfolio of novel, clinically differentiated cancer therapies leveraging the key benefits of the Affimer® and pre|CISION™ platforms.
- Build a fast-paced, nimble, delivery-focused drug discovery and development organisation with multiple clinical programmes and an innovative 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.



Strategic Report

Chairman and Chief Executive Officer's Joint Statement

Significant progress has been made in both the Diagnostics and Therapeutics divisions during 2021, transforming the Group.

The Therapeutics Division has transitioned to a clinical stage oncology drug business, a significant step which is a value inflection point for a growing biotech. The Company successfully submitted a CTA to the UK MHRA allowing it to initiate the ALS-6000-101 Phase I dose escalation and expansion trials in the UK and gained approval from the US FDA for an IND so that patients can be dosed in the US as part of this ongoing clinical trial. The first patient ever was dosed with a pre|CISION™ FAPα-activated drug, AVA6000, in August 2021 and the dose has now been increased in the Phase Ia dose escalation part of the study following positive safety data from the first cohort of patients.

We are now looking forward to being able to report on the full read-out of the Phase Ia trial in summer 2022 - a potentially pivotal moment for the Group.

Mirroring the strong progress made in the Therapeutics Division, the first ever CE marked *in vitro* diagnostic product based on Affimer® technology has been developed and brought to market, fully validating the platform's potential to deliver a future pipeline of products for Avacta Diagnostics division and its commercial partners.

The Diagnostics Division is set apart from its UK comparators in having a powerful and proprietary immuno-reagents platform, Affimer® technology, which is capable of delivering *in vitro* immunodiagnostics with superior performance based solely on Affimer® reagents, and improvements to antibody-based products by replacing one or more reagents with Affimer® molecules. This provides a strong engine for growth and revenue generation through development of market leading diagnostic tests for professional and consumer use.

Prior to the COVID pandemic, the Diagnostics Division had a business model focused on providing Affimer® reagents to third parties to power their diagnostic and other products. Avacta's Diagnostics Division has now established a fully integrated IVD product development capability and put in place a Quality Management System that complies with the diagnostics market standard of ISO13485. The Diagnostics Division is now focused on developing its own products and is positioned to deliver a pipeline of *in vitro* diagnostic tests, including the re-development of its SARS-CoV-2 antigen test in the light of the emergence of highly mutated variants, to drive sales revenue and profitability.

Avacta Animal Health

Post-period end we sold our Animal Health Division to Vimian Group AB's specialty pharma segment Nextmune, a global veterinary health group headquartered in Sweden. The Division had been an important part of the Avacta Group since 2009. All the staff in the Division will be moving across to Vimian, which was an important aspect to the structure of the acquisition for Avacta and we wish them all well in the future. The sale will allow the Group to focus on growing and developing our core Therapeutics and Diagnostics businesses.

Board changes

In August 2021, Dr Mark Goldberg joined the Board as a Non-executive Director. Dr Goldberg is a medical oncologist and haematologist at the faculty of Brigham & Women's Hospital and Harvard Medical School, a veteran biotech executive, and long-time American Cancer Society (ACS) and ACS Cancer Action Network (CAN) volunteer. Dr Goldberg is the past-chair of the Eastern New England Area Board of the American Cancer Society and currently serves as a member of its national board of directors.

In March 2022, Dr Christina Coughlin joined the Board as a Non-executive Director. Dr Coughlin is the Chief Executive Officer of CytoImmune Therapeutics, Inc., a clinical stage biotechnology company. Dr Coughlin has a broad background in biotechnology and global pharmaceuticals, with comprehensive drug development experience spanning programs in pre-IND studies through to late-stage trials and regulatory approval filings, and a track record of building drug development teams in global companies including Rubius Therapeutics, Inc. and Tmunity Therapeutics, Inc.

Our people

Our teams across the Group have made outstanding contributions to the Company's progress during the year and we would like to recognise the commitment that this has required under often difficult circumstances due to the pandemic.

We have invested in a third-party delivered personal development programme for all our people, dealing with mood, emotion and mental well-being in order to drive even higher performance in the business and

foster good mental health for our staff. The programme coaches staff on how to be resilient in the face of work pressure, uncertainty caused by the pandemic and the pressures of life outside of work and to ensure that they are as productive as possible as a team. This programme has been ongoing during Q4 2021 and will continue through to the middle of 2022.

Outlook

The Board believes that the most significant near-term value driver for the Group is the clinical data from the Phase I study of AVA6000 expected in the middle of 2022. The pre|CISION™ technology has the potential to reduce the side effects of chemotherapy, improve efficacy, and create affordable oncology drugs which have the potential to significantly improve patient's lives.

A positive readout from the AVA6000 Phase Ia trial not only creates a significant commercial opportunity for the Group with a potentially safer form of doxorubicin, but also immediately opens up a large and very valuable pipeline of pre|CISION™ chemotherapy FAPα-activated drugs for development and licensing.

The Diagnostics Division is focused on delivering a pipeline of new IVD products and redeveloping the SARS-CoV-2 antigen test, to drive revenues and profitability of the business, which is the Division's primary objective, and we anticipate good progress in that regard through 2022.

We are very confident and excited about the immediate and long-term opportunities for the Group.

Eliot Forster
Non-executive Chairman

5 April, 2022

Alastair Smith
Chief Executive Officer

5 April, 2022

Operational Review

Business overview

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

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

Avacta's pre|CISION™ targeted chemotherapy platform is designed to selectively activate chemotherapy in FAP rich tumour tissue to limit the systemic exposure that causes damage to healthy tissues, and thereby aims to improve the overall safety and therapeutic potential of these powerful anti-cancer treatments.

The Avacta Group comprises two divisions: The therapeutics development activities are based in London and Cambridge, UK and a separate Diagnostics business unit is based in Wetherby, UK. The Group is generating near-term revenues from Affimer® reagents for diagnostics, bioprocessing and research.

Avacta's Diagnostics Division is developing an in-house pipeline of Affimer-based diagnostic assays, including the AffiDX® SARS-CoV-2 lateral flow rapid antigen test, and works with partners world-wide to develop bespoke Affimer® reagents for third party products.

Avacta's Therapeutics Division is working to generate more tolerable and durable treatments for oncology patients who do not respond to existing therapies. By combining its two proprietary platforms the Group is building a wholly owned pipeline of clinically differentiated cancer therapies. In 2021 Avacta transitioned to become a clinical stage biopharmaceutical company, when it commenced a Phase I trial in patients with locally advanced or metastatic selected solid tumours. The study is a first-in-human, open label, dose-escalation and expansion study of the Group's lead pre|CISION™ FAPα-activated drug, AVA6000 based on the generic chemotherapy, doxorubicin.

Avacta has established drug development partnerships with pharma and biotech, including 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 and a recent licensing agreement with Point Biopharma for them to develop radiopharmaceuticals based on the pre|CISION™ platform.


Avacta

Avacta Therapeutics


CORNING
CORNING

Therapeutics Division

Wholly-owned Therapeutic Pipeline

The past twelve months have seen significant progress in Avacta's Therapeutics Division with the approval of a Clinical Trial Application in the UK and the dosing of the first patient in the Phase I, first-in-human, open label, dose-escalation and expansion study of its lead pre|CISION™ FAPα-activated drug, AVA6000, in patients with locally advanced or metastatic selected solid tumours. This marks the transformation of Avacta into a clinical stage oncology drug company which is a major value inflection point.

AVA6000 pro-doxorubicin

Anthracyclines such as doxorubicin, a generic chemotherapy for which the market is expected to grow to $1.38 billion by 2024, are widely used as part of standard of care in several tumour types, but their use is limited by cumulative toxicity, and, in particular, cardiotoxicity. Avacta's pre|CISION™ FAPα-activated approach is designed to reduce the systemic exposure of healthy tissues to the active chemotherapy, leading to improved safety and therapeutic index, leading to improved dosing regimens, and potentially improved safety and therapeutic profiles.

The AVA6000 Phase I clinical trial involves a dose-escalation Phase I study in patients with locally advanced or metastatic selected solid tumours, known to be fibroblast activation protein alpha ('FAPα')-positive, in which cohorts of patients receive ascending doses of AVA6000 to determine the maximum tolerated dose and establish a recommended Phase II dose. The second part of the study is an expansion phase where patients receive AVA6000 to further evaluate the safety, tolerability and clinical activity at this recommended Phase II dose across selected tumour types. For more information visit www.clinicaltrials.gov (NCT04969835).

The first patient received their first dose of AVA6000 at The Royal Marsden NHS Foundation Trust in early August 2021. Since then clinical trial sites at the Christie NHS Foundation Trust in Manchester and at St James' Hospital in Leeds have been opened and are recruiting patients. The Phase I study will involve up to six of the leading UK cancer centres with an established reputation for early cancer clinical research in the Phase I setting. The COVID-19 pandemic impacted patient recruitment and the initiation of other clinical trial sites to a limited extent causing it to take longer than planned to complete cohort 1. Nevertheless, the dose escalation phase is anticipated to complete in the middle of 2022 with minimal delay and should be followed by initiation of the dose expansion phase in 2022 which would be expected to complete by the end of 2023.The Company also received approval from the US Food and Drug Administration ('FDA') for its Investigational New Drug ('IND') application for AVA6000 on schedule before the reporting period end. This allows Avacta to enrol eligible patients into US clinical trial sites as part of the ongoing Phase I ALS-6000-101 study. Two US sites are now being initiated and may contribute to the Phase Ia dose escalation phase.

Post-period end the Company announced that the Phase I trial of AVA6000 pro-doxorubicin had advanced to the next dose cohort following a positive review of the safety data from the dosing of the first cohort by Avacta's Safety Data Monitoring Committee ('SDMC'), which comprises the clinicians currently recruiting patients. Following this review, the SDMC recommended that the clinical trial continued as planned and escalates to the next dose of AVA6000 at 120mg/m^2.

Pipeline of pre|CISION™ chemotherapies

The Avacta's pre|CISION™ platform is a proprietary chemical modification that renders the modified chemotherapeutic drug inactive in the circulation until it enters the tumour micro-environment where it is activated by an enzyme called FAPα. FAPα is in high abundance in most solid tumours but not in healthy tissues such as the heart. This is expected to lead to a significantly greater amount of active drug in the tumour tissue compared with healthy tissues and a concomitant improvement in tolerability for patients and better clinical outcomes.

If the AVA6000 Phase Ia study shows that the pre|CISION™ chemistry is effective in reducing systemic toxicity of doxorubicin in humans, then it can be applied to a wide range of other established chemotherapies to potentially improve their safety and efficacy. This would be a significant value inflection point during 2022 since it would open up a pipeline of proprietary, potentially safer, next generation chemotherapies with significant clinical and commercial potential in a chemotherapy market that is expected to grow to $56 billion by 2024.

The next most advanced pre|CISION™ pro-drug is AVA3996, a FAP-activated analogue of Velcade, Takeda's proteasome inhibitor. The global proteasome inhibitors' market size is expected to be worth $2.3 billion by 2026[1], and Velcade represents just over half of that market. As with all chemotherapies, the benefit of these drugs is limited by toxicities and tolerability for patients. In the case of Velcade, there are significant side effects such as peripheral neuropathy which has limited its approval, principally to multiple myeloma. A potentially safer proteasome inhibitor, such as AVA3996, could win significant market share for the treatment not only of multiple myeloma but also could be used to treat solid tumours, such as pancreatic cancer. Pancreatic cancer exhibits the highest level of FAP activity of any solid tumour and therefore a FAPα-activated drug could have significant potential in this area of high unmet need.

Shortly after the reporting period end, the Company announced that, following a review of efficacy studies in several liquid and solid tumour models, safety studies and of manufacturability, AVA3996 has been selected as a candidate for pre-clinical development with the aim of a Clinical Trial Authorisation ('CTA') and/or Investigational New Drug ('IND') filing in the first half of 2023 and dosing of the first patient later that year.

Affimer® immunotherapy programmes

Translation of the Affimer® platform into the clinic to demonstrate the safety and tolerability of this novel therapeutic protein platform is an important objective for the Company.

In the oncology field it has become clear in recent years that cancer immunotherapies used singly, so-called 'monotherapies', have limited overall response rates. The Company's Affimer® immunotherapy strategy is to harness the benefits of the Affimer® platform to build bispecific drug molecules that can address two drug targets simultaneously and to use Affimer® molecules to target toxic payloads using conventional and pre|CISION™ linkers.

TMAC® and other drug conjugates

Drug conjugates use a chemical linker to combine a toxic payload such as a chemotherapeutic or radioligand with a targeting system such as an Affimer® or antibody that binds to a cancer biomarker usually on the surface of tumour cells. Conventional drug conjugates target a biomarker that is frequently internalised by the tumour cells taking with it the drug conjugate where the toxic payload is released by enzymatic breakdown of the linker. The tumour microenvironment activated drug conjugate ('TMAC®') uses the pre|CISION™ chemistry in the linker so that the toxic payload can be released outside the tumour cell in the tumour microenvironment, allowing different, synergistic, mechanisms of action to be envisioned between the toxin and the targeting system that could have immunotherapeutic properties. TMAC® is a new class of drug conjugate for which the Company has made a patent application with Tufts University Medical School.

Good progress is being made in the in-house Affimer® and TMAC® programmes. These pre-clinical programmes, along with the commercial collaborations, are the focus of in-house research activities and the Company plans to provide a full technical update to shareholders during 2022 when sufficient pre-clinical data has been gathered so that the development path and associated risks can described in detail.

[1] *https://www.expertmarketresearch.com/reports/proteasome-inhibitors-market*

Therapeutics Division (Cont)

Chief Scientific Officer and Scientific Advisory Board

The Therapeutics Division has made a series of new appointments in recent months, with Dr Fiona McLaughlin joining as Chief Scientific Officer and several appointments to its Scientific Advisory Board ('SAB'), reflecting Avacta's transition to a clinical stage oncology drug company.

Dr Fiona McLaughlin is a highly experienced oncology drug developer, bringing over 25 years' experience in research and translational drug development in the pharmaceutical and biotech sectors, having led teams from early research through to clinical development. Fiona started her career at GlaxoSmithKline and has subsequently held leadership positions in multiple biotech companies, including Vice President, Translational Research at Antisoma plc and Director of Pre-clinical Development at BTG plc (now part of Boston Scientific).

Other roles include Head of Biology at TopoTarget A/S, where she was responsible for the pre-clinical development of belinostat, which went on to gain FDA approval to treat peripheral T-cell lymphoma. Most recently, Fiona was Vice President of New Opportunities at Algeta ASA (acquired by Bayer), a Norwegian biotech developing alpha radio-pharmaceuticals, that gained FDA approval of Xofigo to treat castration resistant prostate cancer.

