Company Registration No. 06605196

Avacta Life Sciences Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended

31 December 2022

Avacta Life Sciences Limited

CONTENTS

Avacta Life Sciences Limited

STRATEGIC REPORT

The directors present the strategic report for Avacta Life Sciences Limited for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the Company in the period under review is the development of novel cancer therapies through its Therapeutics division and powerful diagnostics through its Diagnostics division, based on its two proprietary platforms - Affimer® and pre|CISION™.

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.

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™ 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

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 expanded to include experienced drug development professionals, including a Head of Chemistry, a Head of Biology, Head of IT and a Vice-President of 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 tissues 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/m2 of AVA6000, which is equivalent to 54 mg/m2 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/m2, subsequently recommending that the trial progress to the third cohort in June 2022 at a dose of 160 mg/m2. In August 2022, the third cohort was completed and the SDMC approved dose escalation to 200mg/m2 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/m2 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. 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. 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.

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.

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 towards the clinic and has commenced pre-clinical studies which are intended to form the basis of an Investigational New Drug ('IND') submission.

STRATEGIC REPORT

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 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.

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.

Diagnostics Division

During 2022, Avacta's Diagnostics Division ('Avacta'), of which the Company is a part, 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, Avacta 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. Avacta 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 Company's Affimer® platform provides a powerful tool to differentiate diagnostic products to gain competitive advantage and grow market share of acquired businesses. Therefore the Company will form an important part of this enlarged Diagnostics Division.

In October 2022, the Company's parent, Avacta Group plc, 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, Avacta Group plc, 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.

In May 2023, Avacta Group plc made a further acquisition of Coris Bioconcept, a Belgian company that develops, manufactures and markets rapid diagnostic test kits, mainly lateral flow tests, used by healthcare professionals.

STRATEGIC REPORT

FINANCIAL REVIEW

Turnover

Turnover for the Company was £5.68 million (2021: £2.94 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. There was a smaller number of customer Affimer® reagent projects as resources were focussed on the development of future diagnostic tests.

Research and development costs

During the year, the Company 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, and Affimer® diagnostics products.

Selling, general and administrative expenses

Administrative expenses have increased during the year to £10.05 million (2021: £8.54 million) as the business scaled up the operations within both the Diagnostics Division as it increased its product development capabilities to become a fully integrated in vitro diagnostic ('IVD') products business, and the Therapeutics as resource was increased to support the infrastructure required and transition into a clinical stage business.

The non-cash charge for the year increased to £4.15 million (2021: £3.97 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.

Losses before taxation

Losses before taxation for the year were £20.71 million (2021: £27.09 million).

Taxation

The Company claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount, included within the taxation line of the profit and loss account, in respect of amounts received and receivable for the surrender of research and development expenditure amounted to £2.23 million (2021: £2.84 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. Withholding tax suffered on milestone payments under collaboration agreements amounted to £0.18 million (2021: £0.02 million).

Loss for the period

The reported loss for the period was £18.66 million (2021: £24.27 million).

Financial position

Net liabilities as at 31 December 2022 were £90.99 million (2021: £76.48 million) of which the amount

owed to the ultimate parent undertaking comprised £102.24 million (2021: £84.05 million).

Dividends

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

Key performance indicators

At this stage of the Company'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 of the wider Avacta Group.

These are discussed in more detail within the Operational Review on pages 2 to 7:

The financial key performance indicators focus around two areas, more detail on which is set out above:

- Turnover
- Research and development expenditure

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

Commercial risk – Diagnostics

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 wider group 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.

Reliance on third parties supporting clinical and pre-clinical programmes - Therapeutics

The Company 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 Company's ability to operate effectively.

With the Company 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 Company 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 Company uses experienced and reputable clinical research organisations and requires its clinical and manufacturing partners to comply with Good Clinical Practice and Good Manufacturing Practice.

Research and development

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

There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientific results required for specific internal development programmes, product development projects, customer-related evaluations or third-party collaborations are not obtained. 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 Avacta Group Board and Scientific Advisory Board.

With the Company'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 Company 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.

