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28 September 2023

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

Interim Results for the Period Ending 30 June 2023

A period of substantial clinical progress and continued growth

Avacta Group plc (AIM: AVCT), a life sciences company focused on improving healthcare outcomes through targeted cancer treatments and diagnostics, is pleased to announce its unaudited interim results for the six months ending 30 June 2023 ("H1 2023").

Operating highlights

Therapeutics Division – Encouraging clinical progress with AVA6000 and strong preclinical progress with other programmes

- Avacta's lead pre|CISION™ programme, AVA6000, a tumour microenvironment activated form of a chemotherapeutic agent, doxorubicin, made significant progress in a Phase 1a clinical trial (ALS-6000-101) during H1 2023, with an excellent safety profile continuing to be observed through the dose cohorts as detailed in the Company's announcements.
- Expansion of dosing into the US under the Group's Investigational New Drug Application in Avacta's Phase 1 multi-centre trial.
- Post period, the sixth dose cohort (310 mg/m^2) was successfully completed and escalation to the seventh and final cohort (385 mg/m^2) was approved in September, with a significant reduction in tumour volume confirmed in a patient with soft tissue sarcoma.
    - In light of the highly positive Phase 1a data, the Company has adapted its clinical development strategy with the aim of bringing forward the start of a potentially pivotal Phase 2 study, subject to receiving the necessary regulatory approvals.
- Preclinical data regarding AVA3996, the second pre|CISION™ programme, a tumour targeted proteasome inhibitor, were presented at the American Association of Cancer Research Annual Meeting in April, supporting confidence in the potential of this molecule to restrict tumour growth.
- AffyXell Therapeutics ("AffyXell"), the joint venture between Avacta and Daewoong Pharmaceutical ("Daewoong") continued to progress well with the triggering of a second milestone payment. This will result in an increase in Avacta's shareholding in AffyXell to approximately 25% from its current 19%, which will be determined when a formal valuation has been completed as was done for the first milestone payment.
- Avacta's Board of Directors has been strengthened with the appointment of Shaun Chilton as Non-Executive Director in June 2023.

Diagnostics Division – Second acquisition in M&A-led growth strategy completed and integration progressing well

- The Group continues to pursue an M&A-led growth strategy for the Diagnostics Division to support the building of an in-vitro diagnostics product portfolio for professional use, including those against infectious respiratory diseases.
- Avacta's Diagnostics Division completed the acquisition of Belgium-based Coris Bioconcept SRL on 1 June 2023, for an upfront consideration of £7.3 million with an earnout based on future business performance of up to £3.0 million payable in cash, adding a broad range of marketed professional-use rapid tests to the Division:
    - This acquisition supports the strategy of acquiring commercial routes into the diagnostics market and appropriate IP-rich product portfolios, complementing the acquisition of Launch Diagnostics in October 2022 has been successfully integrated into the Diagnostics Division.
    - Adjusted EBITDA loss (before non-cash and non-recurring items) of the Diagnostics Division reduced to £0.4 million (H1 2022: £2.6 million; year ended 31 December 2022: £5.1 million).

Financial highlights

- Revenues increased to £11.9 million (H1 2022: £5.5 million; year ended 31 December 2022: £9.7 million).
- Adjusted EBITDA loss (before non-cash and non-recurring items) of £7.9 million (H1 2022: £5.4 million; year ended 31 December 2022: £15.1 million).
- Operating loss from continuing operations of £11.9 million (H1 2022: £9.6 million; year ended 31 December 2022: £32.6 million).
- Reported loss from continuing operations of £11.5 million (H1 2022: £9.0 million; year ended 31 December 2022: £39.5 million).
- Loss per ordinary share from continuing operations of 4.3p (H1 2022: 3.6p; year ended 31 December 2022: 15.5p).
- Cash and short-term deposit balances at 30 June 2023 of £26.0 million (30 June 2022: £17.0 million; 31 December 2022: £41.8 million).

Outlook

The continuing success of AVA6000 in the Phase 1a clinical study is important not only for the potential to improve outcomes for patients with cancers suitable for treatment with doxorubicin, but also as a validation of the pre|CISION™ platform more widely. The Company aims to complete the AVA6000 three-weekly dose escalation safety study and to provide a detailed data read-out during Q4 2023.

In parallel, the Company will also initiate a fortnightly dosing safety study in order to determine the dosing regimen for a Phase 2 registrational study in soft tissue sarcoma planned to start during 2024, in advance of previous estimates. Subject to positive data, this could potentially bring the first pre|CISION™ targeted chemotherapy to market for the benefit of patients with soft tissue sarcoma towards the end of 2026.

The Company is progressing pre-clinical programmes based on both the pre|CISION™ and Affimer® platforms and anticipates providing detailed updates on these programmes in the coming months.

The Group's Diagnostics Division is focused on the integration of its first two acquisitions and finding synergies across the enlarged division. The Group is aiming to grow the Diagnostics Division organically and through geographical expansion into the German market, with the near-term aim of achieving an overall EBITDA positive position.

Dr Eliot Forster, Chairman of Avacta Group plc added:

"Targeting of cancer therapies to tumour tissue has been a long sought after goal for many oncology drug companies, clinicians and patients. There are many potent anti-cancer drugs, the effectiveness of which is limited by the systemic toxicities and lack of tolerability for patients.

"The clinical data emerging for our lead pre|CISION™ drug, AVA6000, is ground-breaking. We are seeing a dramatic reduction in the usual toxicities associated with anthracycline chemotherapy and we have clear indications that doxorubicin is being released in active form in the tumour microenvironment.

"Across the board we're proud and encouraged by the momentum we're seeing in both divisions of this business and see huge potential value both for patients and investors in the next period."

Dr Alastair Smith, Chief Executive Officer of Avacta Group plc, commented:

"I am delighted to report substantial progress across the board as Avacta's two divisions execute on their strategies.

"In our Therapeutics Division, the pre|CISION™ platform is doing exactly what it was designed to do – target the release of active chemotherapy to the tumour tissue, minimising systemic exposure and allowing for dosing at higher and potentially more efficacious therapeutic levels. We are all hugely excited about its potential to deliver profound improvements in cancer care for many patients.