Fiona has also gained broad experience during her career as a consultant, providing scientific and strategic advice to biotechs, not-for-profit organisations, and venture capitalists in the UK, Europe, the US and Australia, including helping drive oncology strategy at the CRUK/AstraZeneca Alliance Laboratory. Fiona received a PhD from the Haematology Department at Cambridge University and has a BSc in Biochemistry from Glasgow University.

The SAB provides the Therapeutics Division with scientific and clinical advice to support its drug development decision-making and pipeline strategy. The three new members of the SAB are Professor James Spicer MB, BA, PhD, FRCP, Professor Krishnan Komanduri, MD, and Dr Stéphane Champiat MD, PhD.

James Spicer is Professor of Experimental Cancer Medicine at King's College London and Consultant in Medical Oncology at Guy's & St. Thomas' Hospitals, London. He has established and runs a world-leading Phase I clinical trials programme in solid tumour oncology at Guy's Hospital, where the portfolio of studies includes novel immunotherapies discovered and developed at King's as well as many externally sponsored studies.

Krishna Komanduri is Chief of the Division of Transplantation and Cellular Therapy, and Associate Chief Medical Officer for Clinical Innovation, at the Sylvester Comprehensive Cancer Center, Miami. He is also a Professor of Medicine, Microbiology and Immunology and a physician-scientist with a laboratory focusing on T-cell immunology in cancer. Krishna serves on the United Health Care Oncology Advisory Committee and is a past Chair of the American Society of Hematology Scientific Committee on Host Defense, is the current Chair of the ASTCT Cellular Therapy Committee and Chair-Elect of the Government Relations Committee.

Stéphane Champiat MD, PhD is a physician at the Gustave Roussy Cancer Center in Paris, where he focuses on the development of cancer therapeutics, in particular, new immunotherapies. He has been principal investigator or co-investigator of more than 50 Phase I clinical trials run by many of the world's leading pharmaceutical and biotech companies. He is particularly involved in the coordination of the immunotherapy toxicity management program and the development of the intra-tumoral immunotherapy strategy at Gustave Roussy.

Therapeutics Division (Cont)

Case Study: AVA6000 Clinical Trial

pre|CISION™ FAP-Targeted Technology

Avacta's FAP-targeted technology incorporates a substrate sensitive to cleavage by fibroblast activation protein α (FAP), an enzyme present in high concentrations in the tumour microenvironment (TME) of most solid tumours compared to healthy tissues.

FAP is expressed on the surface of specialised fibroblastic cells which are abundant in the supporting stroma of most epithelial cancers. FAP expression is difficult to detect in adult non-diseased tissues, but is greatly increased in sites of tissue remodelling, which include liver fibrosis, lung fibrosis, atherosclerosis, arthritis, tumours and embryonic tissues. 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 selectively activated chemotherapy designed to limit cell penetration and biological activity until it is specifically released by the presence and enzymatic activity of FAP in the TME. Once the pre|CISION™ chemotherapy reaches the TME the high concentration of FAP present in the tumour cleaves the substrate from the chemotherapy which in turn becomes activated. The selective targeting of a chemotherapy into the tumour microenvironment provides a means of reducing the exposure and toxicity to non-target sensitive tissues such as the heart and bone marrow. By using this selective targeted chemotherapeutic approach, the damaging effect of the chemotherapy on sensitive tissues is significantly reduced and therapeutic window of these powerful anti-cancer treatments is increased.

Doxorubicin

Doxorubicin is one of the most effective and widely used chemotherapeutic agents for the treatment of a broad range of solid tumours and haematological malignancies including breast, ovarian, soft-tissue sarcoma and lymphoma. Nevertheless, the clinical use of doxorubicin has been limited because of a significant risk related to cardiac damage. The risks of this life-threatening side effect depend on cumulative doses and damage can occur both acutely or chronically over decades after exposure.

When doxorubicin is administered intravenously into the patient it is readily distributed across almost all tissues, resulting in indiscriminative toxic effects on all cells exposed. The most serious side effect of doxorubicin is cardiomyopathy, a disease of the heart muscle, leading to congestive heart failure. The rate of cardiomyopathy is dependent on doxorubicin cumulative dose and there are several ways in which doxorubicin is believed to cause damage to the heart.

How does AVA6000 address the drawbacks of doxorubicin?

AVA6000 is a selectively activated doxorubicin designed to limit cell penetration and biological activity until it is specifically released by the presence and enzymatic activity of FAP in the TME.

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 greater 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.

AVA6000 Clinical Development

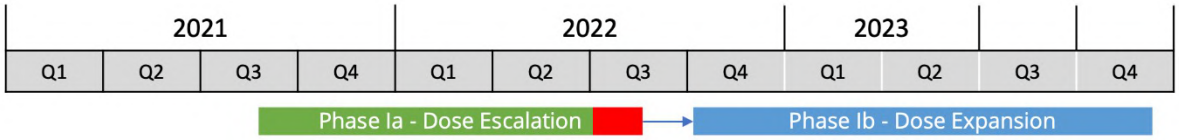
AVA6000 transitioned into early clinical development in mid-2021 with a 'first into human' ('FIH') clinical study (Protocol Number: ALS-6000-101) which is currently recruiting patients across a small number of investigator sites in the UK. The study is a two-part Phase I study where the first part is an AVA6000 PK-guided dose-escalation in approximately 15 - 20 patients with locally advanced (unresectable) and/or metastatic selected solid tumours. Patients include pancreatic, colorectal, breast, ovarian, non-small cell lung cancer ('NSCLC'), head & neck squamous cell carcinoma ('HNSCC'), soft-tissue sarcoma, and bladder cancer. The starting dose is 80 mg/m^2 AVA6000 with dose-escalation in subsequent cohorts being based on the decision of the Safety Data Monitoring Committee following review of safety, tolerability, and PK data for AVA6000 in the preceding dose levels. The dose-escalation phase (Part 1) will be followed by a second dose-expansion phase (Part 2) using the maximum tolerated dose or recommended safe dose derived in Part 1 to assess the safety, tolerability and initial efficacy of AVA6000 in tumour-specific arms.

In conclusion, AVA6000 is expected to have the following attributes:

- Improved therapeutic index relative to conventional doxorubicin
- Increased intra-tumoural doxorubicin exposure made possible through patients being able to tolerate higher doses and/or increased number of cycles of AVA6000 relative to conventional doxorubicin
- Decreased systemic exposure of released doxorubicin and its metabolites, resulting in decreased exposure to tissues including heart and bone marrow

The attributes of AVA6000-released doxorubicin are anticipated to lead to higher efficacy and less toxicity compared to conventional doxorubicin.

AVA6000 Phase I Design and Timeline



Phase 1a

- **Objective:** Assess safety and tolerability of AVA6000; determine Maximum Tolerated Dose and/or recommended dose for further development.
- **Approximately 4 Cohorts** of 3-5 patients per cohort to achieve maximum tolerated dose (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.

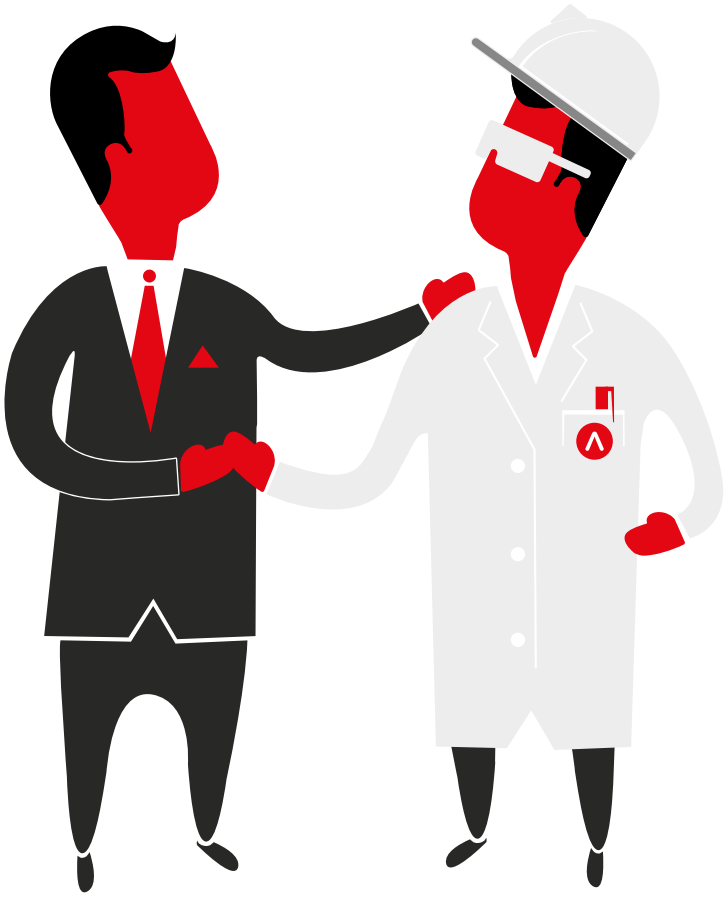
Phase 1b

- **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: S**elected on the basis of Part 1 data.

Therapeutics Division (Cont)

Drug Development Collaborations

- LG Chem Life Sciences: Very good progress has been made in our strategic partnership with LG Chem Life Sciences towards the clinical development of a novel checkpoint inhibitor utilising the Affimer® platform.
- LG Chem successfully completed certain pre-clinical *in vivo* models in the PD-L1/XT programme leading to the selection of a pre-clinical candidate for further development towards the clinic and triggering an undisclosed milestone payment.
- The 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 $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.
- AffyXell: AffyXell is an Affimer-engineered cell therapy joint venture with Daewoong Pharmaceuticals in South Korea. During the reporting period AffyXell closed a Series A round of $7.3 million with a syndicate of venture capital firms including Samsung Venture Investment Corporation. The Company has made good progress, advancing both its GMP-compliant human mesenchymal stem cell technology and its Affimer® discovery programmes against two of the three initial targets. Proof-of-concept studies are planned for 2022 to form the basis for a Series B fund-raise to move candidate cell therapies into the clinic.
- POINT Biopharma: During the reporting period Avacta signed a licensing agreement with POINT Biopharma Inc., to provide access to Avacta's pre|CISION™ technology for the development of tumour-activated radiopharmaceuticals. Under the terms of the agreement, Avacta received an upfront fee and will receive development milestone payments for the first radiopharmaceutical FAPα-activated drug totalling $9.5 million. Avacta will also receive milestone payments for subsequent radiopharmaceutical FAPα-activated drugs 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.



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

POINT BIOPHARMA

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

Avacta Diagnostics


KIMTECH
eppendorf

Diagnostics Division

During the past year the Avacta Diagnostics Division has been transformed into an ISO13485 accredited *in vitro* - diagnostics ('IVD') product business, and has achieved CE marking and subsequent commercial launch of the first ever Affimer-based diagnostic product, a SARS-CoV-2 antigen lateral flow test.

The AffiDX® SARS-CoV-2 antigen lateral flow test was developed with several partners in response to the need for a high quality rapid COVID-19 test for infectiousness. The resulting test, which combined the use of an antibody and an Affimer® reagent in the test strip, had excellent performance in terms of sensitivity and specificity with the emerging variants of the virus until the Omicron variant appeared in late 2021. The AffiDX® SARS CoV-2 antigen lateral flow test contained both a proprietary Affimer® reagent and a commercially available antibody. Our data showed that the Affimer® reagent in the AffiDX® test continued to detect the Omicron variant with the same sensitivity as the Delta variant, but the antibody, with which the Affimer® is paired, had been affected by the additional Omicron mutations. The Company independently took the decision to pause sales of the AffiDX® antigen test whilst it replaces the antibody in the product to ensure that its performance with the Omicron variant matches the high performance with previous mutations. To note, the Company's partner Medusa19 had just received the CE mark for consumer self-testing when sales were paused.

Prior to the COVID pandemic the Company had a business model focused on providing Affimer® reagents to third parties to power their diagnostic and other products. Avacta's Diagnostics Division has used the opportunity offered by a response to the pandemic to establish a fully integrated IVD product development capability and put in place a Quality Management System that complies with the essential diagnostics market standard of ISO13485.

This has transformed the opportunity for the Diagnostics Division which is now focused on developing a pipeline of new IVD products outside of COVID-19 to drive future revenues and the profitability of the Division. This pipeline is designed to deliver, over the longer term, a full portfolio of IVD products with a focus on decentralised testing for professionals and consumers. The Company is addressing four key areas of respiratory infectious and cardiovascular disease, cancer and general health and well-being (e.g. hormones, vitamins). The Company is exploring multiple pathways to develop this portfolio of IVD product and revenue as rapidly as possible.

During the year the Company also entered into a licencing agreement with Biokit, a Werfen Company, to incorporate Affimer® reagents into a Biokit IVD product. Biokit is recognised and renowned as a Centre of Excellence with consolidated experience worldwide in research, development and manufacturing of assays and biomaterial solutions for IVD use.

The licencing agreement follows an extensive evaluation by Biokit of certain Affimer® reagents to detect a key analyte. Under the terms of the agreement, Biokit has the right to develop, manufacture and commercialise through original equipment manufacturer (OEM) partners a diagnostic immunoassay for this analyte. Avacta will receive royalties on future sales of any products brought to market following completion of product development and regulatory approvals. Financial details of the agreement were not disclosed.

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.

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.

As the change within the veterinary industry continues at a rapid pace 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 new Avacta Allergy+ portfolio was launched in March 2021 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 continues to grow, alongside dedicated provision of tailored and trusted support to veterinary professionals across the UK. This is in addition to providing UK-specific testing services and therapy options via our own authorised laboratories.

The Division's 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. The Division also has 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.

Sale to Vimian Group AB

Post-period end in March 2022, the Group announced the sale of the Animal Health Division to Nextmune Holdings BV, which is part of Vimian Group AB's Specialty Pharma division.

The Avacta Animal Health team, which has been part of the Avacta family since 2009, will be transferring across to become part of the larger Nextmune UK team. They will provide a UK-based laboratory for veterinary allergy diagnostics and a full-service offering covering all veterinary dermatology needs, enabling the larger group to accelerate sales and improve customer experience in the UK.

Financial Review

Revenue

Reported Group revenues for the year ended 31 December 2021 increased to £2.94 million compared to the year ended 31 December 2020 ('2020'): £2.14 million.

Revenues for the Diagnostics Division were £0.78 million (2020: £0.52 million), with the increase coming from a licensing agreement with Astrea Bioseparations together with a smaller number of custom Affimer® reagent projects and a small amount of revenue from the sale of the AffiDX® SARS-CoV-2 antigen lateral flow tests.

