Shaping the future of medicine

2022 Report & Accounts

Avacta®

Contents

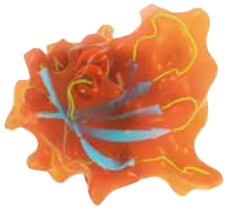
Highlights - Avacta Therapeutics

A clinical stage oncology drug company developing innovative cancer therapies based on its two proprietary technology platforms: pre|CISION™ and Affimer®

Pre-clinical data regarding AVA6000 was presented at the **American Association for Cancer Research** ('AACR') 2022 Annual Meeting and the Theranostics FAP Summit.

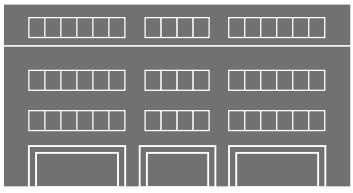
The first-in-human **Phase I clinical trial (ALS-6000-101)** progressed through the dosing of four cohorts (80 mg/m^2 up to 200 mg/m^2) following **positive reviews** of safety and tolerability data.

Avacta's lead pre|CISION™ programme, **AVA6000** – a tumour microenvironment activated form of a chemotherapeutic agent, doxorubicin



The **US Food and Drug Administration ('FDA')** granted Orphan Drug Designation ('ODD') to **AVA6000** for treatment of soft tissue sarcoma.

The next pre|CISION™ drug candidate, **AVA3996**, a tumour-targeted proteasome inhibitor based on bortezomib, was **selected for pre-clinical development** aiming for an Investigational New Drug Application in late 2023 to 2024.



The Therapeutics Division relocated in April 2022 to new facilities at Scale Space, in **Imperial College's White City Campus in London,** bringing together the research and development teams in a single site.

Operating highlights

$2 million

LG Chem Life Sciences ('LG Chem'), the life sciences division of the South Korean LG Group, exercised its renewal option as part of the ongoing collaboration with Avacta, triggering a **licence renewal fee** payment to Avacta of $2 million.

LG Chem

Events after the reporting period

Analysis of tumour biopsy material shows that the active chemotherapy, doxorubicin, is being released in the tumour microenvironment, confirming the **tumour-targeting potential** of the pre|CISION™ technology.

Presented pre-clinical data regarding **AVA3996** at the **AACR 2023** Annual Meeting.

In February 2023, hosted a **Science Day for fund managers and analysts** providing a detailed review of the ongoing **Phase I clinical trial (ALS-6000-101)** and update on preclinical programmes.

Announced the opening of the first two **US clinical investigator sites** for patient enrolment.

Announced the completion of the fourth dose escalation cohort of the Company's **Phase I clinical trial (ALS-6000-101)** in January 2023.

First patient was dosed in fifth cohort of **AVA6000** Phase 1a dose escalation study at 250mg/m^2 in April 2023.

£3.60 million

Avacta's shareholding in AffyXell increased to 19% following the triggering of a **milestone equity payment of £3.60 million.**

The strategic partnership with **GenScript ProBio**, a leading biopharmaceutical manufacturer was expanded.

AffyXell

DAEWOONG

AffyXell Therapeutics ('AffyXell'), the joint venture between Avacta and Daewoong Pharmaceutical ('Daewoong')

Successfully completed a funding round to advance its lead **mesenchymal stem cell ('MSC') programme** towards the clinic, and to develop its wider pre-clinical pipeline of cell therapies.

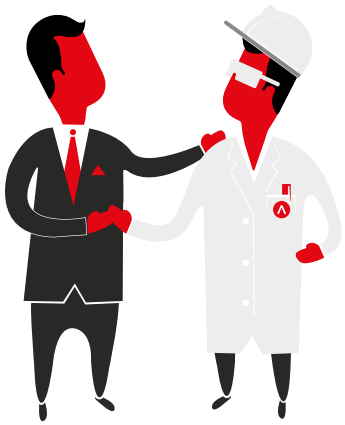
Entered into collaborations with **Biocytogen,** a Chinese company specialising in developing new biological drugs, and with the **Korea Non-Clinical Technology Solution Center** ('KNTSC').

Highlights - Avacta Diagnostics

Avacta Diagnostics Division initiates an M&A-led growth strategy to build a European IVD business serving both healthcare professionals and consumers, and completes its first acquisition of Launch Diagnostics.

Operating highlights

Avacta Diagnostics built an extensive pipeline of further acquisition opportunities to feed its **M&A-led growth strategy**.



In October 2022, the Group **acquired Launch Diagnostics**, a leading independent IVD distributor serving hospital pathology laboratories in the UK and France for an initial cash consideration of £24 million payable upon completion, in addition to consideration for other short-term non-operating assets of £0.9 million.

Through its Diagnostics Division, the Group initiated a long-term **'buy and build' strategy** in the fragmented European diagnostics sector with a vision to build a substantial *in vitro* diagnostics ('IVD') business, with global reach, serving centralised pathology laboratories in hospital settings and decentralised testing in GP clinics, pharmacies and by consumers themselves.

Financial & corporate highlights

Operating loss of **£32.6 million**.

(2021: £29.1 million).

Cash and short-term deposit balances at 31 December 2022 of **£41.8 million.**

(31 December 2021: £26.2 million).

Revenues of **£9.7 million.**

(2021: £2.9 million).

Loss per ordinary share from continuing operations of **15.5p**

(2021: 10.6p).

Reported loss from continuing operations of **£39.5 million**.

(2021: £26.4 million).

Adjusted EBITDA loss (before non-cash and non-recurring items) of **£15.1 million**.

(2021: £21.7 million).

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 in March 2022.

In October 2022, Avacta completed a fundraise of **£61.3 million** (gross) through a combination of:

£9.0 million through a placing to new and existing shareholders and open offer.

£55.0 million senior unsecured convertible bonds issued at a 5% discount from a fund advised by Heights Capital Ireland LLC (equating to £52.25 million post-discount).

pre|CISION™ Technology

Tumour microenvironment activated cancer therapies that transform patient outcomes

Avacta's proprietary pre|CISION™ technology platform is enabling first-in-class cancer therapies that boost efficacy and minimise off-target toxicity.

The pre|CISION™ tumour microenvironment activated chemotherapy platform releases the active drug only within the tumour microenvironment – limiting systemic exposure and enhancing the safety and therapeutic potential of treatments for oncology indications. Avacta is now in the clinic with its lead pre|CISION™ programme, AVA6000 – a tumour-activated form of doxorubicin.

Incorporating a substrate that is sensitive to cleavage by fibroblast activation protein ('FAPα'), pre|CISION™ is innovating an FAPα-activated approach to delivering cancer therapies – preventing the drug from entering cells and rendering it inert until the substrate is cleaved in the tumour microenvironment. In this way, systemic exposure to the therapy is dramatically reduced, and the safety and therapeutic window of powerful anti-cancer treatments is improved.

The high modularity of the platform offers the potential to use the precision substrate on a range of therapeutic agents for the next generation of tumour microenvironment activated drug technologies.

pre|CISION™ at a glance

Key advantages:

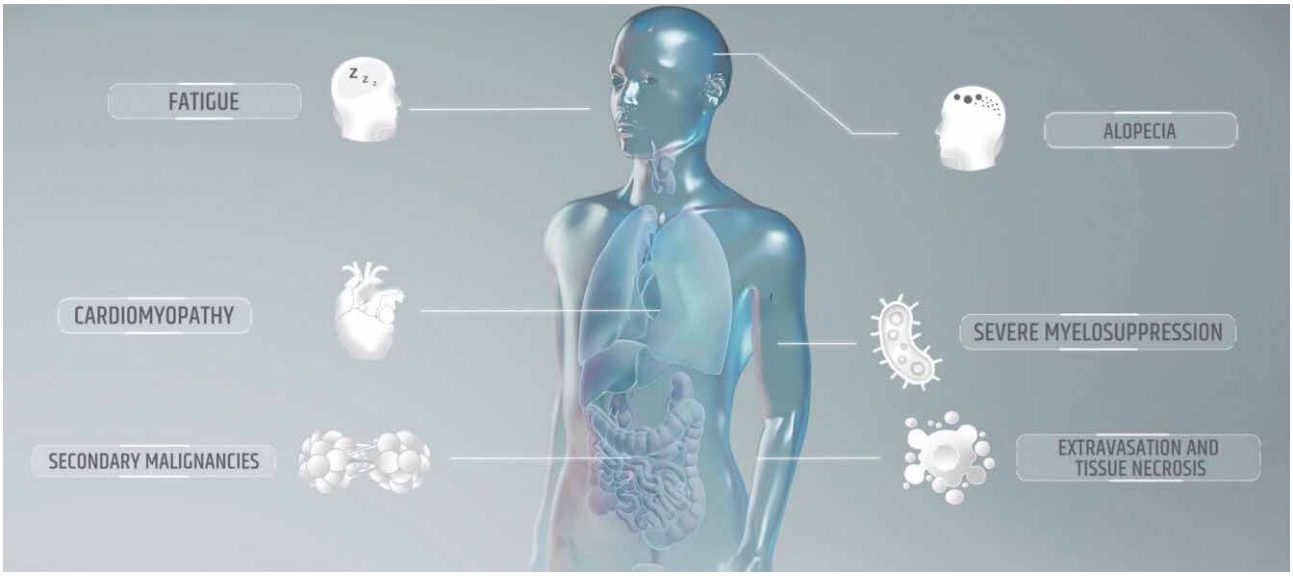
- Tumour microenvironment activated – localised release of therapeutic agents in the tumour, including chemotherapies, small molecules and other agents
- FAPα-activated form of chemotherapies – limiting systemic exposure
- Potential to significantly increase safety and therapeutic potential of cancer treatments

pre|CISION™

Fibroblast Activation Protein ('FAPα')

Pipeline

Programme	Research	Pre-clinical	Phase 1	Phase 2	Partner
pre|CISION™ AVA-6000 - FAPα activated doxorubicin					
pre|CISION™ AVA-3996 - FAPα activated proteasome inhibitor					
AVA-028 - PD-L1 Affimer® / ImmunoCytokines					
AVA-021 - PD-L1 Affimer® / LAG-3 Affimer®					
TMAC® platform					
Undisclosed targets					
LR19128 PD-L1 XT®					LG Chem
Undisclosed targets					LG Chem
AFX-001 Solid Organ Transplant					DAEWOONG
AFX-001 Graft vs Host Disease					DAEWOONG
AFX-002 Multiple Sclerosis					DAEWOONG



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).***

The Affimer® platform at a glance

Key advantages

- **Affimer® proteins can be made to be exquisitely specific.**
- **Affimer® proteins can be generated to bind to targets that have proven very difficult for antibodies.**
- **Affimer® proteins can be linked to create multi-specific therapeutics that address more than one target**
- **Affimer® proteins have excellent properties for drug development:**
    - **They can quickly be generated to bind to a target of interest.**
    - **They have a tuneable serum half-life.**
    - **They are relatively cheap to manufacture.**
    - **They are robust, stable and highly soluble.**
    - **They have no post-translational modifications.**
    - **The core Affimer® protein is human and therefore the risk of immunogenicity is lowered.**

Investment Proposition

Affimer® pre|CISION™

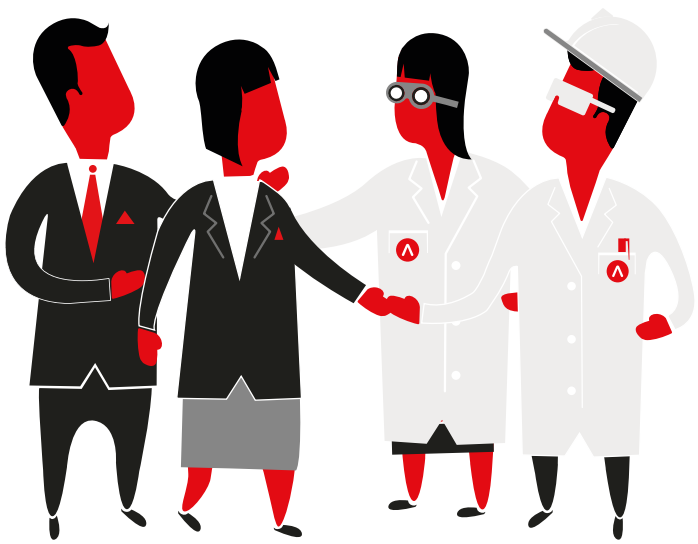
Our Mission is to improve patients' lives and grow shareholder value by developing novel cancer therapies and powerful diagnostics using our proprietary Affimer® and pre|CISION™ platforms.

Investment opportunity

- Avacta operates through two separate divisions in both the oncology drug development market and the diagnostics sector.
- The Diagnostics Division is growing through an M&A-led strategy with a vision to build a European *in vitro* diagnostics ('IVD') business with global reach serving both professionals and consumers.
- The Therapeutics Division is leveraging Avacta's proprietary technologies to develop innovative oncology drugs that transform treatment outcomes to improve cancer patients' lives.

Technology platforms

- Avacta has two proprietary platform technologies – the Affimer® and pre|CISION™ platforms – which are being used to deliver a robust portfolio of differentiated therapeutic and diagnostic products that address 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.



Therapeutics Division

- Avacta Therapeutics' strategy is to build an in-house pipeline of first-in-class and best-in-class targeted cancer therapies and immunotherapies, and to accelerate the development of its platform technologies by working with partners.
- 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 2023 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 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 candidates to grow its innovative therapeutic pipeline.
- Avacta has a partnership with LG Chem which is developing Avacta's AVA004 PD-L1 antagonist with Affimer XT® half-life extension. Avacta also has a joint venture with Daewoong Pharmaceutical called AffyXell, which is developing next generation stem cell therapies that have been engineered to express and secrete immunomodulatory Affimer proteins targeting CD40L and TNFR. Both partnerships' first programmes are at the IND-enabling stage.
- Avacta has also licensed its pre|CISION™ platform in a tightly defined agreement with POINT Biopharma to develop tumour microenvironment targeting of radionucleotides.

Diagnostics Division

- There are many factors driving growth in the diagnostic sector, such as an aging population, the increasing incidence of chronic and infectious diseases, the influence of tech companies through digital health devices and the increase in awareness of self-testing in a post-pandemic world.
- The diagnostics sector is quite fragmented with a large number of small and medium-sized companies, which provides ideal conditions for an M&A-led growth strategy to consolidate European diagnostics SMEs in a market with strong future growth drivers.
- The Group has a platform and an experienced management team to execute an M&A-led strategy to build a leading European IVD business.
- Integrating the unique Affimer® platform to develop new immunodiagnostic products and to help differentiate acquired products gives a clear advantage in a competitive market.
- Initiating its M&A-led growth strategy in October 2022, Avacta completed the acquisition of UK-based IVD distributor Launch Diagnostics ('Launch'), which has provided Avacta with well-established sales channels in the professional, centralised hospital laboratory testing market in the UK and France.
- Avacta Diagnostics continues to actively pursue other opportunities that add the other pieces of the jigsaw to build a fully integrated diagnostics business. These focus on expanding our routes to market in Europe for both professional and consumer testing products, while adding further IVD products suitable for these markets to our portfolio.

Strategic Report

Chairman's Statement

I firmly believe that our pre|CISION™ and Affimer® technology platforms have the real potential to deliver an extensive pipeline of oncology drugs that will make a meaningful difference to cancer patients' lives. The AVA6000 clinical data to date is looking very promising, and as we progress into the Phase Ib study and demonstrate efficacy this will open up the commercial opportunities for AVA6000 and the pre|CISION™ technology platform.

As a Board and company, we understand the very different risk and return profiles of the Therapeutics and Diagnostics Divisions and we will ensure that there is appropriate allocation of capital between them so that we can deliver both near-term and long-term value inflection points across the Group.

In the Therapeutics and Diagnostics teams we have the strength and experience that is needed to deliver full value from our technology platforms. With these teams and the experienced Board that we have brought together, the future prospects for Avacta are very positive indeed.

Dr Eliot Forster
Chairman

28 April, 2023

Chief Executive Officer's Statement

Avacta has made substantial progress during 2022 in both its Therapeutics and Diagnostics Divisions.

The favourable safety profile emerging from the Phase Ia dose escalation study of AVA6000, the Company's lead pre|CISION™ tumour-activated chemotherapy, indicates that tumour-specific activation of the chemotherapy by FAPα is significantly reducing the exposure of healthy tissues to the chemotherapy. Furthermore, analysis of tumour biopsies has confirmed that the active chemotherapy is being released at therapeutically relevant levels in the tumour tissue. These data combined are very encouraging, if early, signs for both AVA6000 as a safer form of doxorubicin and for the pre|CISION™ platform and its potential pipeline as a whole.

The safety and tolerability of AVA6000 for patients has meant that a maximum tolerated dose has not been reached as anticipated within the first four dose escalation cohorts. We are now in a position to proceed beyond the fourth cohort in the dose escalation study to even higher doses than originally anticipated, which is an unexpected and very positive development reflecting the very positive safety data that are emerging from the trial.

The Diagnostics Division initiated an M&A-led growth strategy to capitalise on the opportunity to consolidate in a fragmented European diagnostics sector. The Company set out a vision to build a substantial European IVD business serving both clinicians and consumers with pathology laboratory solutions for disease diagnostics and home testing to improve fitness, health and well-being.

In October 2022, Avacta completed a fundraise of £61.3 million (gross) through a combination of convertible bonds and a placing to new and existing shareholders with an open offer, primarily to fund the Diagnostics M&A strategy. Simultaneously the Company completed its first acquisition – of the UK's largest independent IVD distributor, Launch Diagnostics – which has provided Avacta with well-established sales channels in the professional, centralised hospital laboratory testing market in the UK and France.

Avacta Animal Health

In March 2022, we sold our Animal Health Division to Vimian Group AB's specialty pharma segment Nextmune, a global veterinary health group headquartered in Sweden. The Animal Health Division had been a part of the Group since 2009. All the staff in the Animal Health Division moved across to Vimian 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 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

I am proud of our people and thank them all for their hard work and commitment which resulted in the strong progress made in 2022. I am also delighted to welcome new colleagues in Launch Diagnostics to the Avacta family. We will continue to invest in developing our people, providing a positive work environment and rewarding careers.

Outlook

The Board believe that the significant near-term value driver for the Group is the clinical data from the Phase I study of AVA6000. The pre|CISION™ FAPα-activation approach has the potential to reduce the systemic toxicities associated with many chemotherapies and as such has the potential to create safer and more effective oncology treatments that are affordable for all.

The outlook for AVA6000 and the pre|CISION™ platform as a whole looks very promising based on the safety, pharmacokinetic and tumour biopsy data obtained to date. The next significant value driver for AVA6000 will be the initial efficacy data from the Phase Ib dose expansion phase in patients with soft tissue sarcoma.

Avacta Diagnostics continues to actively pursue other M&A opportunities to build a fully integrated and differentiated European diagnostics business. These focus on expanding our routes to market for both professional and consumer testing products, while adding further IVD products suitable for these markets to our portfolio.

I believe that the progress made during 2022 puts the Group in a very strong position and we are confident and excited about the future.

Dr Alastair Smith
Chief Executive Officer

28 April, 2023

Operational Review

Business overview

Avacta is a healthcare group developing innovative cancer drugs and powerful *in vitro* diagnostics to improve human health and well-being. Avacta is addressing these key challenges in healthcare through two separate divisions:

Avacta's Therapeutics Division, based in White City, London in the UK, develops novel cancer therapies using its two proprietary platforms – Affimer® biotherapeutics and pre|CISION™ tumour-targeted chemotherapy. With this approach, the Company aims to address the lack of a durable response to current immunotherapies experienced by most patients.

The Affimer® platform is a novel class of biotherapeutic based on a naturally occurring human protein. It is Avacta's proprietary therapeutic platform, with its intellectual property covered by several patent families. Using the Affimer® platform, Avacta is focusing on immunotherapies in the fight against cancer.

Avacta's proprietary pre|CISION™ targeted chemotherapy platform releases an active drug in the tumour, thereby reducing systemic exposure and improving the overall safety and therapeutic potential of these powerful anti-cancer treatments. Avacta took its first pre|CISION™ drug candidate AVA6000, a targeted form of the standard-of-care doxorubicin, in clinic in summer 2021. The Company anticipates the results of this Phase I study, which will demonstrate safety and mechanism of action, late in 2023 . This will pave the way for further clinical development of AVA6000 and other pre|CISION™ targeted chemotherapies.

There is potential to combine these two platforms, with the aim creating effective treatments for all cancer patients including those who do not respond to existing immunotherapies.

Avacta's Diagnostics Division, based in Wetherby in the UK, is using the Affimer® platform to develop market-leading diagnostic products.

Alongside this organic growth strategy, Avacta is delivering an ambitious M&A-led growth strategy to consolidate in the fragmented European diagnostics sector, with the aim of building a substantial *in vitro* diagnostics business with global reach and delivering significant value to shareholders.

Avacta Diagnostics' M&A strategy is focused on the highest value parts of the diagnostics value chain – innovative product development and commercial routes to market. In this competitive market, the Affimer® platform provides a powerful tool to differentiate diagnostic products to gain competitive advantage and grow market share of acquired immunodiagnostic businesses.