Intellectual property

The success of the Company'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 Company'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 Directors regularly review the patent portfolio and its protection. Specialist patent attorneys are engaged to apply for and defend intellectual property rights in appropriate territories.

Key staff

The Company 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 Company's plans and operations.

During the year, the Company 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 Company 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

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

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

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

Loss of facilities

Should the Company'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 Company has purpose-built facilities in both Wetherby and London with specialist equipment and working environments which potentially may not be easily repaired or replaced.

The Company has established business continuity plans in place for each location which are regularly reviewed and tested. Resilience exists between sites so that certain operations could be quickly transferred from one facility to another where appropriate. Health and Safety procedures and policies exist for each site with routine checks on facilities, equipment and infrastructure. The Company also maintains adequate insurance to cover any business damage or interruption.

By order of the Board

T. Gardiner

TP Gardiner
Director

06 June 2023

Avacta Life Sciences Limited

DIRECTORS' REPORT

The Directors present their Report and Financial Statements for Avacta Life Sciences Limited, for the year ended 31 December 2022.

RESULTS AND DIVIDENDS

The loss for the period after taxation was £18,659,902 (2021: £24,266,457). The directors do not recommend the payment of a dividend (2021: £nil).

DIRECTORS

The directors who served the Company during the period and to the date of this report were as follows:

DAM Smith
TP Gardiner

PRINCIPAL RISKS

The principal risks and uncertainties faced by the Company are set out in the Strategic Report on pages 2 to 12. The main financial risks are shown below.

Interest rate risk

The Company 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.

Foreign exchange risk

The Company is exposed to foreign exchange risk due to having a number of significant overseas customers and a significant proportion of its receivables being denominated in foreign currencies. The net exposure is managed through operating costs incurred in similar currencies, creating a natural hedge.

THIRD PARTY INDEMNITY PROVISION FOR DIRECTORS

Qualifying third party indemnity provision is in place for the benefit of all directors of the Company.

STATEMENT AS TO 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.

DIRECTORS' REPORT

APPOINTMENT OF AUDITOR

A resolution for the re-appointment of BDO LLP will be proposed at the forthcoming Annual General Meeting to be held on 28 June 2023.

By order of the board

TP Gardiner
Director

06 June 2023

Registered office:
Unit 20
Ash Way
Thorp Arch Estate
Wetherby
LS23 7FA

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVACTA LIFE SCIENCES LIMITED

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Avacta Life Sciences Limited ("the Company") for the year ended 31 December 2022 which comprise Profit and Loss account, Balance Sheet, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (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 are independent of the 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, 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.

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 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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, 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

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 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.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

The objectives of our audit, in respect to irregularities, including fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; to respond appropriately to fraud or suspected fraud identified during the audit, to obtain audit evidence regarding compliance with provisions of applicable laws and regulations, and to respond appropriately to any non-compliance identified. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our approach was as follows:

-We obtained an understanding of the legal and regulatory frameworks that are applicable to Avacta Life Sciences Limited. We determined that the most significant laws and regulations which are directly relevant to specific assertions in the financial statements are those related to the reporting framework (FRS 102 and the Companies Act 2006), labour regulations and tax in the United Kingdom.

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

-We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it is considered there was a susceptibility to fraud. We also considered potential fraud drivers: including financial or other pressures, opportunity, and personal or corporate motivations. We considered the processes and controls that the company has established to address risks

identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and review of key areas of estimation uncertainty and judgement.

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:
https://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 Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Piers Harrison
991518A1F86F45F...

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

06 June 2023

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

Avacta Life Sciences Limited

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2022

	Notes	2022 £	2021 £
TURNOVER	1	5,682,396	2,940,599
Cost of sales		(230,503)	(923,699)
Gross profit		5,451,893	2,016,900
Research and development costs		(11,100,120)	(13,479,900)
Manufacturing costs		-	(2,142,562)
Impairment of investment in associate	12	-	217,346
Administrative expenses		(10,048,550)	(8,539,275)
Depreciation charge	5	(1,009,982)	(1,189,487)
Share-based payment charge		(4,150,839)	(3,965,196)
OPERATING LOSS		(20,857,598)	(27,082,174)
Interest receivable		154,747	-
Interest payable		(2,983)	(5,953)
LOSS BEFORE TAXATION	2	(20,705,834)	(27,088,127)
Tax on loss	4	2,045,932	2,821,670
LOSS AFTER TAXATION		(18,659,902)	(24,266,457)

The loss for the period arises from the company's continuing operations. There is no other comprehensive income for either period, other than the result for that period.