Revenues for the Therapeutics Division were £2.16 million (2020: £1.63 million), which reflects additional milestone payments from the LG Chem collaboration and a licensing agreement with POINT Biopharma, together with further revenues from funded FTE development projects with LG Chem and AffyXell.

Discontinued operations

Post-period end the Animal Health Division was sold to Vimian Group AB and the results for the current and prior year have been disclosed in the Consolidated Statement of Profit or Loss as Discontinued Operations. Revenues were £1.60 million (2020: £1.49 million), with the revenues increasing from growth in export sales and contracted clinical research work. The Division made a small operating profit of £0.06 million compared to an operating loss of £2.49 million in the prior year. The Division has been presented separately within the Consolidated Statement of Financial Position as assets held for sale of £1.28 million and liabilities of £0.35 million. An up-front payment of £0.9 million was received with deferred contingent consideration of up to £1.4 million dependent on the combined performance of the consolidated business. There were associated costs to sell of £0.2 million. The fair value less costs to sell of the disposal therefore exceed the carrying amount of £0.93 million.

Research and amortisation of development costs

During the year, the Group expensed through the income statement £13.48 million (2020: £8.89 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 that 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 have been amortised, resulting in a charge of £0.82 million (2020: £0.82 million).

Manufacturing costs of £2.14 million (2020: £nil) in relation to the manufacture of pre-production and production AffiDx® SARS-CoV-2 antigen lateral flow tests have been expensed in the period given the decision that was made to pause sales of the AffiDx® SARS-CoV-2 antigen lateral flow tests given the reduced sensitivity of the tests against the Omicron variant compared to previous SARS-CoV-2 variants.

Selling, general and administrative expenses

Administrative expenses have increased during the year to £8.14 million (2020: £5.93 million) as the business scaled up the operations within both the Diagnostics Division as it increased its product development capabilities and became an ISO 13485 accredited, fully integrated *in vitro* diagnostic ('IVD') products business. The Therapeutics Division's costs also increased as additional resource was increased to support the infrastructure required and transition into a clinical stage business.

Share-based payment charges

The non-cash charge for the year increased to £5.06 million (2020: £3.07 million) as additional share option awards were granted to key-hires within the Therapeutics Division.

Net finance costs

The net finance costs in the Group arise from the IFRS 16 accounting for leases, which resulted in an interest charge of £0.12 million (2020: £0.05 million) being recognised.

Losses before taxation

Losses before taxation from continuing operations for the year were £29.19 million (2020: £18.86 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 £2.82 million (2020: £2.46 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 £26.31 million (2020: £18.89 million). The loss per ordinary share increased to 10.55 pence (2020: 8.37 pence) based on an average number of shares in issue during the period of 253,555,925 (2020: 229,673,873).

Cash flow

The Group reported cash and short-term deposit balances of £26.19 million at 31 December 2021 (2020: £47.91 million).

Operating cash outflows from operations amounted to £22.66 million (2020: £13.35 million). Within the net operating cash outflows there were cash receipts in respect of research and development tax credits amounting to £2.29 million (2020: £2.75 million), which represented the tax refund for the prior year ended 31 December 2020 compared to the tax refund for the 17-month financial period ended 31 December 2019.

During the year, capital expenditure was £1.16 million (2020: £1.28 million) as facility expansions at both Wetherby and Cambridge sites were completed.

The Group did not complete any fund-raises during the year (2020: £53.75 million before costs) but there were proceeds from the exercise of share options by employees amounting to £0.52 million (2020: £1.11 million).

Financial position

Net assets as at 31 December 2021 were £41.22 million (2020: £61.93 million) of which short-term deposits, cash and cash equivalents amounted to £26.19 million (2020: £47.91 million).

Intangible assets reduced to £7.92 million (2020: £9.42 million) due to the amortisation charge of £0.82 million.

The IFRS 16 Leases presentation results in the recognition of a 'right-of-use' asset amounting to £1.73 million (2020: £2.10 million) in relation to the Group's three leasehold properties together with a corresponding lease liability of £1.70 million (2020: £2.04 million).

Dividends

No dividends have been proposed for the year ended 31 December 2021 (2020: £nil).

Key performance indicators

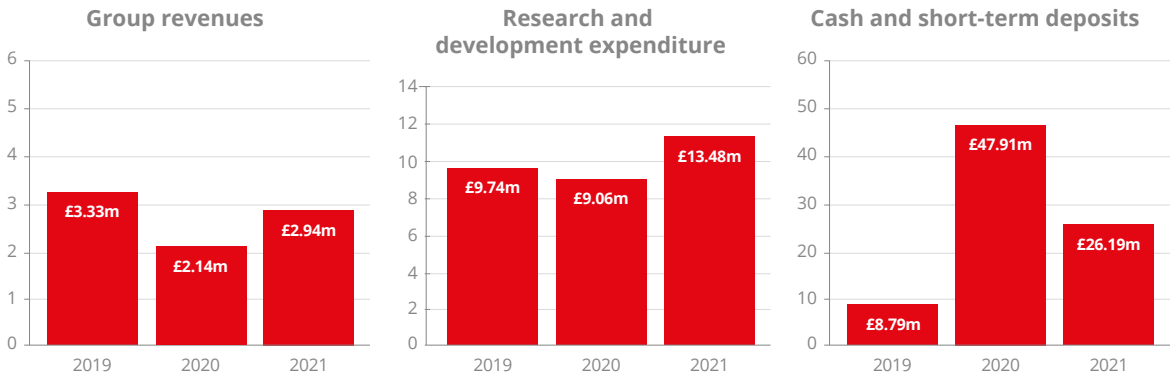
At this stage of the Group's development, the non-financial key performance indicators focus around two areas:

- the progression of the Affimer® and pre|CISION™ technologies into clinical trials within the Therapeutics Division; and
- the development of Affimer® diagnostic products and commercial licensing agreements for Affimer® reagents within the Diagnostics Division.

These are discussed in more detail within the Operational Review on pages 16 to 35:

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



Please note: 2019 is the 17 months ended 31 December 2019, 2020 is the 12 months ended 31 December 2020 and 2021 is the 12 months ended 31 December 2021.

Financial Review
(Continued...)

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on pages 40 to 42.

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.

Section 172(1) statement

Section 172(1) of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so, s172(1) requires the Directors to have regard, amongst other matters, to the:

- likely consequences of any decision in the long term;
- interests of the Group's employees;
- need to foster the Group's business relationships with suppliers, customers and others;
- impact of the Group's operations on the community and the environment;
- desirability of the Group in maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the Group.

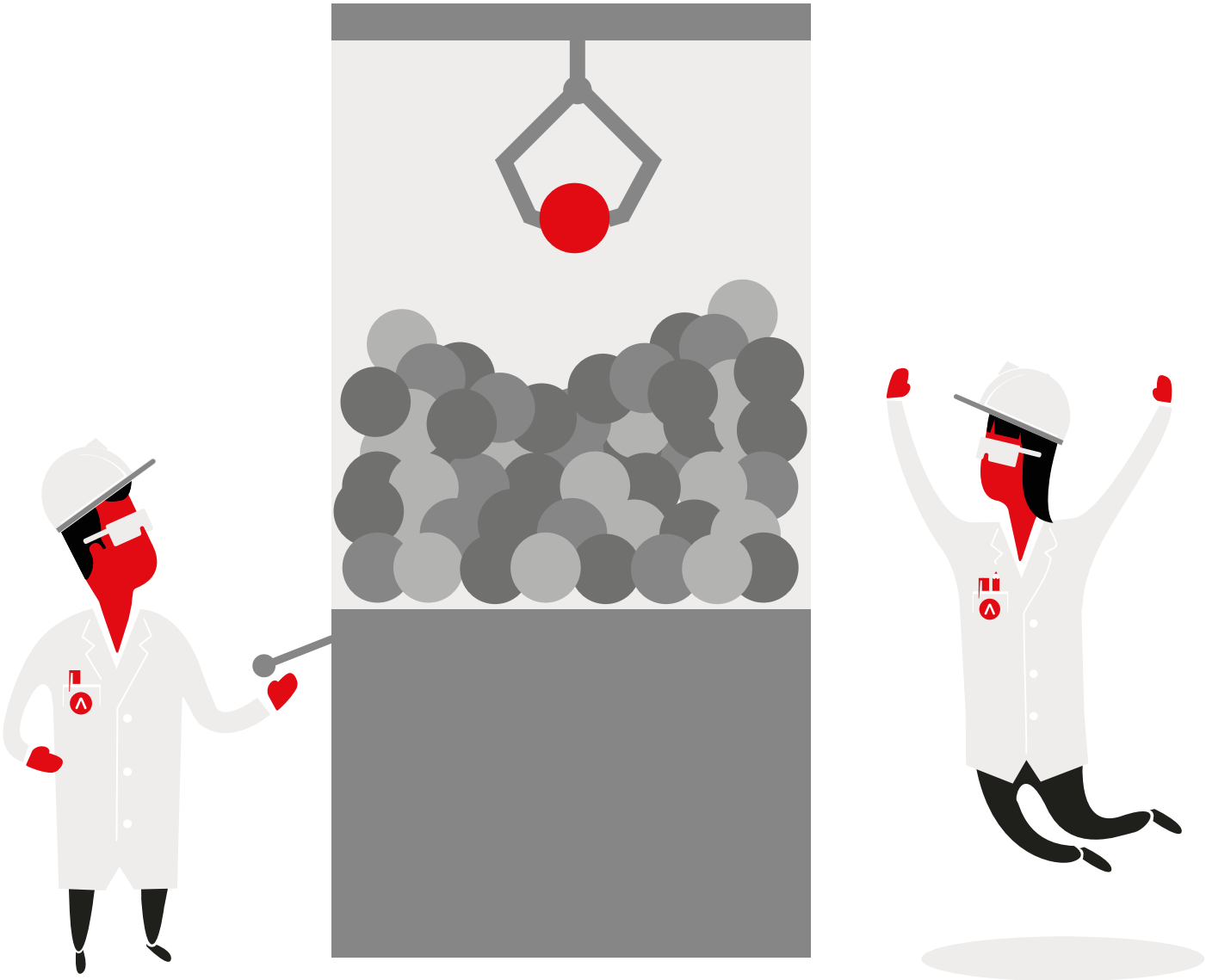
In discharging its Section 172(1) duties, the Board has regard to the factors set out above and ensures that decision-making processes are made on a consistent basis and meet the above factors.

The Board looks to promote the long-term success of the Group whilst considering the interests of all stakeholders. The Board reviews matters relating to financial and operational performance; business strategy; key risks; stakeholder-related matters; legal and regulatory compliance matters over the course of the financial year and through future financial periods.

The Directors work across all the Group's facilities and provide regular monthly updates to employees, most of whom are either shareholders or holders of share options, on the progress of the Group. The updates provide details of the business objectives, strategy and business model, together with sharing of technical progress across the various teams within the Group. The Directors actively seek regular feedback from employees to ensure their interests are reflected.

Engaging with the Group's stakeholders is key to the way the Group is operated and is an important consideration for the Directors when making relevant decisions. Details of how the Directors engage with stakeholders is set out in the Corporate Governance report on pages 51 to 55, including the Group's responsibilities to health, safety and environmental issues to its employees, suppliers, customers and communities in which the Group operates.

The Directors believe strongly in the maintaining the highest levels business conduct, accountability and good corporate governance to all the Group's stakeholders. In maintaining this approach the Group has adopted the Quoted Companies Alliance Corporate Governance Code with further details on how it complies with the Code set out on page 51.



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 reviews these reports and monitors the position at Audit Committee and 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 v**

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 launch a COVID-19 lateral flow test was transformational and then impacted by the Omicron variant which reduced the sensitivity of the test, leading to a pause in sales and re-work of the test.

Working practices across the Group are now back to normal levels with all lab-based staff working as normal. Non-scientific staff are now working on a combination of in-office and home-based schedules as a result of changed working methods.

The commencement of dosing of first patients in our AVA6000 phase I study, once regulatory approval was received, commenced in the middle of 2021. The speed at which clinical sites and patients were signed up was determined by the individual sites and availability of staff to complete the site set up procedures.

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

The Group had developed with manufacturing partners a rapid COVID-19 lateral flow test which had completed formal clinical validation and CE marking. The Group was in the process of scaling up production with third party manufacturing partners and establishing an appropriate supply chain for the approved lateral flow test during 2021.

Product manufacture had to be paused as the sensitivity of the test which had been excellent up to and including the Delta variant, was reduced with the Omicron variant. This has led to a re-development of the product and constituent components.

The ability to produce the test within the UK to a cost price which would have made the test competitive with Chinese manufactured tests has been a significant challenge and the Group is actively exploring alternative production routes for the manufacture of future tests.

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/manufacturer.

Commercial risk - Diagnostics **Change ^**

The transition of the Diagnostics business has been significant because of the COVID-19 lateral flow test opportunity. In 2020 the business had progressed to developing its own diagnostic products, such as the COVID-19 lateral flow test and working on customer collaboration projects. In 2021 the development of the COVID-19 lateral flow test continued and was commercially launched but then sales were paused due to a lower detection rate with the Omicron variant and the need to re-work the test. The price point of COVID-19 lateral flow tests has been under significant pressure given the volume of tests flooding the market from cheaper Chinese production and the limited sales market within the UK due to government procurement policies.

Establishing commercial sales channels within the UK, Europe and other countries for the COVID-19 lateral flow test and future diagnostic tests in development 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.

The regulatory changes in relation to the IVDR/CE marking process in FY22 could lead to delays in obtaining approvals from Notified Bodies (such as BSI) which could delay the launch of future products not yet for sale within Europe.

Building collaborative 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 completed in 2020 shows the potential for significant commercial 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.

With the Group having commenced Phase I trials on its first clinical programme (AVA6000) there has been significant recruitment within the 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 regulatory approval processes of the MHRA and FDA and other comparable regulatory authorities can be lengthy and time consuming. 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 and timely approval of the CTA and IND submissions 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®, pre|CISION™ and TMAC® technologies in the Therapeutics Division.

There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientific results required for specific internal development programmes, product development projects, customer-related evaluations or third-party collaborations will not be produced. This risk is in specific applications of the Affimer®, pre|CISION™ or TMAC® technologies rather than in the individual technology platform as a whole.

The development teams continue to work 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 Teams, the Board and Scientific Advisory Board.