Initiating its M&A-led growth strategy in October 2022, Avacta completed the acquisition of UK-based IVD distributor Launch Diagnostics, which has provided Avacta with well-established sales channels in the professional, centralised hospital laboratory testing market in the UK and France.

Avacta Diagnostics continues to actively pursue other opportunities that add the other pieces of the jigsaw to build a fully integrated diagnostics business. These focus on expanding our routes to market in Europe for both professional and consumer testing products, while adding further IVD products suitable for these markets to our portfolio.

Avacta Therapeutics

Therapeutics Division

Wholly-owned Therapeutic Pipeline

Avacta Therapeutics Division aims to leverage its two proprietary technology platforms, pre|CISION™ and Affimer®, to develop innovative oncology therapies that make a significant difference to cancer patients' treatment experience and outcomes.

The Therapeutics Division relocated its research activities from Cambridge to White City in London in April 2022, which has brought the research and drug development teams together at a single site. The relocation was completed on schedule with minimal down-time and the Therapeutics Division has rapidly settled into its new, world-class facilities. The team has also been expanded to include experienced drug development professionals, including a Head of Chemistry, a Head of Biology, Head of IT and a Vice-President Legal and Intellectual Property.

The team, supported by the Board and a world-class Scientific Advisory Board chaired by Dr Mike Owen, is committed to developing tumour-activated drugs using the prec|CISION™ platform and novel immunotherapies and drug conjugates using the Affimer® platform, and will focus resources on its clinical and most advanced pre-clinical programmes to achieve near-term value inflection points.

AVA6000 FAPα-activated doxorubicin - the lead pre|CISION™ programme

Anthracyclines such as doxorubicin, a generic chemotherapy for which the broader 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, by cardiotoxicity. Avacta's pre|CISION™ FAPα-activated approach is designed to reduce the systemic exposure of healthy tissue to the active chemotherapy, leading to improved dosing regimens, and potentially improved safety and therapeutic profiles.

The ALS-6000-101 Phase I clinical trial involves a dose-escalation Phase I study in patients with locally advanced or metastatic-selected solid tumours, known to be FAPα-positive, in which cohorts of patients receive ascending doses of AVA6000 to determine the maximum tolerated dose and establish a recommended Phase Ib dose. The second part of the study is an expansion phase where patients receive AVA6000 to further evaluate the safety, tolerability and clinical efficacy at this recommended Phase Ib dose in soft tissue sarcoma. For more information visit www.clinicaltrials.gov (NCT04969835).

Soft-tissue sarcoma is a relatively rare mesenchymal malignancy which accounts for less than 1% of all adult tumours. Despite the successful advancement of localised therapies, such as surgery and radiotherapy, these tumours can recur, often with metastatic disease. The American Cancer Society estimates that in 2022 approximately 13,190 new soft tissue sarcomas were diagnosed and about 5,130 people were expected to die of the disease in the US.

The Phase Ia dose escalation study is being carried out at several sites in the UK: The Royal Marsden NHS Foundation Trust in London, The Christie NHS Foundation Trust in Manchester, St James' Hospital in Leeds, The Beatson in Glasgow and The Freeman in Newcastle.

The starting dose with cohort 1 was 80 mg/m^2 of AVA6000, which is equivalent to 54 mg/m^2 of doxorubicin (about 90% of the normal doxorubicin dose). The Safety Data Monitoring Committee ('SDMC') reviewed the data from cohort 1 in February 2022 and recommended that the dose was escalated to 120 mg/m^2, subsequently recommending that the trial progress to the third cohort in June 2022 at a dose of 160 mg/m^2. In August 2022, the third cohort was completed and the SDMC approved dose escalation to 200mg/m^2 in the fourth cohort. The results of the fourth cohort were announced immediately post-period end on 17 January 2023. In April 2023, the SDMC recommended dose escalation to 250 mg/m^2 in the fifth cohort.

The data emerging from the dose escalation study show a very favourable safety profile. AVA6000 in the four cohorts has been well tolerated by patients, with a marked reduction in the incidence and severity of the typical toxicities associated with the standard doxorubicin chemotherapy administration. Typical toxicities include alopecia, myelosuppression, nausea, vomiting, mucositis and cardiotoxicity. Importantly, even at the highest dosing levels in the fourth cohort, equivalent to more than double the normal dose of doxorubicin, the typical drug-related cardiotoxicity of doxorubicin was not observed.

Critically, analysis of a number of tumour biopsies obtained from patients in different cohorts has confirmed the release of the active chemotherapy,

doxorubicin, in the tumour tissue. This analysis shows that AVA6000 targets the release of doxorubicin to the tumour tissue at therapeutic levels which are much higher than the levels being detected in the bloodstream at the same timepoint.

On the basis of the very favourable safety profile of AVA6000 in the study to date, the SDMC has recommended continuation to higher dose cohorts with the aim of identifying a maximum tolerated dose ('MTD') necessary to inform the dosing levels for the Phase Ib and future studies. The Medical and Healthcare products Regulatory Agency approved a modification to the clinical trial protocol to allow the study to continue into additional higher dose cohorts. The Company expects to complete these cohorts and identify the MTD in the first half of 2023.

Following approval by the US Food and Drug Administration ('FDA') of an Investigational New Drug ('IND') application, two clinical trial sites in the US were being prepared to join the ALS-6000-101 study at the Memorial Sloane Kettering Cancer Center in New York and the Fred Hutchinson Cancer Center in Seattle, with both sites confirmed open to recruiting patients post-period end in April 2023.

The FDA has also granted Orphan Drug Designation ('ODD') to the Company's lead pre|CISION™ drug candidate, AVA6000, for treatment of soft tissue sarcoma. The FDA can grant ODD based on a review of preclinical data from investigational treatments for rare diseases, such as soft tissue sarcoma, which are defined as conditions affecting fewer than 200,000 people in the US. This designation qualifies the developer of the drug for certain incentives, including seven years of market exclusivity upon drug approval from the FDA.

Pipeline of pre|CISION™ chemotherapies

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.

Emerging data from the AVA6000 Phase Ia study indicate that the pre|CISION™ chemistry is effective in reducing systemic exposure to the chemotherapy, creating the opportunity to apply it to a wide range of other established chemotherapies to potentially improve their safety and efficacy.

The next most advanced pre|CISION™ pro-drug candidate is AVA3996, a FAPα-activated proteasome inhibitor based on an analogue of Velcade.

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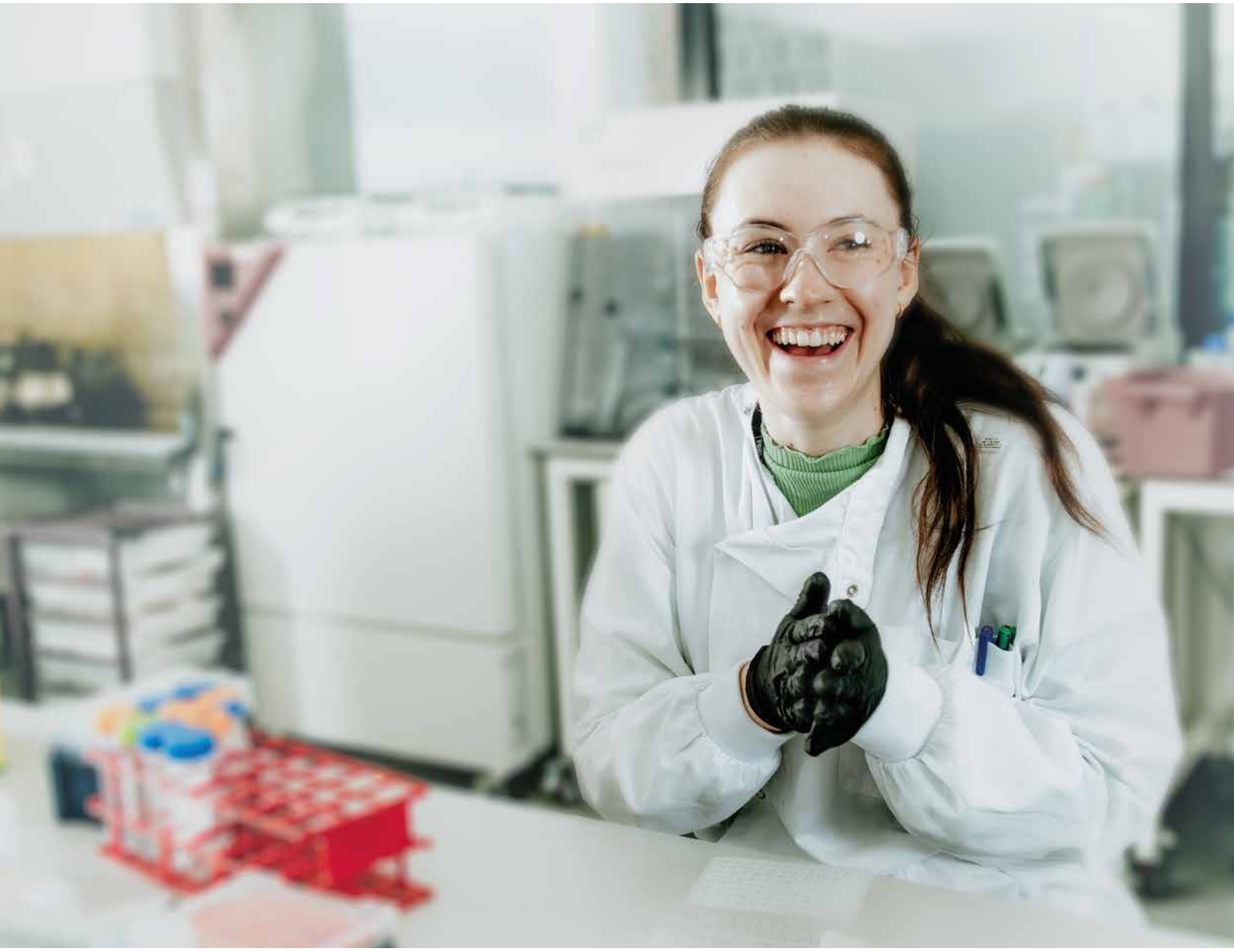


Therapeutics Division (Cont)

In January 2022, 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 IND filing in 2023 and dosing of the first patient as soon thereafter as possible.

The global proteasome inhibitors' market size is expected to be worth $2.3 billion by 2026, and Velcade represents just over half of that market[1]. 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 in treating 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.

During 2022, AVA3996 was studied in several animal efficacy models for melanoma, colorectal cancer and sarcoma. In each of these cancer models AVA3996 was as effective as Velcade in preventing growth of the human tumour implanted in the mice. However, whereas the systemic toxicities caused by Velcade resulted in significant body weight loss in the animals, treatment with AVA3996 showed no such toxicities. It is this potential improvement in therapeutic window of AVA3996 created by the tumour targeting of the proteasome inhibitor that holds promise for the first effective use of a proteasome inhibitor in solid tumours.

The Company is continuing its pre-clinical development of AVA3996 with the aim of an IND filing late in 2023 or 2024 and anticipated first-in-human clinical trial starting in 2024. Post period end in April 2023, pre-clinical data for AVA3996 was presented at the 2023 American Association for Cancer Research (AACR) Annual Meeting in Florida, USA, one of the largest international cancer research meetings.

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 and represents a key value inflection point for the Affimer technology.

In the oncology field recent studies have shown that single cancer immunotherapies, or 'monotherapies', have potentially limited overall response rates. The Company's Affimer® immunotherapy strategy aims to harness the benefits of the Affimer® platform to build bispecific drug molecules which can address two drug targets simultaneously, and to use Affimer® molecules to target toxic payloads using conventional and pre|CISION™ linkers.

Whilst the Company is prioritising its pre|CISION™ programmes as the nearest term driver of key value inflection points, good progress has been made in the in-house Affimer® bispecific and TMAC® pre-clinical programmes which, along with the Company's commercial collaborations, are a key part of in-house research activities.

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

Therapeutics Division (Cont)

AVA6000 Clinical Trial Update

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 removes 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 both healthy and tumour cells. One of the most serious side effects of doxorubicin is cardiomyopathy, whereby the heart muscle is damaged by the toxic effects of the doxorubicin, leading to a loss of cells in the heart muscle and ultimately irreversible 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 FAP-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's healthy tissues to lower concentrations of doxorubicin and associated toxicities. AVA6000 is expected to have a larger therapeutic window in comparison with available doxorubicin treatments. Non-clinical studies have shown that the toxicity of AVA6000 is significantly reduced compared to conventional doxorubicin. Furthermore, the anti-tumour activity of elevated doses of AVA6000 significantly exceeded the modest effect of doxorubicin administered at its maximum tolerated dose, in a mouse xenograft efficacy model.

AVA6000 clinical development

A 'first-in-human' ('FIH') dose escalation study of AVA6000 is currently recruiting patients in the UK (clinicaltrials.gov Identifier: NCT04969835). Two further clinical investigator sites in the US have also been activated (April 2023). This is Avacta's first entry into the US and the US trial sites will initially contribute patients to the dose escalation phase, while being uniquely positioned to lead the enrolment of soft tissue sarcoma patients in the Phase Ib dose expansion stage of the AVA6000 study when this begins.

The UK clinical trial is a two-part Phase I study with the first part an AVA6000 PK-guided dose-escalation in patients with locally advanced (unresectable) and/or metastatic selected solid tumours. 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(s) derived in Part 1 to assess the safety, tolerability and efficacy of AVA6000 in tumour-specific arms.

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.

Therapeutics Division (Cont)

Drug Development Collaborations

The Company has several important commercial collaborations covering both the Affimer® and pre|CISION™ platforms, and is active in pursuing future opportunities for licensing and 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

- **AffyXell Therapeutics**

  AffyXell is a joint venture company with Daewoong Pharmaceuticals in South Korea that is developing mesenchymal stem cell therapies which have been modified to produce Affimer® immunotherapies *in vivo* at the site of action of the stem cells.

  AffyXell 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. AFX001 is a mesenchymal stem cell ('MSC') therapy which secretes anti-CD40L Affimer® for the treatment of Guest versus Host Disease in organ transplantation. AFX002 is an MSC secreting an agonist Affimer® molecule against an undisclosed target for use in multiple sclerosis and T1 diabetes.

  In April 2022, a milestone equity payment was made by AffyXell to Avacta resulting in an increase in Avacta's shareholding in the joint venture. This payment was triggered by Avacta successfully developing and characterising Affimer® proteins against CD40L for AffyXell and transferring the associated intellectual property into AffyXell. In exchange for this, Avacta has received an increase in its equity stake in AffyXell, which was diluted from its founding equity stake in February 2021 when AffyXell completed a Series A financing of $7.3 million from a group of venture funds in February 2021. At 31 December 2022, Avacta's shareholding in the joint venture was 19%.

  AffyXell also successfully completed a funding round in May 2022, raising an undisclosed amount of capital, to advance its lead mesenchymal stem cell programme towards the clinic, and to develop its wider pre-clinical pipeline of cell therapies.

• LG Chem Life Sciences

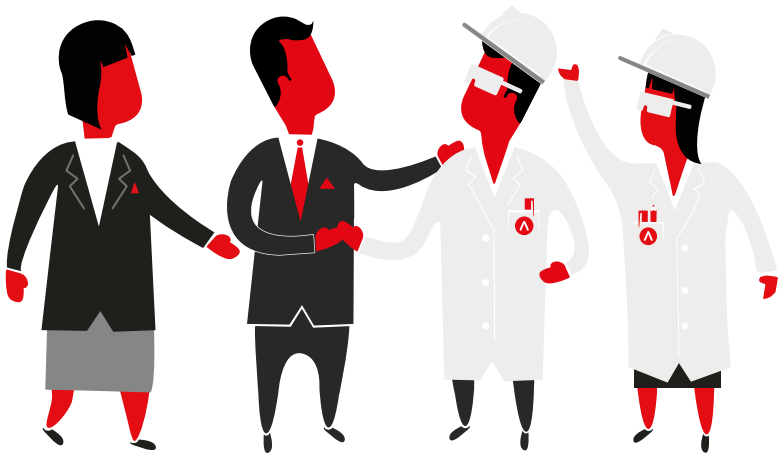
Avacta has a strategic partnership with LG Chem Life Sciences focused on the development of a novel PD-L1 checkpoint inhibitor utilising the Affimer® platform incorporating Affimer XT® half-life extension. The partnership also provides LG Chem with rights to develop and commercialise other Affimer® and 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.

At the end of June 2022, LG Chem exercised its option to renew its rights under the ongoing collaboration with Avacta, triggering a licence renewal fee payment to Avacta of $2 million. LG Chem is now focused on progressing the PD-L1/XT oncology drug candidate in clinic and has commenced pre-clinical studies which are intended to form the basis of an Investigational New Drug ('IND') submission.

• POINT Biopharma Inc.

Early in 2021, Avacta signed a licensing agreement with POINT Biopharma Inc. ('POINT') to provide 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.



Avacta Diagnostics


PCR mix

Diagnostics Division

During 2022, Avacta's Diagnostics Division initiated an M&A-led growth strategy to take advantage of the fragmentation in the European *in vitro* diagnostics ('IVD') sector with the aim of building an integrated and differentiated IVD business with global reach serving professionals and consumers.

In order to achieve this vision, the Company has, since late 2021, been building a pipeline of potential acquisition targets covering routes to market in the professional and consumer markets, as well as companies with product portfolios suitable for use in these sectors. The Company has focused its M&A strategy on profitable businesses engaged in developing or distributing immunodiagnostic and molecular diagnostic tests.

Avacta's mission is to support clinicians in the diagnosis of disease and to improve health and well-being through better access to self-testing for all.

Innovation remains a key strength of Avacta Diagnostics and in the competitive immunodiagnostics market the Affimer® platform provides a powerful tool to differentiate diagnostic products to gain competitive advantage and grow market share of acquired businesses.

In October 2022, Avacta completed a fundraise of £61.3 million (gross), through a combination of convertible bonds and a placing to new and existing shareholders with an open offer, primarily to fund the Diagnostics M&A strategy.

Simultaneously the Company completed its first acquisition, Launch Diagnostics, a leading independent distributor in the UK IVD market. This has provided Avacta with well-established sales channels in the professional, centralised hospital laboratory testing market in the UK and France. Avacta's plan to grow the Launch Diagnostics business includes expanding the company's product portfolio and investing in the sales teams in the UK and France. However, the most significant opportunity for growth lies in the geographical expansion of the business into Germany, which is Europe's largest diagnostics market.

Avacta Diagnostics continues to pursue a careful and disciplined M&A strategy focussed on expanding our routes to market for both professional and consumer testing products, while adding further IVD products suitable for these markets to our portfolio.


KIMTECH
eppendorf

Launch Diagnostics

Initiating its M&A-led growth strategy in October 2022, Avacta completed the acquisition of the UK's largest independent IVD distributor Launch Diagnostics, which has provided Avacta with well-established sales channels in the professional, centralised hospital laboratory testing market in the UK and France.

Avacta's plan to grow Launch Diagnostics' business includes expanding the company's product portfolio and investing in the sales teams in the UK and France. However, the most significant opportunity for growth lies in the geographical expansion of the business into Germany, which is Europe's largest diagnostics market.

Launch Diagnostics provides pathology solutions encompassing high quality diagnostic reagents and instrumentation from world-leading manufacturers to the health services of the UK, Belgium, Luxembourg and France (through Launch Diagnostics SAS) and to the Republic of Ireland.

Launch Diagnostics was established in 1990 and has been in business for more than 30 years. It is one of the most successful companies in the UK diagnostics industry, being recognised by its customers and holding long-term partnerships with many respected suppliers of diagnostic innovation.

Offering an extensive portfolio of diagnostic kits and laboratory instrumentation, Launch's product range has expanded over the years to include a comprehensive range of EIA, single test devices, serology products, molecular assays and instrumentation.

The main customer base in the UK and Ireland are NHS Pathology laboratories. In France there is a split between public and private laboratories, with approximately a 60% / 40% share respectively. Procurement within NHS laboratories is a mix of tenders and direct awards, with the formation of NHS-led pathology networks / clusters leading to much larger procurement activities, as networks are beginning to procure for multiple trusts together. Researchers, private laboratories and other companies are also part of the Launch customer base.

Launch has an active field sales team cultivating long-standing relationships built with customers over the last 30 years that sells products for all areas within diagnostic laboratories, including:

- Microbiology - including antimicrobial susceptibility, serology and molecular diagnostics products.
- Biochemistry / immunology - products for faecal calprotectin, autoimmunity and allergy.
- Haematology- mononucleosis RDT and malaria testing utilising serological and molecular methodologies to provide a full workflow for diagnosis.
- Genetics - oncology qPCR's for targeted panels in cancer diagnostics.
- Instrumentation - a range of open and closed systems for ELISA / immunofluorescence, chemiluminescence, immunoturbidity, LAMP, DNA / RNA extraction and PCR amplification.

Marketing activities

The marketing team comprises a number of product managers with a wealth of experience in NHS labs, private settings and commercial enterprises. This experience is used to support sales of existing product lines and to research and discover new products of interest within our markets.