"Not only are the initial safety data emerging from the AVA6000 Phase 1 study, across all dose cohorts, remarkably good, but targeted release of doxorubicin in the tumour has been confirmed both by analysis of tumour biopsies and now by clear clinical responses.

"Even at this early stage and in this patient group, we have a confirmed, significant reduction in tumour volume in a patient with soft tissue sarcoma, as well as other positive signals across a number of patients. This excellent progress means that we are aiming to accelerate the timetable for the start of the pivotal Phase 2 efficacy study in soft tissue sarcoma into 2024.

"Avacta's Diagnostic Division also continues to grow and provide more comprehensive capabilities. We have completed a second acquisition, that of Coris Bioconcept, and I am very pleased with the progress and integration of Coris and Launch Diagnostics as the Division moves closer towards an EBITDA positive position."

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About Avacta Group plc - www.avacta.com

Avacta Group is a UK-based company focused on improving healthcare outcomes through targeted cancer treatments and diagnostics.

Avacta has two divisions: an oncology biotech division harnessing proprietary therapeutic platforms to develop novel, highly targeted cancer drugs, and a diagnostics division, which is executing on an M&A led growth strategy to create a full-spectrum diagnostics business focused on supporting healthcare professionals and broadening access to testing. Avacta's two proprietary platforms, Affimer® and pre|CISION™ underpin its cancer therapeutics whilst the diagnostics division leverages the Affimer® platform to drive competitive advantage in its markets.

The pre|CISION™ platform modifies chemotherapy to be activated only in the tumour tissue, reducing systemic exposure and toxicity. This is achieved by harnessing an enzyme called FAP which is highly upregulated in most solid tumours compared with healthy tissues, turning chemotherapy into a "precision medicine". The lead pre|CISION™ programme, AVA6000 a tumour activated form of doxorubicin, is in Phase 1 studies and has shown dramatic improvement in safety compared with standard doxorubicin, and early signs of clinical activity.

Affimer® is a novel biologic platform which has significant technical and commercial advantages compared with antibodies and is used both to develop advanced immunotherapies and to improve the performance of immunodiagnostics.

With a balanced business and capital allocation model: a high-value oncology pipeline supported by a revenue generating, fast-growing diagnostics business, Avacta seeks to create long-term shareholder value alongside patient benefit.

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Chairman and Chief Executive Officer's Statement

Avacta Therapeutics Division Update

Avacta's 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.

AVA6000: a tumour-activated form of doxorubicin

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 dosing regimen and long-term use is limited by severe systemic toxicities, in particular, by haematological toxicities and cardiotoxicities.

Avacta's pre|CISION™ tumour-activation platform is designed to reduce the systemic exposure of healthy tissues to the active chemotherapy, leading to improved dosing regimens, improved safety and tolerability for patients and better treatment outcomes.

The ALS-6000-101 Phase 1 clinical trial involves a dose-escalation Phase 1 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 initially at three-weekly intervals to determine the maximum tolerated dose. For more information visit www.clinicaltrials.gov (NCT04969835).

Doxorubicin is used as a monotherapy for the treatment of soft-tissue sarcoma ("STS"), a relatively rare mesenchymal malignancy which accounts for less than 1% of 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 1a three-weekly dose escalation study is being carried out at several sites in the UK and United States and is now dosing patients in the seventh and final dose escalation cohort at 385 mg/m^2, which is approximately 3.5 times the normal dose of doxorubicin.

The data emerging from the dose escalation study show an excellent safety profile. In the first six completed dose cohorts, AVA6000 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, equivalent to several-fold higher than the normal dose of doxorubicin, the typical drug-related cardiotoxicity of doxorubicin has not been observed.

Analysis of a number of tumour biopsies obtained from patients in different cohorts has also 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.

Post-period, the Company announced that it had confirmed a significant reduction in tumour size in a patient on the trial with a sub-type of STS in which doxorubicin is expected to be effective. Several other patients have also shown positive responses to the treatment.

Preliminary clinical data on AVA6000 have demonstrated that the pre|CISION™ modification has resulted in targeted release of the active drug to the tumour microenvironment, dramatically reducing

the systemic toxicities being observed in patients and resulting in clinically effective levels of the active drug in the tumour.

In light of AVA6000's continued strong clinical progress, the Company has reviewed its clinical development strategy with the aim of accelerating a pivotal Phase 2 study in STS which could lead to the first regulatory approval for the drug.

The excellent safety profile of AVA6000 opens up the potential to dose patients more frequently, as well as with higher doses or more cycles of treatment. In order to determine the recommended Phase 2 dose, the Company will initiate a short fortnightly dosing study in place of the much longer multi-arm Phase 1b efficacy study previously envisaged.

This fortnightly dosing study should be completed by the middle of 2024 which the Company expects will allow the Phase 2 study to start much earlier than planned, in 2024.

The Company expects to release detailed Phase 1a data in Q4 2023 following completion of cohort 7.

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 microenvironment, where it is activated by an enzyme called FAPα. FAPα is in high abundance in most solid tumours but not in healthy tissues.

The data emerging from the AVA6000 Phase 1a study have validated the performance of the pre|CISION™ platform, opening up the opportunity to apply it to a broad range of existing chemotherapies and new, more potent cytotoxins.

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

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 be used to treat solid tumours.

During the period, the Company presented pre-clinical data regarding AVA3996 in a poster entitled '*AVA3996, a novel pre|CISION™ medicine, targeted to the tumor microenvironment via Fibroblast Activation Protein-alpha (FAP-α) mediated cleavage'*, at the American Association for Cancer Research ("AACR") 2023 Annual Meeting. The poster and a video explainer are available on the Company's web site (see https://avacta.com/avacta-presents-ava3996-pre-clinical-data-at-the-american-association-for-cancer-research-meeting/).

The Company is continuing its pre-clinical development of AVA3996 (pre-clinical models of safety, pharmacokinetics and efficacy) with the aim of an investigational new drug ("IND") filing in H2 2024.