With the Group's first asset (AVA6000) having entered clinical trials there is a risk that the trials might not be successful and that the Group is unable to develop marketable products. There is a risk that the clinical trials could lead to unanticipated results, which require further development leading to time delays. The Group has built an experienced and reputable team of clinical advisors who are monitoring the outputs of the clinical trials to ensure appropriate decisions based on data outcomes are taken at the right time.

Funding **Change ^**

The development of the Group's Affimer® and pre|CISION™ technologies in the Therapeutics Division, is resource and cash intensive. Given its successful fundraising in 2020, the Group has not needed to raise additional funding during 2021.

As at 31 December 2021, the Group had cash and short-term deposits of £26.19 million, which leaves it in a good position to deliver on its short to medium term objectives.

As with all fundraising activities in the biotech sector, there are external market and economic factors, such as the Ukraine conflict, which may impact the timing and amount of funding available through capital markets.

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 The Group has in place experienced and motivated Senior Leadership Teams across the Diagnostics and Therapeutics Divisions together with a significant number of highly skilled senior scientists and technical specialists.

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

Principal Risks and Uncertanties
(Continued...)

During the year, the Group has successfully continued to recruit senior specialist roles within the Therapeutics Division covering scientific, regulatory and clinical development areas. The Diagnostics Division has continued to recruit senior staff skilled in product development of diagnostic devices and build a quality assurance and regulatory team to support its ISO 13485 quality management 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 cybersecurity 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 are in the process of being re-located to White City, London) 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 5 April 2022 and signed on its behalf.

Alastair Smith
Chief Executive Officer

5 April 2022

Tony Gardiner
Chief Financial Officer

5 April 2022

Governance

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.

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 Chairman of Liverpool Health Partners, 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 the US. 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 US, 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 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.

Prior to joining Avacta, Tony worked for AHR (formerly Aedas), 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.

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, 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 and a Non-executive Director of Wobble Genomics Ltd, a spin-out of the Roslin Institute, specialising in DNA analytics and diagnostics. 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 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 was Chief Financial Officer of Vectura Group Ltd, an industry-leading inhaled drug delivery specialist which up until 2021 was listed on the FTSE Main Market.

Prior to his position at Vectura Group Ltd, 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.

Board of Directors (cont.)

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.

Dr Mark Goldberg
Non-executive Director

Mark was appointed as a Non-executive Director in August 2021 and is a medical oncologist, haematologist and a biotechnology executive. Mark currently serves on the boards of directors of ImmunoGen, Idera Pharmaceuticals, GlycoMimetics, Blueprint Medicines, and Walden Biosciences.

Mark was part of the executive management team of Synageva Biopharma from 2011 until 2014. Prior to that, he served in various management capacities of increasing responsibility at Genzyme Corporation from 1996 until 2011, including as Senior Vice President of Clinical Development. Prior to joining Genzyme, he was a full-time staff physician at Dana-Farber Cancer Institute and Brigham and Women's Hospital, where he still holds an appointment. He is an Associate Professor of Medicine (part-time) at Harvard Medical School.

Mark is also a longtime American Cancer Society ('ACS') and ACS Cancer Action Network volunteer. He was a member of the American Cancer Society New England Division Board from 2010 to 2017 and has been a member of the national Board of Directors of the American Cancer Society since 2019.

Mark received his AB from Harvard College (magna cum laude) and his MD (cum laude) from Harvard Medical School (Harvard MIT Program in Health Sciences and Technology).

Dr Christina Coughlin
Non-executive Director

Christina was appointed as a Non-executive Director in March 2022. Christina is the Chief Executive Officer of CytoImmune Therapeutics LLC, which is a clinical stage biotechnology company focused on development and commercialisation of novel cancer immunotherapy products designed to use the patient's own immune system to eliminate cancer cells. Christina has a broad background in biotechnology and global pharmaceuticals, with a comprehensive drug development background from pre-IND to filing experience and has a track record of building drug development teams in global companies.

Christina previously served as Chief Medical Officer to Rubius Therapeutics. Inc, where she led the clinical development, translational medicine and regulatory efforts in the allogeneic red cell therapy platform. Prior to Rubius, Christina was with Tmunity Therapeutics, Inc., where she served as Chief Medical Officer and was responsible for the development of autologous CAR-T and TCR-T cellular therapies.

Christina has held other leadership roles in the pharmaceutical and biotechnology fields in her career including Chief Medical Officer at Immunocore, where she led the development of Kimmtrak™, recently approved for the treatment of metastatic uveal melanoma. Christina was also an Oncology Asset Team Leader at Pfizer and Clinical Program Team Lead at Novartis. She received her MD and PhD from the University of Pennsylvania and completed fellowships in Haematology and Oncology at the Children's Hospital of Philadelphia and in the Translational Research Group under the direction of Carl June, MD at the University of Pennsylvania.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Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 December 2021.

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 therapies using 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 *in vitro* diagnostics and works with partners world-wide to develop Affimer® reagents with the objective of establishing royalty-bearing licensing deals.

The Group also provided veterinary laboratory services and developed market-leading veterinary diagnostic tests through its Animal Health division up to March 2022, at which point it was sold to Vimian Group A.B, a Swedish based global veterinary group.

Business review and future developments

A review of the Group's operations and future developments is covered in the Strategic Report on pages 13 to 42. 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 74 to 113.

The Directors have reviewed the results for the years ended 31 December 2021 and 31 December 2020, 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 page 37.

Dividends

The Directors do not recommend the payment of a dividend (2020: £nil).

Going concern

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £26.3 million and operating cash outflows of £22.7 million for the period ended 31 December 2021. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend to at least twelve 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 twelve months from the date of approval of the financial statements. The key factors considered in reaching this conclusion are summarised below:

- As at 31 December 2021, the Group's short-term deposits and cash and cash equivalents were £26.2 million (2020: £47.9 million).
- The Group has a tax refund in relation to R&D tax credits due in the second half of 2022 amounting to £2.8 million (a comparable tax refund of £2.3 million was received in October 2021).
- Post period end the Group disposed of the Animal Health Division which generated an up-front payment of £0.9 million and a future earnout which could reach £1.43 million.
- 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 continue to explore additional sources of income and finance available to the Group to continue the development of the therapeutic and diagnostic platforms beyond 2023. The sources of income could come through additional therapeutic collaborations, similar to the LG Chem and Daewoong collaborations, which may include up-front technology access fees and significant early-stage development income, or through additional equity fundraises.

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 twelve 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
- Dr Mark Goldberg — Appointed 17 August 2021
- Dr Christina Coughlin — Appointed 18 March 2022
- Dr Alastair Smith
- Tony Gardiner

Under the Articles of Association of the Company, Directors are subject to re-election at the Annual General Meeting ('AGM') following their appointment. In addition, one third of the Directors are required to retire at the forthcoming AGM, notice of which accompanies this Report and Accounts. Mark Goldberg and Christina Coughlin, having been appointed as Directors since the last AGM, will be due for re-election at the next AGM. The Directors retiring by rotation at the forthcoming AGM are Paul Fry and Tony Gardiner. Both Paul Fry and Tony Gardiner, being eligible, offer themselves for re-election. In relation to the re-elections of each of the Directors, the Board is satisfied that both 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 AGM can be found on pages 44 to 46.

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 5 April 2022, 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
Baillie Gifford & Co Limited	11,619,480	4.6%
Premier Miton Group	8,017,913	3.2%
Conifer Management, LLC	7,597,195	3.0%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 December 2021 and at 5 April 2022 were as follows:

	31 December 2021 number of shares	**5 April 2022 number of shares**
Non-executive Directors		
Eliot Forster	153,333	**153,333**
Trevor Nicholls	107,455	**107,455**
Paul Fry	-	**-**
Mark Goldberg	-	**-**
Christina Coughlin	-	**-**
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 page 61.

The middle market price of the Company's ordinary shares on 31 December 2021 was 126p and the range during the period was 105p to 275p with an average price of 165p.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee Report on pages 58 to 62.

Research and development

During the year, the Group expensed through the income statement £13.48 million (2020: £8.89 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 resulted in an amortisation charge of £0.82 million (2020: £0.82 million).

Derivatives and financial instruments

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

Directors' Report
(Continued...)

Employees

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. During 2021 the Group embarked on a development programme for all its staff called CHX (Culture Humanity Excellence) Performance, which focused on reframing the organisation's mental health, humanising leadership and creating a higher performing, more engaged organisation.

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.

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.

Appointment of auditor

During the year the Group went through a detailed audit tender process and BDO LLP were selected, subject to approval at the forthcoming AGM, to become the new auditor for the Group. KPMG LLP, the Group's previous auditor, resigned following the audit tender process and in accordance with Section 519 of the Companies Act 2006, confirmed that there were no circumstances in connection with their resignation which needed to be brought to the attention of the Company's shareholders or creditors.

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of FTI Consulting at 200 Aldersgate, Aldersgate Street, London EC1A 4HD on Thursday 23 June 2022 at 3.30 p.m. 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 114 to 115 of this report.

By order of the Board

Tony Gardiner
Company Secretary

Avacta Group plc (Registered number - 4748597)

5 April 2022

Corporate Governance Report

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. In the statement below, we explain our approach to governance, and how the Board and its committees operate.

The corporate governance framework which the Company operates, including Board leadership and effectiveness, Board remuneration, and internal control, is based upon practices which the Board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the Group's values. The Board adopts the Quoted Companies Alliance's ('QCA') Corporate Governance Code for small and mid-size quoted companies.

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 16.
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 40 to 42.
	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 44 to 46.
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 driven primarily by its well-funded therapeutic programmes, and also from the development of new products for its diagnostic business in the medium term to 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 2021, the Board comprised four (five following the appointment of Dr Christina Coughlin in March 2022) Non-executive Directors and two Executive Directors. The profiles of the Directors are set out on pages 44 to 46.

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 15 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 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.

Dr Mark Goldberg was appointed as a Non-executive Director in August 2021. 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. Mark has an extensive background as an Executive and Non-executive Director within the US biotechnology sector and is also a medical oncologist. Mark's time commitment is one to two days per month.

Dr Christina Coughlin was appointed as a Non-executive Director in March 2022. Prior to her appointment to the Board, she was not involved with any part of the Avacta Group and has been considered independent since her appointment. Christina has an extensive background in the pharmaceutical and biotechnology fields, with a broad background of drug development from pre-IND to filing experience in global companies. Christina'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 given the COVID-19 pandemic, 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 or she 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. 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 which are now fully vested do not carry any performance obligations (further details are provided within the Remuneration Report). The Board and Company's advisers 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 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.

Corporate Governance Report (continued...)

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	12/12	Member	4/4	Member	1/1
Trevor Nicholls	Non-executive	12/12	Member	4/4	Chairman	1/1
Mike Owen[1]	Non-executive	3/3	Member	1/1	Member	1/1
Paul Fry	Non-executive	11/12	Chairman	4/4	Member	1/1
Mark Goldberg[2]	Non-executive	3/4	-	-	-	-
Christina Coughlin[3]	Non-executive	-	-	-	-	-
Alastair Smith	Executive CEO	12/12	-	4/4	-	1/1
Tony Gardiner	Executive CFO	12/12	-	4/4	-	1/1

1 – Mike Owen resigned as a Non-executive Director on 24 March 2021.

2 – Mark Goldberg was appointed as a Non-executive Director on 17 August 2021.

3 – Christina Coughlin was appointed as a Non-executive Director on 18 March 2022.

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 role as Chief Financial Officer of Vectura Group Ltd, which was listed on the Main Market of the London Stock Exchange until it was acquired by Philip Morris International Inc. and subsequently de-listed in October 2021. The current members of the Committee - Eliot Forster and Trevor Nicholls, both 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 commencement of the 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 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 Investor Meet Company and Vox Markets 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 Non-executive Directors 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 monthly updates to staff, most of whom are either shareholders or holders of share options, on the progress of the Group. The updates also 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.

During 2021 the Group embarked on a development programme for all its staff called CHX (Culture Humanity Excellence) Performance which focused on reframing the organisation's mental health, humanising leadership and creating a higher performing, more engaged organisation.

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. During the development of the SARS-CoV-2 antigen lateral flow test the product development team worked to incorporate, where possible, recycled material within the plastic components and cardboard packaging.

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

5 April 2022

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 any policies 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 as required during the year. The regular meetings 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 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.

During 2021 additional Committee meetings were held in relation to the appointment of a new external auditor as set out below.

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 originally appointed auditor to the Group following a tender process in 2010. Following the completion of the 2020 external audit, they indicated that they would not be seeking re-election for the 2021 external audit, having served as auditor for in excess of ten years and, given the increase in market capitalisation of the Group on the FTSE Alternative Investment Market ('AIM'), they would not be able to carry out the dual roles of external auditor and continue to provide certain taxation and non-audit services.

The Audit Committee commenced an audit tender process in April 2021, having reviewed the current auditors of comparable companies which at that time were listed on the FTSE AIM 100 Index. The review identified eight auditors and initial informal pre-tender discussions were undertaken to identify which auditors would be suitable/able to participate in a formal audit tender process. This process led to a short list of three auditors who were then contacted under a formal Request for Proposal ('RFP') process.

The RFP process undertaken sought to request information on the auditors covering a number of areas:

- Credentials of the firm to support the two expanding Diagnostics and Therapeutics Divisions within the Group
- Resource capacity to complete the year ended 31 December 2021 audit
- Indicative fee proposals
- Composition of the audit team and lead partner
- Experiences of auditing similar sized healthcare and AIM-listed entities
- Observations on existing accounting policies/treatments used by the Group
- Recent FRC feedback on the auditors recent audits of AIM-listed entities.

The three shortlisted auditors all presented to the Audit Committee and the Committee subsequently reviewed the quality of the tender documents and presentations.

The Committee decided to appoint BDO LLP, with Piers Harrison taking on the role of engagement partner. BDO have completed the audit for the year ended 31 December 2021 and their appointment will be formally put before shareholders at the upcoming AGM.

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 twelve 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 twelve 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 1C.

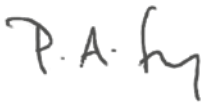
Share based payments – Judgements arise from the choice of inputs to the share option valuation models underlying the share-based payment charge, as disclosed in Note 5.

The Directors consider that the assumptions and estimation uncertainties at 31 December 2021 that have a significant risk of resulting in a material adjustment to the carrying amounts and liabilities in the next financial year are:

Estimates:

The Committee also considered the assumptions and estimation uncertainties as at 31 December 2021 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 such as the amount and timing of future cash flow growth, and the achievement of future development milestones, underlie the recoverable amounts used in these impairment tests. Further information on the key assumptions used is disclosed in Note 10.