Liaising closely with the current portfolio of suppliers, the team are able to support customers with an exemplary level of customer care. The close relationships formed with suppliers enables active feedback of key market information, which can help to guide product pipelines to match the current and future requirements of end users.

Technical activities

Launch Diagnostics' technical department comprises managers, workshop employees and field-based engineers, totalling 20 employees. This team is crucial in maintaining excellent support for the 454 instruments currently supported across all territories. Team members are highly skilled and educated. Technical employees possess electronic engineering diplomas or degrees, which is essential to providing the high-quality technical support for which Launch Diagnostics is renowned.

Product launches 2022-23

The Lotus instrument from Vircell launched as a solution for automated chemiluminescent testing for infectious diseases, providing customer benefits including random access loading of patient samples for improved workflow.

Anatolia Geneworks launched their Viral Meningitis version 3 assay, for detection of HSV1, HSV2, VZV, enterovirus and parechovirus. This complements existing assays for bacterial and neonatal meningitis, providing a comprehensive solution for testing of typical pathogens for this syndrome.

HOB BioCLIA

HOB Biotech is a Chinese company established in 2007. They have 30% of the diagnostic market in mainland China. The first BioCLIA instruments were launched in 2016, and HOB Europe was established in 2019. HOB began trading on the Shanghai STAR market in January 2021.

The BioCLIA 6500 and BioCLIA 500 instruments were launched in the UK in November 2022. These are high throughput, continuous loading, automated chemiluminescent (CLIA) analysers, for autoimmune and allergy testing. The difference between the two instruments is only in terms of size and capacity. New and Innovative markers are being added to the test repertoire.

These two instruments allow laboratories to move away from the batch testing necessitated by ELISA techniques and give Launch the capacity to respond to tenders specifying fully automated testing.

BioSystems A15s

BioSystems is a Spanish company based in Barcelona who celebrated their 40th anniversary in 2021 and Launch Diagnostics have been working with them for almost 30 years.

Last year BioSystems launched their assays for faecal calprotectin and faecal haemoglobin for their dependable A15 platform. Both of these assays are immunoturbidimetric and provide first results in under 30 minutes and are capable of 75 tests per hour thereafter.

The great innovation for these faecal assays is the very easy and fast pre-analytical extraction taking only around 90 seconds to provide a ready-to-run sample. This frees laboratories from the burden of a long extraction process, and with continuous loading on the A15 instrument removes the need for batch testing.

Financial Review

Revenue

Reported Group revenues for the year ended 31 December 2022 increased to £9.65 million compared to £2.94 million for the year ended 31 December 2021 ('2021').

Revenues for the Therapeutics Division increased to £5.48 million (2021: £2.16 million), due to achieving certain milestones in our collaborations with LG Chem (£1.65 million in cash) and AffyXell (£3.60 million in additional equity in the joint venture), together with further funded FTE reimbursement from collaboration partners.

Revenues for the Diagnostics Division were £4.17 million (2021: £0.78 million), with the increase coming from the acquisition of Launch Diagnostics in October 2022, which contributed £3.97 million and the remainder from a smaller number of custom Affimer® reagent projects as resources were focused on the development of future diagnostic tests.

Acquisitions

On 21 October 2022, the Group acquired 100% of the shares and voting interests in Launch Diagnostics Holdings Ltd ('Launch Diagnostics'). Launch Diagnostics is a leading independent *in vitro* ('IVD') distributor in the UK, providing immunodiagnostic and molecular test products, technical support and maintenance to healthcare providers. Total consideration for Launch Diagnostics included an initial consideration of £24 million in cash payable upon completion of the acquisition, in addition to £0.9 million for other short-term non-operating assets and an additional consideration of 50% of the gross margin on sales exceeding £2 million per annum of Launch Diagnostics' COVID-19 related products for three years capped at £13 million (in aggregate). The additional consideration to be paid based on future gross margin is estimated to be nil as at 31 December 2022.

The acquisition of Launch Diagnostics is the first step in a M&A-led growth strategy for the Group's Diagnostics Division, with the vision of building an integrated and differentiated IVD business with global reach servicing professionals and consumers.

For the period from acquisition to 31 December 2022, Launch Diagnostics contributed revenue of £3,971,000 and profit of £309,000 to the Group's results. Further details on the acquisition are provided in Note 26 to the Financial Statements.

Research and amortisation of development costs

During the year, the Group expensed through the income statement £11.10 million (2021: £13.48 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.

Selling, general and administrative expenses

Administrative expenses have increased during the year to £11.23 million (2021: £8.14 million). This has increased because of the Launch Diagnostics acquisition (£1.43 million of administrative expenses) and the scale-up of the operations within both the Diagnostics Division, as it increased its product development capabilities to become a fully integrated IVD products business, and the Therapeutics Division as resource was increased to support the infrastructure required and transition into a clinical stage business.

Adjusted EBITDA

The Consolidated Statement of Profit or Loss shows an Adjusted EBITDA loss position (before non-recurring items) of £15.09 million for the year (2021: £21.74 million), with the reduction in losses due to improved revenues and the resulting gross profit increases.

Amortisation and impairment of development costs

Development costs capitalised in prior periods from the development of the Affimer® reagents and the diagnostics platform have been amortised, resulting in a charge of £0.82 million (2021: £0.82 million). An impairment charge of £5.23 million (2021: £nil) was recognised in the year in relation to previously capitalised Affimer® reagents development costs. This reflects the change in focus within the Diagnostics Division to build on its M&A strategy; whereby the development of diagnostic products incorporating Affimer® reagents is now expected to occur through new development, manufacturing, and distribution partners as the Diagnostics Division expands in future periods. As the M&A activity was still in progress at 31 December 2022, it was not possible to provide certainty on the timelines of future acquisitions or, therefore, the timeframe in which cashflows from Affimer® reagent developed products would be received, necessitating an impairment charge to be recognised.

Share of loss of associate

The share of loss of associate of £1.15 million arises from the Group's equity-accounted investment in AffyXell Therapeutics Co., Ltd. The share of losses reflects the Group's 19% ownership share of the losses accumulated since its inception in 2020. The Group investment increased from 5% to 19% at 31 December 2022 as a result of additional equity issued due to the Group achieving certain technical milestones for the collaboration during the year.

Share-based payment charges

The non-cash charge for the year increased to £7.49 million (2021: £5.06 million) as a result of changes to the assumptions around the likelihood of vesting of options. There were no new options issued during the year.

Convertible bond costs

In October 2022, the Group issued senior unsecured convertible bonds ('the Bonds') of £55.00 million to a fund advised by Heights Capital Ireland LLC, a global equity and equity-linked focussed investor. The Bonds were issued at 95% par value with total net proceeds of £52.25 million, and accrue interest at an annual rate of 6.5% payable quarterly in arrears.

The Bonds contain various conversion and redemption features. The Bonds have a maturity of five years, and are repayable in 20 quarterly amortisation repayments, of principal and interest over the five-year term, in either cash or in new ordinary shares at the Group's option. If in shares, the repayment is at the lower of the conversion price (118.75p) or a 10% discount to the volume weighted average price ('VWAP') in the five- or ten-day trading period prior to election date. The conversion price may reset downwards at 18 months, depending on share price performance, and save in limited circumstances there is a reset price floor of £0.95.

The bond agreement contains embedded derivatives in conjunction with an ordinary host debt liability. As a result, the convertible bonds are shown in the Consolidated Statement of Financial Position in two separate components, being 'Convertible bond – debt' and 'Convertible bond – derivative'. At issuance, the total inception value was £55.00 million, being the principal amount of the Bonds, with the initial carrying amount of the debt liability element being the difference between the inception value of the convertible bond and the fair value at inception of the derivative element. Given the option of the bondholder to convert the bond at their discretion, the debt and derivative liability elements have been classified as current liabilities.

The derivative element has been measured at fair value using a Monte-Carlo option pricing model, which estimates the fair value based on the probability-weighted present value of expected future investment returns, considering each of the possible outcomes available to the bondholders. This therefore falls under Level 3 of the fair value hierarchy. Significant assumptions used in the fair value analysis include the volatility rate, risk-free rate and expected dividend yield. At inception, the fair value of the derivative component was measured at £35.00 million. The fair value at the year-end date was measured to be £39.10 million, resulting in a charge in revaluation of the derivative being recognised of £4.10 million.

Transaction costs of £3.41 million have been apportioned between the derivative and debt liability components according to the relative inception values. This has resulted in £2.29 million of transaction costs being recognised at acquisition, with £1.13 million adjusted for in the carrying amount of the debt liability at acquisition.

Losses before taxation

Losses before taxation from continuing operations for the year were £41.64 million (2021: £29.19 million).

Taxation

The Group claims each year for research and development tax credits and, since it is currently 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 £2.23 million (2021: £2.82 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.

Discontinued operations

In March 2022, the Animal Health Division was sold to Vimian Group AB and the results for the current year up to disposal and prior year have been disclosed in the Consolidated Statement of Profit or Loss as Discontinued Operations. Revenues were £0.41 million (2021: £1.60 million) and the Animal Health Division made a small operating profit of £0.05 million (2021: £0.07 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, of which £0.7 million was recognised in the current year based on the anticipated performance of the combined business. The profit on disposal recognised in the year was £0.31 million.

Loss for the period

The reported loss for the period was £39.19 million (2021: £26.31 million). The loss per ordinary share increased to 15.35 pence (2021: 10.55 pence) based on a weighted average number of shares in issue during the period of 259,007,001 (2021: 253,555,925).

Financial Review (cont.)

Cash flow

The Group reported cash and short-term deposit balances of £41.78 million at 31 December 2022 (2021: £26.19 million).

Operating cash outflows from operations amounted to £15.95 million (2021: £22.66 million).

During the year, capital expenditure was £0.56 million (2021: £1.16 million) as the facility move from Cambridge to London was completed.

Net cash outflow from investing activities amounted to £25.04 million (2021: inflow of £18.70 million) arising principally from the acquisition of Launch Diagnostics, an outflow of £24.88 million net of cash acquired. The disposal of the Animal Health discontinued operation generated £0.55 million cash proceeds, net of transaction costs, in the period.

In October 2022, the Group completed a fundraise of £61.27 million (gross) through a combination of £55.00 million senior unsecured convertible bonds issued at a 5% discount from a fund advised by Heights Capital Ireland LLC, and £9.02 million through a placing to new and existing shareholders and open offer (2021: £nil). There were also proceeds from the exercise of share options by employees amounting to £0.47 million (2021: £0.52 million).

Financial position

Net assets as at 31 December 2022 were £18.44 million (2021: £41.22 million) of which cash and cash equivalents amounted to £41.78 million (2021: £26.19 million).

The IFRS 16 Leases presentation results in the recognition of a 'right-of-use' asset amounting to £5.42 million (2021: £1.73 million) in relation to the Group's leasehold properties and other leased assets, together with a corresponding lease liability of £5.11 million (2021: £1.70 million); the increase arising due to the longer term lease on the London facility and the acquisition of Launch Diagnostics.

Intangible assets increased to £26.32 million (2021: £7.93 million) due to the acquisition of Launch Diagnostics and the recognition of £12.69 million of goodwill. Further details on the acquisition accounting are detailed in Note 26 to the Financial Statements.

Liabilities in relation to the convertible bonds issued during the period have been recognised, with £39.10 million relating to the fair value of the derivative element at 31 December 2022, and £18.73 million relating to the debt liability element.

Dividends

No dividends have been proposed for the year ended 31 December 2022 (2021: £nil).

Key performance indicators

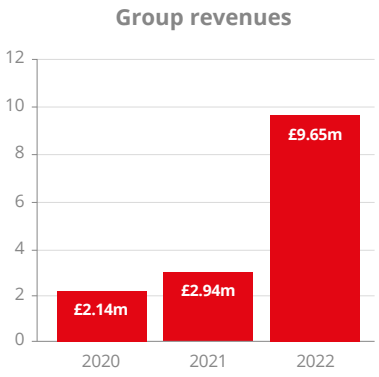
At this stage of the Group's development, the non-financial key performance indicators focus around two areas:

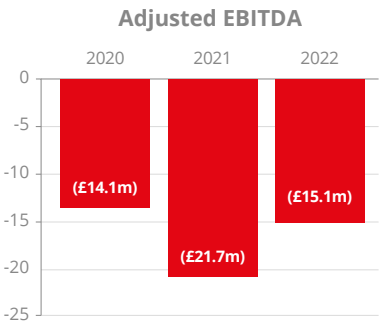
- the progression of the Affimer® and pre|CISION™ technologies into clinical trials within the Therapeutics Division; and
- the development of Affimer® reagents to feed into future diagnostic products within the M&A-led growth strategy in the Diagnostics Division.

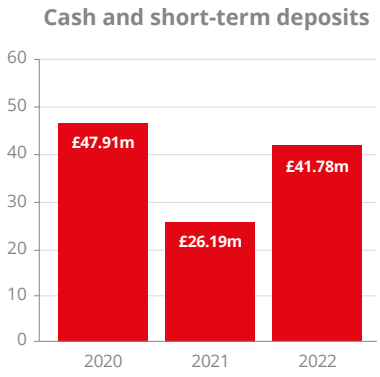
These are discussed in more detail within the Operational Review on pages 16 to 35.

The financial key performance indicators focus around three areas, that allow an assessment of the performance of the business as the Diagnostics Division in particular progresses through the M&A-led growth strategy, and of the funding available as the Therapeutics Division technologies progress into clinical trials.

- Group revenues
- Adjusted EBITDA
- Cash and short-term deposit balances







Tony Gardiner
Chief Financial Officer

28 April, 2023

Financial Review
(Continued...)

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on pages 42 to 44.

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.

The Strategic Report uses Alternative Performance Measures ('APMs') to assist in presenting information in this Report in an easily analysable and comparable form. The APMs used provide a meaningful basis on which to analyse the Group's financial performance, which is helpful to the reader; however, it is noted that they are not substitutes for IFRS measures and may not be directly comparable to similarly titled measures used by other companies. APMs are defined in Note 1 to the accounts.

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.

Key decisions taken by the Board during the year include:

- The appointment of Dr Christina Coughlin as a Non-executive Director to the Board, bringing with her a wealth of drug development experience from global companies across Europe and the US to support the Therapeutics Division as it progresses into a clinical stage company;
- The disposal of the Animal Health Division to enable the Group to focus solely on its Diagnostic and Therapeutic Divisions;
- The strategic decision to develop the Diagnostics Division into a European IVD business via an M&A strategy providing innovative solutions for healthcare professionals and consumers, leading to the acquisition of Launch Diagnostics and the associated fundraise to support the M&A process.

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 Board members have had refresher training with their Nominated Advisor ('NOMAD') on Director responsibilities in the application of AIM rules.

The Directors work across all the Group's facilities and provide regular 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 53 to 59, including the Group's responsibilities to health, safety and environmental issues in relation to its employees, suppliers, customers and the communities in which the Group operates.

The Directors believe strongly in the maintaining the highest levels of 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 53.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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 Risks and Uncertainties 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 periodic 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 on a periodic basis 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:

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, and 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 now progressing Phase I trials on its first clinical programme (AVA6000) there continues to be 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.

Manufacturing and supply risk - Diagnostics **Change < >**

The Group develops, with manufacturing partners, lateral flow tests which require formal clinical validation and CE marking. The Group has identified third-party manufacturing partners and established an appropriate supply chain for the manufacture of approved lateral flow tests.

The ability to produce tests within the UK to a cost price which would make tests competitive with Chinese-manufactured tests has been a significant challenge and the Group continues to explore 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 price point of lateral flow tests has been under significant pressure given the surplus production capacity from cheaper Chinese production facilities now that the sales of COVID-19 lateral flow tests have subsided.

Establishing commercial sales channels within the UK, Europe and other countries for the 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 2022 have led to delays in obtaining approvals from Notified Bodies (such as BSI) which will delay the launch of future products not yet for sale within Europe.

The Diagnostics Division has embarked on an M&A-led growth strategy to build additional routes to market through established distributors (with the acquisition of Launch Diagnostics) and will continue to look at opportunities across Europe to expand the diagnostic product portfolio and additional distribution channels for centralised and de-centralised testing.

M&A risk - Diagnostics **Change ^**

The Group's Diagnostics Division has recently embarked on an M&A-led growth strategy to build an integrated and differentiated IVD business with global reach.

To achieve the strategy the Group needs to successfully identify the right M&A targets with the correct attributes in terms of products, people and geographies. The Group also needs to ensure that businesses are acquired on favourable terms from an acquiror's perspective. As part of the M&A process, adequate levels of due diligence need to be carried out to substantiate the acquisition value and identify any risks that exist, whether they be financial, legal, regulatory or similar.

The Group has built a strong internal team who run the M&A process and work alongside experienced professional advisors advisers in areas such as legal, regulatory and financial/ taxation. The established process has numerous go/no-go points that are reviewed and discussed with the Board and strategic advisers.

Research and development **Change < >**

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

There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientific results required for specific internal development programmes, product development projects, customer-related evaluations or third-party collaborations. This risk is in specific applications of the Affimer® or pre|CISION™ technologies rather than in the individual technology platform as a whole.

The development teams continue to work on improving the core Affimer® and pre|CISION™ 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) progressing through 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 advisers 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. The new Diagnostics Division M&A strategy also requires sufficient funding to enable attractive acquisitions to be acquired. The Group successfully raised £61.3 million (gross) during the year to continue the Group's plans; however, there will be future funding requirements which will need to fund expanded clinical development programmes.

As at 31 December 2022, the Group had cash and short-term deposits of £41.78 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 and UK recession, 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 Group's 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.

Principal Risks and Uncertanties
(Continued...)

Key staff **Change < >**

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.

During the year, the Group has successfully continued to recruit senior specialist roles within the Therapeutics Division covering scientific, regulatory and clinical development areas whilst relocating its operations from Cambridge to London. The Diagnostics Division, in the light of its recently announced M&A strategy, has reviewed the levels of staff required to progress its product development of diagnostic devices, with suitable experienced staff within quality assurance and regulatory teams.

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

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

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

The Group ensures that all software and systems are regularly updated to latest software versions and firmware updates. Its cyber security plans are reviewed on a regular basis and recently upgraded security access levels have been established. It also provides training to staff on dealing with potential cyber attacks and security risks.

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 London with specialist equipment and working environments that 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 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.

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 and 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 Pfizer.

Eliot holds a PhD in neurophysiology from the University of Liverpool and an MBA from Henley Management College. He is an Honorary Visiting Professor at the University of Liverpool and at the University of Pavia. He is a Board member of OSCHR (UK Office for Strategic Coordination of Health Research) and the National Genomics Board.

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

Dr Alastair Smith

Chief Executive Officer

Alastair was the 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 also Non-executive Chairman of SPARTA Biodiscovery, an Imperial College spin-out providing cutting-edge analytical instrumentation to biopharmaceutical developers to enable nano-formulations of next-generation therapeutics.

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 including extensive M&A transactional and fundraising experience. 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.

Dr Trevor Nicholls
Non-executive Director

Trevor brings considerable experience in the commercialisation of innovative life science technologies from his previous roles as Non-executive Chairman of Oxford Nanopores Technologies, 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).

Trevor, prior to his retirement at the end of 2020, was Chief Executive Officer of the Centre for Agriculture and Bioscience International, a not-for-profit intergovernmental organisation 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 Fargro Limited a provider of products and services for Horticulture, 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 Activiomics Limited, a biomarker discovery specialist, as well as a Non-executive Director of hVivo plc, a clinical research organisation.

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

Paul Fry
Non-executive Director

Paul was appointed as a Non-executive Director in February 2020. Paul has extensive financial experience across several industries including biotech, pharmaceutical and telecommunications. Paul is currently Chief Financial Officer of Argenta, a global CRO and CDMO specialising in animal health. Prior to this 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.

Paul was also 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.

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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 ImmunoGen, 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 currently a Lecturer in Medicine (part-time) at Harvard Medical School.

Mark is also a long-time 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, currently servicing as Scientific Officer of the board.

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 Cytolmmune 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 year ended 31 December 2022.

Principal activity

The principal activities of the Group are focused on improving patients' lives and growing shareholder value by developing novel cancer therapies and powerful diagnostics using its proprietary Affimer® and pre|CISION™ platforms.

Avacta's Therapeutics Division, based in White City, London in the UK, develops novel cancer therapies using its two proprietary platforms – Affimer® biotherapeutics and pre|CISION™ tumour-targeted chemotherapy. With this approach, the Company aims to address the lack of a durable response to current immunotherapies experienced by most patients.

The Affimer® platform is a novel class of biotherapeutic based on a naturally occurring human protein. It is Avacta's proprietary therapeutic platform with its intellectual property covered by several patent families. Using the Affimer® platform Avacta is focusing on immunotherapies in the fight against cancer.

Avacta's proprietary pre|CISION™ targeted chemotherapy platform releases an active drug in the tumour, thereby reducing systemic exposure and improving the overall safety and therapeutic potential of these powerful anti-cancer treatments. Avacta took its first pre|CISION™ drug candidate AVA6000, a targeted form of the standard-of-care doxorubicin, into the clinic in summer 2021. The Company anticipates the results of this Phase I study which will demonstrate safety and mechanism of action late in 2022. This will pave the way for further clinical development of AVA6000 and other pre|CISION™ targeted chemotherapies.