The notes on pages 23 to 34 form part of these financial statements.

Avacta Life Sciences Limited

BALANCE SHEET
at 31 December 2022

Company Registration No. 06605196

	Notes	31 December 2022 £	31 December 2021 £
FIXED ASSETS			
Tangible fixed assets	*5*	2,222,810	2,750,352
Intangible assets	*6*	357,598	464,931
Investments	*7*	4,344,744	217,346
		6,925,152	3,432,629
CURRENT ASSETS			
Stock	*8*	-	188,979
Debtors	*9*	6,804,024	6,607,452
Cash at bank and in hand		1,232,397	593,675
		8,036,421	7,390,106
CREDITORS: Amounts falling due within one year	*10*	(105,950,114)	(87,270,536)
NET CURRENT LIABILITIES		(97,913,693)	(79,880,430)
TOTAL ASSETS LESS CURRENT LIABILITIES		(90,988,541)	(76,447,801)
CREDITORS: Amount falling due after one year	*10*	-	(31,677)
NET LIABILITIES		(90,988,541)	(76,479,478)
CAPITAL AND RESERVES			
Called up share capital	*11*	16	16
Share premium		461,340	461,340
Profit and loss account		(91,449,897)	(76,940,834)
SHAREHOLDER'S DEFICIT		(90,988,541)	(76,479,478)

The notes on pages 23 to 34 form part of these financial statements.

The financial statements on pages 20 to 34 were approved by the board of directors and authorised for issue on 06 June 2023 and are signed on its behalf by:

DAM Smith
Director

TP Gardiner
Director

Avacta Life Sciences Limited

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

	Share capital £	Share premium £	Profit and loss account £	Equity shareholder's Deficit £
At 1 January 2021	16	461,340	(56,639,573)	(56,178,217)
Total comprehensive loss for the period	-	-	(24,266,457)	(24,266,457)
Share based payment charges	-	-	3,965,196	3,965,196
At 31 December 2021	16	461,340	(76,940,834)	(76,479,478)
Total comprehensive loss for the period	-	-	(18,659,902)	(18,659,902)
Share based payment charges	-	-	4,150,839	4,150,839
At 31 December 2022	16	461,340	(91,449,897)	(90,988,541)

The notes on pages 23 to 34 form part of these financial statements.

1 ACCOUNTING POLICIES

Avacta Life Sciences Ltd (the 'Company') is a private company limited by shares incorporated in England and Wales under Companies Act 2006. The address of the Company's registered office, nature of the Company's operations and its principal activity is set out in the Directors' Report.

BASIS OF PREPARATION

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1.

The Company's ultimate parent undertaking, Avacta Group plc includes the Company in its consolidated financial statements. The consolidation financial statements of Avacta Group plc are available to the public and may be obtained from www.avacta.com or Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- the requirement to present a cash flow statement and related notes;
- financial instrument disclosures, including: categories of financial instruments, items of income, expenses, gains or losses relating to financial instruments, and exposure to and management of financial risks;
- the requirement to disclose related party transactions between the Company and wholly owned subsidiaries of the ultimate parent undertaking, Avacta Group plc;
- the requirement to disclose key management personnel compensation;
- the requirement to disclose Group settled share-based payment transactions.

The accounting policies set out below have, unless otherwise stated, have been applied consistently to all periods presented in these financial statements.

GOING CONCERN

Notwithstanding net current liabilities of £97,913,693 as at 31 December 2022, a loss for the period then ended of £18,659,902 and net operating cash outflows in the period, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent company, Avacta Group plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Avacta Group plc not seeking repayment of the amounts currently due to the group, which at 31 December 2022 amounted to £102,236,808 and providing additional financial support during that period. Avacta Group plc has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, or of any further funds advanced during the forecast period, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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

USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements and estimates that affect the application of the Company'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 – The judgement arises from the application of FRS 102 to the Group's revenue streams, as disclosed below in this note, 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, such as the proportion of options expected to vest.