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 for both patients and Avacta shareholders, good progress has been made in the in-house Affimer® programmes which, along with the Company's commercial collaborations, are a key part of the in-house research activities.

Avacta will be presenting an update on its lead Affimer® PD-L1/cytokine bispecific programme as a poster presentation at the AACR-NCI-EORTC International Conference on Molecular Targets and Cancer Therapeutics (October 11-15, 2023, Boston, USA). This information will be made available on the Company's website following the meeting.

Ongoing Drug Development Collaborations

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 focused on progressing the PD-L1/XT oncology drug candidate towards the clinic and has commenced pre-clinical studies which are intended to form the basis of an IND submission.

AffyXell Therapeutics

AffyXell was established in January 2020 by Avacta and Daewoong as a joint venture to develop novel mesenchymal stem cell ("MSC") therapies. AffyXell is combining Avacta's Affimer® platform with Daewoong's MSC platform such that the stem cells are genetically modified to produce and secrete therapeutic Affimer® proteins with immuno-modulatory effects *in situ* in the patient. The Affimer® proteins are designed to enhance the therapeutic effects of the MSC creating a novel, next generation cell therapy platform.

Avacta has successfully developed and characterised Affimer® proteins against the second target of interest for AffyXell and has filed a patent application for the associated intellectual property triggering the second milestone in the agreement during the reporting period. The second milestone will result in an increase in Avacta's shareholding in AffyXell, which currently stands at 19%. The exact shareholding will be determined, as with the first milestone payment which was achieved in April 2022, following a formal valuation of AffyXell and is expected to be approximately 25%.

POINT Biopharma Inc.

Early in 2021, Avacta signed a licensing agreement with POINT Biopharma Inc. ("POINT"), 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 is bound by confidentiality clauses in the license agreement with POINT and is therefore unable to provide a detailed update on progress outside of the information that has been placed in the public domain by POINT (POINT has named its pre|CISION based programmes CanSeek™. See https://www.pointbiopharma.com/our-products/pipeline).

Avacta Diagnostics Division Update

Avacta's Diagnostics Division is driving ambitious growth through an M&A-led strategy with the aim of supporting healthcare professionals and broadening access to high quality diagnostics. The strategy is founded on acquiring both the routes into the diagnostics market and the appropriate IP-rich product portfolios.

In October 2022, the Company completed its first acquisition, Launch Diagnostics, a leading independent distributor in the UK *in vitro* diagnostics ("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. The most significant opportunity for growth lies in the geographical expansion of the business into Germany, which is Europe's largest diagnostics market. Avacta is actively pursuing this strategy.

During the reporting period, Avacta completed its second acquisition, Coris Bioconcept SRL ("Coris"), a developer and supplier of rapid diagnostic test kits, for an upfront cash consideration of £7.3 million (on a debt-free/cash-free basis and subject to customary working capital adjustments), with an earnout based on future business performance, payable in cash, of up to £3.0 million.

Coris, based in Gembloux, Belgium and established in 1996, develops, manufactures and markets rapid diagnostic test kits, mainly lateral flow tests, for use by healthcare professionals. Coris is ISO 13485 certified and markets its products through distributors in Europe, Asia, South America, Africa and Oceania.

Operationally, Coris employs 35 members of staff split across Production, Sales, Marketing, Quality Control, Regulation and Administration. In March 2023, the business completed the construction of a new 10,700 ft^2 production, offices and warehouse facility in Gembloux.

Coris' product portfolio comprises diagnostic tests for respiratory, gastro-enteric and blood-borne pathogens (bacteria, viruses and parasites) and for the detection of antibiotic resistance markers. Antibiotic resistance is a major global challenge and there are good future growth prospects for the market for antimicrobial resistance ("AMR") testing and is a key area in which Avacta expects to grow the Coris business.

The existing Coris management team have remained with the business and are working closely with Avacta Diagnostics' businesses to drive growth and margins through improved distribution channels and an expanded product range. Avacta will transfer its lateral flow product development activities to Coris and support that activity through ongoing development of Affimer® reagents for new products or to enhance existing ones.

Avacta Diagnostics intends to continue to pursue a careful and disciplined M&A strategy focused on expanding routes to market for professional products, while adding further IVD products suitable for these markets to our portfolio. Avacta Diagnostics will focus on integrating the acquired businesses and delivering the near-term financial performance of both companies, seeking synergies including the use of Affimers where appropriate and driving longer term growth through:

- Expansion of the geographical sales footprint;
- Expansion of product portfolios; and
- Improved management of distribution partners.

Financial Review

Revenue

Revenue for the 6 months ended 30 June 2023 increased to £11.89 million compared to the same period in 2022 (H1 2022: £5.52 million; year ended 31 December 2022: £9.65 million).

Revenue contribution from the Therapeutics Division was £1.99 million (H1 2022: £5.44 million; year ended 31 December 2022: £5.48 million) due to achieving a further milestone in our collaboration with AffyXell (which leads to additional equity in the joint venture). Revenue from the Diagnostics Division increased to £9.90 million (H1 2022: £0.07 million; year ended 31 December 2022: £4.17 million) as the reporting period included a full six months trading for Launch Diagnostics and one month from the recent acquisition of Coris.

Acquisitions

On 1 June 2023, the Group acquired 100% of the shares and voting interests in Coris. Coris develops, manufactures and markets rapid diagnostic test kits, mainly lateral flow tests, for use by healthcare professionals. Coris is ISO 13485 certified and markets its products through distributors in Europe, Asia, South America, Africa and Oceania. Total consideration for Coris included an initial consideration of £7.31 million on a debt-free / cash-free basis, in addition to a further £2.81 million in relation to customary working capital adjustments, payable in cash upon completion of the acquisition. There is also additional consideration of up to £3.0 million based on revenue exceeding certain targets over the next two financial years. The additional consideration to be paid based on future revenues is estimated to be £1.59 million as at 30 June 2023.

The acquisition of Coris is a further step in the M&A-led growth strategy for the Group's Diagnostics Division, designed to build an integrated and differentiated IVD business with global reach servicing professionals and consumers.

For the period from acquisition to 30 June 2023, Coris contributed revenue of £0.82 million and operating profit of £0.19 million to the Group's results.