Avacta's Diagnostics Division, based in Wetherby in the UK, is using the Affimer® platform to develop market-leading diagnostic products.

Alongside this organic growth strategy, Avacta is delivering an M&A-led growth strategy to consolidate in the fragmented European diagnostics sector with the aim of building a substantial *in vitro* diagnostics ('IVD') business with global-reach and delivering significant value to shareholders. Initiating its M&A-led growth strategy in October 2022, Avacta completed the acquisition of UK-based IVD distributor Launch Diagnostics ('Launch'), which has provided Avacta with well-established sales channels in the professional, centralised hospital laboratory testing market in the UK and France.

Avacta Diagnostics continues to pursue other opportunities that add the other pieces of the jigsaw to build a fully integrated diagnostics business. These focus on expanding our routes to market in Europe for both professional and consumer testing products, while adding further IVD products suitable for these markets to our portfolio.

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 79 to 128.

The Directors have reviewed the results for the years ended 31 December 2022 and 31 December 2021, 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 38.

Dividends

The Directors do not recommend the payment of a dividend (2021: £nil).

Going concern

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £39.1 million and operating cash outflows of £16.0 million for the year ended 31 December 2022. 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 M&A opportunities, product development projects and the Launch 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 development programmes and the Diagnostics Division's M&A activity.

Whilst there are inherent uncertainties regarding the cash flows associated with the development of both the therapeutic 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 2022, the Group's cash and cash equivalents were £41.8 million (2021: £26.2 million).
- The Group has a tax refund in relation to R&D tax credits for the 2021 financial year of £2.8 million which was received in January 2023.
- The Group does have external borrowings in the form of a £55 million convertible bond with quarterly amortisation settlements by the issue of new equity, or by cash at the discretion of the Group.
- 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
- Paul Fry
- Dr Mark Goldberg
- Dr Christina Coughlin Appointed 18 March 2022
- Dr Alastair Smith
- Tony Gardiner

Under the Articles of Association of the Company, one third of the Directors are required to retire at the forthcoming AGM, notice of which accompanies this Report and Accounts. The Directors retiring by rotation at the forthcoming AGM are Eliot Forster, Alastair Smith and Trevor Nicholls. All three Directors, being eligible, offer themselves for re-election. In relation to the re-elections of each of the Directors, the Board is satisfied that the three Directors continue to be effective and to demonstrate commitment to the Company.

Details of the Directors offering themselves for re-election at the forthcoming AGM can be found on pages 130 and 131.

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 28 April 2023, 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
Conifer Management, LLC	11,854,734	4.4%
Baillie Gifford & Co Limited	10,124,371	3.7%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 December 2022 and at 28 April 2023 were as follows:

	31 December 2022 number of shares	**28 April 2023 number of shares**
Non-executive Directors		
Eliot Forster	169,593	**169,593**
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 65.

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Directors' Report
(Continued...)

The middle market price of the Company's ordinary shares on 31 December 2022 was 115p and the range during the period was 41p to 142p with an average price of 100p.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee Report on pages 62 to 66.

Research and development

During the year, the Group expensed through the income statement £11.10 million (2021: £13.48 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 diagnostic programmes resulted in an amortisation charge of £0.82 million (2021: £0.82 million). An impairment charge of £5.23 million (2021: £nil) was recognised in the year in relation to previously capitalised Affimer® reagents development costs. This reflects the change in focus within the Diagnostics Division to build on its M&A strategy; whereby the development of diagnostic products incorporating Affimer® reagents is now expected to occur through new development, manufacturing, and distribution partners as the Diagnostics Division expands in future periods. As the M&A activity was still in progress at 31 December 2022, it was not possible to provide certainty on the timelines of future acquisitions or, therefore, the timeframe in which cashflows from Affimer® reagent developed products would be received, necessitating an impairment charge to be recognised.

Derivatives and financial instruments

The Group's policy and exposure to derivatives and financial instruments, along with the Group's management of capital, liquidity credit, interest rate and foreign currency risk, is set out at Note 19.

In October 2022, the Group issued senior unsecured convertible bonds ('the Bonds') of £55.00 million to a fund advised by Heights Capital Ireland LLC, a global equity and equity-linked focussed investor. The Bonds were issued at 95% par value with total net proceeds of £52.25 million, and accrue interest at an annual rate of 6.5% payable quarterly in arrears. The Bonds contain various conversion and redemption features together with embedded derivatives in conjunction with an ordinary host debt liability. Further details of the Bonds are set out at Note 19.

Employment and environment

The Group's policies on health and safety, the environment, and employee-related matters are disclosed in the Corporate Governance Report under the corporate social responsibility section on pages 58 to 59.

Political and charitable donations

There were no charitable or political donations in the year ended 31 December 2022 (2021: £nil).

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.

Re-appointment of auditor

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

Annual General Meeting

The Annual General Meeting of the Company will be held at the Royal Society of Medicine, 1 Wimpole Street, London W1G 0AE on Wednesday 28 June 2023 at 10:30 a.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 130 to 131 of this report.

This Director's Report and the Strategic Report on pages 13 to 34, were approved by the Board on 28 April 2023 and signed on its behalf.

By order of the Board

Dr Alastair Smith
Chief Executive Officer

28 April 2023

Tony Gardiner
Chief Financial Officer &
Company Secretary

28 April 2023

Avacta Group plc (Registered number - 04748597)

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 42 to 44.
	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 46 to 48.
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

Our Mission

Our Mission is to improve patients' lives and grow shareholder value by developing novel cancer therapies and powerful diagnostics using our proprietary Affimer® and pre|CISION™ platforms.

Investment opportunity

- Avacta operates through two separate divisions in both the oncology drug development market and the diagnostics sector.
- The Diagnostics Division is growing through an M&A-led strategy with a vision to build a European IVD business with global reach serving both professionals and consumers.
- The Therapeutics Division is leveraging Avacta's proprietary technologies to develop innovative oncology drugs that transform treatment outcomes to improve cancer patients' lives.

Technology platforms

- Avacta's has two proprietary platform technologies – the Affimer® and pre|CISION™ platforms – which are being used to deliver a robust portfolio of differentiated therapeutic and diagnostic products that address 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™ platform provides a mechanism for targeting the release of active chemotherapy to the tumour, thereby reducing systemic exposure and the side effects associated with many commonly used cancer treatments the effectiveness of which is limited by toxicity and tolerability for patients.

Therapeutics Division

- Avacta Therapeutics Division's strategy is to build an in-house pipeline of first-in-class and best-in-class targeted cancer therapies and immunotherapies, and to accelerate the development of its platform technologies by working with partners.
- 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 2023 and the Phase Ib dose expansion study to commence shortly afterwards.
- 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 candidates to grow its innovative therapeutic pipeline.
- There is also significant longer term potential to combine the two platforms to create next generation targeted 'drug conjugate' cancer treatments.
- Avacta has a partnership with LG Chem which is developing Avacta's AVA004 PD-L1 antagonist with Affimer XT® half-life extension. Avacta also has a joint venture with Daewoong called AffyXell Therapeutics which is developing next generation stem cell therapies that have been engineered to express and secrete immunomodulatory Affimer proteins targeting CD40L and TNFR. Both partnerships' first programmes are at the IND-enabling stage.
- Avacta has also licensed its pre|CISION™ platform in a tightly defined agreement with POINT Biopharma to develop tumour microenvironment targeting of radionucleotides.

Diagnostics Division

- There are many factors driving growth in the diagnostic sector, such as an aging population, the increasing incidence of chronic and infectious diseases, the influence of tech companies through digital health and devices and the increase in awareness of self-testing in a post-pandemic world.
- The diagnostics sector is quite fragmented with a large number of small and medium sized companies, which provides ideal conditions for an M&A-led growth strategy to consolidate European diagnostics SMEs in a market with strong future growth drivers.
- The Group has a platform and an experienced management team to execute an M&A-led strategy to build a leading European IVD business.
- Integrating the unique Affimer® platform to develop new immunodiagnostic products and to help differentiate acquired products gives a clear advantage in a competitive market.
- Initiating its M&A-led growth strategy in October 2022, Avacta completed the acquisition of UK-based IVD distributor Launch Diagnostics ('Launch'), which has provided Avacta with well-established sales channels in the professional, centralised hospital laboratory testing market in the UK and France.
- Avacta Diagnostics continues to actively pursue other opportunities to build a fully integrated diagnostics business. These focus on expanding our routes to market in Europe for both professional and consumer testing products, while adding further IVD products suitable for these markets to our portfolio.

The Board believes that following the significant fundraise during 2022 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 M&A-led development of its Diagnostics Division 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 2022, the Board comprised five Non-executive Directors and two Executive Directors. The profiles of the Directors are set out on pages 46 to 48.

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 over 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, either in person or by video conferencing methods, with ad hoc meetings also being held. The role of the Board is to provide leadership of the Company and to set strategic aims but within a framework of prudent and effective controls which enable risk to be managed to acceptable levels. The Board has agreed the Schedule of Matters reserved for its decision, which includes ensuring that the necessary financial and human resources are in place to meet its obligations to its shareholders and others. It also approves acquisitions and disposals of businesses, major capital expenditure, annual financial budgets and recommends interim and final dividends. It receives recommendations from the Audit Committee in relation to the appointment of an auditor, their remuneration and the policy relating to non-audit services. The Board agrees the framework for Executive Directors' remuneration with the Remuneration Committee and determines fees paid to Non-executive Directors. Given the relative size of the Company, there is currently no separate Nomination Committee and the Board, with advice from the Remuneration Committee, takes responsibility for any recruitment of Executive and Non-executive Directors, together with succession planning. Board papers are circulated before Board meetings in sufficient time to allow meaningful review and preparation by all Board members.

Conflicts of interest

Each Director has a duty to avoid situations in which he 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.

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Corporate Governance Report
(Continued...)

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 more 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.

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	13/13	Member	2/3	Member	1/1
Trevor Nicholls	Non-executive	13/13	Member	3/3	Chairman	1/1
Paul Fry	Non-executive	13/13	Chairman	3/3	Member	1/1
Mark Goldberg	Non-executive	13/13	-	-	-	-
Christina Coughlin[1]	Non-executive	8/11	-	-	-	-
Alastair Smith	Executive CEO	13/13	-	3/3	-	1/1
Tony Gardiner	Executive CFO	13/13	-	3/3	-	1/1

[1] *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 current role as Chief Financial Officer of Argenta and his prior 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 reports periodically 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 periodic 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 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 Group Communications Director together with 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 as the Investor Meet Company platform.

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 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.

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Corporate Governance Report (continued...)

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 social responsibility

The Board recognises the importance of corporate social responsibility and seek to take account of all of the interests of the Group stakeholders, including shareholders, partners, employees, customers and suppliers. The Board wants to establish and maintain an environment in which employees, suppliers and partners act in an ethical and socially responsible way in operating the business and the impact of its activities relating to health, safety and environmental issues.

Employee welfare and engagement

It is the Group's policy to involve employees in its progress, development and performance. The Executive Directors regularly engage with employees, most of whom are either shareholders or holders of share options, to seek their views and provide briefings and presentations on key developments and strategy. 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 2022 the Group continued 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.

Training, career development and promotion of disabled persons

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.

Equal opportunities and diversity

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.

The Group does not have formal diversity quotas but recognises that a diverse employee profile is fundamental to the business. The gender profile across all employees as at 31 December 2022 was 51% female and 49% male.

Health and safety

The Group has well-defined health and safety policies and procedures, complying with current legislation and safeguarding staff, contractors and visitors. Alastair Smith is the Executive Director responsible for health and safety, chairing 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.

Ethics and compliance

The Group's Diagnostics and Therapeutics Divisions operate around product development, drug development and clinical trials where there are highly regulated ethical frameworks in place.

Political and charitable donations

The Group does not make political or charitable donations, although charitable fundraising by employees is encouraged.

Modern slavery and human trafficking statement

The Group ensures that all employees are eligible to work in their country of employment. The majority of our workforce are employed directly; however, where agency workers are utilised, it is ensured that these same checks are performed by the supplier.

The Group has a Whistleblowing Policy where anyone who raise concerns through a defined process are protected. In addition, there are robust policies in place that ensure equality amongst colleagues, as well as deploying a zero-tolerance approach to harassment and bullying in all areas of the business.

Environment and greenhouse gas emissions

Due to the nature of the Group's divisions, it has a low environmental impact, and seeks to minimise any environmental impact of its operations and complies with relevant regulations and legislation.

Work started during the period to develop the processes to measure and report on the Group's Scope 1 and Scope 2 GHG emissions. This will allow the Group to better identify areas of focus in minimising the impact of its operations, as well as setting effective targets, and these will be refined over future periods.

In the table below:

- Scope 1 emissions cover direct emissions of greenhouse gas from fuel combustion
- Scope 2 emissions cover emissions from purchased electricity
- Scope 3 emissions cover all other indirect emissions that occur in a company's value chain. They are not included in the reporting below but the Group will continue to develop its processes to allow measurement and reporting on these emissions in future periods.

2022 GHG Emissions ($CO2_e$ metric tons)

Scope 1	**24**
Scope 2	**59**
Total [1]	**83**

[1] Of the amounts disclosed above, a total of 23 $CO2_e$ metric tons of Scope 1 GHG emissions and 5 $CO2_e$ metric tons of Scope 2 GHG emissions were contributed by Launch Diagnostics in the period following its acquisition in October 2022.

Dr Eliot Forster
Chairman

28 April 2023

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.

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.

BDO LLP were appointed auditor to the Group following a tender process in 2021. The Audit Committee considers that the Company's relationship with the Group's auditor is working well and the Committee remains satisfied with the effectiveness of the auditor. Piers Harrison retains the role of engagement partner. There are no contractual obligations restricting the Company's choice of external auditor.

Significant issues relating to the financial statements

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

Use of judgements and estimates

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

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

Judgements:

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

Going concern - The judgement of whether or not the accounts should be prepared on a going concern basis, as detailed in the Financial Review. The Committee has reviewed detailed cash flow forecasts that extend to at least 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 together with further M&A transactions in the Diagnostics Division.

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.

Capitalisation of development costs – Judgements arise as to whether research and development projects meet the criteria under IAS 38 to be capitalised. Further information on the specific judgements made is included within Note 1I.

Investment in associates – Judgements arise as to whether the relationship with AffyXell is an associate or an equity investment. The rationale for the presentation as an associate is disclosed in Note 23.

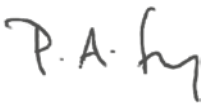
Estimates:

The Committee also considered the assumptions and estimation uncertainties as at 31 December 2022 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 underlying these tests is disclosed in Note 10.

Acquisitions – Estimation uncertainty is inherent in the methods used to determine the fair value of the assets acquired and liabilities assumed, as set out in Note 26. These include the valuation of acquired intangible assets and the estimate of deferred contingent consideration payable.

Convertible bond – Determining the fair value of the embedded derivative within the convertible bond, both at inception and at the reporting date. See Note 22.



Paul Fry
Chairman of the Audit Committee

28 April 2023

Remuneration Committee Report

Introduction

This report sets out the remuneration policy for the period ended 31 December 2022. The Company is listed on AIM and therefore is not required to prepare a remuneration report complying with the disclosure requirements under section 420 of the Companies Act (2006) or the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 or to comply with the Financial Conduct Authority Listing Rules.

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
- Appointing and using remuneration consultants
- Producing 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 has grown significantly in size, scope and value over the last few years. Positions are benchmarked from time-to-time against comparable roles in biotech and AIM companies, with the first full exercise for a number of years carried out in January 2023 with the support of an external adviser, Mercer. Mercer does not provide any other services to the Group and is a signatory to the UK Remuneration Consultants Group Code of Conduct.

Executive Directors – Short-term incentives

Basic salary

Basic salary is determined by several factors including market rates, together with the individual Director's experience, responsibilities and performance. Individual salaries of Directors were reviewed by the Remuneration Committee on 1 February 2023, following the completion of the independent Mercer review. The review highlighted that the Executive Directors salaries had fallen below the lower quartile of the comparator group of companies and were not representative of the status of the Company, now a clinical stage biotech within the AIM100 index. The Committee considered the output of the Mercer review and the difference that existed between current basic salaries and the median salaries that had been obtained from the review. The gap to bring salaries back in line with median salaries was considered too large to adjust in one change and it was agreed that the salaries would be increased with effect from 1 February 2023 and that a further similar increase would be considered by the Committee in February 2024. It was agreed that, with effect from 1 February 2023, the salary of the Chief Executive Officer would be increased from £286,000 to £343,000 per annum and the salary of the Chief Financial Officer be increased from £197,600 to £237,000 per annum.

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 for the 2022 financial year was 50% of basic salary. Following the Mercer review, which showed that the bonus potential of the Executive Directors was again below the lower quartile of the comparator group of companies, it was agreed for the 2023 financial year to increase the maximum bonus that could be earned to 100% of basic salary. The Committee determines on an annual basis the composition of the award, which can be split between cash, deferred share awards and share options.

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

For the year ending 31 December 2022, 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 48% of his basic salary and the Chief Financial Officer should be paid a bonus equivalent to 36% of his basic salary. The bonuses were paid in March 2023.

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 51 and their interests in options held over shares in the Company are set out on page 65.

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 most recent awards being granted in June 2020. No awards were made during 2021 or 2022.

The June 2020 LTIP award was granted with vesting conditions based on the share price performance of the Group being maintained at an average share price in excess of 110p per share over a three-year period ending on 31 December 2022 and to the extent that they had vested could not be exercised before 31 December 2022, subject to Board having discretion to review the exercise conditions in exceptional circumstances. The Committee reviewed the vesting conditions and the supporting share price data and it was agreed that the LTIP award would vest in full for the Executive Directors that had received the award. Details of the options that vested are set out on page 65.

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. 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 51. 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 65). 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

The remuneration of each of the Directors of the Company for the year ended 31 December 2022 is set out below. These values are included within the audited accounts.

	2022 Basic salary and fees	2022 Bonus	2022 Benefits in kind	**2022 Total**	**2022 [4]Pension contributions**	2021 Total	2021 Pension contributions
	£000	£000	£000	**£000**	**£000**	£000	£000
Non-executive Directors							
Eliot Forster	100	-	-	**100**	**-**	94	-
Trevor Nicholls	40	-	-	**40**	**-**	36	-
Paul Fry	40	-	-	**40**	**-**	36	-
[1]Mark Goldberg	45	-	-	**45**	**-**	15	-
[2]Christina Coughlin	37	-	-	**37**	**-**	-	-
[3]Mike Owen	-	-	-	**-**	**-**	8	-
Executive Directors							
Alastair Smith	286	136	5	**427**	**17**	376	17
Tony Gardiner	190	70	2	**262**	**11**	228	11
	738	206	7	**951**	**28**	793	28

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

1. *Mark Goldberg was appointed as a Director on 17 August 2021.*
2. *Christina Coughlin was appointed as a Director on 18 March 2022. The above emoluments include basic salary payable in respect of the year ended 31 December 2022.*
3. *Mike Owen resigned as a Director on 24 March 2021.*
4. *Pension contributions consist of employer defined contribution benefits, excluding salary sacrifice contributions made by the employees, plus cash payments in lieu of pension.*

The number of Directors accruing benefits under money purchase pension schemes was two (2021: two).

The share-based payments charge to the Consolidated Income Statement in respect of Directors' share options was £3,248,000 (2021: £1,049,000). The aggregate gain made by Directors on the exercise of share options was £nil (2021: £nil).