TURNOVER
Revenue is measured based on the consideration specified in a contract with a customer. The Company 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	**Nature and timing of satisfaction of performance obligations**	**Revenue recognition policies**
Custom Affimer® development projects	The Company 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 Company 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	The Company considers that up-front	Revenue is recognised at

development licences	payments received during the period in relation to R&D licences are as consideration for a right-to-use the relevant IP, primarily as a result of the Company not undertaking activities that significantly affect the intellectual property to which customers have rights during the respective contracts. Therefore, the associated performance obligation is satisfied at the point in time the IP is granted, or at the point in time the work associated with the customer using the IP is completed where the licence and associated service are judged to form part of the same performance obligation. For work performed under R&D licences, performance obligations are satisfied over time as the relevant work is performed.	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.

The total revenue recognised in relation to each category identified in the table above is as follows:

	2022	2021
	£	£
Custom Affimer® development projects	197,444	258,577
Research and development licences	5,484,952	2,682,022
	5,682,396	2,940,599

SHARE BASED PAYMENTS

The fair value of awards to employees or other parties that take the form of shares or rights to shares is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

INTANGIBLE ASSETS AND AMORTISATION

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is amortised over the expected useful life of 10 years.

Intangible assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. Amortisation is provided at rates calculated to write off costs less estimated residual value of each asset over its expected useful life, as follows:

Patents	-	Lifetime of the patent
Software	-	3-5 years

TANGIBLE FIXED ASSETS AND DEPRECIATION
Tangible fixed assets are stated at historic cost. Depreciation is provided at rates calculated to write off cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures and fittings	-	10 - 33% per annum straight line
Laboratory equipment	-	20 - 33% per annum straight line
Leasehold Improvements	-	10 - 20% per annum straight line

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

CASH AND CASH EQUIVALENTS
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

FINANCIAL INSTRUMENTS
The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans to related parties and investments in ordinary shares.

Debt instruments that are payable or receivable within a year, typically trade payables and receivables are measured initially and subsequently at the discounted amount of the cash or other consideration, expected to be paid or received.

Financial assets that are measure at cost and amortised cost are assessed at the end of each reporting period for objective of evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

DEBTORS
Short-term debtors are measured at transaction price, less any impairment.

CREDITORS
Short-term creditors are measured at the transaction price.

DEFERRED TAXATION
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

LEASED ASSETS AND OBLIGATIONS
Where assets are financed by leasing agreements that give rights approximating to ownership ('finance lease'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to the profit and loss account on a straight-line basis over the lease term.

RESEARCH AND DEVELOPMENT
Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

INVESTMENTS IN ASSOCIATES
Investments in associates are measured at cost (including transaction costs) less accumulated impairment losses. At each reporting date, it is assessed whether there is any indication that the investment may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of the investment is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount of the investment in associate exceeds the recoverable amount.

Where an impairment loss has been recognised, an entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the entity shall determine whether all or part of the prior impairment loss should be reversed. The recoverable amount of the investment in associate is estimated, and a reversal of a previous impairment loss is taken where the recoverable amount exceeds the carrying amount, subject to the limitation that the carrying amount of the investment in associate should not increase above the carrying amount that would have been determined had no impairment loss been recognised in prior years.

2	LOSS BEFORE TAX	2022	2021
		£	£
	Research and development expenditure	11,100,120	13,479,900
	Amortisation of intangible assets	97,268	57,880
	Depreciation of property, plant and equipment	1,009,982	1,189,487
	Loss on disposal of property, plant and equipment	39,561	29,085
	Provisions against amounts receivable from subsidiaries	-	252,361
	Reversal of impairment of investment in associate	-	(217,346)
	Share-based payment charges	4,150,839	3,965,196

Auditor's remuneration is paid by the parent undertaking, Avacta Group plc, the amount relating to the Company is estimated to be £20,000. (2021: £15,000).

