For immediate release

2 October 2018

Avacta Group plc
("Avacta" or "the Group" or "the Company")

Preliminary Results for the Year Ending 31 July 2018

Continued strong operational delivery towards key commercial, pre-clinical and clinical goals

Avacta Group plc (AIM: AVCT), the developer of Affimer® biotherapeutics and reagents, is pleased to announce its preliminary results for the year ending 31 July 2018.

Operating Highlights

Affimer Therapeutics

- Good progress with in-house programmes:
  - Significant progress in its second therapeutic programme, a LAG-3 inhibitor, has allowed the Group to leap-frog the planned clinical trials for a PD-L1 inhibitor on its own and, on a similar timescale, aim for first-time-in-human clinical data for a PD-L1/LAG-3 bispecific therapy - a potentially much more valuable asset.
  - Discovery programme continues to deliver a pipeline of Affimer binders to other important immuno-oncology targets for future partnering or development.
  - Positive pharmacokinetic data obtained in mouse for Affimer XT™ half-life extension platform.
- Solid progress with partners:
  - Moderna research collaboration extended and delivery of Affimer assets to Moderna for evaluation for potential future development.
  - Major therapeutic partnership with Tufts University School of Medicine announced which will develop a new class of Affimer drug conjugate therapies with a novel mode of action that combines Avacta's Affimer technology with drug conjugates developed at Tufts.
  - Research collaboration with FIT Biotech Oy successfully completed a proof-of-concept study with excellent data, showing sustained production of Affimer molecules by muscle tissue in mice.
  - Positive outcome of initial work with Iksuda Therapeutics Ltd. (formerly Glythera Ltd.) leading to a new drug development collaboration for Affimer drug conjugates.
  - Collaboration established with OncoSec (NASDAQ: ONCS) on innovative gene delivery of therapeutic Affimers.
- In discussion with multiple potential pharma and biotech partners regarding Affimer therapeutics opportunities. Pipeline of opportunities continues to grow across multiple applications.

Affimer Research and Diagnostic Reagents

- Continued focus on multiple licensing opportunities for reagents in pharma, biotech, diagnostic and research markets: progress has been made with a number of third-party technology evaluations and the Group is anticipating licensing deals in the near-term.

- Substantial progress in generating more applications data packs (affinity separation, immunoassays) and in developing new applications, such as immunohistochemistry, that are important in supporting marketing efforts.
- Third party validation of the Affimer technology, key to building commercial traction, is growing:
    - Covance presented Affimer data at an international conference and webinar that has helped to generate a number of custom Affimer reagent projects with large pharma.
    - Heptares provided a testimonial for use in business development meetings regarding their very positive experience of using Affimers with GPCRs, an important class of drug target.

People

- Appointment of Dr Eliot Forster, a highly experienced pharma/biotech professional as Non-executive Chairman.
- Experienced, Boston-based Vice President Therapeutics Business Development appointed.
- Business development team established in US with personnel on both the east (Philadelphia) and west coasts (San Diego).

Financial Highlights

- Fundraise announced July 2018 raising £11.6m gross, funds received post year end
- Cash balances at 31 July 2018 £5.2m (31 July 2017: £13.2m)
- Group revenues £2.76m (2017: £2.74m)
- Loss from continuing operations £8.83m (2017: £6.37m) reflecting accelerating R&D investment
- Loss per ordinary share 13.49 pence (2017: 9.77 pence)

Dr Alastair Smith, Chief Executive Officer of Avacta Group, commented:
"We are very pleased with the significant operational progress made over the past year which firmly underpins our progress towards key near term commercial and clinical milestones which represent major value inflection points for the Affimer platform and the Group.

Based on the growing body of pre-clinical data generated by the in-house therapeutic programmes, and by the partnered programmes, the Group has made significant progress in our partnering discussions. We are very confident that the Group will deliver at least one substantial pharmaceutical licensing deal whilst the technology is still at a pre-clinical stage, during which, we remain focused on getting first-in-man clinical data in 2020.

The joint discovery recently announced with Tufts University Medical School has become an important second programme in our therapeutic strategy, which is aimed at improving patient response beyond that achieved with simple immune-checkpoint blockade. We are particularly excited by the interest that this novel form of drug conjugate has generated with potential partners.

The substantial number of technology evaluations of Affimer reagents that we have established is now showing signs of bearing fruit. We expect to be able to report on reagents licensing deals in a number of application areas in the coming financial year that will validate the licensing business model which we are pursuing, and in turn, will underpin future royalty revenue streams.

Recognising that these significant license deals take time to win via technology evaluations, we have shifted business development focus slightly towards nearer term revenue generation through custom Affimer services, and we are building a small in-house pipeline of diagnostic Affimer assays for licensing as set out at the recent placing.

We look forward to updating the market on these important developments at this pivotal time for the Group."

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About Avacta Group plc (www.avacta.com)

Avacta's principal focus is on its proprietary Affimer® technology which is a novel engineered alternative to antibodies that has wide application in Life Sciences for diagnostics, therapeutics and general research and development.

Antibodies dominate markets worth in excess of $100bn despite their shortcomings. Affimer technology has been designed to address many of these negative performance issues, principally; the time taken to generate new antibodies, the reliance on an animal's immune response, poor specificity in many cases, and batch to batch variability. Affimer technology is based on a small protein that can be quickly generated to bind with high specificity and affinity to a wide range of protein targets.

Avacta has a pre-clinical biotech development programme with an in-house focus on immuno-oncology and bleeding disorders as well as partnered development programmes. Avacta is commercialising non-therapeutic Affimer reagents through licensing to developers of life sciences research tools and diagnostics.

Chairman and Chief Executive Officer's Statement

Overview

The past twelve months has been a period of strong operational progress for the Group with important advances made in its internal drug development programmes, good growth in its commercial pipeline and partnerships, and significant appointments to the Board and senior management team.

Excellent progress in the Group's second therapeutic programme focusing on inhibitors of the immune checkpoint LAG-3, has led to the establishment of a PD-L1/LAG-3 bispecific development programme, leap-frogging the planned first-step of a PD-L1 monotherapy. The combination of these two checkpoint inhibitors should provide greater efficacy and improve overall patient response compared with PD-L1 alone. This bispecific will also be one of a very small number of such therapies in the clinic, and one of only two that combine the PD-L1/LAG-3 inhibition in a single molecule. The Affimer bispecific will therefore present a much better opportunity for out-licensing. This change should not delay phase 1 clinical data significantly, and the Group continues to work towards dosing of first patients in 2020.