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

	At 1 Jan 2022	Granted	Waived	Exercised	At 31 Dec 2022	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

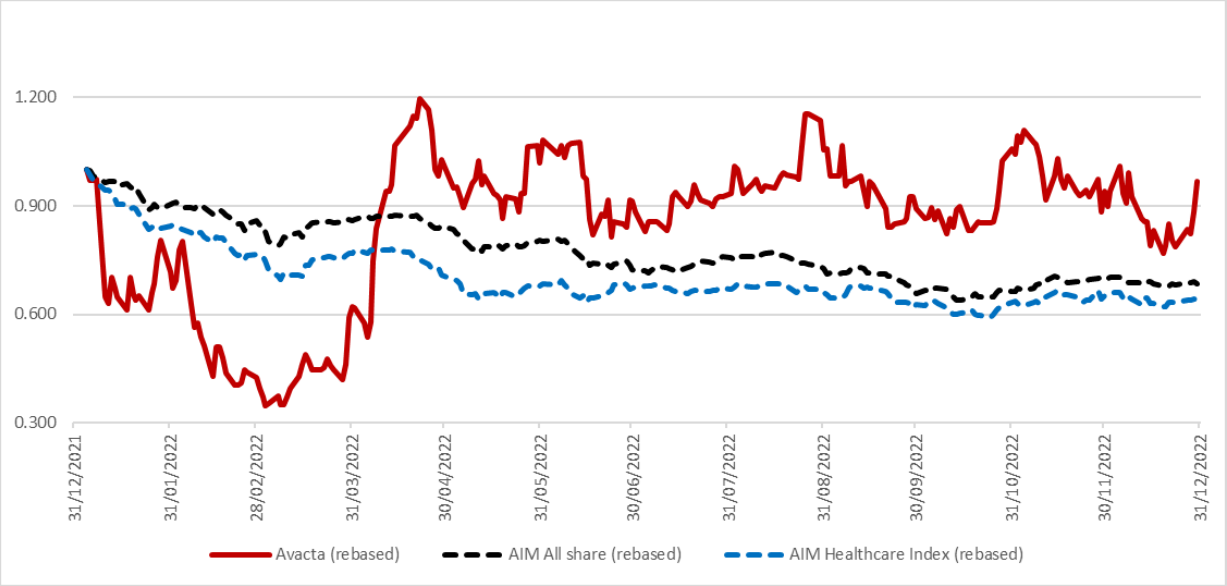
	At 1 Jan 2022	Granted	Waived / Lapsed	Exercised	At 31 Dec 2022	Exercise price pence	Date from which exercisable	Date of grant	Expiry date
Eliot Forster	340,000	-	-	-	340,000	25.0p	11 June 2021	7 Jan 2019	7 Jan 2029
	340,000	**-**	**-**	**-**	**340,000**				
Alastair Smith	141,176	-	(141,176)	-	-	50.0p	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	224,663	-	-	-	224,663	25.0p	Note 1	7 Jan 2019	7 Jan 2029
Alastair Smith	466,774	-	-	-	466,774	17.25p	Note 1	14 May 2020	14 May 2030
Alastair Smith	4,000,000	-	-	-	4,000,000	10.0p	31 Dec 2022	14 May 2020	14 May 2030
	5,132,602	**-**	**(141,176)**	**-**	**4,991,426**				
	-								
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	117,375	-	-	-	117,375	25.0p	Note 1	7 Jan 2019	7 Jan 2029
Tony Gardiner	170,108	-	-	-	170,108	17.25p	Note 1	14 May 2020	14 May 2030
Tony Gardiner	1,000,000	-	-	-	1,000,000	10.0p	31 Dec 2022	14 May 2020	14 May 2030
	1,578,384	**-**	**-**	**-**	**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.

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[1]) and the FTSE All-Share Healthcare Index (rebased) for the period ended 31 December 2022.



[1] *The share prices above have been rebased to a common starting point of 1.0, with performance over time then measured relative to this starting point, to allow a better comparison of performance over time.*

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 28 April 2023 and was signed on its behalf by:

Dr Trevor Nicholls
Chairman of the Remuneration Committee

28 April 2023

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.


Avacta®

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 2022 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 2022 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet, the Company Statement of Changes in Equity and the notes to the 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 the Directors with regard to the requirements of the applicable financial reporting framework, including the period covered;
- testing the mathematical accuracy of the going concern model prepared by the Directors and the underlying calculations used within it;
- agreeing the level of cash held by the Group as at 31 March 2023 and cash movements post year end;
- Discussing and challenging the Directors' financial forecasts and the underlying key assumptions, by recalculating operating cash burn rates and challenging the plausibility of the Directors' going concern

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

scenario analysis by recalculating the impact potential cost reduction measures which would have the effect of extending the cash runway; and
- Checking the adequacy of disclosures made in the annual report in respect of going concern, against the knowledge obtained during the course of audit.

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	*95.8% (2021: 97%) of Group loss* *100% (2021: 100%) of Group revenue* *99.6% (2021: 99.9%) of Group total assets*
Key audit matters	2022 2021 1 Revenue recognition X X 2 Acquisition accounting X 3 Convertible bond valuation X
Materiality	*Group financial statements as a whole* £1.55m (2021:£1.28m) based on 5.8% (2021: 4.4%) of Loss before tax, impairment, bond charges and acquisition related expenses.

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 assessed the Parent entity and three of the Group subsidiaries to be significant components. The Group audit team completed full scope audits on significant components. For non-significant components we have performed either Group level analytical procedures with specifiied audit procedures over large or higher risk balances or Group level analytical procedures without additional substantive audit procedures.

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 86 and note 3 on page 95	The Group's revenue of £9,653,000 (2021: £2,941,000) is generated from a number of different revenue streams which principally arise from the provision of services and reagent sales in the diagnostics and therapeutics operating segments. 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 licencing revenue streams. - An inappropriate policy of recognising revenue under IFRS 15 *Revenue From Contracts With Customers* may be applied to R&D licences 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 the Group's performance obligations. This is primarily the case in contracts where R&D licences are granted and other services are supplied under the same agreement. 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. - Revenue in any stream may not be appropriately deferred when the provision of goods or services has not taken place in the financial year, leading to early revenue	Our audit procedures in response to the assessed risks were substantive in nature. On a sample basis we: - Agreed a sample of revenue recorded to supporting documents such as invoice, contract and proof of delivery / performance. - Obtained supporting evidence as to whether the milestones that were claimed to have been achieved were actually met. - Assessed for each sample in our selection whether the revenue recognition policy applied was appropriate under IFRS 15 and consistent with the nature of the contract entered into with the customer. **Key observations** Based on the procedures performed we consider that that the delivery of intellectual property under licence, or services, had occurred and revenue had been recognised in the appropriate amount and in the correct period according to the contractual documentation in place.

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

	recognition and understatement of deferred income, whether due to fraud or error. Taking these factors together, the audit of revenue recognition had a significant effect on the direction, supervision and review of the Group audit and hence we treated revenuerecognition as a key audit matter.	
Acquisition accounting Note 26 Acquisition accounting	Avacta Group plc acquired all of the issued share capital of Launch Diagnostics Holdings Limited ("Launch") on 21 October 2022 for total consideration of £40.8m. We identified a significant risk in relation to the acquisition accounting and treated this as a key audit matter.. The risk of material misstatement arose due to the following factors: - The valuation of the separable intangibles may not be accurate and the customer relationships, brand and goodwill may be misstated as a result, together with the deferred tax to be recognised on the separable intangible assets acquired. - The fair value of the purchase consideration, and therefore the value of the goodwill arising on acquisition, may be incorrectly calculated. - Accounting policy differences may not all have been identified, or accurately quantified, in recording the Launch assets and liabilities in the Group's financial statements.	We used internal valuations specialists iin order to assist with our interrogation of the model used to calculate the value of the acquired intangible assets. Our scrutiny of the calculations included consideration of the types of intangible asset acquired in the light of our knowledge and understanding of Launch, the suitability of the discount rate used in the valuation, the application of additional risk premia and the profile of future cash flows. We considered the work performed by management on the accounting policies of Launch, which were based on UK GAAP and required conversion to IFRS, and challenged management on areas where the acquired business' accounting policies may differ from the Group's policies. We further recalculated the associated deferred tax liability arising on the acquired intangibles. We tested the accuracy of the deferred contingent consideration (which is measured at £nil) payable by reperforming the calculation by reference to the underlying share purchase agreement and management forecasts of sales of the relevant product groups. **Key observations** Based on the procedures performed we consider that the valuation of separable intangible assets acquired and the associated deferred tax, the valuation of the purchase consideration and the alignment of Launch accounting policies with those of the Group are appropriate. .
Convertible bond Note 22	In October 2022, the Group's newly-incorporated financing vehicle, Avacta Finance Jersey Limited, issued a £52.5m convertible bond.	We used internal quantitative valuations specialists in order to assist with our evaluation of management's approach. This involved assessment of the choice of modelling approach applied as well as interrogation of the operation of the

	This is a technically complex transaction because the bond is required to be accounted for in part as a derivative, which relies on modelling techniques based on a combination of observable and unobservable inputs being calculated using an appropriate valuations model. There is a risk the calculation is not accurately prepared and therefore that the value of the derivative element of the bond, together with the associated fair value movement on the respective elements is materially misstated. The risk of material misstatement also arises in the choice of accounting policy, which required careful assessment of the provisions of IAS 32 and IFRS 9. We therefore treated the accounting for the bond as a key audit matter.	model itself and verification of the observable inputs to their respective sources (for example, the historic Avacta Group plc share price volatility) and sensitivity testing of unobservable inputs (for example, credit spread assumptions and certain beta factor inputs). We performed technical analysis of the required accounting treatment under the applicable accounting standards in order to determine whether the accounting policy adopted by management was appropriate both in the Group as well as in the Parent Company financial statements. **Key observations** Based on the procedures performed we consider that the accounting for the convertible bond and the valuation of the derivative are appropriate.

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**	
	2022 £m	2021 £m	2022 £m	2021 £m
Materiality	£1.55m	£1.28m	£0.96m	£1.00m
Basis for determining materiality	5.8% of loss before tax, impairment, bond charges and acquisition related expenses	4.4% of loss before tax	62% of Group Materiality.	78% of Group Materiality
Rationale for the benchmark applied	We considered adjusted loss before tax to be the most appropriate performance		We allocated a share of Group materiality based on the size and our assessment of the risk of	

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

	measure at this stage in the Group's life cycle.		material misstatement of the Parent company component	
Performance materiality	£0.83m	£0.75m	0.64m	£0.60m
Basis for determining performance materiality	Set based on 66.7% of materiality. We have set this higher this year as management is open to considering adjustments and usually corrects all known misstatements.	Set based on 60% of materiality.	Set based on 66.7% of materiality. We have set this higher this year as management is open to considering adjustments and usually corrects all known misstatements.	Set based on 60% of materiality.
Rationale for the percentage applied for performance 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 25% and 75% (2021: 75%-90%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £0.3m to £0.95m (2021: £0.45m to £1.16m). In the audit of each component, we further applied performance materiality levels of 66.7% (2021:60%) 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 £29,000 (2021:£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 Report and Accounts 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 the 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:

Non-compliance with laws and regulations

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

Based on:

- Our understanding of the legal and regulatory frameworks that are applicable to Avacta Group plc and the industry in which it operates;
- Discussion with management and those charged with governance, the Audit Committee and in-house legal counsel;
  and
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations;

  we considered 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.

Our procedures in respect of the legal and regulatory compliance included:

- Review of minutes of meetings of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance, and the Audit Committee regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.

- Obtaining an understanding how senior management monitors those procedures and controls;
- Considering potential fraud drivers including financial or other pressures, opportunity, and personal or corporate motivations;

- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be the processing of non-routine journal entries, revenue recognition, acquisition accounting, impairment of intangibles and capitalisation of expenditure.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Performing audit procedures in relation to the occurrence of revenue and the timing and accuracy of revenue recognition
- Assessing significant estimates and judgments made by management in relation to key areas such as valuation and impairment of intangibles, convertible bond accounting and acquisition accounting. In the audit of both we used internal specialists to assist the audit team as indicated in the KAM section of this report.
- Assessing capitalisation of expenditure by testing a sample of capitalised items, performing a review of income statement accounts which may include capital items and testing a sample of capitalisation journals.

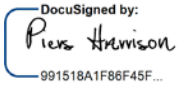
We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.



Piers Harrison (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Cambridge, UK
28 April 2023

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 2022

	Note	2022 £000	2021 £000
Continuing operations			
Revenue	3	**9,653**	2,941
Cost of sales		**(2,410)**	(924)
Gross profit		**7,243**	2,017
Research costs		**(11,100)**	(13,480)
Manufacturing costs		**-**	(2,143)
Selling, general and administrative expenses		**(11,232)**	(8,136)
Adjusted EBITDA		**(15,089)**	(21,742)
Impairment charge	10	**(5,225)**	-
Depreciation expense	11,21	**(1,904)**	(1,462)
Amortisation expense	10	**(1,050)**	(821)
Share of loss of associate	23	**(1,152)**	-
Acquisition-related expenses	26	**(735)**	-
Share-based payment expense	5	**(7,490)**	(5,058)
Operating loss	6	**(32,645)**	(29,083)
Convertible bond – professional fees	22	**(2,287)**	-
Convertible bond – interest expense	22	**(2,606)**	-
Convertible bond – revaluation of derivative	22	**(4,100)**	-
Finance income		**91**	17
Other finance costs		**(95)**	(128)
Loss before tax		**(41,642)**	(29,194)
Taxation	8	**2,102**	2,820
Loss from continuing operations		**(39,540)**	(26,374)
Discontinued operation			
Profit from discontinued operation	27	**351**	58
Loss for the period		**(39,189)**	(26,316)
Foreign operations – foreign currency translation differences		**46**	4
Other comprehensive income		**46**	4
Total comprehensive loss for the period		**(39,143)**	(26,312)
Loss per share:			
Basic and diluted	9	**(15.35p)**	(10.55p)
Loss per share – continuing operations			
Basic and diluted	9	**(15.48p)**	(10.57p)

The notes on pages 84 to 119 form an integral part of these financial statements.

Consolidated Statement of Financial Position as at 31 December 2022

	Note	2022 £000	2021 £000
Assets			
Property, plant and equipment	11	**2,380**	2,612
Right-of-use assets	21	**5,418**	1,729
Intangible assets	10	**26,324**	7,925
Investment in associate	23	**2,976**	-
Non-current assets		**37,098**	12,266
Inventories	12	**1,681**	189
Trade and other receivables	13	**5,579**	4,327
Income tax receivable		**6,510**	2,750
Cash and cash equivalents	14	**41,781**	26,191
		55,551	33,457
Assets held for sale	27	**-**	1,279
Current assets		**55,551**	34,736
Total assets		**92,649**	47,002
Liabilities			
Lease liabilities	21	**(3,753)**	(1,412)
Deferred tax	16	**(2,845)**	-
Non-current liabilities		**(6,598)**	**(1,412)**
Trade and other payables	15	**(8,423)**	(3,731)
Lease liabilities	21	**(1,361)**	(291)
Convertible bond - debt	22	**(18,729)**	-
Convertible bond - derivatives	22	**(39,100)**	-
		(67,613)	(4,022)
Liabilities directly associated with the assets held for sale	27	**-**	(346)
Current liabilities		**(67,613)**	(4,368)
Total liabilities		**(74,211)**	(5,780)
Net assets		**18,438**	41,222
Equity			
Share capital	17	**26,685**	25,472
Share premium	18	**62,184**	54,530
Reserves	18	**(4,434)**	(4,687)
Retained earnings	18	**(65,997)**	(34,093)
Total equity		**18,438**	41,222

The notes on pages 84 to 119 form an integral part of these financial statements.
The financial statements on pages 80 to 119 were approved by the Board of Directors on 28 April 2023 and signed on its behalf by:

Dr Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2022

	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 2021	**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**
	129	393	-	-	-	5,083	**5,605**
Balance at 31 December 2021	**25,472**	**54,530**	**(1,729)**	**4**	**(2,961)**	**(34,093)**	**41,222**
Loss for the period	-	-	-	-	-	(39,189)	**(39,189)**
Other comprehensive income for the period	-	-	-	46	-	-	**46**
Total comprehensive loss for the period	**-**	**-**	**-**	**46**	**-**	**(39,189)**	**(39,143)**
Transactions with owners of the Company:							
Issue of shares	949	7,448					**8,397**
Exercise of share options	264	206	-	-	-	-	**470**
Transfer of own shares	-	-	-	-	206	(206)	**-**
Equity-settled share-based payment	-	-	-	-	-	7,490	**7,490**
	1,213	7,654	-	-	-	7,284	**16,357**
Balance at 31 December 2022	**26,685**	**62,184**	**(1,729)**	**50**	**(2,755)**	**(65,997)**	**18,438**

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 2022

	Note	2022 £000	2021 £000
Cash flows from operating activities	25	**(15,953)**	(22,656)
Interest received		**75**	17
Interest elements of lease payments	20	**(202)**	(139)
Income tax (paid) / received		**(168)**	2,291
Withholding tax paid		**(184)**	(19)
Net cash used in operating activities		**16,432**	(20,506)
Cash flows from investing activities			
Purchase of plant and equipment	10	**(558)**	(1,162)
Proceeds from sale of plant and equipment		**50**	-
Acquisition of subsidiary, net of cash acquired	26	**(24,878)**	-
Disposal of discontinued operation, net of cash disposed of	27	**705**	-
Transaction costs related to disposal of discontinued operation	27	**(160)**	-
Acquisition of right-of-use assets		**(165)**	-
Purchase of intangible assets	11	**(36)**	(152)
Decrease in balances on short-term deposit		**-**	20,017
Net cash (used in) / generated from investing activities		**(25,042)**	18,703
Cash flows from financing activities			
Proceeds from issue of share capital		**9,016**	-
Transaction costs related to issue of share capital		**(618)**	-
Proceeds from exercise of share options		**470**	522
Principal elements of lease payments	20	**(800)**	(290)
Proceeds from issue of convertible bonds	22	**52,250**	-
Transaction costs related to issue of convertible bonds	22	**(3,414)**	-
Net cash from financing activities		**56,904**	232
Net increase / (decrease) in cash and cash equivalents		**15,430**	(1,571)
Cash and cash equivalents at 1 January 2022		**26,191**	27,894
Effects of movements in exchange rates on cash held		**160**	4
		41,781	26,327
Cash and cash equivalents forming part of assets held for sale		**-**	(136)
Cash and cash equivalents at 31 December 2022		**41,781**	26,191

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 2022 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 £39.1 million and operating cash outflows of £16.0 million for the year ended 31 December 2022. 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 M&A opportunities, product development projects and the Launch 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 development programmes and the Diagnostics Division's M&A activity.

Whilst there are inherent uncertainties regarding the cash flows associated with the development of both the therapeutic 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 2022, the Group's short-term deposits and cash and cash equivalents were £41.8 million (2021: £26.2 million)
- The Group has a tax refund in relation to R&D tax credits for the 2021 financial year of £2.8 million which was received in January 2023.
- The Group does have external borrowings in the form of a £55 million convertible bond with quarterly amortisation settlements by the issue of new equity, or by cash at the discretion of the Group.
- 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 2024. The sources of income could come through the licensing of assets/targets from the proprietary Affimer® and pre|CISION™ platforms or 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 - arise from the application of IFRS 15 to the Group's revenue streams, as disclosed in Note 1C, as to the timing and nature of revenue recognised in relation to the achievement of milestones.

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.

Capitalisation of development costs – Judgements arise as to whether research and development projects meet the criteria under IAS 38 to be capitalised. Further information on the specific judgements made is included within Note 1I.

The Directors consider that the assumptions and estimation uncertainties at 31 December 2022 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. Further information on the key assumptions underlying these tests is disclosed in Note 10.

Acquisitions - Estimation uncertainty is inherent in the methods used to determine the fair value of the assets acquired and liabilities assumed, as set out in Note 26.

Convertible bond - Determining the fair value of the embedded derivative within the convertible bond, both at inception and at the reporting date. See Note 22.

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 2022, 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 IAS 1 *Presentation of Financial Statements:*
    - Classification of Liabilities as Current or Non-current
    - Non-current Liabilities with Covenants
- Amendments to IFRS 16 *Leases:* Lease Liability in a Sale and Leaseback
- IFRS 17 *Insurance Contracts* and Amendments to IFRS 17 *Insurance contracts:* Initial Application of IFRS 17 and IFRS 9 – Comparative Information
- Amendments to IAS 12 *Income Taxes:* Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 1 *Presentation of Financial Statements:* Disclosure of Accounting Policies
- Amendments to IAS 8 Accounting policies, *Changes in Accounting Estimates and Errors:* Definition of Accounting Estimates

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 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.

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

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.

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.
Reagent sales	Diagnostics	Customers obtain control of diagnostic reagent sales when the goods are delivered to and have been accepted at their premises. Invoices are generated at that point in time and are usually 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.
Service contracts	Diagnostics	The performance obligation, of maintaining equipment to a sufficient standard, is satisfied over the life of the service contract.	Revenue is recognised over time on a straight-line basis as the service is provided.

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.

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); and
- interest expense and gains/losses on revaluation of derivative in respect of convertible bond (see Note 1J).

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, net of current tax payable. 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
Motor vehicles	3 to 5 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

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

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.

Research 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, 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.

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.
- Brand: amortised over the useful life of the asset, being ten years.
- Customer relationships: amortised over the useful life of the asset, being 15 years.

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ('CGUs' – defined under 'Goodwill' on page 103). 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.

Cash and cash equivalents comprise cash balances and short-term deposits. Cash and bank overdrafts are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts, there is an intention to settle on a net basis and interest is charged on a net basis.

Financial liabilities are classified as measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

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.

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

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 – Discontinued 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.

N – Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

O - Alternative performance measures

This Group presents an alternative performance measure ('APM'), adjusted EBITDA, in the Consolidated Statement of Profit or Loss. Adjusted EBITDA is presented to enhance an investor's evaluation of ongoing operating results, by facilitating both a meaningful comparison of results between periods and identification of the underlying cash used by operations within the business. Items of expenditure included from the adjusted EBITDA measure are those where the relative magnitudes year-on-year are not directly reflective of year-on-year performance, or are not closely linked to the underlying cashflows from operations. There is a clear reconciliation between adjusted EBITDA and operating loss in the Consolidated Statement of Profit or Loss. It is noted that the above APM is not a substitute for IFRS measures, and may not be directly comparable to similarly titled measures used by other companies.

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

2 Segment Reporting

Operating segments

In the view of the Board of Directors, the Group has two (2021: three) distinct reportable segments, which are Diagnostics and Therapeutics (2021: 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 in the current and prior year are as follows:

Diagnostics: development and sale of innovative, next generation diagnostic solutions and disruptive immunodiagnostic products, including Affimer® reagents.