Research costs and selling, general and administrative costs

Research costs relating to new diagnostic tests in the Diagnostics Division and the clinical and pre-clinical development work of the Affimer® and pre|CISION™ therapeutics programmes in the Therapeutics Division were £6.01 million (H1 2022: £6.00 million; year ended 31 December 2022:

£11.10 million).

Selling, general and administrative costs have increased to £8.65 million (H1 2022: £4.69 million; year ended 31 December 2022: £11.23 million) as the Group expands the Diagnostics Division.

Adjusted EBITDA

The Consolidated Statement of Profit or Loss shows an Adjusted EBITDA loss position (before non-recurring and non-cash items) of £7.91 million (H1 2022: £5.42 million; year ended 31 December 2022: £15.09 million).

Other costs and charges

Depreciation has increased to £1.28 million (H1 2022: £0.88 million; year ended 31 December 2022: £1.90 million). Amortisation expense has remained almost constant at £0.44 million (H1 2022: £0.41 million; year ended 31 December 2022: £1.05 million) with amortisation of acquired intangible assets now comprising the majority of the expense, instead of the comparative period's amortisation of capitalised development costs.

The share of the costs from the AffyXell joint venture in the period was £0.42 million (H1 2022: £0.65 million; year ended 31 December 2022: £1.15 million).

Acquisition related expenses during the period amounted to £0.28 million (H1 2022: £nil; year ended 31 December 2022: £0.74 million).

Share-based payment charges have reduced to £1.55 million (H1 2022: £2.29 million; year ended 31 December 2022: £7.49 million).

Operating loss

The Group's operating loss increased to £11.88 million (H1 2022: £9.65 million; year ended 31 December 2022: £32.65 million).

Convertible bond costs

During the reporting period there have been two quarterly amortisation repayments (of £2.75 million and £2.60 million respectively in equity) and a further early redemption (of £2.85 million in equity) which reduces the original £55.00 million senior unsecured convertible bonds issued in October 2022 at par value to £46.80 million. Subsequent to the period end in July 2023 a third quarterly amortisation of £2.60 million in equity was settled leaving the remaining balance of bonds at par value of £44.20 million. On 20 September 2023, 715,789 new ordinary shares were issued in settlement of £0.85 million of the principal amount of the unsecured convertible bond, reducing the principal remaining to £43.35 million.

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'. 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.

The derivative element, taking into account the amortisations and early redemption, was revalued as at

30 June 2023 at £28.90 million (30 June 2022: £nil; 31 December 2022: £39.10 million), which has resulted in a credit within the period of £5.86 million.

The debt element of the bond has reduced from £18.73 million at 31 December 2022 to £15.68 million at 30 June 2023 (30 June 2022: £nil), with an associated non-cash interest expense of £6.85 million.

Loss for the period

The reported loss from continuing operations after taxation was £11.53 million (H1 2022: £8.99 million; year ended 31 December 2022: £39.54 million).

The basic loss per share from continuing operations was 4.28p (H1 2022: 3.58p; year ended 31 December 2022: 15.48p).

Cash flow

The Group reported cash and cash-equivalent balances of £25.97 million (30 June 2022: £17.02 million; 31 December 2022: £41.78 million).

There was a cash outflow from operations and working capital movements of £11.19 million (H1 2022: £9.43 million; year ended 31 December 2022: £15.95 million) and an outflow from investing activities of £7.35 million from the acquisition of Coris and capital expenditure (H1 2022: inflow of £0.09 million; year ended 31 December 2022: outflow of £25.04 million). Cash outflow from financing activities, being principal elements of lease payments net of amounts received from the exercise of share options amounted to £0.56 million (H1 2022: inflow of £0.37 million; year ended 31 December 2022: inflow of £56.90 million).

Financial position

Net assets as at 30 June 2023 were £22.74 million (30 June 2022: £35.98 million; 31 December 2022: £18.44 million) of which cash and cash equivalents amounted to £25.97 million (30 June 2022: £17.02 million; 31 December 2022: £41.78 million).

The IFRS 16 Leases presentation results in the recognition of a ‘right-of-use’ asset amounting to £6.18 million (30 June 2022: £4.65 million; 31 December 2022: £5.42 million) in relation to the Group’s leasehold properties and other leased assets, together with a corresponding lease liability of £6.10 million (30 June 2022: £4.83 million; 31 December 2022: £5.11 million).

Intangible assets increased to £33.46 million (30 June 2022: £7.50 million; 31 December 2022: £26.32 million) due to the acquisition of Coris and the recognition of a further £7.61 million in goodwill, which is expected to be allocated in part to other intangible assets as a result of the purchase price allocation exercise currently being undertaken.

Liabilities in relation to the unsecured senior convertible bonds issued in October 2022 and subsequent amortisations and redemptions during the period, result in a fair value of the derivative element of £28.90 million (30 June 2022: £nil; 31 December 2022: £39.10 million). The convertible bond debt element at 30 June 2023 was £15.68 million (30 June 2022: £nil; 31 December 2022: £18.73 million).

Dr Eliot Forster
Chairman
28 September 2023

Dr Alastair Smith
Chief Executive Officer
28 September 2023

Condensed Consolidated Statement of Profit or Loss for the 6 months ended 30 June 2023