The Group also recently announced a major drug development programme, in collaboration with Tufts University Medical School ('Tufts'), focusing on a novel form of drug conjugate that combines an immuno-oncology active Affimer to target powerful chemo-toxins developed at Tufts to the tumour microenvironment. These novel Affimer drug conjugates ('AfDCs') have a dual mode of action which should improve the efficacy and safety of the very potent chemo-toxin drugs. The feedback from potential pharmaceutical partners is very encouraging and the Group believes that this programme presents an opportunity for significant licensing deals at the pre-clinical stage over the next two years.

Good progress has also been made with existing collaborations. Most importantly, the Group has delivered lead molecules to Moderna Therapeutics for evaluation and potential development into the clinic. Other partnerships with OncoSec, Memorial Sloan Kettering Cancer Center and Glythera should hit meaningful progress milestones during the coming financial year.

The Group has also continued to grow its pipeline of evaluations of Affimer reagents. This growth is as a result of substantial R&D that has generated a large volume of data showcasing the superior performance of Affimers head-to-head with antibodies across a range of applications. The business development team has been expanded in the US in order to drive further growth in the sales pipeline. The Group anticipates evaluations leading to license deals that it will be able to publicise during 2018 and onwards.

Fundraise

On 30 July 2018, the Group announced a successful fundraise of £11.6 million (£10.9 million net of costs) which was concluded following the placing of new shares issued following the General Meeting which took place on 17 August 2018.

Corporate governance

During the year, Avacta has reviewed its Corporate Governance approach in the light of the changes to the AIM rules and has adopted the Quoted Companies Alliance's ('QCA') Corporate Governance Code for small and mid-size quoted companies. The Corporate Governance report sets out the Group's approach on how it seeks to comply with the QCA's ten broad principles of good corporate governance.

Board changes

Dr Eliot Forster was appointed to the Board of Directors as Non-executive Chairman in June 2018, succeeding Dr Trevor Nicholls who remains as a Non-executive Director having served the Group as Chairman since August 2013. Eliot brings with him significant experience of biotech/pharmaceutical development, particularly in the therapeutics area where the Group's Affimer technology has vast potential to be a disruptive technology in the antibody markets.

Dr Michael Albin stepped down from the Board in March 2018 having been a Non-executive Director since February 2014 and the Board is grateful for his input in the development of the Affimer technology particularly the research reagents and diagnostics.

Outlook

The recent fund raise provides the Group with the financial runway to hit important near-term milestones in the coming two years. The funding will allow the Group to complete pre-clinical work for the lead PD-L1/ LAG-3 programme, advance its new AfDC programme with Tufts and continue to build the pipeline of Affimer therapeutic assets. Most importantly, building on the growing body of positive data the Group expects to secure significant therapeutic licensing deals and partnerships in the near future.

The investment in research and diagnostics applications and business development over the past two years has generated a strong pipeline of third-party evaluations of the Affimer technology. The recent placing will allow the Group to accelerate its business development activities and to deliver the long-term royalty bearing licensing deals that will create a profitable Affimer reagents business unit.

The translation of the Affimer therapeutic platform into the clinic is an incredibly important transition for the Group because it de-risks the technology considerably. We are very confident that this transition can be made successfully which will have a profound effect on the Group's valuation and its ability to secure lucrative therapeutic licensing deals.

Eliot Forster
Non-executive Chairman
2 October 2018

Alastair Smith
Chief Executive Officer
2 October 2018

Operational Review

Avacta Life Sciences - Affimer business model and strategy

Antibodies dominate the markets for affinity reagents in research, diagnostic and therapeutic markets despite their limitations. The technical and commercial benefits of Affimers apply to each of these antibody market and Avacta is addressing both therapeutic and non-therapeutic opportunities for the Affimer technology. The Group is focused on building a profitable business through licensing of Affimer reagents to developers of research tools and diagnostic test to power their products, whilst developing a pipeline of Affimer therapeutic candidates for in-house development and licensing.

The Group has four key strategic objectives to deliver increasing value for shareholders in the next two to three years:

- Establishing significant drug development partnerships to provide validation for the Affimer technology and partners who are capable of developing Affimer therapeutics;
- Building a substantial pipeline of Affimer therapeutics to provide assets that can be licensed for substantial valuations;
- Growing revenue through licensing of Affimer reagents to developers of research tools and diagnostics with a focus on longer term, royalty bearing commercial partnerships; and
- Successfully completing first-in-man clinical trial of its PD-L1/LAG3 bispecific therapy.

The Group's business model is entirely based on licensing. Avacta is focused on establishing license deals for Affimer reagents to underpin diagnostics, research tools and other life science products in order to generate a long-term royalty-based revenue stream. The Group operates a fee-for-service to generate bespoke Affimers for customers so that they can evaluate the performance of these Affimer reagents alongside antibodies. Positive evaluations should result in commercial licenses to develop and sell products powered by Affimers. In the therapeutics market, license deals can most easily be done for Affimer drugs for which a body of data has been generated to show their efficacy and safety. The Group is therefore investing significantly in R&D to generate this data for a pipeline of Affimer therapeutics and in business development to create the licensing opportunities.

Affimer Therapeutics

Introduction

Avacta has chosen to focus its investment in therapeutics in the area of immuno-oncology (I-O) due to the intense commercial interest in I-O assets at the present time and because certain technical benefits of the Affimer technology make it highly competitive as an I-O therapeutic platform. I-O harnesses the power of the patient's own immune system to attack the cancer. The approach relies on the fact that tumour cells have certain proteins on their surface that can be used for targeting therapies or can be blocked or stimulated to create an immune attack.

The two key technical benefits of the Affimer technology compared with antibodies that will allow the Group to develop differentiated and commercially valuable medicines in the I-O space, are:

- Affimer proteins are easily connected together to form dimers, trimers and higher order multimers and, crucially, these multimers are still easy to produce and process; and
- Affimer proteins are small, robust and easily produced by cells and tissues.

Avacta's therapeutic development strategy is based around delivering three medium-term objectives:

- Progress the first Affimer into the clinic to demonstrate safety and tolerability in-man.
- Build a pipeline of commercially valuable therapeutic Affimers for partnering.
- Secure partnering/licensing deals.

Progress Towards the Clinic

Summary: The Group continues to make good progress towards first-time-in-human clinical trials for the Affimer platform in 2020 as described at the recent placing and, because of rapid progress in a second programme, it intends to develop a combined PD-L1/LAG3 asset into the clinic on that time scale. This combined therapy will have much greater commercial and clinical value than the originally envisaged PD-L1 blockade alone.

The focus of the Group's therapeutic programme is in immuno-oncology (I-O) and it has selected an inhibitor of PD-L1, one of the immune checkpoints, as the lead programme. PD-L1 is a well understood I-O target and it was selected to minimize the risks in getting first-time-in-human data as quickly possible and, importantly, because PD-L1 will be the basis of future combined therapies with other I-O targets for Avacta and the sector as a whole. The Group has now generated and characterized more than 50 Affimer inhibitors of PD-L1 and has selected several lead molecules for development.