Therapeutics: development of novel cancer therapies harnessing proprietary technology.

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 74% (2021: 82%) of total revenue. The revenue analysis below, for continuing operations, is based on the country of registration of the customer:

	2022	2021
	£'000	£'000
UK	**2,532**	540
France	**1,296**	86
Rest of Europe	**158**	25
North America	**179**	815
South Korea	**5,481**	1,400
Rest of Asia	**7**	74
	9,653	2,940

During the year, transactions with two external customers, both in the Therapeutics segment, amounted individually to 10% or more of the Group's revenues from continuing operations, being £3,798,000 and £1,682,000 respectively. In the year ended 31 December 2021 transactions with three external customers, two in the Therapeutics segment and one in the Diagnostic segment, amounted to 10% or more of the Group's revenues from continuing operations, being £966,000, £736,000 and £523,000 respectively.

Operating segment analysis 2022

	Diagnostics	Therapeutics	Central overheads[1]	**Total (continuing)**	Animal Health (discontinued)
	£000	£000	£000	**£000**	£000
Revenue	4,172	5,481	-	**9,653**	412
Cost of goods sold	(2,282)	(128)	-	**(2,410)**	(118)
Gross profit	**1,890**	**5,353**	**-**	**7,243**	**294**
Research costs	(2,309)	(8,791)	-	**(11,100)**	-
Selling, general and administrative expenses	(4,706)	(2,403)	(4,122)	**(11,231)**	(240)
Adjusted EBITDA	**(5,125)**	**(5,841)**	**(4,122)**	**(15,088)**	**54**
Impairment charge	(5,225)	-	-	**(5,225)**	-
Depreciation expense	(627)	(1,269)	(9)	**(1,905)**	(11)
Amortisation expense	(1,033)	(8)	(9)	**(1,050)**	-
Share of loss of associate	-	(1,152)	-	**(1,152)**	-
Acquisition-related expenses	-	-	(735)	**(735)**	-
Share-based payment expense	(1,438)	(2,713)	(3,339)	**(7,490)**	-
Segment operating loss	**(13,448)**	**(10,983)**	**(8,214)**	**(32,645)**	**43**

[1]Central overheads, which relate to operations of the Group functions, are not allocated to the operating segments.

Operating profit/loss is the measure of profit or loss regularly reviewed by the Board. Other items comprising the Group's loss before tax are not monitored on a segmental basis.

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, except for £2,281,000 located in France (2021: all material segmental non-current assets located in the UK).

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

Operating segment analysis 2021

	Diagnostics	Therapeutics	Central overheads[1]	**Total (continuing)**	Animal Health (discontinued)
	£000	£000	£000	**£000**	£000
Revenue	779	2,162	-	**2,941**	1,604
Cost of goods sold	(223)	(700)	-	**(923)**	(506)
Gross profit	**555**	**1,462**	**-**	**2,017**	**1,098**
Research costs	(3,665)	(9,815)	-	**(13,480)**	(39)
Manufacturing	(2,143)	-	-	**(2,143)**	-
Selling, general and administrative expenses	(2,893)	(1,899)	(3,344)	**(8,136)**	(915)
Adjusted EBITDA	**(8,146)**	**(10,252)**	**(3,344)**	**(21,742)**	**144**
Amortisation expense	(821)	-	-	**(821)**	-
Depreciation expense	(505)	(950)	(7)	**(1,462)**	(50)
Share-based payment expense	(984)	(2,981)	(1,093)	**(5,058)**	(25)
Segment operating loss	**(10,456)**	**(14,183)**	**(4,444)**	**(29,083)**	**69**

[1]Central overheads, which relate to operations of the Group functions, are not allocated to the operating segments

3 Revenue

See accounting policy and discussion of main revenue streams in Note 1C. The Group's revenue is all derived from contracts with customers.

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 2022

	Diagnostics	Therapeutics	**Continuing operations**	Animal Health	**Total**
	£000	£000	**£000**	£000	**£000**
Nature of revenue					
Sale of goods	3,779	-	**3,779**	259	**4,038**
Provision of services	393	229	**622**	153	**775**
Licence-related income	-	5,252	**5,252**	-	**5,252**
	4,172	**5,481**	**9,653**	**412**	**10,065**
Timing of revenue recognition					
Products or services transferred at a point in time	3,780	5,251	**9,031**	391	**9,422**
Products or services transferred over time	393	229	**622**	21	**643**
	4,173	**5,480**	**9,653**	**412**	**10,065**

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**	**1,604**	**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**	**1,604**	**4,545**

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 2022 £000	31 December 2021 £000
Receivables, which are included in "Trade and other receivables"	**2,442**	1,278
Receivables, which are included in "Assets held for sale"	**-**	124
Contract assets	**28**	19
Contract liabilities	**(273)**	(51)

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 £51,000 (2021: £579,000) in contract liabilities at the beginning of the period, £31,000 (2021: £579,000) has been recognised as revenue for the period ended 31 December 2022.

The amount of revenue recognised in 2022 from performance obligations satisfied (or partially satisfied) in previous periods was £1,650,000 (2021 from those performance obligations satisfied in 2020: £369,000). 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

	2022 £000	2021 £000
Staff costs:		
Wages and salaries	**8,089**	7,147
Social security costs	**993**	819
Contributions to defined contribution plans	**397**	373
Share-based payment charges	**7,490**	5,058
	16,969	13,397

Average number of employees (including Directors) during the year:		
Commercial and operational	**91**	106
Administrative	**29**	27
	120	133

The remuneration of the Directors (including the details of the highest paid Director) is set out on page 64 of the Remuneration Committee Report.

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 £7,490,000 (2021: £5,083,000).

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						
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	9	186,783	Time served	25.0	Vested	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	3	453,151	Technical, commercial and share price performance	25.0	Vested	6 January 2029
1 July 2019	3	215,666	Time served	30.0	Vested	30 June 2029
25 March 2020	17	1,462,507	Time served	25.0	Vested	24 March 2030
14 May 2020	3	797,915	Technical, commercial and share price performance	17.25	Vested	14 May 2030
14 May 2020	3	6,500,000	Share based	10.0	Vested	14 May 2030
14 May 2020	1	1,000,000	Time served and commercial performance	25.0	Note 1	14 May 2030
28 July 2021	5	3,250,000	Time served	10.0	Vested	28 July 2031
28 July 2021	1	450,000	Time served and commercial performance	10.0	Vested	28 July 2031
28 July 2021	2	100,000	Time served	10.0	Note 2	28 July 2031
8 October 2021	1	3,000,000	Time served	10.0	Note 3	8 October 2031
8 October 2021	4	475,000	Time served	10.0	Note 4	8 October 2031
2 December 2021	1	250,000	Time served	10.0	Note 5	2 December 2031
Options granted in relation to collaboration agreements						
31 May 2019	1	1,161,582	Technical/regulatory milestones	29.2	Note 6	31 May 2026

Note 1 – 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 2 – This option provides that they can, if they have not lapsed, be exercised in full on or after 30 June 2023.

Note 3 - This option provides that they can, if they have not lapsed, be exercised in full on or after 30 September 2024.

Note 4 - This option provides that they can, if they have not lapsed, be exercised in full on or after 31 March 2024.

Note 5 - This option provides that they can, if they have not lapsed, be exercised in full on or after 30 June 2024.

Note 6 – 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.

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

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 option pricing model. 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 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.

No new options were granted during the year. The inputs into the Black-Scholes models for the options granted during the prior year were as follows:

	2022 £000	2021 £000
Weighted average share price at date of grant	**-**	120.84p
Weighted average exercise price	**-**	10.00p
Weighted average fair value at date of grant	**-**	111.79p
Expected volatility	**-**	83.1%
Expected life	**-**	5.0 years
Risk-free rate	**-**	1.0%
Expected dividends	**-**	Nil

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

	2022		2021	
	Options	**Weighted average exercise price (p)**	Options	Weighted average exercise price (p)
At start of period	**25,545,539**	**17.99**	22,904,846	22.23
Granted during the year	**-**	**-**	8,125,000	10.00
Exercised during the year	**(2,640,682)**	**18.08**	(1,298,072)	39.61
Forfeited or lapsed during the year	**(2,460,395)**	**22.33**	(4,186,235)	19.03
Outstanding at end of period	**20,444,462**	**17.45**	**25,545,539**	**17.99**
Exercisable at end of period	**14,491,213**	**17.94**	**3,786,653**	**38.76**

The options outstanding at 31 December 2022 had a range of exercise prices from 10p to 118.5p (2021: 10p to 118.5p), a weighted average exercise price of 17.45p (2021: 17.99p), and a weighted average remaining contractual life of 6 years and 31 weeks (2021: 8 years).

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 2022, five employees (2021: five) had joint interests in 2,782,306 (2021: 2,932,306) 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 24 February 2022 245,246 ordinary shares of 10p each were issued in relation to the Free Share award based on the closing middle market price of 53.0p on 24 February 2022.

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 2022, 24 eligible employees had made binding commitments to subscribe for partnership shares during the period ending 31 December 2022.

Free share awards are met through a combination of reallocating ordinary shares which have been forfeited by leavers from within the SIP and through the issue of new ordinary shares when required. 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.

As at 31 December 2022, the Trustee held 1,010,042 (2021: 1,361,886) 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	2022 £000	2021 £000
Lease expense relating to lease of low-value assets	21	**9**	2
Lease expense relating to short-term leases	21	**33**	27
Depreciation of property, plant and equipment[1]	11	**1,029**	1,195
Depreciation of right-of-use assets[2]	21	**932**	316
Net loss on disposal of property, plant and equipment		**40**	29
Inventories recognised as an expense during the period		**2,179**	82
Employee benefit expense, including share-based payment charges	4	**16,970**	13,397
Auditor's remuneration:			
• Audit services in respect of the Company's financial statements		**197**	120
• Audit services in respect of the Company's subsidiaries' financial statements		**35**	30

[1] Of which, £19,000 (2021: £nil) relates to depreciation of laboratory equipment forming part of the supply of goods or provision of services to customers and is presented within 'Cost of sales' in the 'Consolidated Statement of Profit or Loss'

[2] Of which, £37,000 (2021: £nil) relates to depreciation of laboratory equipment right-of-use assets forming part of the supply of goods or provision of services to customers and is presented within 'Cost of sales' in the 'Consolidated Statement of Profit or Loss'

7 Net finance costs

	2022 £000	2021 £000
Convertible bond – professional fees	**(2,287)**	-
Convertible bond – interest expense	**(2,606)**	-
Convertible bond – revaluation of derivative	**(4,100)**	-
Finance income	**91**	17
Other finance costs	**(90)**	(128)
	(8,992)	(111)

8 Taxation on loss on ordinary activities

	2022 £000	2021 £000
Current tax:		
Current period	**(2,010)**	(2,729)
Changes in estimates related to prior years	**(29)**	(91)
Deferred taxation:		
Origination and reversal of temporary differences	**(63)**	-
Tax on loss on ordinary activities	**(2,102)**	(2,820)

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

Factors affecting the tax credit for the current period

The current tax credit for the year is lower (2021: lower) than the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%). The differences are explained below.

	2022 £000	2021 £000
Loss on ordinary activities before taxation	**(38,211)**	(29,137)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%)	**(7,260)**	(5,536)
Effect of tax rates in foreign jurisdictions	**2**	-
Effects of:		
• Expenses not deductible for tax purposes	**3,774**	1,086
• Tax-exempt income	**(684)**	-
• Deferred tax losses not recognised	**4,112**	4,451
• Government tax incentives	**(2,230)**	(2,840)
• Withholding tax expense	**184**	19
	(2,102)	(2,820)

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 2022, 20,444,462 options (2021: 25,545,539) 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.

At 31 December 2022, 5,314,010 potentially dilutive shares relating to the convertible bond (2021: nil) 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 the convertible bond are set out in Note 22.

	2022			2021		
	Continuing operations	**Discontinued operation**	**Total**	Continuing operations	Discontinued operation	Total
Loss (£000)	**(39,540)**	**351**	**(39,189)**	(26,374)	58	(26,315)
Weighted average number of shares (number)			**255,369,066**			249,478,070
Basic and diluted loss per ordinary share (pence)	**(15.48p)**	**0.13p**	**(15.35p)**	(10.57p)	0.02p	(10.55p)

In January 2023, 3,068,421 new ordinary shares of 10 pence each were issued in settlement of the quarterly principal of £2.75 million and interest repayment of £0.89 million in respect of the unsecured convertible bond.

In February 2023, 2,400,000 new ordinary shares of 10 pence each were issued and allotted in relation to a Notice of Conversion in respect of £2.85 million of the £55.00 million unsecured convertible bonds.

In April 2023 2,906,097 new ordinary shares of 10 pence each were issued in settlement of the quarterly principal of £2.6 million and interest repayment of £0.80 million in respect of the unsecured convertible bond.

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

10 Intangible fixed assets

	Goodwill £000	Development costs £000	Brands £000	Customer relationships £000	Software £000	Patents £000	Total £000
Cost							
At 1 January 2021	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**
Acquisitions – business combinations	12,694	-	1,216	10,746	3	-	**24,658**
Acquisitions – purchases	-	-	-	-	5	31	**36**
Disposals	-	-	-	-	(38)	(46)	**(84)**
Effect of movements in exchange rates	-	-	4	23	-	-	**27**
At 31 December 2022	**14,233**	**10,200**	**1,220**	**10,769**	**231**	**264**	**36,917**
Amortisation and impairment							
At 1 January 2021	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**
Amortisation	-	821	24	138	58	8	**1,049**
Disposals	-	-	-	-	(38)	-	**(38)**
Impairment loss	-	5,225	-	-	-	-	**5,225**
Effect of movements in exchange rates	-	-	-	-	-	-	**-**
At 31 December 2022	**-**	**10,200**	**24**	**138**	**209**	**22**	**10,593**
Net book value							
At 31 December 2022	**14,233**	**-**	**1,196**	**10,631**	**22**	**242**	**26,324**
At 31 December 2021	**1,539**	**6,046**	**-**	**-**	**75**	**265**	**7,925**
At 31 December 2020	2,315	6,868	-	-	32	202	9,417

Development costs

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

Development costs related to the internally generated intangible assets associated with the development of the Affimer® diagnostics technology. At 31 December 2022, the Group was part way through an M&A-led growth strategy for the Diagnostics Division and so the composition of the Diagnostics Division at the balance sheet date resulted in uncertainty in the timing and value of future cash flows to be generated from these intangible assets.

As such, an impairment of the remaining carrying amount of £5,225,000 has been recognised.

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. Goodwill is not amortised, but is tested annually for impairment at this CGU level. 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, goodwill can be allocated to the following CGUs / group of CGUs as follows:

		2022 £000	2021 £000
Therapeutics		**1,539**	1,539
Diagnostics	26	**12,694**	-
Goodwill		**14,233**	1,539

Impairment review

An impairment review of the Group's intangible and tangible non-current assets was conducted at 31 December 2022. Impairment tests are mandatory for CGUs containing goodwill acquired in a business combination. Impairment tests for other CGUs are carried out when an indication of impairment is considered to exist, such as operating losses.

Therapeutics

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

- Modelled growth over a ten-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 the development pipeline and ongoing contracts, and the length of time expected to be taken to generate ongoing commercial revenues from such work.
- Revenue growth is forecasted to increase to circa £25 million over a five-year timeframe. Growth rates then decline 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 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 3.5% (2021: 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 19.0% (2021: 17%), derived from a weighted-average cost-of-capital of 15% (2021: 15%)

Using the assumptions listed above, the value in use of the Therapeutics CGU exceeds its carrying amount by £43.2 million.

The quantum of some longer-term commercial licence revenues and milestones included in management's expectations presents a risk that reasonably possible changes in the assumption that these longer-term revenues and/or milestones are achieved may result in an impairment to the CGU.

With an assumption that long-term growth rates remain unchanged, the pre-tax discount rate would need to increase to 26.0% to result in an impairment.

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

Diagnostics

The composition of the Diagnostics segment changed during the year due to the acquisition of Launch Diagnostics Holdings Ltd (see Note 26). As at 31 December 2022, goodwill has been allocated to the group of CGUs comprising the Diagnostics segment. The recoverable amount of this group of CGUs was based on a value-in-use calculation, using discounted cash-flow projections. The key assumptions used in the estimation of the recoverable amount are considered to be as follows:

- Modelled growth over a five-year forecast period, reflecting management's best estimate of revenue growth and gross margins. Revenue growth is forecasted to increase from £19.4 million in the Year 1 to £39.3 million by the end of the forecast period, representing a compound annual growth rate of 19.3%
- Terminal growth rate after the modelled growth phase of 3.5%, approximating the annual long-term inflation rate
- Pre-tax discount rate of 16.5%, derived from a weighted-average cost-of-capital of 12.4%

Using the assumptions listed above, the value in use of the Diagnostics CGU exceeds its carrying amount by £2.6 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 17.5% or the revenue CAGR would need to reduce to 18.6% for the recoverable amount to be equal to the carrying amount.

The non-current assets belonging to the group of Diagnostics and Therapeutics CGUs at 31 December 2022 can be allocated as follows:

	2022		2021	
Category	**Diagnostics**	**Therapeutics**	Diagnostics	Therapeutics
Tangible assets	**1,522**	**845**	1,597	1,001
Right-of-use assets	**1,608**	**3,809**	725	1,004
Investment in associate	**-**	**2,976**	-	1,538
Goodwill	**12,694**	**1,539**	-	-
Brands	**1,196**	**-**	-	-
Customer relationships	**10,631**	**-**	-	-
Development costs	**-**	**-**	6,046	-
Patents	**242**	**-**	267	-
Software	**2**	**2**	40	20
Total	**27,895**	**9,170**	8,675	3,563

11 Property, plant and equipment

	Assets in the course of construction £000	Leasehold improvements £000	Laboratory equipment £000	Office fixtures and fittings £000	Motor vehicles £000	**Total £000**
Cost						
At 1 January 2021	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**
Acquisitions - purchases	-	17	310	225	6	**558**
Acquisitions – business combinations	-	-	123	43	127	**293**
Transfers	(143)	7	138	(2)	-	**-**
Effect of movements in exchange rates	-	-	1	-	2	**3**
Disposals	-	(1,064)	(292)	(89)	-	**(1,445)**
At 31 December 2022	**-**	**1,394**	**5,712**	**610**	**135**	**7,851**
Depreciation						
At 1 January 2021	-	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**
Charge for the period	-	382	543	101	3	**1,029**
Disposals	-	(1,019)	(283)	(88)	-	**(1,389)**
Effect of movements in exchange rates	-	-	-	-	-	**-**
At 31 December 2022	**-**	**862**	**4,289**	**317**	**3**	**5,471**
Net book value						
At 31 December 2022	**-**	**532**	**1,423**	**293**	**132**	**2,380**
At 31 December 2021	**143**	**935**	**1,404**	**130**	**-**	**2,612**
At 31 December 2020	301	847	1,465	83	-	2,696

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

12 Inventories

	2022 £000	2021 £000
Raw materials and components	**198**	189
Finished goods and goods for resale	**1,483**	-
	1,681	189

13 Trade and other receivables

		2022 £000	2021 £000
Trade receivables		**2,442**	1,278
Prepayments		**1,760**	2,468
Other receivables		**535**	442
Contract assets		**28**	19
Contingent consideration receivable	27	**717**	-
Other taxes and social security		**97**	120
		5,579	4,327

Trade and other receivables denominated in currencies other than sterling comprise £7,000 (2021: £1,271,000) of trade receivables denominated in US dollars and £1,153,000 (2021: £nil) denominated in euros. The fair values of trade receivables are the same as their book values.

Trade receivables includes £nil due from related parties (2021: £1,023,000), see Note 23.

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

	2022 £000	2021 £000
Under 30 days overdue	**726**	-
Between 30 and 60 days overdue	**197**	-
Between 60 and 90 days overdue	**88**	191
Over 90 days overdue	**79**	525
	1,090	716

No material provision against trade receivables has been made, the overdue receivables relate to a number of customers for whom there is no recent history of default, nor any other indication that settlement will not be forthcoming. The other classes within trade and other receivables do not contain impaired assets and are considered to be fully recoverable.

14 Cash and cash equivalents

	2022 £000	2021 £000
Cash and cash equivalents	**41,781**	26,191
	41,781	26,191

15 Trade and other payables

	2022 £000	2021 £000
Trade payables	**2,487**	561
Other taxes and social security	**876**	210
Accruals	**3,767**	2,836
Other payables	**152**	73
Deferred consideration	**868**	-
Contract liabilities	**273**	51
	8,423	3,731

Trade and other payables denominated in currencies other than sterling comprise £92,000 (2021: £163,000) of trade payables denominated in US dollars, £951,000 (2021: £47,000) denominated in euros, and £13,000 (2021: £7,000) denominated in CHF. The fair values of trade payables are the same as their book values.