Paul Fry
Chairman of the Audit Committee

5 April 2022

Remuneration Committee Report

This report sets out the remuneration policy for the year ended 31 December 2021.

Introduction

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

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

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

Remuneration Committee

The Remuneration Committee consists of Trevor Nicholls (Chairman), Eliot Forster 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 a full exercise carried out in July 2020.

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 reviewed on 1 January 2022, with a 4% increase applied based on a RPI measure on a consistent basis with other staff across the Group. The Committee recommended that the salary of the Chief Executive Officer be increased from £275,000 to £286,000 per annum and the salary of the Chief Financial Officer be increased from £190,000 to £197,600 per annum. Base salaries will next be reviewed on 1 January 2023 along with other staff across the Group.

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 is 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.

For the year ending 31 December 2020, the Chief Executive Officer was paid a bonus equivalent to 44% of his basic salary and the Chief Financial Officer was paid a bonus equivalent to 33% of his basic salary.

For the year ending 31 December 2021, 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 35% of his current basic salary and the Chief Financial Officer should be paid a bonus equivalent to 26% of his current basic salary. The bonuses were paid in March 2022.

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 49 and their interests in options held over shares in the Company are set out on page 61.

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 with awards being granted in January 2019 and June 2020. No awards were made during 2021.

The LTIP option vesting for the 2019 and part of the 2020 award was 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 were 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. The Remuneration Committee reviewed the vesting of the awards as at 31 December 2021 and, whilst the share price performance targets were not met for the period from 1 January 2019 to 31 December 2021, certain of the commercial and technical strategic objectives were met and the details of the options which vested or lapsed is set out on page 61.

The second part of the June 2020 LTIP award was granted to bring the long-term equity incentives of the Executive Directors in line with a group of comparable AIM-listed companies. The vesting conditions were 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
Paul Fry	9 January 2020	Nil	1 month
Mark Goldberg	17 August 2021	Nil	1 month
Christina Coughlin	18 March 2022	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 49. 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 vested equally over a three-year period and did not carry any performance obligations (further details are provided within the table on page 61). The Committee and Company's advisers 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 2021 is set out below. These values are included within the audited accounts.

	2021 Basic salary and fees £000	2021 Bonus £000	2021 Benefits in kind £000	**2021 Total £000**	**2021 [4]Pension contributions £000**	2020 Total £000	2020 Pension contributions £000
	Year ended 31 December 2021					**Year ended 31 December 2020**	
Non-executive Directors							
Eliot Forster	94	-	-	**94**	**-**	85	-
Trevor Nicholls	36	-	-	**36**	**-**	31	-
Paul Fry	36	-	-	**36**	**-**	28	-
[1]Mike Owen	8	-	-	**8**	**-**	31	-
[2]Mark Goldberg	15	-	-	**15**	**-**	-	-
Executive Directors							
Alastair Smith	275	121	5	**401**	**17**	261	14
Tony Gardiner	183	63	1	**247**	**11**	181	10
	647	184	6	**837**	**28**	617	24

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

1 – Mike Owen resigned as a Director on 24 March 2021.

2 – Mark Goldberg was appointed as a Director on 17 August 2021.

3 – 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 (2020: two).

The share-based payments charge to the Consolidated Income Statement in respect of Directors' share options was £1,049,000 (2020: £1,076,000). The aggregate gain made by Directors on the exercise of share options was £nil (2020: £nil).

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

	At 1 Jan 2021	Granted	Waived	Exercised	At 31 Dec 2021	Date of agreement
Alastair Smith	1,144,149	-	-	-	1,144,149	9 Jan 2012
Alastair Smith	495,851	-	-	-	495,851	15 Feb 2016
	1,640,000	**-**	**-**	**-**	**1,640,000**	**-**
Tony Gardiner	150,000	-	-	-	150,000	15 Feb 2016

Alastair Smith and Tony Gardiner hold an interest in the shares of the Company, which are jointly held by themselves individually and Avacta Group Trustee Limited in its capacity as trustee of The Avacta Employees' Share Trust. The precise nature of the Joint Share Ownership Agreements between the individual, Avacta Group Trustee Limited and Avacta Group plc are described within Note 5.

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

	At 1 Jan 2021	Granted	Waived / Lapsed	Exercised	At 31 Dec 2021	Exercise price pence	Date from which exercisable	Date of grant	Expiry date
Eliot Forster	340,000	-	-	-	340,000	25.0p	11 June 2021	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	96,900	-	-	-	96,900	25.0p	7 Jan 2019	7 Jan 2019	7 Jan 2029
Alastair Smith	599,100	-	(374,437)	-	224,663	25.0p	Note 1	7 Jan 2019	7 Jan 2029
Alastair Smith	868,260	-	(401,486)	-	466,774	17.25p	Note 1	14 May 2020	14 May 2030
Alastair Smith	4,000,000	-	-	-	4,000,000	10.0p	Note 2	14 May 2020	14 May 2030
	5,908,525	**-**	**(775,923)**	**-**	**5,132,602**				
	-								
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	56,960	-	-	-	56,960	25.0p	7 Jan 2019	7 Jan 2019	7 Jan 2029
Tony Gardiner	313,000	-	(195,625)	-	117,375	25.0p	Note 1	7 Jan 2019	7 Jan 2029
Tony Gardiner	453,620	-	(283,512)	-	170,108	17.25p	Note 1	14 May 2020	14 May 2030
Tony Gardiner	1,000,000	-	-	-	1,000,000	10.0p	Note 2	14 May 2020	14 May 2030
	2,057,521	**-**	**(479,137)**	**-**	**1,578,384**				

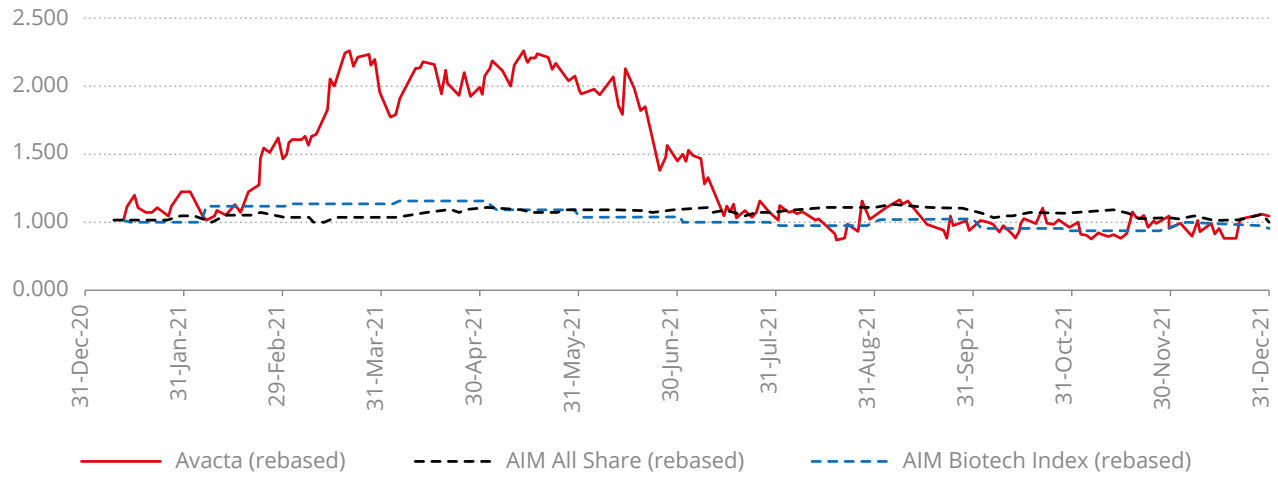
Note 1 – The vested options can be exercised from 31 December 2021; however, the option holder cannot sell the shares prior to 31 December 2023.

Note 2 – 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 2021.



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 5 April 2022 and was signed on its behalf by:

Dr Trevor Nicholls
Chairman of the Remuneration Committee

5 April 2022

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 UK adopted international accounting standards 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 UK adopted international accounting standards
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

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

Independent auditor's report to the members of Avacta Group plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Avacta Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the notes to the Consolidated financial statements, including a summary of significant accounting policies; the Company Balance Sheet, Company Statement of Changes in Equity and the notes to the company financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of the going concern assessment performed by management with regard to the requirements of the applicable financial reporting framework, including the period covered;
- engaging with senior management around the group to obtain a broad-based understanding of key commercial drivers;
- testing the mathematical accuracy of the going concern model prepared by management and the underlying calculations used within it;
- verifying the level of cash held by the group as at 31 March 2022 and cash movements post year end;
- critically assessing the Directors' financial forecasts and the underlying key assumptions, including operating cash burn rates and management's going concern scenario analysis which included potential cost reduction measures which would have the effect of extending the cash runway; and
- evaluating the adequacy of disclosures made in the financial statements in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	*97% of Group loss before tax with the remaining 3% being covered through limited scope analytical review procedures* *100% of Group revenue* *99.9% of Group total assets*
Key audit matters	We identified revenue recognition as a key audit matter.
Materiality	*Group financial statements as a whole* £1.28m based on 4.4% of consolidated loss before tax

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We identified three significant components in the Group, which were subject to full scope audits. Excluding dormant subsidiaries, we assessed two Group companies (1 UK subsidiary and 1

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

overseas subsidiary) as non-significant components on the grounds of their size and assessed risk of material misstatement to the Group financial statements.

We performed limited scope analytical review procedures on the one overseas component according to our assessment of risk across the Group. The Group audit team was responsible for the audits of all significant components and the procedures performed in relation to non-significant components. The coverage we obtained over the Group's loss before tax, revenue and total assets are summarised above.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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.

Key audit matter		**How the scope of our audit addressed the key audit matter**
Revenue Recognition The Group's accounting policy for revenue recognition is disclosed in note 1C on page 79.	As disclosed in note 1C and 3, the Group's revenue of £2,941,000 (2020: £2,144,000) is generated from a number of different revenue streams which arise from the provision of services in the diagnostics and therapeutics operating segments as well as the sale of animal health products and testing services in the animal health operating segment. We assessed the audit risk for each revenue stream and identified that the significant risk existed in areas stated below: - Milestone achievement may not be accurately identified or may be fraudulently misrepresented, leading to inaccurate reporting of revenues for therapeutics and diagnostics services revenue streams. - An inappropriate policy of recognising revenue under IFRS 15 *Revenue From Contracts With Customers* may be applied either fraudulently to misstate revenues or in error. This may arise either due to an incorrect assessment being made of whether revenue should be recognised at a point in time or over time, or because an incorrect assessment is made of the distinction between Group's performance obligations. This is primarily the case in	Our audit procedures in response to the assessed risks were substantive in nature. On a sample basis we: - Agreed a sample of revenue items to supporting documents such as invoices, contract and proof of delivery / performance. - Obtained supporting evidence as to whether the milestones "claimed" have been achieved. - Assessed for each sample selection whether the revenue recognition policy applied was consistent with and appropriate with regard to the nature of the contract entered in to with the customer. This enabled us to conclude on whether revenue occurrence was demonstrable, and whether revenue had been recognised in the appropriate amount and in the correct period, according to the

	contracts where licences are granted and other services are supplied. The result in either case could be that revenues are not recorded in the correct period or accurately according to the requirements of IFRS 15. This risk is present in the revenue streams within the Therapeutics and Diagnostics operating segments. - Revenue may not be appropriately deferred when the provision of goods or services has not taken place in the financial year, leading to early revenue recognition and understatement of deferred income. Taking these factors together, the audit of revenue recognition had the greatest effect on the direction, supervision and review of the Group audit.	contractual documentation in place. **Key observations** Nothing has come to our attention as a result of performing the above procedures that causes us to believe that a material misstatement is present in respect of revenue recognition due to the matters identified as heightened fraud and error risks as set out to the left.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements	Parent company financial statements
	2021	2021
Materiality	£1.28m	£1.00m
Basis for determining materiality	4.4% of loss before tax	Capped at 75% of the Group Materiality
Rationale for the benchmark applied	We considered loss before tax to be the most appropriate performance measure at this stage in its life cycle.	Share of Group Materiality based on the size and our assessment of the risk of material misstatement of the parent company component

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

Performance materiality	£0.75m	£0.60m
Basis for determining performance materiality	Set based on 60% of materiality following evaluation, inter alia, of the expected total value of known and likely misstatements and the nature of our planned testing.	Set based on 60% of materiality following evaluation, inter alia, of the expected total value of known and likely misstatements and the nature of our planned testing.

Component materiality

We set materiality for each component of the Group based on a percentage of between 75% and 90% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £0.45m to £1.16m. In the audit of each component, we further applied performance materiality levels of 60% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £32,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

	In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors 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 for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

The objectives of our audit, in respect to irregularities, including fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; to respond appropriately to fraud or suspected fraud identified during the audit, to obtain audit evidence regarding compliance with

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

provisions of applicable laws and regulations, and to respond appropriately to any non-compliance identified. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Avacta Group plc. We determined that the most significant laws and regulations which are directly relevant to specific assertions in the financial statements are those related to the reporting framework (UK adopted International Accounting Standards and the Companies Act 2006), labour regulations and taxation in the United Kingdom.

- We understood how the company is complying with those legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board meeting minutes and review of material legal costs in the period.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it is considered there was a susceptibility to fraud. We also considered potential fraud drivers: including financial or other pressures, opportunity, and personal or corporate motivations. We considered the processes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals, performing audit procedures as explained above in relation to the occurrence of revenue and the timing and accuracy of revenue recognition

- and review of key areas of estimation uncertainty and judgement, for example, intangible assets, investments and other asset carrying value impairment assessments.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Piers Harrison
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Piers Harrison (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Cambridge
5 April 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2021

	Note	2021 £000	2020 £000
Continuing operations			
Revenue	3	**2,941**	2,144
Cost of sales		**(924)**	(962)
Gross profit		**2,017**	1,182
Research costs		**(13,480)**	(8,891)
Manufacturing costs		**(2,143)**	-
Share of loss of associate	22	**-**	(217)
Amortisation of development costs	10	**(821)**	(824)
Selling, general and administrative expenses		**(8,136)**	(5,933)
Depreciation expense	11, 21	**(1,462)**	(1,063)
Share-based payment charge	5	**(5,058)**	(3,070)
Operating loss	6	**(29,083)**	(18,814)
Finance income	7	**17**	43
Finance costs	21	**(128)**	(89)
Net finance costs		**(111)**	(46)
Loss before tax		**(29,194)**	(18,861)
Taxation	8	**2,820**	2,464
Loss from continuing operations		**(26,374)**	(16,397)
Disontinued operation			
Profit / (loss) from discontinued operation	24	**58**	(2,494)
Loss for the period		**(26,316)**	(18,891)
Foreign operations – foreign currency translation differences		**4**	-
Other comprehensive income		**4**	-
Total comprehensive loss for the period		**(26,312)**	(18,891)
Loss per share			
Basic and diluted	9	**(10.55p)**	(8.37p)
Loss per share - continuing operations			
Basic and diluted	9	**(10.57p)**	(7.27p)

The notes on pages 78 to 106 form an integral part of these financial statements.

