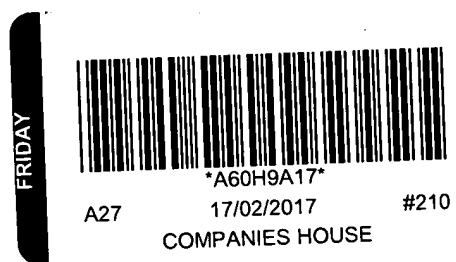


Avacta Life Sciences Limited

STATUTORY FINANCIAL STATEMENTS

for the year ended

31 July 2016



Avacta Life Sciences Limited

CONTENTS

Directors' report	2
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	4
Independent Auditor's Report to the members of Avacta Life Sciences Limited	5
Profit and loss account	6
Balance sheet	7
Statement of changes in equity	8
Notes	9

Avacta Life Sciences Limited

DIRECTORS' REPORT

The directors submit their report and the financial statements of Avacta Life Sciences Limited (formerly Aptuscan Limited) for the year ended 31 July 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company in the year under review is driving the development of next-generation bio-molecular detection technologies for healthcare and research applications.

The Company is developing novel alternatives to antibodies called Affimers (a trademark registered by the Company) which can bind to proteins with very high affinity and specificity. Affimers, and Affimer microarrays, have the potential to revolutionise the diagnosis of disease by providing a method to detect disease biomarkers, and identify new signatures of disease. The Company's technology also enables a completely new way to study the molecular basis of disease, opening up new routes to therapy.

REVIEW OF THE BUSINESS

The Company is addressing both therapeutic and non-therapeutic opportunities for Affimer technology. The Company is focused on building a profitable business through licensing of Affimer reagents to research tools and diagnostics developers to power their products, whilst developing a pipeline of Affimer therapeutic candidates for in-house development and partnering.

In this way the Company can focus on its strengths – generating high quality Affimer reagents for the customers' applications – and maximise the reach of the technology in every application area without the need to build multiple routes to market. Near-term revenues are being derived from fee-for-service generation of new Affimers for evaluation and product development by third parties, and longer-term royalties will be generated based on the third party sales of 'Affimer-powered' products.

Affimer reagents can be developed for a very wide range of applications in many markets therefore market focus is critical in order to maximise the benefits of research and development (R&D) investment and business development effort. The Company has chosen areas of focus that combine the competitive strengths of Affimer technology with attractive market opportunities.

In the near term the Company is concentrating in three areas: affinity separation, immunoassays and lateral flow diagnostics.

Avacta's therapeutic strategy is to generate a commercially valuable pipeline that is biased towards "best-in-class" IO medicines which target well understood biology and seek to deliver superior medicines by way of the benefits of the Affimer technology. This strategy balances the risks of a new therapeutic platform with a lower target biology risk.

In 2015 Avacta entered into a collaboration, licensing and option agreement with Moderna Therapeutics.

Under the terms of the agreement, Moderna made an upfront payment of \$500,000 which provides them with exclusive access to Affimer molecules that bind certain targets which may be extended to include additional targets by a further payment. Moderna is also making certain payments to Avacta for research services to deliver pre-clinical development milestones.

Moderna has the option to enter into exclusive license agreements for selected therapeutic Affimer candidates for clinical development and in each case Avacta will be entitled to milestone payments. The total value of these payments could reach several tens of millions of dollars. Avacta is also entitled to royalties in connection with future product sales.

Avacta also has development collaborations with Phoremest (phenotypic screening for drug target and drug discovery), Glythera (Affimer drug conjugates), Blueberry Therapeutics (antibiotic resistance) and D'Liver (liver metabolism).

Avacta Life Sciences Limited

DIRECTORS' REPORT

RESULTS AND DIVIDENDS

The loss for the period after taxation was £5,955,935 (2015: £4,876,803). The directors do not recommend the payment of a dividend (2015: £nil).

DIRECTORS

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

P Ko Ferrigno

DAM Smith

TJ Sykes (resigned 9 December 2015)

RCA Slater (appointed 9 December 2015, resigned 1 February 2016)

TP Gardiner (appointed 11 January 2016)

PRINCIPLE RISKS

The main financial risk faced by the Company is interest rate risk. The Board reviews and agrees policy for managing this risk.

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 six months.

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.

RE-APPOINTMENT OF AUDITOR

A resolution for the re-appointment of KPMG LLP will be proposed at the forthcoming Annual General Meeting to be held on 20 January 2017.

By order of the board



TP Gardiner

Director

16 December 2016

Registered office:

Unit 20

Ash Way

Thorp Arch Estate

Wetherby

LS23 7FA

Avacta Life Sciences Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing 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 the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 *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 those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 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

We have audited the financial statements of Avacta Life Sciences Limited for the year ended 31 July 2016 set out on pages 6 to 15. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on 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 July 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.