16 Deferred tax liabilities

At 31 December 2022

2022	At 1 January 2022	Recognised in profit or loss	Acquisitions – business combinations	Effect of movements in exchange rates	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Development costs	(1,512)	1,512	-	-	**-**	**-**	**-**
Interest in associate	-	(744)	-	-	**(744)**	**(744)**	**-**
Trading losses	760	555	275	-	**1,590**	**1,316**	**274**
Intangible assets	-	41	(2,991)	(7)	**(2,957)**	**-**	**(2,957)**
Property, plant and equipment	752	(729)	(185)	-	**(162)**	**-**	**(162)**
Convertible bond	-	(572)	-	-	**(572)**	**(572)**	**-**
	-	63	(2,901)	(7)	**(2,845)**	**-**	**(2,845)**

At 31 December 2021

2021	At 1 January 2021	Recognised in profit or loss	Acquisitions – business combinations	Effect of movements in exchange rates	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Development costs	(1,305)	(207)	-	-	**(1,512)**	**(1,512)**	**-**
Trading losses	1,006	(246)	-	-	**760**	**760**	**-**
Property, plant and equipment	299	453	-	-	**752**	**752**	**-**
	-	-	-	-	**-**	**-**	**-**

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

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profits will be available against which the Group can use the benefits:

	2022		2021	
£000	**Gross amount**	**Tax effect**	Gross amount	Tax effect
Deductible temporary differences	**20,168**	**5,042**	11,640	2,910
Tax losses	**42,832**	**10,708**	39,724	9,931
Total	**63,000**	**15,750**	51,364	12,841

Deferred tax has been measured using the substantively enacted rate due to prevail in the year of reversal.

17 Share capital

	2022 £000	2021 £000
Allotted, called up and fully paid:		
- 266,081,715 (2021: 253,950,626) ordinary shares of 10p each	**26,608**	25,395
- 19,327,344 deferred shares of 0.4p each	**77**	77
	26,685	25,472

During the year, a total of 2,640,682 ordinary 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 18.08p.

On 18 October 2022, 7,368,427 ordinary shares of 10p each were allotted and issued at 95p further to a placing of shares, with a further 15,000 ordinary shares of 10p each being allotted and issued in relation to a management subscription of shares. On 7 November 2022, 2,106,990 ordinary shares of 10p each were allotted and issued at 95p further to an open offer of shares. Placing costs of £618,000 were incurred and offset against the share premium reserve.

Respective rights of ordinary and deferred shares

The rights of the ordinary shareholders are dealt with in the Articles of Association of the Company, which are 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 £62,184,000 (2021: £54,530,000) 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 (2021: 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 £2,754,000 (2021: 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 5) in previous periods. In addition, 2,782,306 (2021: 2,932,306) ordinary shares of 10p each are held jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable. Where ordinary shares have been transferred from Link Market Services Trust Limited into the beneficial ownership of employees during the period, these amounts have been transferred to retained earnings, this amounted to £206,000 in the period (2021: £nil).

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.

In October 2022, the Group issued senior unsecured convertible bonds ('the Bonds') of £55.00 million to a fund advised by Heights Capital Ireland LLC, a global equity and equity-linked focussed investor. The Bonds were issued at 95% par value with total net proceeds of £52.25 million, and accrue interest at an annual rate of 6.5% payable quarterly in arrears. The Bonds contain various conversion and redemption features together with embedded derivatives in conjunction with an ordinary host debt liability, further details of which can be found in Note 22.

The Group also has 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.

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.

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.

The convertible bond has a fixed interest coupon rate payable of 6.5% per annum. However, due to the embedded derivative component, there is an effective interest rate on the debt liability of 113.7% contributing to the 'Convertible bond – interest expense' charged in the period.

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

Interest rate and currency profile

At 31 December 2022 and throughout the year, the Group maintained cash at bank in the following currencies: The current book value of interest-bearing assets and liabilities is as follows:

	2022 '000	2021 '000
Cash at bank (floating interest rate) - £	**39,445**	26,191
Cash at bank (floating interest rate) - $	**2,217**	-
Cash at bank (floating interest rate) - €	**561**	-

Cash at bank attracted interest at floating rates, which were between nil% and 2.85% at 31 December 2022 (2021: nil% and 0.05%).

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 held with any one financial institution. The Group does not require collateral in respect of financial assets. At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Fair value of financial instruments

At 31 December 2022, the fair value of the Group's financial assets and liabilities approximates to their carrying amounts as disclosed in the Consolidated Statement of Financial Position, with exception of the convertible bond debt element which has an effective interest rate of 113.7% due to the embedded derivative component.

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 December 2022.

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.

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 unless stated, is set out below.

Financial assets		2022 £000	2021 £000
Trade receivables		**2,442**	833
Other receivables		**535**	442
Contingent consideration receivable (measured at fair value, Level 3)	27	**717**	-
Cash		**41,781**	26,191
		45,475	27,466

All financial assets are receivable or expected to be receivable within one year.

Financial liabilities			
Trade payables		**2,487**	561
Deferred consideration		**868**	-
Accruals		**3,767**	2,836
Other payables		**152**	73
Lease liabilities	21	**5,114**	1,703
Convertible bond – debt component	22	**18,729**	-
Convertible bond – derivative component (measured at fair value, Level 3)	22	**39,100**	-
		70,217	5,173

Maturity profile of financial liabilities	2022			2021		
£000	**In one year or on demand**	**In more than one year**	**Total**	In one year or on demand	In more than one year	Total
Lease liabilities	**1,361**	**3,753**	**5,114**	291	1,412	1,703
Convertible bond – debt component	**18,729**	**-**	**18,729**	-	-	-
Convertible bond – derivative component	**39,100**	**-**	**39,100**	-	-	-
Other financial liabilities	**7,274**	**-**	**7,274**	3,470	-	3,760
	66,464	3,753	**70,217**	3,761	1,412	5,173

20 Pensions

The Group operates defined contribution pension schemes for its employees. The pension cost charge for the year represents contributions payable by the Group to the schemes and other personal pension plans and amounted to £397,000 (2021: £379,000). There were outstanding contributions at 31 December 2022 of £79,000 (2021: £61,000).

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

21 Leases

See accounting policy in Note 1L.

The Group leases a small number of properties for office and laboratory use, as well as laboratory equipment for both internal research and development use and provision to customers. 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	Total £000
As at 1 January 2021	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**
Additions	4,496	-	26	**4,522**
Acquisitions through business combinations	160	585	376	**1,121**
Remeasurement of lease liability	(85)	-	-	(85)
Disposals	(938)	-	-	(938)
Depreciation charge	(850)	(55)	(27)	(932)
Effect of movements in exchange rates	1	-	-	1
As at 31 December 2022	**4,361**	**682**	**375**	**5,418**

	2022				2021		
	Property	**Laboratory equipment**	**Motor vehicles**	**Total**	Property	Laboratory equipment	Total
Lease liabilities							
Current	**941**	**279**	**141**	**1,361**	230	61	291
Non-current	**3,469**	**48**	**236**	**3,753**	1,380	32	1,412
	4,410	**327**	**377**	**5,114**	1,610	93	1,703

Reconciliation of change in lease liability

	£000
As at 1 January 2021	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**
Acquisitions through business combinations	893
Additions	4,356
Disposals	(969)
Remeasurement of lease liability	(85)
Payment of lease liability – principal element	(800)
Payment of lease liability – interest element	(202)
Interest expense	218
As at 31 December 2022	**5,114**

b) Amounts recognised in profit or loss

	2022 £000	2021 £000
Depreciation charge on right-of-use assets		
Property	**845**	298
Laboratory equipment	**55**	18
	900	316
Interest on lease liabilities	**228**	138
Expenses relating to leases of low-value assets	**9**	2
Expense relating to short-term leases	**33**	27

The total cash outflow for leases in the period was £1,003,000 (2021: £428,000).

c) Capital commitments

At 31 December 2022, the Group had £nil of capital commitments (2021: £55,000).

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

22 Convertible bond

In October 2022, the Group issued senior unsecured convertible bonds ('the Bonds') of £55 million to a fund advised by Heights Capital Ireland LLC, a global equity and equity-linked focussed investor.

The Bonds were issued at 95% par value with total net proceeds of £52.25 million, and accrue interest at an annual rate of 6.5% payable quarterly in arrears.

The Bonds contain various conversion and redemption features. The Bonds have a maturity of five years, and are repayable in 20 quarterly amortisation repayments, of principal and interest over the five-year term, in either cash or in new ordinary shares at the Group's option. If in shares, the repayment is at the lower of the conversion price (118.75p) or a 10% discount to the volume weighted average price ('VWAP') in the five- or ten-day trading period prior to election date. The conversion price may reset downwards at 18 months, depending on share price performance, and save in limited circumstances there is a reset price floor of 95p.

Additionally, the bondholder has the option to partially convert the convertible bond at their discretion, though did not do so during the period. Such a partial conversion did occur after the reporting period, see Note 28.

The bond agreement contains embedded derivatives in conjunction an ordinary host debt liability. As a result, the convertible bonds are shown in the Consolidated Statement of Financial Position in two separate components, being 'Convertible bond – debt' and 'Convertible bond – derivative'. At issuance, the total inception value was £52,500,000, being the 5% issue discount to the principal amount of the Bonds, with the initial carrying amount of the debt liability element being the difference between this inception value of the convertible bond and the fair value at inception of the derivative element. Given the option of the bondholder to convert the bond at their discretion, the debt and derivative liability elements have been classified as current liabilities.

The derivative element has been measured at fair value using a Monte-Carlo option pricing model, which estimates the fair value based on the probability-weighted present value of expected future investment returns, considering each of the possible outcomes available to the bondholders. This therefore falls under Level 3 of the fair value hierarchy. At inception, the fair value of the derivative component was measured at £35,000,000, resulting in an initial carrying amount of the debt liability element of £16,123,000. The fair value at the year-end date was measured to be £39,100,000 resulting in a loss on revaluation of the derivative being recognised of £4,100,000.

Significant assumptions used in the fair value analysis include the volatility rate and recovery amount. A volatility of 67.4% was used in the determination of the fair value of the derivative element, a reduction of 10% would have resulted in a reduction in the fair value at inception by £4,401,000 with an increase of 10% resulting in an increase in the fair value at inception of £4,561,000. An estimated recovery amount of 75% was also used in the determination of fair value, with an increase of 10% resulting in an increase in fair value by £1,351,000 and a decrease by 20% resulting in a decrease in the fair value by £3,390,000.

Transaction costs of £3,413,000 have been apportioned between the derivative and debt liability components according to the relative inception values. This has resulted in £2,287,000 of transaction costs being recognised as an expense at acquisition, with £1,127,000 adjusted for in the carrying amount of the debt liability at acquisition.

	Convertible bond - derivative £000	Convertible bond - debt £000
At inception	35,000	16,123
Interest expense	-	2,606
Revaluation of derivative	4,100	-
At 31 December 2022	**39,100**	**18,729**

23 Equity-accounted investees

	£000
As at 1 January 2021 and 31 December 2021	**-**
Additions	**4,128**
Share of loss of associate	**(1,152)**
As at 31 December 2022	**2,976**

AffyXell Therapeutics Co., Ltd is an associate in which the Group has a 19% ownership (2021: 5%). The investment in associate is measured using the equity method. The Group has significant influence as a result of material transactions with the entity and the provision of essential technical information, AffyXell Therapeutics Co., Ltd was established in 2020 to develop Affimer® proteins which will be used for the generation of new cell and gene therapies.

The carrying amount at 31 December 2021 was £nil due to recognition of share of losses exceeding the initial investment, resulting in an unrecognised share of losses of £253,000. The share of losses exceeding the initial contribution were unrecognised due to the Group having no legal or constructive liability to make further payments to the associate.

During the year, the investment in associate has increased with the achievement of certain milestones within the collaboration resulting in additional issue of equity to the Group. The share of loss of associate in the year includes the previously unrecognised share of losses at 31 December 2021.

	2022 £000	2021 £000
Percentage ownership interest	**19%**	5%
Non-current assets	**9,373**	5,014
Current assets	**8,668**	3,494
Non-current liabilities	**(303)**	(154)
Current liabilities	**(632)**	(701)
Net assets (100%)	**17,106**	7,653
Group's share of net assets	**3,167**	413
Revenue	**26**	13
Total comprehensive loss for the year (100%)	**(4,781)**	(2,077)
Group's share of total comprehensive loss for the year	**(899)**	(145)

24 Related party transactions

Transactions between the parent company of the Group and its subsidiaries, which are related parties, have been eliminated on consolidation. See Note 37 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 23. These transactions were made on terms equivalent to those that prevail in arm's length transactions.

	2022 £000	2021 £000
Provision of services* Associate - AffyXell Therapeutics Co., Ltd	**3,798**	1,126
Trade receivables Associate – AffyXell Therapeutics Co., Ltd	**-**	1,023

* £3,798,000 (2021: £966,000) 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:

	2022 £000	2021 £000
Short-term employee benefits	**1,056**	895
Post-employment benefits	**28**	27
Share-based payment	**3,248**	1,049
	4,332	1,971

Short-term employee benefits include employers' NI of £105,000 (2021: £106,000). The aggregate remuneration of the highest paid director was £427,000, with £17,000 of post-employment contributions.

>

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

25 Operating cash outflow from operations

	2022 £000	2021 £000
Loss for the period	**(39,189)**	(26,316)
Adjustments for:		
Amortisation expense	**1,051**	865
Impairment losses	**5,225**	-
Depreciation	**1,961**	1,511
Net loss on disposal of property, plant and equipment	**52**	30
Share of loss of associate	**1,152**	-
Equity-settled share-based payment transactions	**7,490**	5,083
Profit on lease modification	**(31)**	-
Gain on sale of discontinued operation	**(308)**	-
Net finance costs	**9,000**	121
Increase in investment in associate	**(4,127)**	-
Taxation	**(2,102)**	(2,820)
Operating cash outflow before changes in working capital	**(19,826)**	(21,526)
Decrease in inventories	**52**	13
Decrease/(increase) in trade and other receivables	**2,225**	(1,599)
Increase in trade and other payables	**1,596**	456
Operating cash outflow from operations	**(15,953)**	(22,656)

26 Aquisition of subsidiary

On 21 October 2022, the Group acquired 100% of the shares and voting interests in Launch Diagnostics Holdings Ltd ('Launch Diagnostics'). Launch Diagnostics is a leading independent IVD distributor in the UK, providing immunodiagnostic and molecular test products, technical support and maintenance to healthcare providers.

The acquisition of Launch Diagnostics is the first step in an M&A-led growth strategy for the Group's Diagnostics Division, with the vision of building an integrated and differentiated IVD business with global reach servicing professionals and consumers.

For the period from acquisition to 31 December 2022, Launch Diagnostics contributed revenue of £3,971,000 and profit of £309,000 to the Group's results. If the acquisition had occurred on 1 January 2022, management estimates that consolidated revenue would have been £27,845,000 and consolidated loss for the year would have been £34,601,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2022.

A. Consideration transferred

	£000
Cash	28,350
Deferred consideration	851
Total consideration transferred	**29,201**

In addition, the Group has agreed to pay the selling shareholders additional consideration of 50% of the gross margin on sales exceeding £2 million per annum of Launch Diagnostics' COVID-19 related products for three years capped at £13 million. Based on an assessment of forecast future sales, the fair value of this contingent consideration at the acquisition date is £nil. At 31 December 2022, the contingent consideration estimated has remained at £nil.

B. Acquisition-related costs

The Group incurred acquisition-related costs of £712,000 on legal fees and due diligence costs. These costs have been included in 'Acquisition-related expenses'.

C. Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	£000
Property, plant and equipment	293
Right-of-use assets	1,121
Intangible assets – brand	1,216
Intangible assets – customer relationships	10,746
Intangible assets – other	2
Inventories	1,545
Trade and other receivables	3,233
Income tax receivable	1,369
Cash and cash equivalents	3,472
Trade and other payables	(2,696)
Deferred taxation	(2,901)
Lease liabilities	(893)
Total identifiable net assets acquired	**16,507**

Trade receivables comprises gross contractual amounts of £2,493,000 with £nil expected to be uncollectable at the date of acquisition. Amounts receivable from selling shareholders were settled at acquisition at their gross contractual amount.

D. Goodwill

Goodwill arising from the acquisition has been recognised as follows:

		£000
Consideration transferred	**A**	29,201
Fair value of identifiable net assets	**C**	(16,507)
Goodwill		**12,694**

The goodwill is attributable mainly to the skills and technical talent of Launch Diagnostics' work-force and the synergies expected to be achieved from integrating the company into the Group's Diagnostics business. None of the goodwill recognised is expected to be deductible for tax purposes.

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

27 Discontinued operation

On 15 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 ('earn-out payment') of up to £1,433,000. There were associated costs to sell of £181,000. 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.

Contingent consideration of £717,000 has been estimated as at 31 December 2022. The earn out payment is tiered based on revenues achieved by the combined performance of the Animal Health segment and its acquirer. Based on the maximum revenues achieved in any twelve-month period of the three years to 31 December 2024 (the 'earn-out period'), the earn-out payment will be nil, £717,000 or £1,433,000. Management's estimate has been derived from the information on performance for the period to 31 December 2022 and growth rates expected over the remaining earn-out period.

The Animal Health segment was classified as held for sale in the consolidated financial statements for the year ended 31 December 2021.

A. Effect of the disposal on the financial position of the Group

The carrying amounts of assets and liabilities in the disposal group are summarized as follows:

	£000
Property, plant and equipment	**(20)**
Right of use asset	**(122)**
Intangible asset	**(778)**
Inventories	**(81)**
Trade and other receivables	**(192)**
Cash and cash equivalents	**(194)**
Trade and other payables	**175**
Lease liabilities	**124**
Net assets and liabilities	**(1,088)**
Consideration received in cash	**860**
Contingent consideration	**717**
Transactions costs directly relating to disposal	**(181)**
Gain on disposal	**308**

B. Results of discontinued operation

	2022 £000	2021 £000
Revenue	**411**	1,604
Cost of sales	**(117)**	(506)
Gross profit	**294**	1,098
Research costs	**(6)**	(39)
Selling, general and administrative expenses	**(233)**	(915)
Depreciation expense	**(10)**	(50)
Share-based payment charge	**-**	(25)
Operating profit	**45**	69
Finance costs	**(2)**	(11)
Profit before tax	**43**	58
Taxation	**-**	-
Profit from operating activities	**43**	58
Gain on sale of discontinued operation	**308**	-
Profit for the period	**351**	58

C. Cash flows from (used in) discontinued operations

Cash flows generated by the Animal Health segment for the reporting periods under review until its disposal are as follows:

	2022 £000	2021 £000
Net cash (used in) / from operating activities	**(47)**	225
Net cash from / (used in) investing activities	**505**	(19)
Net cash (used in) / from financing activities	**(6)**	30
Net cash flows for the period	**452**	236

28 Events after the reporting period

On 23 January 2023, 3,068,421 new ordinary shares were issued in settlement of the quarterly principal of £2.75 million and interest repayment of £0.89 million in respect of the convertible bond, reducing the principal remaining to £52.25 million.

On 10 February 2023, 2,400,000 new ordinary shares were issued in settlement of a received Notice of Conversion in respect of £2.85 million of the convertible bond, reducing the principal remaining to £49.40 million.

On 21 April 2023, 2,906,097 new ordinary shares were issued in settlement of the quarterly principal of £2.6 million and interest repayment of £0.80 million in respect of the convertible bond, reducing the principal remaining to £46.80 million.

Company Balance Sheet as at 31 December 2022 – Registered number 04748597

	Note	2022 £000	2021 £000
Fixed assets			
Tangible assets	30	**14**	13
Intangible assets	30	**5**	13
Investments	31	**75,029**	7,892
		75,048	7,918
Current assets			
Debtors*	32	**103,204**	86,586
Cash and cash equivalents		**36,249**	25,549
		139,453	112,135
Current liabilities	33	**(90,832)**	(518)
Net current assets		**48,621**	111,617
Net assets		**123,669**	119,535
Capital and reserves			
Called-up share capital	35	**26,685**	25,472
Share premium account	36	**62,184**	54,530
Reserve for own shares	36	**(2,755)**	(2,961)
Retained earnings	36	**37,555**	42,494
Shareholders' funds		**123,669**	119,535

*Of which £102,237,000 (2021: £84,052,000) is expected to be recovered in more than twelve months

The loss of the Company for the year ended 31 December 2022 was £12,222,000 (2021: profit of £225,000)

The notes on pages 121 to 127 form an integral part of these financial statements.

The balance sheet above was approved by the Board of Directors and authorised for issue on 28 April 2023 and signed on its behalf by:

Dr Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Company Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £000	Share premium £000	Reserve for own shares £000	Retained earnings £000	**Total equity £000**
At 1 January 2021	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)**	**42,493**	**119,535**
Issue of shares	948	7,448	-	-	**8,396**
Exercise of share options	264	206	-	-	**470**
Total comprehensive profitloss for the period	-	-	-	(12,222)	**(12,222)**
Share-based payment charges	-	-	-	7,490	**7,490**
Transfer[1]	-	-	206	(206)	**-**
At 31 December 2022	**26,685**	**62,184**	**(2,755)**	**37,555**	**123,669**

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

[1]Where ordinary shares have been transferred from Link Market Services Trust Limited into the beneficial ownership of employees during the period, these amounts have been transferred from 'Reserve for own shares' to 'Retained earnings'.