	Notes	**Unaudited 6 months ended 30 June 2023**	Unaudited 6 months ended 30 June 2022	Audited Year ended 31 December 2022
		£000	£000	£000
Revenue	4	**11,889**	5,517	9,653
Cost of sales		**(5,141)**	(244)	(2,410)
Gross profit		**6,748**	**5,273**	**7,243**
Research costs		**(6,009)**	(5,999)	(11,100)
Selling, general and administrative expenses		**(8,646)**	(4,692)	(11,232)
Adjusted EBITDA		**(7,907)**	**(5,418)**	**(15,089)**
Amortisation expense		**(437)**	(410)	(1,050)
Impairment charge		**-**	-	(5,225)
Share of loss of associate	7	**(424)**	(646)	(1,152)
Acquisition related expenses	8	**(282)**	-	(735)
Depreciation expense		**(1,276)**	(879)	(1,904)
Share-based payment charge		**(1,553)**	(2,292)	(7,490)
Operating loss		**(11,879)**	**(9,645)**	**(32,645)**
Convertible bond – professional fees	9	**-**	-	(2,287)
Convertible bond – interest expense	9	**(6,847)**	-	(2,606)
Convertible bond – revaluation of derivative	9	**5,862**	-	(4,100)
Finance income		**331**	120	91
Finance costs		**(268)**	(125)	(95)
Loss before tax		**(12,801)**	**(9,650)**	**(41,642)**
Taxation		**1,269**	660	2,102
Loss from continuing operations		**(11,532)**	**(8,990)**	**(39,540)**
Discontinued operation				
Profit from discontinued operation	1	**-**	1,055	351
Loss for the period		**(11,532)**	**(7,935)**	**(39,189)**
Foreign operations – foreign currency translation differences		**(179)**	(2)	46
Other comprehensive income		**(11,711)**	**(2)**	**46**
Total comprehensive loss for the period		**(11,711)**	**(7,937)**	**(39,143)**
Loss per share:				
Basic and diluted	5	**(4.28p)**	(3.16p)	(15.35p)
Loss per share – continuing operations				
Basic and diluted	5	**(4.28p)**	(3.58p)	(15.48p)

Condensed Consolidated Statement of Financial Position as at 30 June 2023

		Unaudited as at 30 June 2023 £000	Unaudited as at 30 June 2022 £000	Audited as at 31 December 2022 £000
Assets				
Property, plant and equipment		**2,814**	2,306	2,380
Right-of-use assets	6	**6,175**	4,650	5,418
Investment in associate	7	**4,539**	3,481	2,976
Intangible assets		**33,455**	7,504	26,324
Non-current assets		**46,983**	**17,941**	**37,098**
Inventories		**3,052**	193	1,681
Trade and other receivables		**6,770**	6,715	5,579
Income tax receivable		**4,975**	3,595	6,510
Cash and cash equivalents		**25,968**	17,017	41,781
Current assets		**40,765**	**27,520**	**55,551**
Total assets		**87,748**	**45,461**	**92,649**
Liabilities				
Lease liabilities	6	**(4,703)**	(3,973)	(3,753)
Financing liabilities		**(238)**	-	-
Deferred tax		**(2,952)**	-	(2,845)
Non-current liabilities		**(7,893)**	**(3,973)**	**(6,598)**
Trade and other payables		**(10,805)**	(4,648)	(8,423)
Lease liabilities	6	**(1,394)**	(857)	(1,361)
Financing liabilities		**(339)**	-	-
Convertible bond – debt	9	**(15,679)**	-	(18,729)
Convertible bond – derivative	9	**(28,900)**	-	(39,100)
Current liabilities		**(57,117)**	**(5,505)**	(67,613)
Total liabilities		**(65,010)**	**(9,478)**	**(74,211)**
Net assets		**22,738**	**35,983**	**18,438**
Equity attributable to equity holders of the Company				
Share capital		**27,629**	25,709	26,685
Share premium		**75,698**	54,699	62,184
Reserves		**(4,371)**	(4,688)	(4,434)
Retained earnings		**(76,218)**	(39,737)	(65,997)
Total equity		**22,738**	**35,983**	**18,438**

Total equity is wholly attributable to equity holders of the parent Company.

Approved by the Board and authorised for issue on 28 September 2023.

Dr Alastair Smith — **Chief Executive Officer**

Tony Gardiner — **Chief Financial Officer**

Condensed Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2023

	Unaudited Share Capital	Unaudited Share premium	Unaudited Other reserve	Unaudited Translation reserve	Unaudited Reserve for own shares	Unaudited Retained earnings	**Unaudited Total Equity**
	£000	£000	£000	£000	£000	£000	**£000**
At 1 January 2022	25,472	**54,530**	**(1,729)**	4	**(2,961)**	**(34,093)**	**41,223**
Loss for the period	-	-	-	-	-	(7,935)	**(7,935)**
Other comprehensive income for the period	-	-	-	(2)	-	-	**(2)**
Total comprehensive loss for the period	-	-	-	(2)	-	(7,935)	**(7,937)**
Transactions with owners of the company:							
Exercise of options	237	169	-	-	-	-	**406**
Equity-settled share based payment	-	-	-	-	-	2,291	**2,291**
At 30 June 2022	**25,709**	**54,699**	**(1,729)**	**2**	**(2,961)**	**(39,737)**	**35,983**
Loss for the period	-	-	-	-	-	(31,253)	**(31,253)**
Other comprehensive income for the period	-	-	-	48	-	-	**48**
Total comprehensive loss for the period	-	-	-	48	-	(31,253)	**(31,205)**
Transactions with owners of the company:							
Issue of shares	949	7,448	-	-	-	-	**8,397**
Exercise of options	27	37	-	-	-	-	**64**
Transfer of own shares	-	-	-	-	206	(206)	**-**
Equity-settled share based payment	-	-	-	-	-	5,199	**5,199**
At 31 December 2022	**26,685**	**62,184**	**(1,729)**	**50**	**(2,755)**	**(65,997)**	**18,438**
Loss for the period	-	-	-	-	-	(11,532)	**(11,532)**
Other comprehensive income for the period	-	-	-	(179)	-	-	**(179)**
Total comprehensive loss for the period	-	-	-	(179)	-	(11,532)	**(11,711)**
Transactions with owners of the company:							
Exercise of options	107	117	-	-	-	-	**224**
Transfer of own shares	-	-	-	-	242	(242)	**-**
Convertible bond – issue of shares	837	13,397	-	-	-	-	**14,234**
Equity-settled share based payment	-	-	-	-	-	1,553	**1,553**
At 30 June 2023	**27,629**	**75,698**	**(1,729)**	**(129)**	**(2,513)**	**(76,218)**	**22,738**

Condensed Consolidated Statement of Cash Flows for the 6 months ended 30 June 2023

