

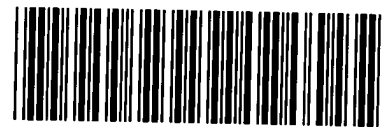
# Avacta Life Sciences Limited

## STATUTORY FINANCIAL STATEMENTS

for the 17 month period ended

31 December 2019

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COMPANIES HOUSE

# Avacta Life Sciences Limited

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# Avacta Life Sciences Limited

## STRATEGIC REPORT

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The directors present the strategic report for Avacta Life Sciences Limited for the 17 month period ended 31 December 2019.

### PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the Company in the period under review is the development of its Affimer technology, an engineered alternative to antibodies.

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, 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.

#### *Diagnostics*

Revenue is primarily derived from paid-for evaluations of the technology for diagnostics applications, and the generation of anti-idiotypic Affimer reagents to support partners' drug development programmes.

The Company agreed a commercial licence with New England Biolabs for Affimers to use in diagnostic kits. Whilst other ongoing evaluations are progressing well, they have not yet resulted in further licensing agreements and so the Company is now looking to develop a small in-house pipeline of Affimer diagnostic assays ready for licensing and development into products to speed up the process.

An experienced Commercial Director, dedicated to the Affimer reagents and diagnostics business, has been appointed to capitalise on growing commercial traction.

Post-period end the Company entered into a partnership with Cytiva (formerly GE Healthcare Life Sciences) to develop a rapid point-of-care saliva antigen test for COVID-19 infection and has already generated more than 50 Affimer reagents that specifically bind the virus.

A further collaboration has also been entered into with Adeptrix to develop and manufacture an Affimer-based BAMS (bead assisted mass spectrometry) coronavirus antigen test that will provide clinicians with a significant expansion of the available testing capacity for COVID-19 infection in hospitals.

#### *Therapeutics*

##### pre|CISION Targeted Chemotherapies

During the reporting period the Group established a transformational collaboration and licensing deal to access intellectual property developed by Professor Bill Bachovchin at Tufts University Medical School (Tufts). The long-term objective is to combine Affimer immunotherapies with pre|CISION tumour targeted chemotherapies to improve the outcome for cancer patients, the majority of whom do not respond to immunotherapies alone.

In the near term, the Group has identified an opportunity to use the pre|CISION platform to dramatically reduce the side effects of standard chemotherapies, whilst maintaining their effectiveness. The first of these is AVA6000 pro-doxorubicin. There is expected to be only a limited impact of the coronavirus pandemic on the timing of the expected phase 1 clinical trial of AVA6000 in humans which is expected to

# Avacta Life Sciences Limited

## STRATEGIC REPORT

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start in late 2020 / early 2021..

### Affimer Therapeutics

The first Affimer clinical development candidate AVA004-251, a PD-L1 antagonist, has been selected and initial cell line development successfully completed. GMP production of AVA004-251 is on hold whilst the Group focuses its resources on AVA6000.

### Drug Assets Pipeline

In the oncology field it has become clear in recent years that single cancer immunotherapies have limited overall response rates and that combining immune checkpoint modulators such as PD-1, or PD-L1, with chemotherapy improves patients' outcomes. Avacta is in a unique position, with two proprietary platforms, to address this urgent need. The Company's strategy is to bring together Affimer immunotherapies with the pre|CISION targeted chemotherapies to develop superior cancer treatments with better patient outcomes. The Company is doing this in two ways: through co-administered combinations of the two drugs and through a novel drug conjugate in which the pre|CISION substrate is incorporated into the linker that joins the chemotoxin and the Affimer immunotherapy into a single drug molecule called a 'drug conjugate'.

### Drug Development Collaborations

The Group has recently reported substantial commercial progress with regards to drug development collaborations. Avacta agreed a therapeutics partnership and licensing deal with LG Chem Life Sciences (LG Chem), potentially worth up to \$310 million dependent on the satisfaction of certain performance obligations, in addition to future royalties. Moderna, with whom Avacta has been collaborating on several programmes, exercised its option to an exclusive commercial license for Affimer against one particular target. The Group also announced a collaboration with ADC Therapeutics, a Swiss pharmaceutical company that is developing drug conjugates using proprietary warheads licensed from Astra Zeneca. The collaboration with ADC Therapeutics is aimed at developing Affimer-drug conjugates using these warheads. Just post-period end, the Company announced that it had established a joint venture in South Korea with Daewoong Pharmaceuticals to develop engineered stem cell therapies. The Company is continuing its extensive business development activities to generate further such fully funded partnerships and licensing deals.

## PRINCIPAL RISKS AND UNCERTAINTIES

### *COVID-19 pandemic*

The Board is continuing to monitor and assess the impact of COVID-19, which is a rapidly changing issue across the world, and the impact it has on the Group.

As noted above, many clinical trials have been halted due to the pressure on clinicians and hospitals during the current COVID-19 pandemic and the regulators are prioritising submissions related to COVID-19 therapies. Our contract manufacturing and clinical operations partners have reduced staffing levels to maintain social distancing as has the Group. It is prudent to assume a short delay in starting the AVA6000 phase I study. We expect to obtain regulatory approval for the AVA6000 clinical trial from the MHRA in Q3 and dose first patients late in the year or, more likely, early in 2021. This also means that the associated

# Avacta Life Sciences Limited

## STRATEGIC REPORT

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costs are delayed and there is sufficient cash on the balance sheet to complete the phase I trial as well as progressing our other programmes.

Conversely, the opportunity created by the unique strength of the Affimer platform to rapidly provide highly specific diagnostic reagents for SARS-COV-2 antigen testing is difficult to quantify but clearly very large indeed. The Group has established two commercial partnerships and is in discussion with several others to establish multiple routes to market for the Affimer reagents. This will minimise risk and time to market and maximise the commercial opportunity which is likely to far outweigh the negative impacts of the COVID-19 pandemic.

### *Reliance on third parties*

The Company 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, management of its clinical trials, including medical monitoring and data management. Underperformance by any of these other parties could adversely impact the Group's ability to operate effectively.

The Board regularly reviews the status of the therapeutic development programmes and with that the performance of the third parties that are contracted to provide services to ensure that the quality and timeliness of these services of acceptable.

### *Research and development*

The Company's research and development activities are focused around the Affimer technology within the reagent, diagnostic and therapeutic areas.

There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientists involved are unable to produce the results required for specific internal development programmes or customer-related projects.

The development teams continue to work on improving the core Affimer technology platform, with oversight from the Senior Leadership Team and Scientific Advisory Board.

### *Timing*

There is a risk that the development of the Affimer technology may take longer than planned to meet the requirements of current and potential customers.

Given the proprietary nature of the Affimer technology and its early stage development, it may take some time for customers to evaluate and utilise the technology instead of more established antibody technologies. This could delay the completion of commercial licences for the technology and the resultant revenues from these licences.

### *Key staff*

The Group has in place an experienced and motivated Senior Leadership Team together with a significant number of highly skilled senior scientists.

Loss of key staff could lead to a delay in the Group's plans and operations.

The Group aims to provide remuneration packages and working conditions that will attract and retain staff of the required level, informally benchmarking the level of benefits provided to its staff against comparator companies.

# Avacta Life Sciences Limited

## STRATEGIC REPORT

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### *Brexit*

The Board is continuing to monitor the Brexit position and the uncertainty that surrounds the trade agreement which the UK will be able to negotiate with the European Union and the impacts it may have on the Group, in particular:

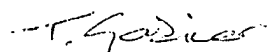
- Imports of laboratory supplies – the majority of these supplies are sourced through UK suppliers who source from their worldwide network. Those goods that come directly from the EU could face customs procedures which delay their delivery. The Group has assessed this impact and is carrying higher levels of certain laboratory supplies to mitigate this risk.
- Patents/Trade Marks – the risk is that third parties may seek to exploit the Group's patents and trade marks if they are not sufficiently protected following the end of the transition period. The Group has registered national trade marks in the UK and is also pursuing registration of national trade marks in additional core territories whilst closely following the potential transition arrangements regarding EU trade marks.
- Employees – the Group has publicised the UK government's Settled Status Scheme and where appropriate has assisted employees with the application process.

### *Loss of facilities*

Should the Company's facilities become damaged, the ability to carry on development programmes and meet customer deadlines may be affected.

The Company has recently relocated to purpose-built facilities in both Wetherby and Cambridge and has business continuity plans in place together with adequate insurance to cover any business damage or interruption.

By order of the Board



TP Gardiner  
*Director*

22 June 2020

# Avacta Life Sciences Limited

## DIRECTORS REPORT

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The Directors present their Report and Financial Statements for Avacta Life Sciences Limited, for the 17 month period ended 31 December 2019.

### RESULTS AND DIVIDENDS

The loss for the period after taxation was £15,166,435 (2018: £7,772,663). The directors do not recommend the payment of a dividend (2018: £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 3 and 4. The main financial risks are the impact of COVID-19, as set out in the Strategic Report on page 3, and interest rate risk. The Board reviews and agrees policy for managing interest rate 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 twelve 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 22 June 2020.

# Avacta Life Sciences Limited

## DIRECTORS REPORT

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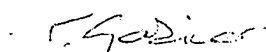
### EVENTS SINCE THE END OF THE FINANCIAL PERIOD

On 8 January 2020, the Group announced that it had formed a joint venture with Daewoong Pharmaceutical ('Daewoong') which would be based in South Korea. The joint venture, named AffyXell Therapeutics ('AffyXell'), has been established to develop Affimer proteins which will be used by AffyXell for the generation of new cell and gene therapies. A collaboration agreement has been signed between Avacta, Daewoong and AffyXell. AffyXell will fund Avacta's own research and development costs associated with the generation of the Affimer proteins for the joint venture.

On 6 April 2020 the company's ultimate parent company, Avacta Group plc, announced that it had completed a fundraising of £5.75 million gross through the placing of 20,833,333 Placing Shares and 11,111,110 Subscription Shares with new and existing investors at a price of 18 pence per share.

On 4 June 2020 Avacta Group plc further announced that it had completed a fundraising of £48 million gross through the placing of 40,000,000 New Ordinary Shares at a price of 120 pence per share.

By order of the board



TP Gardiner  
*Director*

22 June 2020

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

# Avacta Life Sciences Limited

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

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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

We have audited the financial statements of Avacta Life Sciences Limited ("the company") for the period ended 31 December 2019 which comprise the profit and loss account, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.

**Johnathan Pass (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA

June 2020

**Avacta Life Sciences Limited**  
**PROFIT AND LOSS ACCOUNT**  
for the 17 months ended 31 December 2019

	<i>Notes</i>	17 months to 31 December 2019 £	Year ending 31 July 2018 £
TURNOVER		3,341,235	1,235,518
Cost of sales		(747,818)	(398,391)
		<hr/>	<hr/>
Gross profit		2,593,417	837,127
Research and development costs		(9,517,792)	(4,220,580)
Administrative expenses		(10,573,717)	(5,773,950)
		<hr/>	<hr/>
OPERATING LOSS		(17,498,092)	(9,157,403)
		<hr/>	<hr/>
LOSS BEFORE TAXATION	2	(17,498,092)	(9,157,403)
Tax on loss	4	2,331,657	1,384,740
		<hr/>	<hr/>
LOSS AFTER TAXATION		(15,166,435)	(7,772,663)
		<hr/>	<hr/>

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 14 to 22 form part of these financial statements.

# Avacta Life Sciences Limited

## BALANCE SHEET at 31 December 2019

Company Registration No. 06605196

	Notes	31 December 2019 £	31 July 2018 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	5	2,252,678	2,959,711
Intangible assets	6	233,035	359,993
Investments	7	-	170
		<hr/>	<hr/>
		2,485,713	3,319,874
<b>CURRENT ASSETS</b>			
Stock	8	64,982	69,314
Debtors	9	4,084,857	2,895,091
Cash at bank and in hand		223,916	571,504
		<hr/>	<hr/>
		4,373,755	3,535,909
<b>CREDITORS: Amounts falling due within one year</b>	10	(50,061,000)	(35,046,830)
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		(45,687,245)	(31,510,921)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		(43,201,532)	(28,191,047)
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	16	16
Share premium		461,340	461,340
Profit and loss account		(43,662,888)	(28,652,403)
		<hr/>	<hr/>
<b>SHAREHOLDER'S DEFICIT</b>		(43,201,532)	(28,191,047)
		<hr/>	<hr/>

The notes on pages 14 to 22 form part of these financial statements.

The financial statements on pages 11 to 22 were approved by the board of directors and authorised for issue on 22 June 2020 and are signed on its behalf by:



DAM Smith  
Director



TP Gardiner  
Director

**Avacta Life Sciences Limited**  
**STATEMENT OF CHANGES IN EQUITY**  
for the 17 months ended 31 December 2019

	Share capital £	Share premium £	Profit and loss account £	Equity shareholder's Deficit £
As at 1 August 2017	16	461,340	(21,036,171)	(20,574,815)
Total comprehensive loss for the period	-	-	(7,772,663)	(7,772,663)
Share based payment charges	-	-	156,431	156,431
At 1 August 2018	16	461,340	(28,652,403)	(28,191,047)
Total comprehensive loss for the period	-	-	(15,166,435)	(15,166,435)
Share based payment charges	-	-	155,950	155,950
At 31 December 2019	16	461,340	(43,662,888)	(43,201,532)

The notes on pages 14 to 22 form part of these financial statements.

# Avacta Life Sciences Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the 17 months ended 31 December 2019

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### 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.

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](http://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.

#### GOING CONCERN

Notwithstanding net current liabilities of £45,687,245 as at 31 December 2019, a loss for the period then ended of £15,166,435 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 that extend to the end of the financial period ending 31 December 2021 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 2019 amounted to £48,741,144, 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, 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 18 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

# Avacta Life Sciences Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the 17 months ended 31 December 2019

### 1 ACCOUNTING POLICIES (*continued*)

#### 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 Group is entitled to certain value earned to date on cancellation of a project. Invoices are issued at set milestones as defined within the contract and are payable within standard commercial credit terms.	Revenue is recognised over time, with progress being determined based on costs incurred to date relative to the total expected costs incurred in satisfaction of the performance obligation.
Research and development licences	The Group consider that up-front payments received during the period in relation to R&D licences are as consideration for a right-to-use the relevant IP. Therefore, the associated performance obligation is satisfied at the point in time access is granted. For work performed under R&D, performance obligations are satisfied over time as the relevant work is performed. For future milestone payments specified under licence agreements, performance obligations are satisfied at the point in time that the milestone is achieved.	Revenue is recognised at the point in time that the performance obligations under R&D licences are satisfied for milestone payments. For work performed under R&D licences, the practical expedient to recognise revenue at an amount that corresponds directly to that invoiced to the customer for performance to date is taken.

# Avacta Life Sciences Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the 17 months ended 31 December 2019

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### 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.

### 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.

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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.

<b>2</b>	<b>LOSS BEFORE TAX</b>	<b>2019</b>	<b>2018</b>
		<b>£</b>	<b>£</b>
	Loss before tax is stated after charging:		
	Research and development expenditure	9,517,792	4,220,580
	Amortisation of intangible assets	146,098	81,679
	Depreciation of property, plant and equipment	1,289,376	955,256
	Loss on disposal of property, plant and equipment	12,174	5,862
	Provisions against investments in subsidiaries	170	-
	Provisions against amounts receivable from subsidiaries	1,596,476	-
	Share-based payment charges	155,950	156,431
		<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 £12,000. (2018: £7,000)

<b>3</b>	<b>EMPLOYEES</b>	<b>2019</b>	<b>2018</b>
		<b>No.</b>	<b>No.</b>
	The average monthly number of persons (including directors) employed by the company during the period was:		
	Office and management	78	73
		<u>          </u>	<u>          </u>
		<b>£</b>	<b>£</b>
	Staff costs for above persons:		
	Wages and salaries	4,935,140	3,057,702
	Social security costs	506,884	307,638
	Pension costs	251,582	149,936
	Share based payment charges	155,950	156,431
		<u>          </u>	<u>          </u>
		5,849,556	3,671,707
		<u>          </u>	<u>          </u>

<b>DIRECTORS' REMUNERATION</b>	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Total emoluments	-	-
	<u>          </u>	<u>          </u>

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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 (2018:nil). The aggregate value of contributions paid by the Company in respect of these directors was £nil (2018: £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.

4	TAXATION	2019 £	2018 £
	Corporation tax:		
	Current period	(2,179,807)	(1,350,000)
	Prior year	(151,850)	(34,740)
		<u>          </u>	<u>          </u>
	Current tax credit for the period	(2,331,657)	(1,384,740)
		<u>          </u>	<u>          </u>

The tax credit assessed for the period is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.0% (2018 19.0%). The differences are explained below:

	2019 £	2018 £
Loss on ordinary activities before tax	(17,498,092)	(9,157,403)
	<u>          </u>	<u>          </u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)	(3,324,637)	(1,739,907)
Effects of:		
Expenses not allowable for taxation purposes	38,845	29,722
Depreciation in excess of capital allowances	221,170	191,160
Losses carried forward	3,064,596	1,519,025
Research and development credit	(2,372,115)	(1,350,000)
Research and development credit- prior year adjustment	(151,824)	(34,740)
Withholding tax expense	192,308	-
	<u>          </u>	<u>          </u>
Current tax credit for the period	(2,331,657)	(1,384,740)
	<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 £4,462,000 (2018: £2,203,000). This asset has not been recognised as the profit, which would utilise these losses, cannot yet be forecast with sufficient reliability.

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**5 TANGIBLE FIXED ASSETS**

	Leasehold Improvements £	Laboratory Equipment £	Fixtures, fittings & equipment £	Total £
<b>Cost</b>				
1 August 2018	1,719,807	4,111,055	208,471	6,039,333
Additions	30,216	530,587	35,397	596,200
Transfers	-	-	-	-
Disposals	-	(178,919)	(7,852)	(186,771)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2019	1,750,023	4,462,723	236,016	6,448,762
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
1 August 2018	424,441	2,531,346	123,835	3,079,622
Charge for the period	309,590	911,401	68,385	1,289,376
Disposal	-	(165,226)	(7,688)	(172,914)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2019	734,031	3,277,521	184,532	4,196,084
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
31 July 2018	1,295,366	1,579,709	84,636	2,959,711
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2019	1,015,992	1,185,202	51,484	2,252,678
	<hr/>	<hr/>	<hr/>	<hr/>

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6	INTANGIBLE ASSETS	Goodwill £	Patents £	Software £	Total £
	<i>Cost</i>				
	At 1 August 2018	385,000	115,230	159,195	659,425
	Additions	-	-	-	-
	Transfers	-	-	19,140	19,140
	Disposals	-	(115,230)	-	(115,230)
	31 December 2019	385,000	0	178,335	563,335
	<i>Amortisation</i>				
	At 1 August 2018	115,500	27,782	156,150	299,432
	Charge for the period	54,542	87,448	4,108	146,098
	Disposals	-	(115,230)	-	(115,230)
	31 December 2019	170,042	0	160,258	330,300
	<i>Net book value</i>				
	31 December 2019	214,958	0	18,077	233,035
	31 July 2018	269,500	87,448	3,045	359,993

7	INVESTMENTS	£
	<i>Cost</i>	
	At 1 August 2018	170
	At 31 December 2019	170
	<i>Provisions</i>	
	At 1 August 2018	-
	Made during the period	(170)
	<b>At 31 December 2019</b>	<b>(170)</b>
	<i>Net book value</i>	
	<b>31 December 2019</b>	<b>-</b>
	31 July 2018	170

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**7 INVESTMENTS (continued)**

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

<b>Name of Company</b>	<b>Nature of business</b>	<b>Percentage holding</b>	<b>Registered address</b>
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

<b>8</b>	<b>STOCK AND WORK IN PROGRESS</b>	<b>2019</b>	<b>2018</b>
		<b>£</b>	<b>£</b>
	Raw materials	64,982	69,314
		<hr/>	<hr/>
<b>9</b>	<b>DEBTORS</b>	<b>2019</b>	<b>2018</b>
		<b>£</b>	<b>£</b>
	Trade debtors	446,474	157,589
	Prepayments	767,058	277,095
	Other taxes and social security	72,014	158,740
	Corporation tax	2,372,156	1,350,000
	Other debtors	427,155	292,352
	Amounts owed by subsidiary undertakings, net of provision	-	659,315
		<hr/>	<hr/>
		4,084,857	2,895,091
		<hr/>	<hr/>
<b>10</b>	<b>CREDITORS: Amounts falling due within one year</b>	<b>2019</b>	<b>2018</b>
		<b>£</b>	<b>£</b>
	Trade creditors	572,054	642,388
	Other taxes and social security	100,693	89,701
	Accruals and deferred income	614,842	421,544
	Amounts owed to ultimate parent undertaking	43,328,033	30,108,583
	Amounts owed to fellow subsidiary undertakings	5,413,111	3,727,163
	Other creditors	32,267	57,451
		<hr/>	<hr/>
		50,061,000	35,046,830
		<hr/>	<hr/>

Included within accruals and deferred income is £20,000 (2018: £20,000) in respect of grants received but not yet recognised in the profit and loss account.

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11	SHARE CAPITAL AND RESERVES	2019	2018
		£	£
	Allotted, issued and fully paid:		
	16,411 (2018: 16,411) Ordinary shares of 0.1p each	16	16
		<u>          </u>	<u>          </u>

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.

13 POST BALANCE SHEET EVENTS

On 8 January 2020, the Company announced that it had formed a joint venture with Daewoong Pharmaceutical ('Daewoong') which would be based in South Korea. The joint venture, named AffyXell Therapeutics ('AffyXell'), has been established to develop Affimer proteins which will be used by AffyXell for the generation of new cell and gene therapies. The Group made an initial contribution of £217,000 to the joint venture; and a collaboration agreement has been signed between Avacta, Daewoong and AffyXell. Avacta's research and development costs associated with the generation of the Affimer proteins will be funded by AffyXell.