Recently, substantial progress has also been made towards generating Affimer inhibitors of a second immune checkpoint called LAG-3. Targeting both PD-L1 and LAG-3 has been shown pre-clinically by others to be an effective combination and, in cancer models in mice, showed significantly greater reduction in tumour growth compared with an anti-PD-L1 monotherapy alone. There is considerable interest from large pharmaceutical companies in combining a LAG-3 blockade with an inhibitor of the PD-1/PD-L1 pathway. Bristol-Myers-Squib, Novartis and Regeneron amongst others are in the clinic with a combination of two separate antibody inhibitors of these two immune-checkpoints and F-star has partnered with Merck to create a single molecule, based on an antibody, that targets PD-L1 and LAG-3 and have recently initiated a phase I clinical study.

The Group has now successfully generated a panel of human LAG-3 antagonists which have been shown, by cell binding and functional assays, to inhibit this immune-checkpoint. Progress in the LAG-3 programme has been sufficiently encouraging that the Group has decided to leap-frog the first step of taking a simple PD-L1 inhibitor into the clinic to get safety and tolerability data, to take a PD-L1 / LAG-3 bispecific into the clinic. The Group believes that an Affimer bispecific against these two targets should have considerable potential for partnering as well as providing the human safety, tolerability and ultimately efficacy data that will enhance deal value for other Affimer assets in the pipeline.

The Group has also generated multi-specific formats by combining PD-L1 and LAG-3 Affimers, with either Fc or Affimer-XT half-life extension, into single molecules. These are now being characterised in functional assays to see if further improvements need to be made before progressing into primary human cell-based assays, *in vivo* pharmacokinetic and pre-clinical cancer efficacy models during 2018 and into early 2019. The objective is to be able to select a candidate Affimer bispecific molecule for IND enabling studies early in 2019.

Whilst there are potentially greater challenges in developing a bispecific compared with a simple PD-L1 inhibitor, the Group believes that broadly the same timeline can be achieved leading to phase I clinical data in 2020/21. The path to the clinic in 2020 involves completion of pre-clinical characterization of this lead molecule, IND-enabling studies, transfer of manufacturing to a contract manufacturer and a regulatory submission to the appropriate body before the end of H1 2020.

Building a Pipeline of Valuable Drug Assets

Summary: A potentially transformative pipeline of assets, beyond PD-L1 and LAG-3, is being built for partnering. This pipeline includes other immune-checkpoint target but the Group believes that a novel drug conjugate platform, jointly invented with Tufts University Medical School, holds greatest promise for early partnering deals. Additionally, Affimers that can extend the time that other drugs spend in the blood stream (Affimer XT™) have also been developed and which can be licensed as a stand-alone technology as well used in in-house programmes.

Despite the great progress that has been made and the excitement surrounding immune-checkpoint targeting therapies, the fact remains that overall response rates across the patient population to monotherapies targeting a single immune-checkpoint are low. In order to improve that response rate pharmaceutical companies are investigating the combination of multiple immune-checkpoint inhibitors, or the combination of a monotherapy with chemotherapy, viral vaccines, radiotherapy or other approaches.

The Group is developing a PD-L1/LAG-3 bispecific therapy to address this need for an improvement in response rates and has also been considering the potential for drug conjugates in which an Affimer is used to deliver chemotherapy in a targeted way. In a ground-breaking co-invention with Tufts, the Group has devised a new class of targeted chemotherapy or "drug conjugate" referred to as an "Affimer drug conjugate" or AfDC. In this novel AfDC, an Affimer that binds to an immune-checkpoint such as PD-L1, which is increased in concentration on most cancer cells, serves to target the chemotherapy to the tumour. This improves the safety profile of the chemotherapy, reducing the side effects of these powerful chemical toxins.

The toxin must be released from the Affimer once it is in the tumour microenvironment. In order to achieve this, the toxin is attached to the AfDC via a novel linker chemistry (see figure below) designed by Tufts to release, only in the tumour, the highly potent toxins which further improves the safety profile of the AfDC approach because the toxin isn't released whilst in the circulation. An additional novel aspect of the AfDC is that, by targeting an immune checkpoint, the Affimer serves the dual purpose of localising the drug conjugate to the tumour, whilst also being immunologically active and assisting the immune system to destroy the cancer in response to the toxin.

Avacta and Tufts have jointly filed for broad patent protection for this inventive concept of combining a drug conjugate that is released in the tumour microenvironment with immuno-oncology active targeting. The patent covers Affimers, and a wide range of other binders, against oncology, viral and inflammatory targets that are not conventional drug conjugate targets. It also covers a wide range of drugs to which the binders can be conjugated.

In the first example of the AfDC that is being developed with Tufts, a PD-L1 Affimer blockade will be combined with an I-DASH inhibitor toxin that is released from the Affimer by an enzyme called FAP which is increased in the tumour microenvironment. This drug, for which extensive pre-clinical and clinical data has already been generated by Tufts, creates a highly localised inflammatory event in the tumour which causes the recruitment of the immune system that is synergistic with the Affimer PD-L1 blockade.

The Group is working with Professor Bill Bachovchin at Tufts to make the PD-L1/I-DASH molecules and expects to have *in-vitro* proof-of-concept data during 2019 and first *in-vivo* data by 2020. Feedback from large pharmaceutical potential partners about the AfDC platform, and this initial embodiment combining PD-L1 with I-DASH inhibitors, is very positive and the Company believes that, based on this feedback, a pre-clinical licensing deal is likely. Avacta has exclusive rights to commercialise these novel drug conjugates.

During the past twelve months, the Group has also achieved a key milestone – completion of its pre-clinical development of an Affimer half-life extension technology called Affimer XT™.

"Serum half-life" is a measure of the amount of time a drug remains in the blood stream. With many drugs a longer serum half-life is desirable so that there is time for the drug to get to the site of action. However, there are several routes of clearance of drugs from the blood stream and small molecules like Affimers and peptides may be rapidly cleared in under an hour, via the kidneys, in the urine. This rapid clearance, if the Affimer has not bound to its target, may be a major benefit for agonists and drug conjugates for example, where a long systemic exposure to the powerful and potentially toxic drug is not desirable. However, generally speaking, a long (days to weeks) serum half-life is desirable. It is therefore essential to extend the serum half-life of Affimers (and many other drugs) in some way.

The Group has already demonstrated good serum half-life of Affimers that are attached permanently to the Fc portion of an antibody. The Fc is large and therefore is not cleared through the kidneys quickly, but more importantly, the presence of an Fc allows the Affimer drug to interact with the patient's immune system when this is desirable. Affimer "Fc fusions" are a very important class of Affimer drug for which a large body of pre-clinical data has now been generated by the Group.