	Note	**Unaudited 6 months ended 30 June 2023 £000**	Unaudited 6 months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Operating cash outflow from operations	**10**	**(11,194)**	**(9,428)**	**(15,953)**
Interest received		**331**	5	75
Interest elements of lease payments		**(128)**	(17)	(202)
Income tax received/(paid)		**2,942**	-	(168)
Withholding tax paid		**-**	(187)	(184)
Net cash used in operating activities		**(8,049)**	**(9,627)**	**(16,432)**
Cash flows from investing activities				
Purchase of plant and equipment		**(406)**	(287)	(558)
Proceeds from sale of plant and equipment		**-**	49	50
Acquisition of right of use asset		**-**	(165)	(165)
Acquisition of subsidiary, net of cash acquired		**(6,896)**	-	(24,878)
Purchase of intangible assets		**(49)**	(14)	(36)
Disposal of discontinued operation, net of cash disposed of		**-**	666	705
Transaction costs paid, relating to disposal of discontinued operation		**-**	(160)	(160)
Net cash (used in) / generated from investing activities		**(7,351)**	**89**	**(25,042)**
Cash flows from financing activities				
Proceeds from exercise of share options		**224**	406	470
Repayment of financing liabilities		**(49)**	-	-
Principal elements of lease payments		**(736)**	(38)	(800)
Proceeds from issue of share capital		**-**	-	9,016
Transaction costs relate to issue of share capital		**-**	-	(618)
Proceeds from issue of convertible bonds		**-**	-	52,250
Transaction costs related to issue of convertible bonds		**-**	-	(3,414)
Net cash flow (used in) / generated from financing activities		**(561)**	**368**	**56,904**
Net (decrease) / increase in cash and cash equivalents		**(15,961)**	(9,170)	15,430
Cash and cash equivalents at the beginning of the period		**41,781**	26,191	26,191
Effect of movements in exchange rates on cash held		**148**	(4)	160
Cash and cash equivalents at the end of the period		**25,968**	**17,017**	**41,781**

Notes to the unaudited condensed consolidated financial statements for the 6 months ended 30 June 2023

1) Basis of preparation

Avacta Group plc ('the Company') is a company incorporated in England and Wales under the Companies Act 2006. These condensed consolidated interim financial statements ('interim financial statements') as at and for the 6 months ended 30 June 2023 comprise the Company and its subsidiaries (together referred to as 'the Group').

The interim financial statements for the 6 months ended 30 June 2023 are unaudited. This information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The financial figures for the year ended 31 December 2022, as set out in this report, do not constitute statutory accounts but are derived from the statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2022 were prepared under IFRS and have been delivered to the Registrar of Companies. The auditors reported on those accounts. Their report was unqualified, did not draw attention to any matters by way of emphasis and did not include a statement under Section 498 of the Companies Act 2006.

The Board confirms that, to the best of its knowledge, these condensed financial statements have been prepared in accordance with IAS34 *Interim Financial Reporting* and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2022 ('last annual financial statements'). They do not include all of the financial information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements. The comparative results for the 6 month period ended 30 June 2022 and the year ended 31 December 2022 include those of a discontinued operation. This relates to the Animal Health segment, which the Group sold in its entirety on 15 March 2022. Further details of this discontinued operation can be found in the financial statements for the year ending 31 December 2022.

The Board approved these interim financial statements for issue on 28 September 2023.

2) Use of judgements and estimates and significant accounting policies

The preparation of the interim financial statements requires management to make judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Although these estimates are based on management's best knowledge of the amount, events or actions, actual events ultimately may differ from those estimates.

The significant judgements made by management in applying the Group's accounting policies, and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2022. A number of new standards were effective from 1 January 2023 but they do not have a material effect on the Group's financial statements.

3) Segmental reporting

The Group has two distinct operating segments: Diagnostics and Therapeutics. These are the reportable operating segments in accordance with IFRS 8 *Operating Segments*. The Directors recognize that the operations of the Group are dynamic and therefore this position will be monitored as the Group develops.

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 47% (6 months to 30 June 2022: 100%; year to 31 December 2022: 74%). The revenue analysis below is based on the country of registration of the customer:

	6 months ended 30 June 2023	6 months ended 30 June 2022	Year ended 31 December 2022
£000			
UK	**6,323**	14	2,532
France	**2,248**	-	1,296
Rest of Europe	**1,285**	1	158
North America	**21**	50	179
South Korea	**1,991**	5,444	5,481
Rest of World	**21**	7	7
	11,889	5,516	**9,653**

During the six month period ended 30 June 2023, transaction with one external customer in the Therapeutics segment, amounted individually to 10% or more of the Group's revenue, being £1,991,000.

During the six month period ended 30 June 2022, 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 £3,788,000 and £1,656,000 respectively.

During the year 31 December 2022, 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.

Operating segment analysis for the six months ended 30 June 2023

	Diagnostics	Therapeutics	Central overheads[1]	**Total**
	£000	£000	£000	**£000**
Revenue	9,898	1,991	-	**11,889**
Cost of goods sold	(5,133)	(8)	-	**(5,141)**
Gross profit	**4,765**	**1,983**	**-**	**6,748**
Research costs	(663)	(5,346)	-	**(6,009)**
Selling, general and administrative expenses	(4,529)	(1,185)	(2,932)	**(8,646)**
Adjusted EBITDA	**(427)**	**(4,548)**	**(2,932)**	**(7,907)**
Depreciation expense	(640)	(632)	(4)	**(1,276)**
Amortisation expense	(431)	(4)	(2)	**(437)**
Share of loss of associate	-	(424)	-	**(424)**
Acquisition related expenses	-	-	(282)	**(282)**
Share-based payment expense	(403)	(600)	(550)	**(1,553)**
Segment operating loss	**(1,901)**	**(6,208)**	**(3,770)**	**(11,879)**

[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.