Notes to the Company Balance Sheet

29 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 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
- 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.

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 2022 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 cash flows 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 and that the carrying amount of the investment in Launch Diagnostics has been impaired to its recoverable amount such that an adverse change in assumptions would increase the quantum of impairment. A 1% increase in the discount rate would result in an increase in the provision against investment in subsidiary undertakings by £2,617,000, and a 1% decrease in the compound annual revenue growth rate within the forecast period of the model would result in an increase in provision of £4,296,000.

Note 10 sets out a number of other 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 other scenarios the recoverable amount would still exceed the carrying amount of investments in subsidiaries, and the present value of estimated cash flows discounted at the asset's original effective interest rate would still exceed the carrying amount of amounts owed by subsidiary undertakings.

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

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

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

Fixtures and fittings	3 to 10 years

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

Software	3 to 5 years

Investments
Fixed 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 to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with 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.

Convertible bond – derivative liability
The Company is party to the derivative element of the convertible bond only. The derivative is initially measured at fair value, creating a corresponding investment in subsidiary reflecting the element of the convertible bond liability borne on behalf of the Company's subsidiary, Avacta Finance (Jersey) Ltd. This arises from the future settlement of the bond being through the issue of ordinary shares in the Company. Subsequent changes in this fair value are recognised through profit or loss.

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

30 Tangible and intangible fixed assets

	Tangible £000	Intangible £000	Total £000
Cost at 31 December 2021	62	108	**170**
Additions	15	-	**15**
Transfers from / (to) wholly-owned subsidiaries	(10)	-	**(10)**
Disposals	(10)	-	**(10)**
At 31 December 2022	**57**	**108**	**165**
Depreciation at 31 December 2021	49	95	**144**
Charge for the year	8	8	**16**
Transfers from / (to) wholly-owned subsidiaries	(5)	-	**(5)**
Disposals	(9)	-	**(9)**
At 31 December 2022	**43**	**103**	**146**
Net book value			
At 31 December 2022	**14**	**5**	**19**
At 31 December 2021	13	13	**26**

31 Investments

	£000
Cost at 1 January 2022	**9,666**
Additions *	**4,151**
Acquisition of subsidiary	**29,929**
Issue of convertible bond notes by subsidiary	**35,000**
Disposals	**(124)**
At 31 December 2022	**78,622**
Provision at 1 January 2022	**1,774**
Impairment charge for the year	**1,918**
Disposals	**(99)**
At 31 December 2022	**3,593**
Net book value	
At 31 December 2022	**75,029**
At 31 December 2021	7,892

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

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

The companies in which Avacta Group plc has an interest at 31 December 2022 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				
Affimer Limited (formerly Promexus Limited)	[4]Dormant	[1]England	Ordinary 100%	Indirect
Avacta Limited	Non-trading	[1]England	Ordinary 100%	Direct
Avacta Analytical Limited	[4]Dormant	[1]England	Ordinary 100%	Indirect
Avacta Animal Health Inc.	[4]Dormant	[1]US	Ordinary 100%	Direct
Avacta Finance (Jersey) Limited	[7]Trading	[3]Jersey	Ordinary 100%	Direct
Avacta Group Trustee Limited	[4]Dormant	[1]England	Ordinary 100%	Direct
Avacta Life Sciences Limited	Technology development	[1]England	Ordinary 100%	Direct
Avacta Life Sciences Inc.	Technology development	[1]US	Ordinary 100%	Indirect
Crossco (1127) Limited	[5]Intermediate holding company	[1]England	Ordinary 100%	Direct
Launch Diagnostics Holdings Limited	Intermediate holding company	[1]England	Ordinary 100%	Direct
Launch Diagnostics Limited	[6]Trading	[1]England	Ordinary 100%	Indirect
Launch Diagnostics France SAS	[6]Trading	[2]France	Ordinary 100%	Indirect

Avacta Analytical Limited is a subsidiary of Avacta Limited. Avacta Life Sciences Inc and Affimer Limited (formerly Promexus Limited) are subsidiaries of Avacta Life Sciences Limited. Launch Diagnostics Limited and Launch Diagnostics France SAS are subsidiaries of Launch Diagnostics Holdings Limited.

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

[2] Registered address: 6 avenue Franklin D. Roosevelt, Paris, France

[3] Registered address: 47 Esplanade, St Helier, Jersey, JE1 0BD

[4] Dormant status accounts will be filed for the year ended 31 December 2022.

[5] Crossco (1127) Limited was the intermediate holding company of Avacta Animal Health Limited which was sold during the period.

[6] The main trade being the provision of diagnostic reagents and hospital laboratory instrumentation

[7] Avacta Finance (Jersey) Limited being the issuer of the convertible bond during the period.

32 Debtors

	2022 £000	2021 £000
Other taxes and social security	**13**	6
Prepayments and other debtors	**345**	461
Amounts owed by subsidiary undertakings*	**118,443**	100,236
Less: provision against amounts owed by subsidiary undertakings	**(15,597)**	(14,117)
	103,204	86,586

* Of which, £102,237,000 (2021: £84,052,000) are expected to be recovered in more than twelve months. The terms of the intercompany loans are disclosed in Note 37.

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

33 Current liabilities

	2022 £000	2021 £000
Trade creditors	**75**	31
Other taxes and social security	**63**	57
Accruals and other creditors	**766**	430
Deferred consideration	**868**	-
Amounts owed to subsidiary undertakings	**49,960**	-
Convertible bond – derivative liability	**39,100**	-
	90,832	518

Further details on the convertible bond, and the sensitivity of the fair value to key assumptions, can be found in Note 22.
The Company has recognised a loss on change in fair value of the derivative of £4,100,000 in the year to 31 December 2022.

34 Share capital

	2021 £000	2020 £000
Allotted, called up and fully paid:		
- 266,081,715 (2021: 253,950,626) ordinary shares of 10p each	**26,608**	25,395
- 19,327,344 deferred shares of 0.4p each	**77**	77
	26,685	25,472

Share issues

During the year, a total of 2,640,682 ordinary 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 18.08p

On 18 October 2022, 7,368,427 ordinary shares of 10p each were allotted and issued at 95p further to a placing of shares, with a further 15,000 ordinary shares of 10p each being allotted and issued in relation to a management subscription of shares. On 7 November 2022, 2,106,990 ordinary shares of 10p each were allotted and issued at 95p further to an open offer of shares. Placing costs of £618,000 were incurred and offset against the share premium reserve.

Respective rights of ordinary and deferred shares

The rights of the ordinary shareholders are dealt with in the Articles of Association of the Company, which are 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.

35 Reserves

Share premium

The share premium account of £62,184,000 (2021: £54,530,000) 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 £2,755,000 (2021: 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, 2,782,306 (2021: 2,932,306) ordinary shares of 10p each are held jointly by certain employees, each individually with Avacta Group Trustee Limited.

This reserve is not distributable. Where ordinary shares have been transferred from Link Market Services Trust Limited into the beneficial ownership of employees during the period, these amounts have been transferred to retained earnings, this amounted to £206,000 in the period (2021: £nil).

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.

36 Commitments

(a) Capital commitments

At 31 December 2022, the Company had £nil capital commitments (2021: £nil).

(b) Contingent liabilities

The Company has guaranteed the overdrafts of some of its subsidiaries. The amount outstanding at 31 December 2022 was £nil (2021: £nil).

(c) Operating lease commitments

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

	2022 £000	2021 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**1,091**	388
• Between one and five years	**526**	1,254
• Over five years	**-**	162
	1,617	1,804

37 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.

The Company received the principal amount in relation to the issue of convertible bonds on behalf of its wholly owned subsidiary Avacta Finance (Jersey) Limited. This intercompany loan is repayable on demand but is expected to be settled over the life of the bond as the Company settles the quarterly amortisation repayments on behalf of Avacta Finance (Jersey) Limited.

Management charges made to subsidiaries	**2022 £000**	2021 £000
Avacta Life Sciences Limited	**3,240**	3,275
Avacta Animal Health Limited	**-**	543
Launch Diagnostics Limited	**480**	-
Launch Diagnostics France SAS	**130**	-

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

	2022	2021
Avacta Limited	**5,875**	5,873
Avacta Analytical Limited	**3,833**	3,833
Avacta Animal Health Limited	**-**	6,477
Avacta Life Sciences Limited	**102,237**	84,052
Crossco (1127) Limited	**5,889**	-
Avacta Finance (Jersey) Limited	**(49,960)**	-
Launch Diagnostics Limited	**480**	-
Launch Diagnostics France SAS	**130**	-
	68,484	100,235

Remuneration of key management personnel

The disclosures relating to remuneration of key management personnel for the Company are equivalent to those for the Group disclosed in Note 24.


Closed

Shareholder information

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 Royal Society of Medicine, 1 Wimpole Street, London W1G 0AE on Wednesday 28 June 2023 at 10:30 a.m. for the following purposes:

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

1. To adopt and receive the audited accounts, the strategic report, the Directors' report and the auditor's report of the Company for the year ended 31 December 2022.
2. To approve the remuneration report contained within the report and accounts for the year ended 31 December 2022.
3. To re-appoint Eliot Forster as a Director of the Company in accordance with article 35 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 Alastair Smith as a Director of the Company in accordance with article 35 of the Articles who offers himself for re-appointment as a Director of the Company.
5. To re-appoint Trevor Nicholls as a Director of the Company in accordance with article 35 of the Articles who offers himself for re-appointment as a Director of the Company.
6. To increase the maximum number of Directors of the Company from eight to 10 Directors in accordance with article 29.1 of the Articles.
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') (if resolution 10 below is passed, in substitution for all existing authorities (other than, for the avoidance of doubt, resolution 10 below) or, if resolution 10 below is not passed, in addition to resolution 9 passed at the annual general meeting of the Company held on 23 June 2022 but otherwise 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'):

   9.1 up to an aggregate nominal amount of £9,178,000 (being approximately one third of the issued ordinary share capital of the Company as at the date of this notice); and

   9.2. up to an aggregate nominal amount of £18,356,000 (such amount to be reduced by the aggregate nominal amount of shares allotted and Rights granted under the authority conferred by virtue of resolution 9.1) in connection with or pursuant to a fully pre-emptive offer (as defined below in resolution 11),

   provided that such authorities 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 authorities 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 authorities conferred by this resolution had not expired.

10. To authorise the Directors of the Company generally and unconditionally pursuant to section 551 of the Act (in addition to 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 up to an aggregate nominal amount of £6,500,000 in connection with or pursuant to the bond agreement between the Company, Addition Finance (Jersey) Limited and CVI Investments, Inc. dated 18 October 2022, as amended or restated from time to time, provided that this authority shall expire on the date falling five years after the date on which this resolution is passed unless varied, revoked or renewed by the Company in general meeting.

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

11. 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 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:

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

    11.2 (otherwise than pursuant to resolution 11.1 above) up to an aggregate nominal amount of £2,753,000 (being approximately 10% of the issued ordinary share capital of the Company as at the date of this notice); and

    11.3 (otherwise than pursuant to resolutions 11.1 or 11.2 above) up to an aggregate nominal amount equal to 20% of any allotment of equity securities or sale of treasury shares from time to time under resolution 11.2 above, such authority to be used only for the purposes of making a follow-on offer which the Directors of the Company determine to be of a kind contemplated by paragraph 3 of Section 2B of the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to 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 resolutions 9.2 and 11: fully 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.

12. To empower the Directors of the Company (subject to the passing of resolution 9 and in substitution for all existing like powers (other than resolution 11 above) granted to the Directors of the Company (to the extent that they remain in force and unexercised)) pursuant to sections 570 and 573 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred upon them by resolution 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:

12.1 up to an aggregate nominal amount of £2,753,000 (being approximately 10% of the issued ordinary share capital of the Company as at the date of this notice), such authority to be used only for the purposes of financing (or refinancing, if the authority is to be used within 12 months after the original transaction) a transaction which the Directors of the Company determine to be either an acquisition or a specified capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice; and

12.2 (otherwise than pursuant to resolution 12.1 above) up to an aggregate nominal amount equal to 20% of any allotment of equity securities or sale of treasury shares from time to time under resolution 12.1 above, such authority to be used only for the purposes of making a follow-on offer which the Directors of the Company determine to be of a kind contemplated by paragraph 3 of Section 2B of the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to 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.

13. To authorise the Directors of the Company generally and unconditionally for the purpose of section 701 of the Act and in accordance with article 22 of Articles, to make market purchases (within the meaning of section 693 of the Act) of ordinary shares of 10p each in the capital of the Company on such terms and in such manner as the Directors of the Company may determine provided that:

13.1 the maximum number of ordinary shares that may be purchased under this authority is restricted to 27,534,000 (being approximately 10% of the issued ordinary share capital of the Company as at the date of this notice);

13.2 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

13.3 the minimum price which may be paid for any and each ordinary share purchased under this authority 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

T. Gardiner

Tony Gardiner
Company Secretary

28 April 2023

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 registered 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 26 June 2023. 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 their discretion. Your proxy will vote (or abstain from voting) as they think 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;
   - Link Group, the Company's registrar ('the Registrar'), has launched a shareholder app: LinkVote+. It's free to download and use and gives shareholders the ability to access their shareholding record at any time and allows users to submit a proxy appointment quickly and easily online rather than through the post. The app is available to download on both the Apple App Store and Google Play;
   - if you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 10:30am on 26 June 2023 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote;
   - by requesting a hard copy form of proxy directly from the Registrar by email at shareholderenquiries@linkgroup.co.uk or by phone on 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00 a.m. to 5.30 p.m., Monday to Friday (excluding public holidays in England and Wales); or
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
6. In order for a proxy appointment to be a valid, a proxy form, electronic filing or any CREST Proxy Instructions (as described in note 10 below) must be completed. In each case so as to be received by Link Group by 10.30 a.m. on 26 June 2023 in accordance with these notes and the notes to the form of proxy.
7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by Link Group 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 they wish 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). 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 & International Limited's specifications, and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 10.30 a.m. on 26 June 2023. 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 & International 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 their 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 registered shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a registered shareholder, provided that no more than one corporate representative exercises powers in relation to the same share.
13. As at 28 April 2023 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consisted of 275,348,077 ordinary shares, carrying one vote each, and 19,327,344 deferred shares, carrying no voting rights. Therefore, the total voting rights in the Company as at 28 April 2023 were 275,348,077.
14. You may not use any electronic address (within the meaning of section 333(4) of the Act) 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 12 set out in this Notice are ordinary business, and resolution 13 is special business.

Explanation of Resolutions

Ordinary resolutions

Resolutions 1 to 10 are proposed as ordinary resolutions. Each of these resolutions will be passed if more than 50% of the votes cast (in person or by proxy) are cast in favour of it.

a. **Resolution 1:** The Directors of the Company ("Directors") are required to present to shareholders at the AGM the audited accounts of the Company, the strategic report, and the reports of the Directors and auditor, for the year ended 31 December 2022.

b. **Resolution 2:** The Directors' remuneration report is set out in the Company's Annual Report and Accounts for the year ended 31 December 2022. The vote is advisory and the Directors' entitlement to remuneration is not conditional on it.

c. **Resolutions 3, 4 and 5:** The Company's Articles of Association require one third of the Directors to retire from office each year (or, if their number is not a multiple of three, the number nearest to but not less than one-third). Eliot Forster, Alastair Smith and Trevor Nicholls are each retiring by rotation and seeking re-election at the AGM.

   Biographical information for all the Directors standing for re-election is included on page 46 of the Directors' report in the Company's Annual Report and Accounts. Having considered the performance of and contribution made by each of the Directors standing for re-election, the board of Directors (the "Board") remains satisfied that, and the Chair confirms that, the performance of each Director continues to be effective and to demonstrate commitment to the role and as such the Board recommends their re-election.

d. **Resolution 6:** The Company's Articles of Association limit the maximum number of Directors to eight. Resolution 6, if passed, would increase the maximum number of Directors to 10. The intention of this resolution is to give the Company flexibility to appoint additional Directors.

e. **Resolution 7:** Resolution 7 relates to the appointment of BDO LLP as the Company's Auditor to hold office until the next General Meeting of the Company at which accounts are laid before the Company.

f. **Resolution 8:** It is normal practice for shareholders to resolve at the AGM that the Audit and Risk Committee decides on the level of remuneration of the auditor for the audit work to be carried out by it in the next financial year. The amount of the remuneration paid to the auditor for the next financial year will be disclosed in the next audited annual accounts of the Company.

g. **Resolution 9:** The Directors may only allot shares or grant rights over shares if authorised to do so by shareholders. The Investment Association ("IA") guidelines on authority to allot shares state that IA members will permit, and treat as routine, resolutions seeking authority to allot shares representing up to two-thirds of a company's issued share capital provided that any amount in excess of one-third of the company's issued share capital is applied to fully pre-emptive offers only (including open offers and rights issues). Accordingly, resolution 9, if passed, would authorise the Directors under section 551 of the Companies Act 2006 (the "Act") to allot new shares or grant rights to subscribe for, or convert any security into, new shares (subject to shareholders' pre-emption rights (unless and to the extent disapplied)): (i) up to a maximum nominal amount of £9,178,000; and (ii) up to a maximum nominal amount of £18,356,000 (less the aggregate nominal amount of shares or rights granted under (i)) in connection with a fully pre-emptive offer, together representing the IA guideline limit of approximately two-thirds of the Company's issued ordinary share capital (excluding shares held in treasury) as at 28 April 2023, being the latest practicable date prior to the publication of this document. Passing this resolution will ensure that the Directors continue to have the flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares or granting rights over shares. There are no current plans to issue new shares except in connection with employee share schemes and under the Bond Agreement (detailed below).

h. **Resolution 10:** The Company has an option to allot new ordinary shares to CVI Investments, Inc. pursuant to the bond agreement between the Company, Addition Finance (Jersey) Limited and CVI Investments, Inc. dated 18 October 2022, as amended or restated from time to time (the "Bond Agreement"). As detailed above in relation to resolution 9, the Directors may only allot shares if authorised to do so by shareholders. Resolution 10, if passed, would, in addition to the authority granted by resolution 9, authorise the Directors under section 551 of the Act to allot new shares in the Company up to an aggregate nominal amount £6,500,000 pursuant to the Bond Agreement at any time during the five year period from the date on which the resolution is passed (this will therefore cover the remaining term of the bonds). Passing this resolution will ensure that the Directors have a dedicated authority to allot new ordinary shares pursuant to the terms of the Bond Agreement and avoid breaching the provisions of the Act or otherwise having to settle interest and/or amortisation payments in cash.

i. Special resolutions

Resolutions 11 to 13 are special resolutions. Each of these resolutions will be passed if 75% or more of the votes cast (in person or by proxy) are cast in favour of it.

j. Resolutions 11 and 12: The Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the publication of this document (the "Pre-Emption Principles") states that a general disapplication of pre-emption rights will likely be supported where a company seeks authority to issue non-pre-emptively for cash shares representing: (i) no more than 10% of its issued share capital on an unrestricted basis (being for any purpose); and (ii) no more than an additional 10% of its issued share capital to be used for an acquisition or a specified capital investment of a kind contemplated by the Pre-Emption Principles. In addition, the Pre-Emption Principles state that, in each case, a company may seek further authority to disapply pre-emption rights for up to 2% of its issued share capital to be used only for the purposes of a follow-on offer of a kind contemplated by paragraph 3 of Section 2B of the Pre-Emption Principles.

Resolution 11 contains a three-part disapplication of statutory pre-emption rights. Other than in connection with a fully pre-emptive offer, the power contained in resolution 11 would be limited to a maximum nominal amount of £3,303,600, which would equate to 33,036,000 ordinary shares in the capital of the Company, representing approximately 12% of the Company's issued share capital as at 28 April 2023, being the latest practicable date prior to the publication of this document. Of the £3,303,600, £550,600 can only be used for the purposes of making a follow-on offer.

Resolution 12 is a further disapplication of pre-emption rights limited to an additional 10% of issued ordinary share capital to be used for transactions which the Directors determine to be an acquisition or specified capital investment and a further 2% of issued ordinary share capital to be used for making a follow-on offer. This power would be limited to a maximum nominal amount of £3,303,600, which would equate to 33,036,000 ordinary shares in the capital of the Company, representing approximately 12% of the Company's issued share capital as at 28 April 2023, being the latest practicable date prior to the publication of this AGM notice. Again, of the £3,303,600, £550,600 can only be used for the purposes of making a follow-on offer.

If passed, these authorities will expire at the same time as the authority to allot shares given pursuant to resolution 9.

k. Resolution 13: A company may only purchase its own shares if authorised to do so by shareholders. The IA guidelines state that IA members will permit, and treat as routine, resolutions seeking authority to purchase up to 10% of a company's issued ordinary shares. Accordingly, resolution 13, if passed, would authorise the Company under section 701 of the Act to purchase up 27,534,000 ordinary shares in its share capital, representing the IA guideline limit of 10% of the Company's issued ordinary shares as at 28 April 2023, being the latest practicable date prior to the publication of this document.

In accordance with the IA guidelines, the minimum price payable for the purchase of any ordinary share under this authority shall be the nominal value of that ordinary share, and the maximum price payable for each ordinary share under this authority shall be 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).

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