A second way to extend the serum half-life of an Affimer, if the interaction with the immune system via an Fc is not required, is to bind *temporarily* to a large protein in the blood stream such as albumin which does not get cleared quickly through the kidneys. The Group has now developed a range of Affimers that bind human serum albumin and cross-react with a number of other species including mouse, cynomolgus monkey and dog which are important pre-clinical animal model species. A number of Affimer binders has been developed, each with a different affinity for serum albumin. The tighter the binding to serum albumin the longer the resulting serum half-life is, with an upper limit of the half-life of albumin itself which is about two weeks. This range of Affimers, which allows the half-life to be tailored to suit the therapeutic application, is collectively referred to as the Affimer XT platform.

By combining an Affimer therapeutic, such as a PD-L1 inhibitor, with Affimer XT in a bispecific molecule, the serum half-life of the PD-L1 drug is also extended by "piggy-backing" on serum albumin. Therefore, Affimer XT provides a powerful way of modulating the half-life of Affimer drugs, or indeed, any third-party protein or peptide therapeutic. By way of example, Novo Nordisk recently received marketing approval for a half-life extended version of its type 2 diabetes treatment Victoza. The dosing regimen for Victoza, which is a small peptide, is once a day. By extending the serum half-life of Victoza through binding to serum albumin, Ozempic is suitable for once-weekly dosing, improving patients' experience and compliance. Avacta's Affimer XT platform could be used to extend the serum half-life of other similar peptide therapeutics and the Company is now actively seeking licensing partners for Affimer XT.

The Group is focusing the majority of its development resources on the pipeline above but continues to generate Affimer binders to other immuno-oncology targets of potential interest to partners such as CD40 and GITR which are two important costimulatory agonist targets. During the reporting period the Group also demonstrated that Affimer molecules, in this case PD-L1 inhibitors that were already in hand, could be added to the c-terminus of a full monoclonal antibody to create a bispecific hybrid molecule. There are several examples in the past two years of significant license deals involving this type of antibody hybrid (Pieris/Seattle Genetics, Pieris/Sanofi, F-star/Merck) and the Group has shown with two examples (PD-L1 Affimer combined with anti-CTLA-4 and anti-VEGF antibodies) that this can be done with the Affimer technology. This opens the door to similar potential license deals for the Group in this area which are now being sought.

Drug Development Collaborations

Summary: As a platform technology, Affimers are broadly applicable. The Group's strategy is to tightly focus its in-house resources on a small number of programmes and use partnerships in other application areas to generate data through third parties that could lead to deals with large pharma.

Gene delivery is an area in which the Group has received significant interest and has established partnerships.

The Affimer platform has the potential to deliver assets across a range of therapeutic modalities but the Group's resources are limited and therefore, collaborations play an important role in generating proof-of-concept data, with limited requirement for incremental in-house resources, that might enable licensing deals with larger partners.

The delivery of a therapeutic protein to a patient by delivering the DNA or RNA blue print of the protein rather than the protein itself is referred to as "gene delivery". There are multiple benefits of gene delivery, most notably that the expensive and difficult step of making a therapeutic protein to stringent quality standards is no longer required because the patient makes the protein inside his or her own body. The development time for gene delivered protein therapeutics is also shorter because the manufacturing development time is reduced. Gene delivery directly into specific tumour tissues also means that a high local dose is achieved with reduced a better safety profile if a small protein like an Affimer is used that will be rapidly cleared from the body if it leaves the tumour microenvironment.

Avacta has a research partnership with Moderna Therapeutics ("Moderna") to provide Affimer molecules for mRNA gene delivery. The Group has worked on a number of targets with Moderna and the objective of providing Affimers to Moderna that meet their specifications for mRNA ("gene") delivery during 2018 has been met. The collaboration agreement with Moderna has been extended to allow Moderna time to evaluate the Affimers that have been provided to them. For reasons of confidentiality the Group is not able to provide further details.

If gene delivery is to be effective and a clinically relevant dose of the therapeutic is to be achieved, then the protein therapeutic must be easy for the patient's body to make, and small proteins with simple structures, such as Affimers, are ideal for this. This has led to Avacta receiving considerable interest in gene delivery applications outside of the Moderna collaboration.

During the past year, Avacta established two further collaborations in the area of gene delivery with OncoSec (NASDAQ: ONCS) and FIT Biotech Oy (FITBIO: FN Finland).

The collaboration with OncoSec is focused on combining OncoSec's proprietary intra-tumoral gene delivery platform using electroporation (ImmunoPulse) with gene delivery of Avacta's immuno-modulatory Affimers. OncoSec has demonstrated the safety and efficacy of their platform in a phase II clinical study that combined their gene delivered IL-12 with Pembrolizumab (anti-PD-1 antibody) given systemically. The study reported a 50% best overall response rate and a 41% complete response rate in 22 patients unlikely to respond to anti-PD-1 therapy alone. Avacta is working with OncoSec to provide immuno-modulatory Affimers which may include the existing PD-L1 Affimer inhibitors for OncoSec to test in a pre-clinical cancer model to determine if therapeutic levels of protein can be achieved using ImmunoPulse, and that the Affimers are biologically active *in vivo*.

The level of Affimer in the blood stream of mice generated by gene delivery using electroporation was successfully demonstrated through another collaboration with FIT Biotech. Sustained production of Affimer molecules by the muscle tissue of mice was achieved from a single dosing of the Affimer DNA using the FIT technology. The study showed clinically relevant levels of Affimer drug in the blood stream of mice for over one month following a single dose of Affimer DNA into the leg muscle tissue, and measurable quantities of the Affimers in the blood stream out to 90 days. The study showed significantly

higher levels of Affimer production when compared to an antibody used in the study which is due to the simple structure, and ease of production, of the Affimers. The Group is now using the results of this study to support business development activities in the wider gene delivery market.

Affimer molecules are ideal for creating drug conjugates in which a chemical toxin is linked to an Affimer that is used to target the toxin into the tumour. Conventional drug conjugates target a marker on the tumour surface which gets taken into the cell taking the drug conjugate with it; this is in contrast with the novel AfDC concept which target immune checkpoints that do not get internalised. The toxin in a conventional drug conjugate is therefore designed to be released inside the tumour cell to kill it from within. The Group is collaborating with Glythera Ltd to generate *in vitro* and *in vivo* data packages for a drug conjugate using Glythera's linkers and toxins. The Group is in the process of generating Affimers for Glythera to target an undisclosed tumour marker. Glythera will then use these Affimer molecules to create drug conjugates and carry out the *in vitro* and *in vivo* testing. This collaboration follows a successful proof-of-concept study in which the two companies reported that Affimers could be efficiently conjugated with Glythera's novel linkers without loss of function.