Operating segment analysis for the six months ended 30 June 2022

	Diagnostics	Therapeutics	Central overheads[1]	**Total (continuing)**	Animal health (discontinued)
	£000	£000	£000	**£000**	£000
Revenue	73	5,444	-	**5,517**	411
Cost of goods sold	(38)	(206)	-	**(244)**	(117)
Gross profit	**35**	**5,238**	**-**	**5,273**	**294**
Research costs	(1,136)	(4,863)	-	**(5,999)**	(6)
Selling, general and administrative expenses	(1,466)	(1,354)	(1,872)	**(4,692)**	(233)
Adjusted EBITDA	**(2,567)**	**(979)**	**(1,872)**	**(5,418)**	**55**
Depreciation expense	(260)	(614)	(5)	**(879)**	(10)
Amortisation expense	(410)	-	-	**(410)**	-
Share of loss of associate	-	(646)	-	**(646)**	-
Share-based payment expense	(492)	(1,250)	(550)	**(2,292)**	-
Segment operating (loss)/profit	**(3,729)**	**(3,489)**	**(2,427)**	**(9,645)**	**45**

[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.

Operating segment analysis for the year ended 31 December 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)	(4,123)	**(11,232)**	(240)
Adjusted EBITDA	**(5,125)**	**(5,481)**	**(4,123)**	**(15,089)**	**54**
Impairment charge	(5,225)	-	-	**(5,225)**	-
Depreciation expense	(627)	(1,269)	(8)	**(1,904)**	(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)/profit	**(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.

4) Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is all derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by its nature. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 3).

Six months ended 30 June 2023

£'000	Diagnostics	Therapeutics	Total
Nature of revenue			
Sale of goods	9,379	-	**9,379**
Provision of services	519	3	**522**
Licence-related income	-	1,988	**1,988**
	9,898	**1,991**	**11,889**

Six months ended 30 June 2022

£'000	Diagnostics	Therapeutics	Continuing operations	Animal Health (discontinued)
Nature of revenue				
Sale of goods	(2)	-	**(2)**	258
Provision of services	75	192	**267**	153
Licence-related income	-	5,252	**5,252**	**-**
	73	**5,444**	**5,517**	**411**

Year ended 31 December 2022

£'000	Diagnostics	Therapeutics	Continuing operations	Animal Health (discontinued)
Nature of revenue				
Sale of goods	3,779	-	**3,779**	259
Provision of services	393	229	**622**	153
Licence-related income	-	5,252	**5,252**	**-**
	4,172	**5,481**	**9,653**	**412**

5) Earnings per share

£'000	**Unaudited 6 months ended 30 June 2023**	Unaudited 6 months ended 30 June 2022	Audited Year ended 31 December 2022
Loss from continuing operations	**(11,532)**	(8,990)	(39,540)
Profit/(loss) from discontinued operations	**-**	1,055	351
Loss for the period	**(11,532)**	(7,935)	(39,189)
Weighted average number of shares (number)	**269,159,631**	251,096,503	255,369,066
Basic and diluted loss per ordinary share from continuing operations (p)	**(4.28)**	(3.58)	(15.48)
Basic and diluted earnings / (loss) per ordinary share from discontinued operations (p)	**-**	0.42	0.13
Basic and diluted loss per ordinary share for the period (p)	**(4.28)**	(3.16)	(15.35)

6) Leases

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

a) Amounts recognised in the balance sheet

Right-of-use assets	**Property**	**Laboratory equipment**	**Motor Vehicles**	**Total**
£'000				
As at 1 January 2022	1,577	152	-	**1,729**
Additions	4,195	-	**-**	**4,195**
Depreciation charge	(327)	(9)	**-**	**(336)**
Disposals	(938)	-	**-**	**(938)**
As at 30 June 2022	**4,507**	**143**	**-**	**4,650**
Additions	301	-	26	**327**
Acquisitions through business combinations	160	585	376	**1,121**
Depreciation charge	(523)	(46)	(27)	**(596)**
Remeasurement of lease liability	(85)	-	-	**(85)**
Effect of movement in exchange rates	1	-	-	**1**
As at 31 December 2022	**4,361**	**682**	**375**	**5,418**
Additions	-	-	275	**275**
Acquisitions through business combinations	1,446	-	17	**1,463**
Depreciation charge	(549)	(87)	(97)	**(733)**
Transfers to property, plant & equipment	-	(241)	**-**	**(241)**
Effect of movement in exchange rates	(7)	-	-	**(7)**
As at 30 June 2023	**5,251**	**354**	**570**	**6,175**

Presentation of lease liability

	30 June 2023				30 June 2022			
£000	**Property**	**Laboratory equipment**	**Motor vehicles**	**Total**	Property	Laboratory equipment	Motor vehicles	Total
Lease liabilities								
Current	**1,070**	**135**	**189**	**1,394**	795	62	-	857
Non-current	**4,294**	**28**	**381**	**4,703**	3,973	-	-	3,973
	5,364	**163**	**570**	**6,097**	4,768	62	-	4,830

	31 December 2022			
£000	**Property**	**Laboratory equipment**	**Motor vehicles**	**Total**
Lease liabilities				
Current	941	279	141	1,361
Non-current	3,469	48	236	13,753
	4,410	327	377	5,114

Reconciliation of change in lease liability	**£000**
As at 1 January 2022	1,703
Payment of lease liability - principal	(216)
Payment of lease liability – interest	(101)
Interest expense	125
Additions	4,028
Disposals	(969)
As at 30 June 2022	**4,570**
Payment of lease liability – principal	(584)
Payment of lease liability – interest	(101)
Interest expense	93
Additions	328
Acquisitions through business combinations	893
Remeasurement of lease liability	(85)
As at 31 December 2022	**5,114**
Payment of lease liability - principal	(738)
Payment of lease liability – interest	(128)
Interest expense	128
Additions	275
Acquisitions through business combinations	1,453
Effect of movement in exchange rates	(7)
As at 30 June 2023	**6,097**

7) Equity-accounted investees

The Group currently holds a 19% equity interest (6 months to 30 June 2022: 21%; year to 31 December 2022: 19%) in its associate AffyXell Therapeutics Co., Ltd ('AffyXell') based in South Korea. AffyXell has been established to develop Affimer® proteins which will be used for the generation of new cell and gene therapies.

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.

During the period, the investment in associate has increased with the achievement of a milestone within the collaboration which will result in the issue of equity to the Group. The exact shareholding will be determined, as with the first milestone payment which was achieved in April 2022, following a formal valuation of AffyXell and is expected to be circa 25%.