3 EMPLOYEES	2022 No.	2021 No.
The average monthly number of persons (including directors) employed by the company during the period was:		
Office and management	75	86
	£	£
Staff costs for above persons:		
Wages and salaries	4,368,266	4,375,569
Social security costs	549,312	537,189
Pension costs	259,257	240,835
Share based payment charges	4,150,839	3,965,196
	9,327,674	9,118,789

DIRECTORS' REMUNERATION	2022 £	2021 £
Total emoluments	-	-

The Group operates a defined contribution Group personal pension plan. The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to nil (2021: nil). The aggregate value of contributions paid by the Company in respect of these directors was £nil (2021: £nil).

Two of the directors did not receive any emoluments from the Company but were remunerated by the Company's ultimate parent undertaking, Avacta Group plc. Copies of the report and accounts of Avacta Group plc are available from its registered office at Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2022

4 TAXATION	2022 £	2021 £
Corporation tax:		
Current period	(2,016,102)	(2,730,769)
Prior year	(29,830)	(90,901)
Current tax credit for the period	(2,045,932)	(2,821,670)

The tax credit assessed for the period 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 £	2021 £
Loss on ordinary activities before tax	(20,705,834)	(27,088,127)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%)	(3,934,108)	(5,146,744)
Effects of:		
Expenses not allowable for taxation purposes	1,003,914	771,987
Depreciation in excess of capital allowances	229,597	226,003
Tax-exempt income	(684,320)	-
Losses carried forward	3,384,917	4,148,754
Research and development credit	(2,200,000)	(2,750,000)
Research and development credit- prior year adjustment	(29,830)	(90,901)
Withholding tax expense	183,898	19,231
Current tax credit for the period	(2,045,932)	(2,821,670)

There is no liability to corporation tax in the period. There is an un-recognised deferred tax asset of approximately £11,809,801 (2021: £9,051,745) due to trading losses in this period and prior financial years. This asset has not been recognised as the profit, which would utilise these losses, cannot yet be forecast with sufficient reliability.

Legislation to increase the UK standard rate of corporation tax from 19% to 25% was substantively enacted on 24 May 2021, effective from 1 April 2023. The calculation of deferred tax was revised accordingly in the previous period.

5 TANGIBLE FIXED ASSETS

	Assets in the Course of Construction £	Leasehold Improvements £	Laboratory Equipment £	Fixtures, fittings & equipment £	Total £
Cost					
1 January 2022	143,343	2,434,047	5,780,619	367,955	8,725,964
Additions	-	16,500	306,173	209,401	532,074
Reclassifications / transfers (to) / from other Group entities	(143,343)	6,693	138,343	10,323	12,016
Disposals	-	(1,063,913)	(291,558)	(77,055)	(1,432,526)
31 December 2022	**-**	**1,393,327**	**5,933,577**	**510,624**	**7,837,528**
Depreciation					
1 January 2022	-	1,499,121	4,225,152	251,338	5,975,611
Charge for the period	-	381,683	539,074	89,231	1,009,988
Transfers from other Group entities	-	106	-	6,583	6,689
Disposal	-	(1,018,913)	(282,117)	(76,540)	(1,377,570)
31 December 2022	**-**	**861,997**	**4,482,109**	**270,612**	**5,614,718**
Net book value					
31 December 2022	**-**	**531,330**	**1,451,468**	**240,012**	**2,222,810**
31 December 2021	143,343	934,926	1,555,467	116,617	2,750,353

6 INTANGIBLE ASSETS

	Goodwill £	Patents £	Software £	Total £
Cost				
At 1 January 2022	385,000	279,460	154,749	819,209
Additions	-	31,263	5,030	36,293
Disposals	-	(46,359)	(38,450)	(84,809)
31 December 2022	**385,000**	**264,364**	**121,329**	**770,693**
Amortisation				
At 1 January 2022	247,042	12,949	94,287	354,278
Charge for the period	38,500	9,535	49,232	97,267
Disposals	-	-	(38,450)	(38,450)
31 December 2022	**285,542**	**22,484**	**105,069**	**413,095**
Net book value				
31 December 2022	**99,458**	**241,880**	**16,260**	**357,598**
31 December 2021	137,958	266,511	60,462	464,931