One area in which Affimers could have significant potential is in cellular therapies such as chimeric antigen receptor T-cells (CAR-T). This is an area of drug development that has generated huge excitement recently but requires specialist expertise and, therefore, Avacta has chosen to collaborate to demonstrate the potential of the Affimer platform rather than spread limited resources too thinly. The Group has established a collaboration with Memorial Sloan Kettering Cancer Center – one of the leading US cancer centres – to demonstrate the potential for Affimers to replace the currently used antibody-based technology. Avacta is carrying out screening of its Affimer libraries to identify Affimers suitable for targeting CAR-T cells to tumours and expects to provide its collaborators with suitable Affimer molecules in the coming months.

Affimer Research Reagents and Diagnostics

Summary: The Affimer technology has significant commercial and technical benefits in markets outside of therapeutics; diagnostics and research reagents for example. The Group is making good progress in securing licensing deals to generate long term recurring revenue through the sale by third parties of products containing Affimers instead of antibodies. Momentum is building strongly, including third party validation of the technology, and the Group anticipates further licensing deals being announced in 2018 and onwards.

The Group is commercialising the Affimer platform in non-therapeutic markets with lower regulatory hurdles based on a licensing business model. Affimer reagents may be used to develop products in a wide range of diagnostic and research applications. Over the past two years, the Group has begun to grow a revenue stream based on paid-for evaluations of bespoke Affimer reagents that have been generated for individual potential licensees in diagnostics and research markets, as well as for multiple pharma and biotech companies as research tools. These evaluations are intended to lead to licensing of the Affimer for product development to ultimately deliver a royalty, based on the third party's sales, or recurring revenue through supply agreements. The Group's objective is to build a profitable Affimer reagents business unit as quickly as possible.

The Group is initially focusing on applications/markets in which Affimer reagents are strongly differentiated from antibodies, namely diagnostics, bio-assays and affinity separations.

Applications data showing the performance of Affimer reagents in a range of applications is essential for successful business development. The recent acceleration in technology evaluations is due to the growing body of data that has been generated by the team in Wetherby that can be used to demonstrate the Affimer technology's performance.

Substantial progress has been made during the reporting period in generating data, particularly in the key application areas focused on by the Group, as well as in developing new applications, such as immunohistochemistry, to support future business development efforts.

For example:

- The Group has demonstrated the capability to quickly and routinely generate Affimer reagents that specifically bind to the functional part of therapeutic monoclonal antibodies – so called "anti-idiotypic" binders. Such binders are important to allow drug-developers to accurately measure serum concentrations of therapeutic antibodies in pre-clinical and clinical development. The Group has estimated that the market size of this one application is tens of millions of dollars. Drug development programs can often be expensively delayed due to the lack of good quality anti-idiotypic reagents. The significant technical benefits of Affimer reagents compared with antibody reagents in these pre-clinical and clinical assays has now been demonstrated in numerous case studies. In these case studies Affimers have been compared head-to-head with antibodies from the current market leading supplier, Bio-Rad, and the Affimers have been shown to have lower background signals allowing a simpler type of assay to be used, and have better overall assay performance.

- The Group has now produced a large body of data showing that Affimers can be used as affinity reagents in purification systems and have desirable characteristics versus industry-standard alternatives. For example, the high specificity of Affimers has allowed the Group to develop an Affimer that allows the user to distinguish between properly-folded and misfolded antibody products for which there is no other current solution.

- The Group has developed Affimer immunoassays for widely-used diagnostic biomarkers and demonstrated the superior performance of these assays compared with those based on antibodies. For example, the Group has developed an Affimer-based immunoassay to CRP, a widely use biomarker for assessing inflammation/infection, that works over a wide dynamic range with assay performance that meets the EMA and FDA guidelines for a clinical diagnostic. These Affimer reagents are now available for potential partners to evaluate either in their own technology platforms or for comparison to their existing antibody-based methods.

The continued development of new applications and data packs to support marketing has led to a substantial pipeline of technology evaluations which the Group believes will result in commercial agreements in 2018 and onwards. The Group does not make details of its sales pipeline public but by way of illustration of the progress being made a few selected and anonymised examples are:

- Evaluation of an Affimer that binds antibodies in a manner that is of particular interest in bioprocessing (purification) by one of the global leaders in affinity purification systems is ongoing. Positive progress with this evaluation has already led to a custom Affimer project for another bioprocessing application from the same global company. Both of these opportunities could lead to a long term, royalty bearing license deal of significant size.
- Evaluation of Affimers for use in immunohistochemistry (IHC), a large laboratory-based diagnostic/pathology market, by one of the top suppliers of automated IHC systems. If successful, this evaluation could lead to a long-term collaboration to develop a range of Affimers for IHC with royalty-based revenue streams.
- Evaluation by a medium sized European diagnostic company of Avacta's existing human CRP Affimer binders for direct comparison with their existing diagnostic platform with a view to multiple custom Affimer projects for diagnostics.
- Successful delivery of an anti-idiotypic Affimer binder for major east coast US biotech - follow-up projects are now underway.
- Successful delivery of Affimer binders with novel properties to a US based Life Sciences company for a specific diagnostic application. Evaluation of the Affimer performance compared

with an existing product is underway with a view to swapping in the Affimer to replace an existing reagent. Additional projects are already being discussed.
- Evaluation of novel K6 Affimer binders by a large reagents catalogue company with a view to a non-exclusive distribution agreement.

Third party commercial validations of the Affimer technology are very important to building market awareness and revenue, but such validations by non-academic users are not easy obtain. Two commercial users of Affimer reagents have now spoken publicly about the success that they have seen with the technology in the past year.

- Covance, part of LabCorp, one of the world's largest CROs, presented data at an international conference concerning anti-idiotypic Affimers. The success with Covance is helping to generate a number of custom Affimer reagent projects with large pharmaceutical companies in this application area, which in turn could lead to repeat business, supply deals or therapeutic collaborations.
- Heptares, a subsidiary of Sosei Pharmaceuticals, has provided a testimonial for use in business development meetings regarding its experience of using Affimers to bind to a class of drug target called GPCRs. It is not straightforward to find antibodies that bind members of this important class of drug targets and Affimers have been generated that bind the particular target of interest to Heptares without cross-reacting against other closely related targets.

The business development team has been expanded in the US to continue filling this pipeline of evaluations. The Group now has a business development presence on the east and west coasts of the US that targets non-therapeutic and therapeutic partners. Additionally, during the reporting period, the Group appointed a highly experienced biotech industry professional, Matthew Vincent, to the position of Vice President Therapeutics Business Development and Strategy based in Boston. The business development activities in therapeutic and non-therapeutic applications is highly synergistic with multiple potential therapeutic opportunities now emerging because of Affimer reagents projects.

Avacta Animal Health Review

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

Avacta Animal Health provides veterinary laboratory services, and develops and delivers market leading diagnostic tests, designed to help vets and owners care for their animals through more accurate diagnosis.

Avacta Animal Health's commitment to innovation within the field of allergy has remained its core focus over the last year, resulting in two abstracts being presented at the European Veterinary Dermatology Congress in September 2018. While successfully competing in the global market, Avacta Animal Health has never lost sight of the need to be UK specific both in terms of the allergen panels it offers, and the level of support and service it provides to its customers.

Avacta Animal Health continued to maintain strong relationships with its authorised laboratories, whom it manufactures its testing kits for, so they can promote and sell its allergy kits outside the UK to a global audience. Over the coming year, Avacta Animal Health aims to strengthen its position as allergy specialists in the UK and globally, whist expanding its UK and export reach and customer base.

Competitive strengths

Avacta Animal Health's aim is to be different to its competitors in a number of ways, presenting value to its customers:

- It develops and manufactures its own products, allowing it to provide the highest level of insight and

support.

- It provides a dedicated Technical Support team for assistance and advice, with additional support from its Veterinary Advisor and consultant Veterinary Dermatologists.
- It has a national Sales team with UK coverage to provide in-practice support for its customers.
- It delivers marketing campaigns and content throughout the year which helps to build loyalty both with its customers and their clients.
- It has an innovative research and development team.
- It has access to proprietary Avacta Life Sciences technology.

Market focus

Avacta Animal Health's customers include veterinary professionals in the companion animal and equine field, as well as the laboratories serving them. Its authorised laboratories serve much of Continental Europe as well as parts of the Asian market. It has a programme of events across the UK and also attends international events such as the European Society of Veterinary Dermatology Congress, which enables the business to stay informed on developments within the industry and meet with its customers personally.

Development focus

Avacta Animal Health is working to strengthen its Avacta family ties by looking at new products for the veterinary market that use the patented Affimer technology. This will ensure that its core allergy products remain innovative and market-leading, but also provide supporting products in other areas of allergy diagnostics.

It has successfully completed a number of projects for (or with) external companies that utilise the business's knowledge and skills not only in allergy analysis and interpretation, but also protein biomarkers and veterinary diagnostics. Its R&D team have a vast wealth of skills and knowledge that can be deployed for successful contract projects.

Avacta Animal Health's internal development pipeline has resulted in two successful oral presentation submissions to this year's European Society of Veterinary Dermatology. "IgE cross-reactivity between fish and chicken meats in dogs" looks to investigate the component resolved nature of allergenic immune reactions, where very specific proteins, that could be shared between different foods or environmental allergens, are responsible for triggering the IgE allergy pathway." Inhibition of canine serum IgE binding to cross-reactive carbohydrate determinants in environmental allergens." investigates the importance of allergen mimicking glycopeptides present in weed and pollen allergens and their ability to elicit a serological IgE response, when they are not true allergenic proteins. This work won the ESVD Dechra award for best Laboratory Study with an Independent Investigator and will lead to a major innovation in its environmental allergy test.

Avacta Animal Health's skills are not only limited to the laboratory. Its data scientist has employed novel analytical techniques to support its contract project, internal developments and data mining for marketing and research.

Financial Review

Revenue

Reported Group revenues increased to £2.76 million (2017: £2.74 million). Revenues for the Affimer business, Avacta Life Sciences, increased to £1.19 million (2017: £1.15 million) as the number of

custom Affimer projects and funded FTE development projects transitioned during the year following the completion of a major funded FTE project and transfer across to the customer's in-house development team for the next stage of development. Revenues in Avacta Animal Health remained consistent at £1.57 million (2017: £1.59 million) as the division re-focused on its core pet/equine allergy tests, with certain non-core tests/services gradually phased out during the year.

Research and development costs

During the year, the Group expensed through the income statement £3.78 million (2017: £2.60 million) in relation to research and development costs. Within the amount expensed, £2.64 million (2017: £1.94 million) relates to the costs associated with the in-house Affimer therapeutic programmes which, in line with other therapeutics-based companies, are expensed given their pre-clinical stage of development. In addition, an amortisation charge of £1.14 million (2017: £0.66 million) has been recognised against previously capitalised development costs from the custom Affimer reagents and diagnostics programmes and new Animal Health allergy tests.

Furthermore, development costs amounting to £1.94 million (2017: £1.41 million) were capitalised within intangible assets.

Administrative expenses

Administrative expenses have increased during the year to £8.52 million (2017: £7.18 million) as the scale of the Affimer business operations in development, production and sales teams continued to build. Depreciation remained consistent at £0.97 million (2017: £0.93 million). Within administrative expenses an impairment charge of £0.82 million (2017: £nil) was recognised against goodwill in relation to the Avacta Animal Health business unit following an impairment review as the division phased out certain non-core tests/services during the year.

Losses before taxation

Losses before taxation from continuing operations for the year were £10.39 million (2017: £7.89 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 included within the consolidated income statement in respect of amounts received and receivable for the surrender of research and development expenditure was £1.56 million (2017: £1.53 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.

Cash flow

The Group reported cash and short-term deposit balances of £5.22 million at 31 July 2018 (2017: £13.17 million).

Operating cash outflows from operations amounted to £5.47 million (2017: £4.24 million). Within the net operating cash outflows there were cash receipts in respect of research and development tax credits amounting to £1.26 million (2017: £1.75 million) which represented the tax refund for the 2017 financial year, with the prior year reflecting tax refunds for both the 2015 and 2016 financial years.

During the year, capital expenditure remained at consistent levels at £0.58 million (2017: £0.66 million).

Financial position

Net assets as at 31 July 2018 have reduced to £21.41 million (2017: £29.89 million) as a result of the losses incurred during the year of £8.83 million and the corresponding reduction in cash and short-term deposits.

Events since the end of the financial year

On 30 July 2018, the Group announced that it had completed a fundraising of £11.6 million gross (£10.9 million net) through the placing of 38,952,724 Placing Shares and 7,520,000 Subscription Shares with new and existing institutional investors at a price of 25 pence per share. The issue of the new shares and receipt of the proceeds from the fundraising were received during August 2018.