Consolidated Statement of Financial Position as at 31 December 2021

	Note	2021 £000	2020 £000
Assets			
Property, plant and equipment	11	**2,612**	2,696
Right-of-use assets	21	**1,729**	2,095
Intangible assets	10	**7,925**	9,417
Non-current assets		**12,266**	14,208
Inventories	12	**189**	248
Trade and other receivables	13	**4,327**	2,895
Income tax receivable		**2,750**	2,200
Short-term deposits	14	**-**	20,017
Cash and cash equivalents	14	**26,191**	27,894
		33,457	53,254
Assets held for sale	24	**1,279**	-
Current assets		**34,736**	53,254
Total assets		**47,002**	67,462
Liabilities			
Lease liabilities	21	**(1,412)**	(1,752)
Non-current liabilities		**(1,412)**	(1,752)
Trade and other payables	15	**(3,731)**	(3,491)
Lease liabilities	21	**(291)**	(290)
		(4,022)	(3,781)
Liabilities directly associated with the assets held for sale	24	**(346)**	-
Current liabilities		**(4,368)**	(3,781)
Total liabilities		**(5,780)**	(5,533)
Net assets		**41,222**	61,929
Equity			
Share capital	17	**25,472**	25,343
Share premium	18	**54,530**	54,137
Reserves	18	**(4,687)**	(4,690)
Retained earnings	18	**(34,093)**	(12,861)
Total equity		**41,222**	61,929

The notes on pages 78 to 106 form an integral part of these financial statements.
The financial statements on pages 74 to 106 were approved by the Board of Directors on 5 April 2022 and 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 2021

	Share capital £000	Share premium £000	Other reserve £000	Translation reserve £000	Reserve for own shares £000	Retained earnings £000	**Total equity £000**
Balance at 1 January 2020	**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**
Loss for the period	-	-	-	-	-	(26,316)	**(26,316)**
Other comprehensive income for the period	-	-	-	4	-	-	**4**
Total comprehensive loss for the period	**-**	**-**	**-**	**4**	**-**	**(26,316)**	**(26,312)**
Transactions with owners of the Company:							
Exercise of share options	129	393	-	-	-	-	**522**
Equity-settled share-based payment	-	-	-	-	-	5,083	**5,083**
	130	392	-	-	-	5,083	**5,605**
Balance at 31 December 2021	**25,472**	**54,530**	**(1,729)**	**4**	**(2,961)**	**(34,094)**	**(41,222)**

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 2021

	2021 £000	2020 £000
Cash flows from operating activities		
Loss for the period	**(26,316)**	(18,891)
Adjustments for:		
- Amortisation	**865**	1,029
- Impairment losses	**-**	1,741
- Depreciation	**1,511**	1,125
- Net loss on disposal of property, plant and equipment	**30**	6
- Share of loss of associate	**-**	217
- Equity-settled share-based payment transactions	**5,083**	3,108
- Net finance costs	**121**	50
- Taxation	**(2,820)**	(2,452)
Operating cash outflow before changes in working capital	**(21,526)**	(14,067)
Decrease/(increase) in inventories	**13**	(91)
Increase in trade and other receivables	**(1,599)**	(814)
Increase in trade and other payables	**456**	1,627
Operating cash outflow from operations	**(22,656)**	(13,345)
Interest received	**17**	42
Interest elements of lease payments	**(139)**	(93)
Tax credit received	**2,291**	2,754
Withholding tax paid	**(19)**	-
Net cash used in operating activities	**(20,506)**	(10,642)
Cash flows from investing activities		
Purchase of plant and equipment	**(1,162)**	(1,279)
Purchase of intangible assets	**(152)**	(221)
Investment in associate	**-**	(217)
Development expenditure capitalised	**-**	(165)
Increase in balances on short-term deposit	**20,017**	(20,017)
Net cash generated from / (used in) investing activities	**18,703**	(21,899)
Cash flows from financing activities		
Proceeds from issue of share capital	**-**	53,750
Transaction costs related to issue of share capital	**-**	(2,960)
Proceeds from exercise of share options	**522**	1,112
Principal elements of lease payments	**(290)**	(255)
Net cash from financing activities	**232**	51,647
Net increase / (decrease) in cash and cash equivalents	**(1,571)**	19,106
Cash and cash equivalents at 1 January 2021	**27,894**	8,788
Effects of movements in exchange rates on cash held	**4**	-
	26,327	27,894
Cash and cash equivalents forming part of assets held for sale	**(136)**	-
Cash and cash equivalents at 31 December 2021	**26,191**	27,894

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 2021 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 UK adopted international accounting standards. 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.

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 £26.31 million and operating cash outflows of £22.66 million for the year ended 31 December 2021. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend at least twelve 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 twelve months from the date of approval of the financial statements. The key factors considered in reaching this conclusion are summarised as follows:

- As at 31 December 2021, the Group held cash and cash equivalents of £26.19 million (2020: £47.91 million, including short-term deposits).
- The Group has a tax refund in relation to R&D tax credits due in the second half of 2022 amounting to £2.75 million (a comparable tax refund of £2.3 million was received in October 2021 relating to the year to 31 December 2020).
- Post period end the Group disposed of the Animal Health Division which generated an up-front payment of £0.86 million and a future earnout which could reach £1.43 million.
- 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 continue to explore additional sources of income and finance available to the Group to continue the development of the therapeutic and diagnostic platforms beyond 2023. The sources of income could come through additional therapeutic collaborations, similar to the LG Chem and Daewoong collaborations, which may include up-front technology access fees and significant early-stage development income, or through additional equity-fundraises.

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 twelve 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 1C.

Share-based payments - Judgements arise from the choice of inputs to the share option valuation models underlying the share-based payment charge, as disclosed in Note 5.

The Directors consider that the assumptions and estimation uncertainties at 31 December 2021 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 such as the amount and timing of future cash flow growth, and the achievement of future development milestones, underlie the recoverable amounts used in these impairment tests. Further 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 25.

New standards and interpretations not applied

A number of new or amended standards are effective for future annual periods, beginning after 1 January 2021, and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

These standards and interpretations, summarised below, are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to IFRS 3 *Business Combinations*; IAS 16 *Property, Plant and Equipment*; IAS 37 P*rovisions, Contingent Liabilities and Contingent Assets*; and Annual Improvements 2018-2020
- Amendments to IFRS 16 *Leases: Covid-19- Related Rent Concessions beyond 30 June 2021*
- IFRS 17 *Insurance Contracts*

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 other comprehensive income ('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, or in OCI where they relate to the net investment in a foreign operation.

The assets and liabilities of foreign operations are translated into pound sterling at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into pound sterling at the average exchange rates relevant to the reporting period.

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.

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

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 intellectual property ('IP'), primarily as a result of the Group not undertaking activities that significantly affect the IP 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.	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. Where contracts include variable consideration relating to previously satisfied performance obligations, the transaction price is deemed to be the most likely amount at the reporting date.
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 market or non-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.

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring.

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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 – Taxation

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 where the cost exceeds the net realisable value.

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 these 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 the expected useful life of the technology, being five to 15 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 95). Goodwill arising from a business combination is allocated to 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'): 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 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.

M - Discounted operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business and is part of a single co-ordinated plan of disposal.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

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 (2020: 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. The Animal Health operating segment was sold in March 2022, and has been classified as a discontinued operation from the start of the prior year.

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 from continuing operations to destinations outside the UK amounted to 82% (2020: 97%) of total revenue. The revenue analysis below, for continuing operations, is based on the country of registration of the customer:

	2021	2020
	£'000	£'000
UK	**540**	75
Rest of Europe	**111**	205
North America	**815**	402
South Korea	**1,400**	1,462
Rest of Asia	**74**	1
	2,941	2,143

During the year, transactions with three external customers, two in the Therapeutics segment and one in the Diagnostics segment, amounted individually to 10% or more of the Group's revenues from continuing operations, being £966,000, £736,000 and £523,000 respectively. In the year 31 December 2020, transactions with two external customers in the Therapeutics segment amounted to 10% or more of the Group's revenues from continuing operations, being £768,000 and £694,000 respectively.

Operating segment analysis 2021

	Diagnostics	Therapeutics	Animal Health (discontinued)	**Total**
	£000	£000	£000	**£000**
Revenue	779	2,162	1,605	**4,546**
Cost of goods sold	(223)	(700)	(506)	**(1,429)**
Gross profit	**555**	**1,462**	**1,098**	**3,115**
Research costs	(3,665)	(9,815)	(39)	**(13,519)**
Manufacturing	(2,143)	-	-	**(2,143)**
Amortisation of development costs	(821)	-	-	**(821)**
Selling, general and administrative expenses	(2,893)	(1,899)	(916)	**(5,708)**
Depreciation expense	(505)	(950)	(50)	**(1,505)**
Share-based payment expense	(984)	(2,981)	(25)	**(3,990)**
Segment operating loss	**(10,456)**	**(14,183)**	**68**	**(24,571)**
Central overheads				**(4,443)**
Operating loss				**(29,014)**
Finance income				**17**
Finance expense				**(139)**
Loss before taxation				**(29,136)**
Taxation				**2,820**
Amount attributable to equity holders of the Company				**(26,316)**

Operating profit/loss is the measure of profit or loss regularly reviewed by the Board. Central overheads, which relate to operations of the Group functions, 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 2020

	Diagnostics	Therapeutics	Animal Health (discontinued)	**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)**

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 2021

	Diagnostics	Therapeutics	**Continuing operations**	Animal Health	**Total**
	£000	£000	**£000**	£000	**£000**
Nature of revenue					
Sale of goods	19	-	**19**	864	**883**
Provision of services	260	1,058	**1,318**	740	**2,058**
Licence-related income	500	1,104	**1,604**	-	**1,604**
	779	**2,162**	**2,941**	**1,605**	**4,545**
Timing of revenue recognition					
Products or services transferred at a point in time	520	1,105	**1,625**	1,540	**3,165**
Products or services transferred over time	259	1,057	**1,316**	64	**1,380**
	779	**2,162**	**2,941**	**1,605**	**4,545**

Year ended 31 December 2020

	Diagnostics	Therapeutics	**Continuing operations**	Animal Health	**Total**
	£000	£000	**£000**	£000	**£000**
Nature of revenue					
Sale of goods	-	-	**-**	846	**846**
Provision of services	519	1,436	**1,955**	646	**2,601**
Licence-related income	-	189	**189**	-	**189**
	519	**1,625**	**2,144**	**1,492**	**3,636**
Timing of revenue recognition					
Products or services transferred at a point in time	8	189	**197**	1,459	**1,656**
Products or services transferred over time	511	1,436	**1,947**	33	**1,980**
	519	**1,625**	**2,144**	**1,492**	**3,636**

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 2021 £000	31 December 2020 £000
Receivables, which are included in "Trade and other receivables"	**1,278**	1,415
Receivables, which are included in "Assets held for sale"	**124**	-
Contract assets	**19**	158
Contract liabilities	**(51)**	(579)

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 £579,000 (2020: £40,000) in contract liabilities at the beginning of the period, £579,000 (2020: £30,000) has been recognised as revenue for the period ended 31 December 2021.

The amount of revenue recognised in 2021 from performance obligations satisfied (or partially satisfied) in previous periods was £369,000 (2020 from those performance obligations satisfied in 2019: £nil). This is mainly due to changes in the amount of variable consideration recognised in relation to the grants of IP under R&D licences, see Note 1C.

4 Employees

	2021 £000	2020 £000
Staff costs:		
Wages and salaries	**7,147**	6,011
Social security costs	**819**	673
Contributions to defined contribution plans	**373**	328
Share-based payment charges	**5,058**	3,108
	13,397	10,120

Average number of employees (including Directors) during the year:		
Commercial and operational	**106**	104
Administrative	**27**	19
	133	123

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 60 to 61 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')

The Group recognised a total share-based payment charge to the income statement of £5,083,000 (2020: £3,108,000).

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 benefits						
9 January 2012	1	141,176	Time served	50.0	Vested	9 January 2022
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	16	326,733	Time served	25.0	Vested	23 August 2028
24 August 2018	5	254,531	Time served and technical milestones	25.0	Note 1	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	Vested	6 January 2029
7 January 2019	5	712,822	Technical, commercial and share price performance	25.0	Vested	6 January 2029
1 July 2019	3	261,332	Time served	30.0	Vested	30 June 2029
1 July 2019	1	113,629	Time served and technical milestones	30.0	Note 2	30 June 2029
25 March 2020	34	3,482,627	Time served	25.0	Note 3	24 March 2030
14 May 2020	5	1,174,249	Technical, commercial and share price performance	17.25	Vested	14 May 2030
14 May 2020	4	7,650,000	Share based	10.0	Note 4	14 May 2030
14 May 2020	1	1,000,000	Time served and commercial performance	25.0	Note 5	14 May 2030
28 July 2021	5	3,250,000	Time served	10.0	Note 6	28 July 2031
28 July 2021	1	750,000	Time served and commercial performance	10.0	Note 7	28 July 2031
28 July 2021	3	150,000	Time served	10.0	Note 8	28 July 2031
8 October 2021	1	3,000,000	Time served	10.0	Note 9	8 October 2031
8 October 2021	5	725,000	Time served	10.0	Note 10	8 October 2031
2 December 2021	1	250,000	Time served	10.0	Note 11	2 December 2031
Options granted in relation to collaboration agreements						
31 May 2019	1	1,161,582	Technical/regulatory milestones	29.2	Note 12	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 2021, 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 31,407 as at 31 December 2021, as to 46,111 once the first technical milestone is achieved and as to 46,111 once the second technical milestone is achieved.

Note 3 – This option provides that they can, if they have not lapsed, be exercised in full on or after 31 December 2022.

Note 4 – This option provides that they can, if they have not lapsed, be exercised as to 6,025,000 on or after 31 December 2022 and as to 1,625,000 on or after 31 December 2022, if the average share price is over 110p for more than 20 business days during 2022.

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

Note 5 – 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 6 - This option provides that they can, if they have not lapsed, be exercised in full on or after 31 December 2022.