John Pass (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
22 December 2016

Avacta Life Sciences Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 July 2016

	<i>Notes</i>	2016 £	2015 £
TURNOVER		866,765	171,488
Cost of sales		(451,139)	(76,975)
		<hr/>	<hr/>
Gross profit		415,626	94,513
Administrative expenses		(7,506,607)	(5,450,182)
Other operating income		114,945	108,390
		<hr/>	<hr/>
OPERATING LOSS		(6,976,036)	(5,247,279)
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(6,976,036)	(5,247,279)
Tax on loss on ordinary activities	4	1,020,101	370,476
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(5,955,935)	(4,876,803)
		<hr/>	<hr/>

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

The notes on pages 9 to 15 form part of these financial statements.

Avacta Life Sciences Limited

BALANCE SHEET at 31 July 2016

Company Registration No. 06605196

	Notes	2016 £	2015 £
FIXED ASSETS			
Tangible fixed assets	5	3,652,014	1,350,232
Intangible assets	6	480,444	525,737
Investments	7	170	170
CURRENT ASSETS			
Stock	8	215,392	274,795
Debtors	9	2,075,927	1,141,125
Cash at bank and in hand		96,269	246,362
		<u>2,387,588</u>	<u>1,662,282</u>
CREDITORS: Amounts falling due within one year	10	(20,663,524)	(11,838,865)
NET CURRENT LIABILITIES		<u>(18,275,936)</u>	<u>(10,176,583)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(14,143,308)</u>	<u>(8,300,444)</u>
CAPITAL AND RESERVES			
Called up share capital	11	16	16
Share premium		461,340	461,340
Profit and loss account		(14,604,664)	(8,761,800)
SHAREHOLDER'S DEFICIT		<u>(14,143,308)</u>	<u>(8,300,444)</u>

The notes on pages 9 to 15 form part of these financial statements.

The financial statements on pages 6 to 15 were approved by the board of directors and authorised for issue on 16 December 2016 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 July 2016

	Share capital £	Share premium £	Profit and loss account £	Equity shareholder's Deficit £
-				
As at 1 August 2014	16	461,340	(3,960,066)	(3,498,710)
Total comprehensive loss for the period	-	-	(4,876,803)	(4,876,803)
Share based payment charges	-	-	75,069	75,069
At 31 July 2015	16	461,340	(8,761,800)	(8,300,444)
Total comprehensive loss for the period	-	-	(5,955,935)	(5,955,935)
Share based payment charges			113,071	113,071
At 31 July 2016	16	461,340	(14,604,664)	(14,143,308)

The notes on pages 9 to 15 form part of these financial statements.

Avacta Life Sciences Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

1 ACCOUNTING POLICIES

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") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1.

In the transition to FRS 102 from old UK GAAP, the Company has made no measurement and recognition adjustments.

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 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.

TURNOVER

The Group derives turnover from the sale of products, granting of licences and the provision of services. Turnover represents the fair value of consideration received or receivable in respect of products, licences or services supplied to third parties in the period, excluding sales related taxes and trade discounts. Turnover is recognised on sale of products when the significant risks and rewards of ownership of the products are transferred to the customer, this is usually when products are delivered and title passes to the customer. Turnover from the provision of services is recognised on services when the service has been performed. Turnover from licenses comprises exclusivity arrangements, technology access fees and similar arrangements, milestone income and royalties. The accounting policies for the licensing turnover stream are as follows: (i) Exclusivity arrangements, technology access fees and similar agreements are recognised as turnover in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction; (ii) Certain services include milestone and royalty payments which are recognised as the service is provided to the extent that it is probable they will be received.

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:

Avacta Life Sciences Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

1 ACCOUNTING POLICIES (*continued*)

Patents	-	Lifetime of the patent
Software	-	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 - 20% per annum straight line
Laboratory equipment	-	20 - 33% 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.

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 developments is written off to the profit and loss account in the year in which it is incurred.

2	LOSS BEFORE TAX	2016	2015
		£	£
	Loss before tax is stated after charging:		
	Research and development expenditure written off	2,274,479	2,115,833
	Amortisation of intangible assets	93,803	20,918
	Depreciation of property, plant and equipment	509,625	366,364
	Loss on disposal of property, plant and equipment	5,197	-
		<u> </u>	<u> </u>

Auditor's remuneration is paid by the parent undertaking, Avacta Group plc, the amount relating to the Company is estimated to be £5,000.

Avacta Life Sciences Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

3	EMPLOYEES	2016 No.	2015 No.
	The average monthly number of persons (including directors) employed by the company during the period was:		
	Office and management	49	32
		<u>£</u>	<u>£</u>
	Staff costs for above persons:		
	Wages and salaries	1,984,234	1,323,218
	Social security costs	219,090	137,406
	Pension costs	74,371	42,702
	Share based payment charges	113,071	75,069
		<u>2,390,766</u>	<u>1,578,395</u>
	DIRECTORS' REMUNERATION	2016 £	2015 £
	Total emoluments	<u>81,831</u>	<u>88,221</u>

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 1 (2015: 1). The aggregate value of contributions paid by the Company in respect of these directors was £3,897 (2015: £3,808).

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.

Avacta Life Sciences Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

4	TAXATION	2016 £	2015 £
	Corporation tax:		
	Current year	(670,000)	(285,000)
	Prior year	(350,101)	(85,476)
		<u> </u>	<u> </u>
	Current tax (credit) for the period	(1,020,101)	(370,476)
		<u> </u>	<u> </u>
	The tax credit assessed for the period is lower (2015: lower) than the standard rate of corporation tax in the UK of 20.0% (2015: 20.7%). The differences are explained below:		
		2016 £	2015 £
	Loss on ordinary activities before tax	(6,976,036)	(5,247,279)
		<u> </u>	<u> </u>
	Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.0% (2015: 20.7%)	(1,395,207)	(1,086,187)
	Effects of:		
	Expenses not allowable for taxation purposes	22,614	15,539
	Depreciation in excess of capital allowances	112,883	80,168
	Losses carried forward	1,259,710	990,480
	Research and development credit	(670,000)	(285,000)
	Research and development credit- prior year adjustment	(350,101)	(85,476)
		<u> </u>	<u> </u>
	Current tax (credit) for the period	(1,020,101)	(370,476)
		<u> </u>	<u> </u>

There is no liability to corporation tax in the period. There is an un-recognised deferred tax asset due to trading losses in this period and prior financial years of approximately £3,178,000 (2015: £1,918,000). This asset has not been recognised as the profit, which would utilise these losses, cannot yet be forecast with sufficient reliability.

Avacta Life Sciences Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2016

5 TANGIBLE FIXED ASSETS

	Fixtures, fittings & equipment £	Assets under construction £	Total £
<i>Cost</i>			
1 August 2015	2,081,566	-	2,081,566
Transfers from group companies	51,168	-	51,168
Additions	1,748,249	1,050,426	2,798,675
Disposals	(21,671)	-	(21,671)
	<hr/>	<hr/>	<hr/>
31 July 2016	3,859,312	1,050,426	4,909,738
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
1 August 2015	731,334	-	731,334
Transfers from group companies	32,239	-	32,239
Charge for the period	509,625	-	509,625
Disposals	(15,474)	-	15,474
	<hr/>	<hr/>	<hr/>
31 July 2016	1,257,724	-	1,257,724
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
31 July 2016	2,601,588	1,050,426	3,652,014
	<hr/>	<hr/>	<hr/>
31 July 2015	1,350,232	-	1,350,232
	<hr/>	<hr/>	<hr/>

Avacta Life Sciences Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

6 INTANGIBLE ASSETS

	Goodwill £	Patents £	Software £	Total £
<i>Cost</i>				
At 1 August 2015	385,000	20,289	144,478	549,767
Additions	-	35,726	12,784	48,510
31 July 2016	385,000	56,015	157,262	598,277
<i>Amortisation</i>				
At 1 August 2015	-	4,543	19,487	24,030
Charge for the year	38,500	5,018	50,285	93,803
31 July 2016	38,500	9,561	69,772	117,833
<i>Net book value</i>				
31 July 2016	346,500	46,454	87,490	480,444
31 July 2015	385,000	15,746	124,991	525,737

Goodwill was generated on a transaction towards the end of the 2015 financial year, as a result amortisation has been charged from the start of the current financial year.

7 INVESTMENTS

	£
<i>Cost</i>	
At 1 August 2015	170
Addition	-
At 31 July 2016	170
<i>Amortisation</i>	
At 1 August 2015 and 31 July 2016	-
<i>Net book value</i>	
31 July 2016	170
31 July 2015	170

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
Promexus 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

Avacta Life Sciences Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2016

8	STOCK AND WORK IN PROGRESS	2016 £	2015 £
	Raw materials	215,392	274,795
9	DEBTORS	2016 £	2015 £
	Trade debtors	45,288	61,131
	Prepayments	243,083	139,475
	Other taxes and social security	249,390	93,255
	Corporation tax	1,305,011	630,476
	Other debtors	231,826	100,676
	Amounts owed by fellow subsidiary undertakings	1,329	116,112
		2,075,927	1,141,125
10	CREDITORS: Amounts falling due within one year	2016 £	2015 £
	Trade creditors	220,957	444,407
	Other taxes and social security	67,302	46,683
	Accruals and deferred income	751,438	745,226
	Amounts owed to ultimate parent undertaking	17,943,159	9,218,662
	Amounts owed to fellow subsidiary undertakings	1,651,942	1,374,505
	Other creditors	28,726	9,382
		20,663,524	11,838,865
	Included within accruals and deferred income is £16,000 (2015: £59,163) in respect of grants received but not yet recognised in the profit and loss account.		
11	SHARE CAPITAL	2016 £	2015 £
	Allotted, issued and fully paid: 16,411 (2015: 16,411) Ordinary shares of 0.1p each	16	16
12	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.		