Principal Risks and Uncertainties

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

Research and development	The Group's research and development activities are focused around the Affimer technology within the reagent, diagnostic and therapeutic areas. There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientists involved are unable to produce the results required for their internal development programmes or customer-related projects. The development teams continue to work on improving the core Affimer technology platform, with oversight from the Senior Management Team and Scientific Advisory Board.
Timing	There is a risk that the development of the Affimer technology may take longer than planned to meet the requirements of current and potential customers. Given the proprietary nature of the Affimer technology and its early stage development, it may take some time for customers to evaluate and utilise the technology instead of more established antibody technologies. This could delay the completion of commercial licences for the technology and the resultant revenues from these licences.
Intellectual property	The success of the Group's Affimer technology platform depends on its ability to obtain and maintain patent protection for its proprietary technology. Failure to protect the Affimer technology platform, or to obtain patent protection with a scope that is sufficiently wide, could significantly impact the ability to commercialise the technology. Should the patents be challenged, there could be a considerable cost in defending the patent rights, with an uncertain outcome. The Board regularly reviews the patent portfolio and its protection. Specialist patent attorneys are engaged to apply for and defend intellectual property rights in appropriate territories. The Board is also monitoring the Brexit position and what impact the UK leaving the European Union will have on the Group's patent portfolio and how this will impact its protection.

Funding	The development of the Group's Affimer technology, in particular in the therapeutic areas, is resource and cash intensive. As at 31 July 2018 the Group had cash and short-term deposits of £5.2 million and during August 2018 the fundraising announced on 30 July 2018 contributed a further £10.9 million (net of expenses) which will provide sufficient funds over the next 18 to 24 months to continue the current programmes. Should the Group decide to accelerate the Affimer platform development programme into additional therapeutic areas to increase shareholder value then further funding would need to be raised. As with all fundraising activities, there are external market and economic factors which may impact the timing and amount of funding available.
Key staff	The Group has in place an experienced and motivated Senior Leadership Team together with a growing number of highly skilled senior scientists. Loss of key staff could lead to a delay in the Group's plans and operations. The Group aims to provide remuneration packages and working conditions that will attract and retain staff of the required level, informally benchmarking the level of benefits provided to its staff against comparator companies. Recruitment of skilled staff from European countries to increase the Affimer development team has become more challenging given the uncertainty that surrounds the Brexit process and the UK's decision to leave the European Union.
Loss of facilities	Should the Group's facilities become damaged, the ability to carry on development programmes and meet customer deadlines may be affected. The Group has purpose-built facilities in both Wetherby and Cambridge and has business continuity plans in place together with adequate insurance to cover any business damage or interruption.

Key Performance Indicators

At this stage of the Group's development, the non-financial key performance indicators focus around the development of the Affimer technology and customer projects, together with the progress of the first Affimer drug candidate into Phase I clinical trials. In addition, the number of customers evaluating the Affimer technology which may lead to commercial licensing agreements is seen as a growing acceptance of the technology.

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

Alastair Smith
Chief Executive Officer
2 October 2018

Tony Gardiner
Chief Financial Officer
2 October 2018

Consolidated Income Statement for the year ended 31 July 2018

	Note	**2018** **£000**	2017 £000
Revenue		**2,763**	2,735
Cost of sales		**(893)**	(941)
Gross profit		**1,870**	1,794
Research and development costs		**(3,783)**	(2,597)
Administrative expenses		**(8,518)**	(7,178)
Operating loss		**(10,431)**	(7,981)
Financial income		**41**	88
Loss before taxation from continuing operations		**(10,390)**	(7,893)
Taxation		**1,561**	1,526
Loss and total comprehensive loss for the year attributable to equity shareholders		**(8,829)**	(6,367)
Loss per ordinary share:			
• Basic and diluted	4	**(13.49p)**	(9.77p)

Consolidated Balance Sheet as at 31 July 2018

	2018	2017
	£000	£000
Non-current assets		
Intangible assets	**12,204**	12,299
Property, plant and equipment	**3,054**	3,453
	15,258	15,752
Current assets		
Inventories	**187**	158
Trade and other receivables	**1,288**	1,277
Income taxes	**1,500**	1,200
Short-term deposits	**-**	4,000
Cash and cash equivalents	**5,220**	9,166
	8,195	15,801
Total assets	**23,453**	31,553
Current liabilities		
Trade and other payables	**(2,040)**	(1,664)
Total liabilities	**(2,040)**	(1,664)
Net assets	**21,413**	29,889
Equity attributable to equity holders of the Company		
Share capital	**6,976**	6,917
Share premium	**770**	633
Capital reserve	**1,899**	1,899
Other reserve	**(1,729)**	(1,729)
Reserve for own shares	**(2,802)**	(2,651)
Retained earnings	**16,299**	24,820
Total equity	**21,413**	29,889

Consolidated Statement of Changes in Equity for the year ended 31 July 2018

	Share capital £000	Share premium £000	Other reserve £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 1 August 2016	6,915	621	(1,729)	1,899	(2,651)	30,801	35,856
Total transactions with owners, recorded directly in equity:							
Issue of shares	2	12	-	-	-	-	14
	2	12	-	-	-	-	14
Total comprehensive loss for the period	-	-	-	-	-	(6,367)	(6,367)
Share-based payment charges	-	-	-	-	-	386	386
At 31 July 2017	**6,917**	**633**	**(1,729)**	**1,899**	**(2,651)**	**24,820**	**29,889**
Total transactions with owners, recorded directly in equity:							
Issue of shares	2	9	-	-	-	-	11
Exercise of share options	34	-	-	-	-	-	34
Own shares acquired	23	128	-	-	(151)	-	-
	59	137	-	-	(151)	-	45
Total comprehensive loss for the period	-	-	-	-	-	(8,829)	(8,829)
Share-based payment charges	-	-	-	-	-	308	308
At 31 July 2018	**6,976**	**770**	**(1,729)**	**1,899**	**(2,802)**	**16,299**	**21,413**

Consolidated Statement of Cash Flows for the year ended 31 July 2018

	2018	2017
	£000	£000
Cash flow from operating activities		
Loss for the year	**(8,829)**	(6,367)
Amortisation and impairment losses	**1,885**	651
Depreciation	**971**	932
Loss on disposal of property, plant and equipment	**6**	11
Loss on disposal of intangible assets	**155**	-
Equity-settled share-based payment charges	**308**	386
Financial income	**(41)**	(88)
Income tax credit	**(1,561)**	(1,526)
Operating cash outflow before changes in working capital	**(7,106)**	(6,001)
(Increase)/decrease in inventories	**(29)**	110
Increase in trade and other receivables	**(11)**	(125)
Increase/(decrease) in trade and other payables	**376**	(58)
Operating cash outflow from operations	**(6,770)**	(6,074)
Finance income received	**41**	88
Income tax received	**1,261**	1,745
Cash flows from operating activities	**(5,468)**	(4,241)
Cash flows from investing activities		
Purchase of plant and equipment	**(578)**	(658)
Development expenditure capitalised	**(1,945)**	(1,470)
Decrease in balances on short-term deposit	**4,000**	6,000
Net cash flow from investing activities	**1,477**	3,872
Cash flows from financing activities		
Proceeds from issue of shares	**45**	14
Net cash flow from financing activities	**45**	14
Net (decrease)/increase in cash and cash equivalents	**(3,946)**	(355)
Cash and cash equivalents at the beginning of the year	**9,166**	9,521
Cash and cash equivalents at the end of the year	**5,220**	9,166

Notes to the preliminary results to 31 July 2018

1 General information

These preliminary results have been prepared on the basis of the accounting policies which are to be set out in Avacta Group plc's annual report and financial statements for the year ended 31 July 2018.