Reconciliation of change in value of associate	**£000**
As at 1 January 2022	-
Additions	4,128
Share of loss of associate	(646)
As at 30 June 2022	**3,482**
Additions	-
Share of loss of associate	(506)
As at 31 December 2022	**2,976**
Additions	1,987
Share of loss of associate	(424)
As at 30 June 2023	**4,539**

8) Acquisition of subsidiary

On 31 May 2023, the Group acquired 100% of the shares and voting interests in Coris Bioconcept. Coris Bioconcept are a Belgium based company specialising in developing, manufacturing and marketing rapid diagnostic tests, for use by healthcare professionals, through distributors in Europe, Asia, South America, Africa and Oceania.

The acquisition of Coris Bioconcept was a further step forward 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 30 June 2023, Coris Bioconcept contributed revenue of £815,000 and operating profit of £189,000 to the Group's results.

A. Consideration transferred

	£000
Cash	10,116
Deferred consideration	1,587
Total consideration transferred	**11,703**

In addition, the Group has agreed to pay the selling shareholders additional consideration based on sales for the year ended 31 December 2023 and 31 December 2024. For 2023, additional consideration will be calculated at 100% of sales exceeding €5.5 million and for 2024 at 90% of sales exceeding €6.5 million. The additional consideration is capped at €3.5 million. Based on an assessment of forecast future sales, the fair value of this deferred contingent consideration at the acquisition date was £1,587,000 and at 30 June 2023 is £1,583,000.

B. Acquisition-related costs

The Group incurred acquisition-related costs of £282,000 on legal fees and due diligence costs. These costs have been included in 'Acquisition-related expenses' in the Condensed Consolidated Statement of Profit or Loss for the 6 months ended 30 June 2023.

C. Identifiable assets acquired and liabilities assumed

The following table summarises the provisionally recognised amounts of assets acquired and liabilities assumed at the date of acquisition. A purchase price allocation (PPA) exercise is in progress to assess the valuation of intangible assets recognised on acquisition and the associated deferred tax liabilities. At this stage, the Group expects these intangible assets to relate to the brand, development project work and customer relationships acquired. At this stage, these amounts are included within the Goodwill figure disclosed in D.

	£000
Property, plant and equipment	366
Right-of-use assets	1,463
Intangible assets	61
Other non-current receivables	12
Inventories	1,287
Trade and other receivables	1,335
Cash and cash equivalents	3,208
Other Trade and other payables	(1,576)
Financing liabilities	(628)
Lease liabilities	(1,454)
Total identifiable net assets acquired	**4,074**

D. Goodwill

Goodwill arising from the acquisition has been recognised as follows:

		£000
Consideration transferred	**A**	11,703
Fair value of identifiable net assets	**C**	(4,074)
Goodwill		**7,629**

As set out in C, a PPA exercise is underway to value the intangible assets acquired and therefore allocate, in part, this goodwill to other intangible assets. The residual goodwill would be expected to be attributable to the skills and technical talent of Coris Bioconcept's workforce, 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.

9) 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, such as occurred on 10 February 2023.

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 £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 are 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 (net of transaction costs apportioned to the debt liability element of £1,127,000).

During the 6 month period ended 30 June 2023, the following conversion events occurred:

- 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.

At each conversion event, the reduction in the host debt and derivative liabilities is recognised as an addition to equity. The fair value as at 30 June 2023 was measured to be £28,900,000 resulting in a gain on revaluation of the derivative being recognised of £5,862,000.

The debt liability incurred finance costs of £6,847,000 during the period, though reduced to £15,679,000 as a result of the conversion events set out above.

Significant assumptions used in the fair value analysis include the volatility rate and recovery amount. A volatility of 68.1% (2022: 67.4%) was used in the determination of the fair value of the derivative element, a change by 10% in the volatility rate would result in a change in the fair value of the derivative element by £3,300,000. An estimated recovery amount of 75% (2022: 75%) was also used in the determination of fair value, with a change by 10% resulting in change in fair value of the derivative element by £1,400,000.

	Convertible bond - derivative	Convertible bond - debt
	£000	£000
At inception	35,000	16,123
Interest expense	-	2,606
Revaluation of derivative	4,100	-
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At 31 December 2022	**39,100**	**18,729**
Settlement of liability through issue of shares	(4,338)	(9,897)
Interest expense	-	6,847
Revaluation of derivative	(5,862)	-
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At 30 June 2023	**28,900**	**15,679**
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10) Operating cash outflow from operations

	Unaudited 6 months ended 30 June 2023 £000	Unaudited 6 months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Cash flow from operating activities			
Loss for the period	**(11,532)**	(7,935)	(39,189)
Adjustments for:			
Amortisation	**437**	435	1,051
Impairment losses	**-**	-	5,225
Depreciation	**1,276**	888	1,961
Net (gain) / loss on disposal of property, plant and equipment	**23**	(41)	52
Share of loss of associate	**424**	646	1,152
Profit on lease modification	**-**	-	(31)
Equity-settled share-based payment charges	**1,553**	2,292	7,490
Gain on sale of discontinued operation	**-**	(1,004)	(308)
Increase in investment in associate	**(1,988)**	(4,127)	(4,127)
Net finance costs	**653**	119	9,000
Taxation	**(1,270)**	(660)	(2,102)
Operating cash outflow before changes in working capital	**(10,424)**	**(9,387)**	**(19,826)**
Decrease / (increase) in inventories	**(85)**	(4)	52
Increase in trade and other receivables	**144**	(953)	2,225
Increase in trade and other payables	**(829)**	916	1,596
Operating cash outflow from operations	**(11,194)**	**(9,428)**	**(15,953)**

11) Events after the reporting period

On 21 July 2023, 3,752,652 new ordinary shares were issued in settlement of the quarterly principal of £2.60 million and interest repayment of £0.76 million in respect of the convertible bond, reducing the principal remaining to £44.20 million.

On 20 September 2023, 715,789 new ordinary shares were issued in settlement of £0.85 million of the principal amount of the unsecured convertible bond, reducing the principal remaining to £43.35 million.

- Ends -