Note 7 - This option provides that they can, if they have not lapsed, be exercised as to 150,000 once the first commercial milestone is achieved, as to 150,000 once the second commercial milestone is achieved, as to 150,000 once the third commercial milestone is achieved, as to 150,000 once the fourth commercial milestone is achieved and as to 150,000 on or after 31 December 2022.

Note 8 – This option provides that they can, if they have not lapsed, be exercised in full on or after 30 June 2023.

Note 9 - This option provides that they can, if they have not lapsed, be exercised in full on or after 30 September 2024.

Note 10 - This option provides that they can, if they have not lapsed, be exercised in full on or after 31 March 2024.

Note 11 - This option provides that they can, if they have not lapsed, be exercised in full on or after 30 June 2024.

Note 12 – This option provides that they can, if they have not lapsed, be exercised 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:

	2021 £000	2020 £000
Weighted average share price at date of grant	**120.84p**	75.08p
Weighted average exercise price	**10.00p**	15.04p
Weighted average fair value at date of grant	**111.79p**	9.51p
Expected volatility	**83.1%**	63.3%
Expected life	**5.0 years**	5.0 years
Risk-free rate	**1.0%**	1.0%
Expected dividends	**Nil**	Nil

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

	2021		2020	
	Options	**Weighted average exercise price (p)**	Options	Weighted average exercise price (p)
At start of period	**22,904,846**	**22.23**	10,588,313	40.74
Granted during the year	**8,125,000**	**10.00**	19,726,357	15.04
Exercised during the year	**(1,298,072)**	**39.61**	(4,671,274)	23.80
Forfeited or lapsed during the year	**(4,186,235)**	**19.03**	(2,738,550)	39.34
Outstanding at end of period	**25,545,539**	**17.99**	**22,904,846**	**22.23**
Exercisable at end of period	**3,786,653**	**38.76**	**8,461,364**	**26.82**

The options outstanding at 31 December 2021 had a range of exercise prices from 10p to 118.5p (2020: 10p to 118.5p), a weighted average exercise price of 17.99p (2020: 22.23p), and a weighted average remaining contractual life of 8 years (2020: 8 years and 1 week).

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 2021, five employees (2020: five) had joint interests in 2,932,306 (2020: 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 21 February 2021 69,902 ordinary shares of 10p each were issued in relation to the Free Share award based on the closing middle market price of 183.0p on 19 February 2021.

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 2021, 41 eligible employees, had made binding commitments to subscribe for partnership shares during the period ending 31 December 2021.

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 2021, the Trustee held 1,361,886 (2020: 1,404,230) 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	2021 £000	2020 £000
Lease expense relating to lease of low-value assets	21	**2**	2
Lease expense relating to short-term leases	21	**27**	-
Depreciation of property, plant and equipment	11	**1,195**	882
Depreciation of right-of-use assets	21	**316**	244
Net loss on disposal of property, plant and equipment		**29**	6
Amortisation of intangible fixed assets	10	**865**	1,029
Impairment of intangible fixed assets	10	**-**	1,741
Share of loss of associate	22	**-**	217
Employee benefit expense, including share-based payment charges	4	**13,397**	10,120
Auditor's remuneration:			
• Audit services in respect of the Company's financial statements		**120**	80
• Audit services in respect of the Company's subsidiaries' financial statements		**30**	25

7 Net finance costs

	2021 £000	2020 £000
Interest income	**17**	43
Interest expense on lease liabilities	**(128)**	(93)
	(111)	(50)

8 Taxation on loss on ordinary activities

	2021 £000	2020 Continuing	2020 Discontinued	2020 Total
Current tax:				
Current period	**(2,729)**	(2,199)	-	(2,199)
Changes in estimates related to prior years	**(91)**	(265)	12	(253)
Deferred taxation:				
Current period	**-**	-	-	-
Tax on loss on ordinary activities	**(2,820)**	(2,464)	12	(2,452)

The tax on loss in the year relates solely to continuing operations.

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%). The differences are explained below.

	2021 £000	2020 £000
Loss on ordinary activities before taxation	**(29,137)**	(21,343)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	**(5,536)**	(4,055)
Effects of:		
• Expenses not deductible for tax purposes	**1,086**	674
• Deferred tax losses not recognised	**4,451**	3,381
• Government tax incentives	**(2,840)**	(2,452)
• Withholding tax expense	**19**	-
	(2,820)	(2,452)

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 2021, 25,545,539 options (2020: 22,904,846) have been excluded from the diluted weighted-average number of ordinary shares calculation because, due to the loss for the period, their effect would have been anti-dilutive. Further details on share options are set out in Note 5.

	2021			2020		
	Continuing operations	**Discontinued operation**	**Total**	Continuing operations	Discontinued operation	Total
Loss (£000)	**(26,374)**	**58**	**(26,315)**	(16,397)	(2,494)	(18,891)
Weighted average number of shares (number)			**249,478,070**			225,578,759
Basic and diluted loss per ordinary share (pence)	**(10.57p)**	**0.02p**	**(10.55p)**	(7.27p)	(1.11p)	(8.37p)

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

10 Intangible fixed assets

	Goodwill £000	Development costs £000	Software £000	Patents £000	Total £000
Cost					
At 1 January 2020	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**
Internally developed/additions	-	-	79	73	**152**
Disposals	-	-	-	-	**-**
Reclassification to assets held for sale	(3,116)	-	(30)	-	**(3,146)**
At 31 December 2021	**1,539**	**10,200**	**264**	**279**	**12,282**
Amortisation and impairment					
At 1 January 2020	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**
Amortisation	-	822	35	10	**867**
Disposals	-	-	(29)	-	**(29)**
Reclassification to assets held for sale	(2,340)	-	-	-	**(2,340)**
At 31 December 2021	**-**	**4,154**	**189**	**14**	**4,357**
Net book value					
At 31 December 2021	**1,539**	**6,046**	**75**	**265**	**7,925**
At 31 December 2020	**2,315**	**6,868**	**32**	**202**	**9,417**
At 31 December 2019	3,833	7,932	35	-	**11,800**

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 (2020: 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:

	2021 £000	2020 £000
Therapeutics	**1,539**	1,539
Diagnostics	**-**	-
Animal Health *	**-**	776
Goodwill	**1,539**	2,315

* The goodwill allocated to the Animal Health CGU has been reclassified to assets held for sale, see Note 24

Impairment review

An impairment review of the Group's intangible and tangible non-current assets was conducted at 31 December 2021. 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 an eleven-year period, this timeframe reflecting management's best estimate of the period at which revenue growth of the CGU would be above the long-term background growth rate. This timeframe exceeds the usual five-year period due to the stage of ongoing contracts, and wider pipeline, and the length of time between entering into such contracts and the generation of ongoing commercial revenues
- Revenue growth is forecasted to increase to circa £15 million over a five-year timeframe, equivalent to a 55% 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% (2020: 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% (2020: 17%), derived from a weighted-average cost-of-capital of 15% (2020: 15%)

Using the assumptions listed above, the value in use of the Therapeutics CGU exceeds its carrying amount by £35.8 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 £9.3 million, equivalent to a CAGR of 41.1%, 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 eight-year period, the timeframe reflecting the expected remaining useful life of the Affimer® scaffold development work, and therefore the time period over which revenue growth would be expected to exceed the long-term growth rate. This is therefore management's best estimate of the period over which the CGU's revenue growth rate would exceed the long-term growth rate
- Revenue growth is forecasted to increase to £30.4 million over this eight-year timeframe, equivalent to a CAGR of 53%. Revenue growth rates and gross margins have been based on management's best estimate of future growth in product development revenue streams
- Terminal growth rate after the modelled growth phase of 2.5% (2020: 2.5%), approximating the annual long-term inflation rate
- Pre-tax discount rate of 17.5% (2020: 16%), derived from a weighted-average cost-of-capital of 15% (2020: 14%)

Using the assumptions listed above, the value in use of the Diagnostics CGU exceeds its carrying amount by £2.5 million.

Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The pre-tax discount rate would need to increase to 18.5% (an increase of 4%) and the revenue CAGR would need to reduce to 50% (a decrease of 5.5%) for the recoverable amount to be equal to the carrying amount.

The non-current assets belonging to the Diagnostics and Therapeutics CGUs at 31 December 2021 can be allocated as follows:

	Tangible £000	ROU Assets £000	Goodwill £000	Development costs £000	Patents £000	Software £000	**Total £000**
Therapeutics	1,001	1,004	1,538	-	-	20	**3,563**
Diagnostics	1,597	725	-	6,046	267	40	**8,675**
	2,598	**1,729**	**1,538**	**6,046**	**267**	**60**	**12,238**

The non-current assets belonging to the Diagnostics and Therapeutics CGUs at 31 December 2020 were 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**
	2,666	**1,931**	**1,538**	**6,868**	**202**	**14**	**13,219**

11 Property, plant and equipment

	Assets in the course of construction £000	Leasehold improvements £000	Laboratory equipment £000	Office fixtures and fittings £000	**Total £000**
Cost					
At 1 January 2020	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**
Additions	99	549	431	83	**1,162**
Transfers	(229)	97	91	41	**-**
Disposals	(28)	-	(4)	(51)	**(83)**
Reclassification to assets held for sale	-	(125)	(175)	(42)	**(342)**
At 31 December 2021	**143**	**2,434**	**5,432**	**433**	**8,442**
Depreciation					
At 1 January 2020	-	834	3,269	271	**4,374**
Charge for the period	-	232	598	52	**882**
Disposals	-	-	(243)	(4)	**(247)**
At 31 December 2020	-	1,066	3,624	319	**5,009**
Charge for the period	-	550	572	73	**1,195**
Disposals	-	-	(2)	(51)	**(53)**
Reclassification to assets held for sale	-	(117)	(166)	(38)	**(321)**
At 31 December 2021	**-**	**1,499**	**4,028**	**303**	**5,830**
Net book value					
At 31 December 2021	**143**	**935**	**1,404**	**130**	**2,612**
At 31 December 2020	301	847	1,465	83	**2,696**
At 31 December 2019	10	1,029	1,192	73	**2,304**

12 Inventories

	2021 £000	2020 £000
Raw materials and components	**189**	207
Finished goods	**-**	41
	189	248

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

13 Trade and other receivables

	2021 £000	2020 £000
Trade receivables	**1,278**	1,415
Prepayments	**2,468**	1,039
Other receivables	**442**	187
Contract assets	**19**	158
Other taxes and social security	**120**	96
	4,327	2,895

Trade and other receivables denominated in currencies other than sterling comprise £1,271,000 (2020: £639,000) of trade receivables denominated in US dollars and £nil (2020: £14,000) denominated in euros. The fair values of trade receivables are the same as their book values.

Trade receivables includes £1,023,000 due from related parties (2020: £473,000), see Note 23.The ageing analysis of trade receivables past due is as follows:

	2021 £000	2020 £000
Under 30 days overdue	**-**	80
Between 30 and 60 days overdue	**-**	4
Between 60 and 90 days overdue	**191**	9
Over 90 days overdue	**525**	76
	716	169

14 Cash and cash equivalents

	2021 £000	2020 £000
Short-term deposits	**-**	20,017
Cash and cash equivalents	**26,191**	27,894
	26,191	47,911

15 Trade and other payables

	2021 £000	2020 £000
Trade payables	**561**	856
Other taxes and social security	**210**	232
Accruals	**2,836**	1,819
Other payables	**73**	5
Contract liabilities	**51**	579
	3,731	3,491

Trade and other payables denominated in currencies other than sterling comprise £163,000 (2020: £47,000) of trade payables denominated in US dollars, £47,000 (2020: £38,000) denominated in euros, and £7,000 (2020: £nil) denominated in CHF. The fair values of trade payables are the same as their book values.

16 Deferred tax liabilities

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

Deferred tax asset/(liability)	2021 £000	2020 £000
Development costs	**(1,512)**	(1,305)
Trading losses	**760**	1,006
Property, plant and equipment	**752**	299
	-	-

Movement in deferred tax for period ended 31 December 2021

	At 1 January 2021 £000	Income statement £000	At 31 December 2021 £000
Development costs	(1,305)	(207)	**(1,512)**
Trading losses	1,006	(246)	**760**
Property, plant and equipment	299	453	**752**
	-	-	**-**

There is no liability to corporation tax in the year. There are unprovided deferred tax assets of approximately £9,931,000 due to trading losses in the current and prior financial years (2020: £5,414,000) and of £2,910,000 (2020: £1,271,000) relating to deductible temporary differences (future taxable deductions on exercise of share options) of where it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

17 Share capital

	2021 £000	2020 £000
Allotted, called up and fully paid:		
- 253,950,626 (2020: 252,655,554) ordinary shares of 10p each	**25,395**	25,266
- 19,327,344 deferred shares of 0.4p each	**77**	77
	25,472	25,343

During the year, a total of 1,298,072 shares of 10p each were allotted and issued following the exercise of vested EMI and unapproved options. Options were exercised at an average price of 39.61p

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

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 £54,530,000 (2020: £54,137,000) arose from the issue of shares at a premium to their nominal value less certain allowable costs of issue. This reserve is not distributable.

Other reserve

The other reserve of negative £1,729,000 (2020: 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.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The transactions recognised within other comprehensive income during the year, from which the translation reserve arises, are all items that are or may be reclassified subsequently to profit or loss. This reserve is not distributable.

Reserve for own shares

The reserve for own shares of negative £2,961,000 (2020: negative £2,961,000) arose following the issue of ordinary shares of 10p each to Link Market Services Trust Limited as Trustee to the Avacta Group plc SIP (see Note 4) in previous periods. In addition, 2,932,306 (2020: 3,232,306) ordinary shares of 10p each are held jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable.

Retained earnings

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

19 Financial instruments and risk management

Capital management

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

The Group has only one form of debt: credit card debt. Credit card debt is used to finance incidental expenditure, is short term and settled in the month following the incurring of the related expenditure. The Group does not have long-term gearing ratio targets.

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

Financial risk management

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

Interest rate risk

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

Interest rate and currency profile

At 31 December 2021 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::

	2021 **£000**	2020 £000
Cash at bank (floating interest rate)	**26,191**	27,894
Short-term deposits (floating interest rate)	**-**	20,017

Cash at bank attracted interest at floating rates, which were between nil% and 0.05% at 31 December 2021 (2020: nil% and 0.15%).

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 other than those with related parties as set out in Note 23. 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 2021, the difference between the book value and the fair value of the Group's financial assets and liabilities was £nil (2020: £nil).

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 December 2021.

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.

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

Financial assets and liabilities

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

Financial assets	**2021 £000**	2020 £000
Trade receivables	**833**	1,415
Other receivables	**442**	187
Short-term deposits	**-**	27,894
Cash	**26,191**	20,017
	27,466	49,513
Financial liabilities		
Trade payables	**561**	856
Accruals	**2,836**	1,819
Other payables	**73**	5
Lease liabilities	**1,703**	2,042
	5,173	4,722

Maturity profile of financial liabilities		
In one year or on demand	**3,760**	2,970
In more than one year	**1,412**	1,752

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 £379,000 (2020: £316,000). There were outstanding contributions at 31 December 2021 of £61,000 (2020: £49,000).

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 January 2020	779	-	**779**
Additions	1,382	179	**1,561**
Depreciation charge	(235)	(9)	**(244)**
As at 31 December 2020	**1,926**	**170**	**2,096**
Remeasurement of lease liability	80	-	**80**
Depreciation charge	(298)	(18)	**(316)**
Reclassification to assets held for sale	(129)	-	**(129)**
As at 31 December 2021	**1,577**	**152**	**1,729**

	2021			2020		
	Property	**Laboratory equipment**	**Total**	Property	Laboratory equipment	Total
Lease liabilities						
Current	230	61	**291**	232	58	290
Non-current	1,380	32	**1,412**	1,659	93	1,752
	1,610	93	**1,703**	1,891	151	2,042

Reconciliation of change in lease liability

	£000
As at 1 January 2020	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**
Remeasurement of lease liability	80
Payment of lease liability – principal element	(290)
Payment of lease liability – interest element	(138)
Interest expense	138
Reclassification to assets held for sale	(129)
As at 31 December 2021	**1,703**

b) Amounts recognised in profit or loss

	2021 £000	2020 £000
Depreciation charge on right-of-use assets		
Property	**298**	235
Laboratory equipment	**18**	9
	316	244
Interest on lease liabilities	**138**	93
Expenses relating to leases of low-value assets	**2**	2
Expense relating to short-term leases	**27**	-

The total cash outflow for leases in the period was £428,000 (2020: £348,000).

c) Capital commitments

At 31 December 2021, the Group had £55,000 of capital commitments (2020: £84,000).

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 2021, a 5% ownership interest (2020: 12%). The entity, accounted for as an investment in associate due to material transactions and the provision of essential technical information, 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 2021 (31 December 2020: £nil) due to recognition of a share of losses of the associate of £217,000 during the prior year. At 31 December 2021, the Group has an unrecognised share of losses of £253,000 in excess of the initial contribution (31 December 2020: £108,000). The share of losses exceeding the initial contribution are unrecognised due to the Group having no legal or constructive liability to make further payments to the associate.

23 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. See Note 33 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. These transactions were made on terms equivalent to those that prevail in arm's length transactions.

	2021 £000	2020 £000
Provision of services* Associate - AffyXell Therapeutics Co., Ltd	**1,126**	694
Trade receivables Associate – AffyXell Therapeutics Co., Ltd	**1,023**	473

*£966,000 (2020: £694,000) of which relates to revenue recognised during the year.

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:

	2021 £000	2020 £000
Short-term employee benefits*	**895**	897
Post-employment benefits	**27**	24
Share-based payment	**1,049**	1,076
	1,971	1,997

*Short-term employee benefits include employers' NI of £106,000 (2020: £101,000).

Full details of compensation of key management personnel are set out in the audited sections of the Remuneration Committee Report on pages 60 to 61, which form part of these audited financial statements

24 Discontinued operation

In March 2022, the Group sold its entire Animal Health segment (see Note 2). An up-front payment of £860,000 was received with deferred contingent consideration of up to £1,430,000 dependent on the combined performance of the consolidated business. There were associated costs to sell of £190,000. Management committed to a plan to sell the segment in late 2021 following a strategic decision to place focus on the Group's key competencies – the development of diagnostic products and cancer therapies. At the reporting date, an active programme to locate a buyer had been initiated, the segment was being actively marketed for sale at a price that was reasonable to its fair value and a sale was expected to qualify for recognition as a completed sale within one year from the date of classification. As a result, the Animal Health segment has been presented as a disposal group held for sale.

No impairment loss has been recognised on presentation of the Animal Health segment as held for sale as the fair value less costs to sell exceed the carrying amount of the disposal group of £805,000. The non-recurring fair value measurement for the disposal group has been based on the post year-end selling price of the segment.

The Animal Health segment was not previously classified as held for sale or as a discontinued operation. The comparative consolidated statement of profit or loss and OCI has been re-presented to show the discontinued operation separately from continuing operations. Note 9 discloses the amount per share for the discontinued operation.

a) Results of discontinued operation	**2021 £000**	2020 £000
Revenue	**1,604**	1,492
Cost of sales	**(506)**	(493)
Gross profit	**1,098**	999
Research costs	**(39)**	(70)
Amortisation of development costs	**-**	(183)
Impairment of intangible fixed assets	**-**	(1,741)
Selling, general and administrative expenses	**(915)**	(1,382)
Depreciation expense	**(50)**	(62)
Share-based payment charge	**(25)**	(38)
Operating loss	**69**	(2,478)
Financial cost	**(11)**	(4)
Loss before tax	**58**	(2,482)
Taxation	**-**	(12)
Loss for the period	**58**	(2,494)

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

b) Effect of the disposal on the financial position of the Group	2021 £000
Intangible assets	**(779)**
Right-of-use assets	**(129)**
Property, plant and equipment	**(22)**
Inventories	**(46)**
Trade and other receivables	**(168)**
Cash and cash equivalents	**(136)**
Trade and other payables	**217**
Lease liabilities	**129**
Net assets and liabilities	**(933)**

c) Cash flows from discontinued operation	2021 £000	2020 £000
Net cash from operating activities	**225**	134
Net cash used in investing activities	**(19)**	(9)
Net cash used in financing activities	**(30)**	(39)
	176	86

Company Balance Sheet as at 31 December 2021 – Registered number 4748597

	Note	2021 £000	2020 £000
Fixed assets			
Tangible assets	26	**13**	11
Intangible assets	26	**13**	15
Investments	27	**7,892**	3,902
		7,918	3,928
Current assets			
Debtors*	28	**86,586**	62,697
Short-term deposits		**-**	20,017
Cash and cash equivalents		**25,549**	27,547
		112,135	110,261
Current liabilities	29	**(518)**	(484)
Net current assets		**111,617**	109,777
Net assets		**119,535**	113,705
Capital and reserves			
Called-up share capital	30	**25,472**	25,343
Share premium account	31	**54,530**	54,137
Reserve for own shares	31	**(2,961)**	(2,961)
Retained earnings	31	**42,494**	37,186
Shareholders' funds		**119,535**	113,705

*Of which £84,052,000 (2020: £62,516,000) is expected to be recovered in more than 12 months

The profit of the Company for the year ended 31 December 2021 was £225,000 (2020: loss of £3,865,000)

The notes on pages 108 to 113 form an integral part of these financial statements.

The balance sheet above was approved by the Board of Directors and authorised for issue on 5 April 2022 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 2021

	Share capital £000	Share premium £000	Reserve for own shares £000	Retained earnings £000	**Total equity £000**
At 1 January 2020	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**
Exercise of share options	130	392	-	-	**522**
Total comprehensive loss for the period	-	-	-	225	**225**
Share-based payment charges	-	-	-	5,083	**5,083**
At 31 December 2021	**25,473**	**54,530**	**(2,961)**	**42,494**	**119,535**

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

Notes to the Company Balance Sheet

25 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.

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.

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

Share-based payments - Judgements arise from the choice of inputs to the share option valuation models underlying the share-based payment charge, as disclosed in Note 5.

The Directors consider that the assumptions and estimation uncertainties at 31 December 2021 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 of investments in subsidiaries by comparing the carrying amount relevant to each subsidiary with the corresponding recoverable amount. In the absence of a determinable fair value, 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.

Management measure impairment of amounts owed by subsidiary undertakings by comparing the carrying amount with the present value of estimated cashflows discounted at the asset's original effective interest rate.

Where fair value less costs to sell is measurable, for example where there is an agreement for sale in place, the aggregate carrying amount of investment in subsidiary and intercompany receivable is compared to this recoverable amount. Where the aggregate carrying amount exceeds the fair value less costs to sell, an impairment is first allocated against the investment, with any residual impairment recognised against the amount owed by the subsidiary. Where the fair value less costs to sell exceed the carrying amount, previous impairment losses are reversed to increase the carrying amount to the recoverable amount.

Management recognise that there is inherent uncertainty in the recoverable amounts based on the value in use models. Note 10 sets out a number of sensitivities in which the values in use of the impairment models were to reduce to the carrying amount of the corresponding CGU;, however, in these scenarios the recoverable amount would still exceed the carrying amount of investments in subsidiaries, and the present value of estimated cashflows discounted at the asset's original effective interest rate would still exceed the carrying amount of amounts owed by subsidiary undertakings.

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 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 market or non-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.

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...)

26 Tangible and intangible fixed assets

	Tangible £000	Intangible £000	Total £000
Cost at 31 December 2020	60	86	**146**
Additions	8	22	**30**
Transfers from wholly-owned subsidiaries	2	-	**2**
Disposals	(8)	-	**(8)**
At 31 December 2021	**62**	**108**	**170**
Depreciation at 31 December 2020	49	71	**120**
Charge for the year	7	24	**31**
Disposal	(7)	-	**(7)**
At 31 December 2021	**49**	**95**	**144**
Net book value			
At 31 December 2021	**13**	**13**	**26**
At 31 December 2020	11	15	**26**

27 Investments

	£000
Cost at 1 January 2021	**5,676**
Additions	**3,990**
At 31 December 2021	**9,666**
Provision at 1 January 2021	**1,774**
Charge for the year	**-**
At 31 December 2021	**1,774**
Net book value	
At 31 December 2021	**7,892**
At 31 December 2020	**3,902**

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

The companies in which Avacta Group plc has an interest at 31 December 2021 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]US	Ordinary 100%	Indirect
Avacta Life Sciences Limited	Technology development	[1]England	Ordinary 100%	Direct
Avacta Life Sciences Inc.	Technology development	[1]US	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 2021.

28 Debtors

	2021 £000	2020 £000
Other taxes and social security	**6**	8
Prepayments and other debtors	**461**	172
Amounts owed by subsidiary undertakings* (which are expected to be recovered in more than 12 months)	**100,236**	77,468
Less: provision against amounts owed by subsidiary undertakings	**(14,117)**	(14,951)
	86,586	62,697

* The terms of the intercompany loans are disclosed in Note 33

29 Current liabilities

	2021 £000	2020 £000
Trade creditors	**31**	41
Other taxes and social security	**57**	50
Accruals and other creditors	**430**	393
	518	484

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

30 Share capital

	2021 £000	2020 £000
Allotted, called up and fully paid:		
- 253,950,626 (2020: 252,655,554) ordinary shares of 10p each	**25,395**	25,266
- 19,327,344 deferred shares of 0.4p each	**77**	77
	25,472	25,343

Share issues

During the year, a total of 1,298,072 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.

31 Reserves

Share premium

The share premium account of £54,530,000 (2020: £54,137,000) arose from the issue of shares at a premium to their nominal value less certain allowable costs of issue. This reserve is not distributable.

Reserve for own shares

The reserve for own shares of negative £2,961,000 (2020: negative £2,961,000) arose following the issue of ordinary shares of 10p each to Link Market Services Trust Limited as Trustee to the Avacta Group plc SIP (see Note 4) in previous periods. In addition, 2,932,306 (2020: 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.

32 Commitments

(a) Capital commitments

At 31 December 2021, the Company had £nil capital commitments (2020: £nil).

(b) Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 December 2021 was £nil (2020: £nil).

(c) Operating lease commitments

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

	2021 £000	2020 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**388**	362
• Between one and five years	**1,254**	1,250
• Over five years	**162**	432
	1,804	2,044

33 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. These transactions were made on terms equivalent to those that prevail in arm's length transactions.

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Management charges made to subsidiaries		
Avacta Life Sciences Limited	**3,275**	2,562
Avacta Animal Health Limited	**543**	594

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

	At 31 December 2020 £000	(Repayment)/Advance in the period £000	**At 31 December 2021 £000**
Avacta Limited	5,869	4	**5,873**
Avacta Analytical Limited	3,833	-	**3,833**
Avacta Animal Health Limited	6,210	267	**6,477**
Avacta Life Sciences Limited	61,554	22,498	**84,052**
	77,466	22,769	**100,235**

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 FTI Consulting at 200 Aldersgate, Aldersgate Street, London EC1A 4HD on Thursday 23 June 2022 at 3.30 p.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 2021.
2. To approve the remuneration report contained within the report and accounts for the year ended 31 December 2021.
3. To re-appoint Dr Mark Goldberg as a Director of the Company in accordance with article 30.2 of the Company's articles of association ('the Articles') who offers himself for re-appointment as a Director of the Company.
4. To re-appoint Dr Christina Coughlin as a Director of the Company in accordance with article 30.2 of the Articles who offers herself for re-appointment as a Director of the Company.
5. To re-appoint Paul Fry 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.
6. To re-appoint Tony Gardiner as a Director of the Company in accordance with article 35 of the Articles who offers himself for re-appointment as a Director of the Company.
7. To appoint BDO 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.
8. To authorise the Audit Committee of the Board of Directors of the Company to determine the auditor's remuneration.
9. 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 £8,480,000 (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:

10. To empower the Directors of the Company (subject to the passing of resolution 9 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 9 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:

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

    10.2 (otherwise than pursuant to sub-paragraph 10.1) up to an aggregate nominal amount of £1,271,900 (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 10:

    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.

11. 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, 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:

    11.1 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);

    11.2 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

    11.3 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

5 April 2022

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, speak and vote at this Annual General Meeting (the 'Meeting') or to appoint someone else to do so on your behalf:

1. To be entitled to attend, speak 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 21 June 2022. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend, speak 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.
3. 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).
4. 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.
5. 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. and 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.
6. 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 3.30 p.m. on 21 June 2022.
7. 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.
8. The return of a completed proxy form, electronic filing or any CREST Proxy Instructions (as described in note 10 below) will not prevent a shareholder from attending the Meeting and speaking and/or voting in person if he or she wishes to do so.
9. 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.
10. 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 3.30 p.m. on 21 June 2022. 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.

11. CREST members and, where applicable, their CREST sponsors, or voting service provider(s) 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.

12. 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 share.

13. As at 30 May 2022 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consisted of 254,381,086 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 5 April 2022 were 254,381,086.

14. 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.

15. Under the Articles, resolutions 1 to 8 set out in this Notice are ordinary business, and resolutions 9 to 11 are special business.

Advisers

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Notes

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