The consolidated financial statements of the Group for the year ended 31 July 2018 were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the EU ("adopted IFRSs") and applicable law.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 July 2018 or 2017 but is derived from those financial statements. Statutory financial statements for 2017 have been delivered to the Registrar of Companies and distributed to shareholders, and those for 2018 will be respectively delivered and distributed on or before 1 December 2018. The auditors have reported on those financial statements and their reports were:

(i) unqualified;
(ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and
(iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect if the financial statements for 2017 or 2018.

2 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

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

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

Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. The forecasts include assumptions regarding the status of customer development projects and sales pipeline, future revenues and costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. The forecasts also include assumptions regarding the timing and quantum of investment in the Affimer research and development programme. Whilst there are inherent uncertainties regarding the cash flows associated with the development of the Affimer platform, together with the timing of signature and delivery of customer development projects and future collaboration transactions, the Directors are satisfied that there is sufficient discretion and control as to the timing and quantum of cash outflows to ensure that the Group are able to meet their liabilities as they fall due for the foreseeable future.

The Financial Reporting Council issued *'Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks - Guidance for Directors of companies that do not apply the UK Corporate Governance Code*' in April 2016, and the Directors have considered this when preparing these financial statements. These have been prepared on a going concern basis, notwithstanding the loss for the period ended 31 July 2018. The Directors have taken steps to ensure that they believe the going concern basis of preparation remains appropriate, and that the carrying value of intangibles remains supported by future cash flows. The key conclusions are summarised below

- The Group continues to develop its Affimer platform technology. This is expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows.

- As at 31 July 2018 the Group's short-term deposits and cash and cash equivalents were £5.22 million (2017: £13.17 million).
- In August 2018, following completion of a fund raise, a further £10.9m (net of expenses) was raised to support the development of the Affimer platform technology.
- The Directors have prepared sensitised cash flow forecasts extending to the end of the financial year ended 31 July 2020. These show that the Group has sufficient funds available to meet its obligations as they fall due into the 2020 calendar year.
- 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.
- There are not believed to be any contingent liabilities which could result in a significant impact on the business if they were to crystallise.

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

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

- IFRS 2 Share-based Payment Amendments to clarify the classification and measurement of share-based payment transactions (effective date 1 January 2018).
- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date 1 January 2019).
- IFRS 17 Insurance Contracts (effective date 1 January 2021).

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

IFRS15 Revenue from Contracts with Customers – effective for the year ended 31 July 2019

The review of IFRS 15 is ongoing and the Directors have undertaken an assessment of the impact of the standard on the Group based on the standard's latest authoritative guidance. The Group will adopt IFRS 15 on 1 August 2018 and will restate any comparative figures for the year ended 31 July 2018 where relevant.

The underlying business models of the Group are not affected by the implementation of IFRS15 nor is cash generation of the business. The directors are finalising the assessments of the review and expect these to show that there will be no material impact on the way revenues are recognised across the Group.

3 Segmental Reporting

In the view of the Board of Directors, the Group has two distinct reportable segments, which are Life Sciences and Animal Health, and segment reporting has been presented on this basis. The Directors recognise that the operations of the Group are dynamic and therefore this position will be monitored as the Group develops.

Operating segment analysis 2018

	Life Sciences £000	Animal Health £000	**Total £000**
Sale of goods	-	825	**825**
Provision of services	1,194	744	**1,938**
Revenue	**1,194**	**1,569**	**2,763**
Cost of goods sold	(367)	(526)	**(893)**
Gross profit	**827**	**1,043**	**1,870**
Research and development costs	(3,323)	(460)	**(3,783)**
Administrative expenses	(4,648)	(1,261)	**(5,909)**
Segment operating loss	**(7,144)**	**(678)**	**(7,822)**
Corporate and other unallocated items			**(2,609)**
Operating loss			**(10,431)**
Finance income			**41**
Loss before taxation			**(10,390)**
Taxation			**1,561**
Amount attributable to equity holders of the Company			**(8,829)**

	Life Sciences £000	Animal Health £000	**Total £000**
Segment intangible assets	9,096	3,103	**12,199**
Segment other assets	5,259	537	**5,796**
Segment assets	**14,355**	**3,640**	**17,995**
Corporate and other unallocated items			**5,458**
Total assets			**23,453**
Segment liabilities	**(1,216)**	**(255)**	**(1,471)**
Corporate and other unallocated items			**(569)**
Total liabilities			**(2,040)**

Operating segment analysis 2017

	Life Sciences £000	Animal Health £000	**Total £000**
Sale of goods	-	770	**770**
Provision of services	1,148	817	**1,965**
Revenue	**1,148**	**1,587**	**2,735**
Cost of goods sold	(423)	(518)	**(941)**
Gross profit	**725**	**1,069**	**1,794**
Research and development costs	(2,266)	(331)	**(2,597)**
Administrative expenses	(3,978)	(1,263)	**(5,241)**
Segment operating loss	**(5,519)**	**(525)**	**(6,044)**
Corporate and other unallocated items			**(1,937)**
Operating loss			**(7,981)**
Finance income			**88**
Loss before taxation			**(7,893)**
Taxation			**1,526**
Amount attributable to equity holders of the Company			**(6,367)**

	Life Sciences £000	Animal Health £000	**Total £000**
Segment intangible assets	8,238	4,043	**12,281**
Segment other assets	5,407	392	**5,799**
Segment assets	**13,645**	**4,435**	**18,080**
Corporate and other unallocated items			**13,473**
Total assets			**31,553**
Segment liabilities	**(869)**	**(222)**	**(1,091)**
Corporate and other unallocated items			**(573)**
Total liabilities			**(1,664)**

4 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').

The Company has issued options to employees over 4,709,820 ordinary shares (2017: 4,816,953) which are potentially dilutive, further details are set out in Note 4. The earnings per ordinary share are the same as the diluted earnings per ordinary share because the effect of potentially issuable shares is anti-dilutive given there is a loss for each of the periods.

	2018	2017
Loss (£000)	**(8,829)**	(6,367)
Weighted average number of shares (number)	**65,437,007**	65,157,533
Basic and diluted loss per ordinary share (pence)	**(13.49p)**	(9.77p)

- Ends -