7 INVESTMENTS

	Investment in subsidiaries £	Investment in associates £	Total £
Cost			
At 1 January 2022	170	217,346	217,516
Additions	-	4,127,398	4,127,398
At 31 December 2022	**170**	**4,344,744**	**4,344,914**
Provisions			
At 1 January 2022	(170)	-	(170)
At 31 December 2022	**(170)**	**-**	**(170)**
Net book value			
31 December 2022	**-**	**4,344,744**	**4,344,744**
31 December 2021	-	217,346	217,346

7 INVESTMENTS (continued)

The Company's investment at the balance sheet date in the shares of companies is as follows:

Name of Company	Nature of business	Percentage holding	Registered address
Affimer Limited	Technologies for bio-therapeutic applications	100%	Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA
Avacta Life Sciences Inc.	Technologies for bio-therapeutic applications	100%	Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA
AffyXell Therapeutics Co., Ltd	Technologies for bio-therapeutic applications	19%	80-59 Golden root-ro, Juchon-myeon, Gimhae-si, Gyeongsangnam-do

8 STOCK AND WORK IN PROGRESS

	2022	2021
	£	£
Raw materials	-	188,979

9 DEBTORS

	2022	2021
	£	£
Trade debtors	6,939	1,278,171
Prepayments and accrued income	1,366,024	2,192,002
Other taxes and social security	84,928	115,030
Corporation tax	4,979,830	2,750,000
Other debtors	366,303	272,249
	6,804,024	6,607,452

10 CREDITORS	2022 £	2021 £
Amounts falling due within one year		
Trade creditors	872,992	529,674
Other taxes and social security	186,539	153,053
Accruals and deferred income	2,574,516	2,415,806
Amounts owed to ultimate parent undertaking	102,236,808	84,051,988
Other creditors	47,582	58,982
Finance lease liabilities	31,677	61,033
	105,950,114	87,270,536

Included within accruals and deferred income is £20,000 (2021: £20,000) in respect of grants received but not yet recognised in the profit and loss account.

	2022 £	2021 £
Amounts falling due after more than one year		
Finance lease liabilities	-	31,677
	-	31,677

11 SHARE CAPITAL AND RESERVES	2022 £	2021 £
Allotted, issued and fully paid:		
16,411 (2021: 16,411) Ordinary shares of 0.1p each	16	16

12 INVESTMENT IN ASSOCIATE

AffyXell Therapeutics Co., Ltd ('AffyXell') is an associate, based in South Korea, in which the Company has a 19% ownership (2021: 5%). AffyXell was established to develop Affimer® proteins which will be used for the generation of new cell and gene therapies. The Company has significant influence arising from the material transactions between the Company and its associate, and the provision of essential technical information to the associate.

The associate is measured at cost less accumulated impairment losses. In the year ended 31 December 2021, AffyXell Therapeutics Co., Ltd received additional equity funding from third parties, enabling the Company to more reliably determine the fair value of its investment in associate and, as such, the previously recognised impairment loss was reversed in the period, which resulted in an investment in associate as at 31 December 2021 of £217,346.

In the year ended 31 December 2022, the investment in associate has increased with the achievement of certain milestones within the collaboration resulting in additional issue of equity to the Company.

13 RELATED PARTY TRANSACTIONS

Provision of services to related parties in the year relate to research and development services provided to an associate of the Company, AffyXell Therapeutics Co., Ltd, as set out in Note 12. These transactions were made on terms equivalent to those that prevail in arm's length transactions.

	2022 £	2021 £
Provision of services*		
Associate - AffyXell Therapeutics Co., Ltd	3,798,499	1,126,272
Amounts receivable		
Associate – AffyXell Therapeutics Co., Ltd	-	1,022,790

* £3,798,499 (2021: £966,063) of which relates to revenue recognised during the year.

14 ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking is Avacta Group plc, a company registered in England and Wales. Copies of the report and accounts of that company are available from its registered office at Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA.