For immediate release

18 October 2019

Avacta Group plc

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

Interim Results for the Period Ended 31 July 2019

Avacta Group plc (AIM: AVCT), the developer of Affimer® biotherapeutics and research reagents, announces its unaudited interim results for the 12 months ended 31 July 2019.

Operating highlights

Affimer Therapeutics

- Major validating partnership and license agreement with LG Chem Life Sciences (LG Chem). Potentially worth over $300m, plus future royalties on product sales, the agreement included an upfront payment of $2.5m, near-term milestone payments of up to $5.5m plus payment of Avacta's full research costs to generate Affimer molecules for oncology and the treatment of inflammatory diseases.
- Research collaboration and licensing agreement established to access technology for tumour targeting drugs developed at Tufts University Medical School, Boston, USA. Avacta is combining this tumour targeting platform with Affimer immunotherapies aimed at improving outcomes for patients who do not respond to existing immunotherapies.
- Acceleration of Tufts collaboration with planned regulatory submission in the first quarter of 2020. The aim is to test the first tumour targeted chemotherapy for breast cancer, maintain the effectiveness but dramatically reducing the serious side effects of this cancer drug and creating a multi-billion dollar commercial opportunity.
- Critical milestone of selecting the Affimer molecule in order to remain on track for a regulatory submission for first-in-human trials for the Affimer platform in the fourth quarter of 2020 has been achieved. The AVA004 PD-L1 blocker clinical candidate is now completing the first stages of manufacturing which is progressing very well.
- Moderna Therapeutics Inc exercised its option to enter into an exclusive licensing agreement for Affimers against non-disclosed targets; part of an ongoing research collaboration between the two companies. A Moderna determined regulatory submission, for a clinical candidate would trigger the next milestone payment to Avacta.
- Appointment of Dr Jose Saro as Chief Medical Officer to drive Avacta's therapeutics programmes into the clinic. Dr Saro brings over 20 years' experience in the pre-clinical, translational and early clinical development of oncology assets, spanning small molecules, biologics and drug conjugates. Dr Saro joins Avacta from Roche and prior to that he held senior leadership positions at Bristol Myers Squibb, Novartis, Eisai and Wyeth.

Affimer Research and Diagnostics Reagents

- Combined revenue plus order intake to 31 July 2019 of £1.2m shows strong growth at 130% compared with previous 12 months, plus strong business development pipeline going in to FY2020.
- Excellent range of ongoing paid-for technology evaluations and custom Affimer services projects with high quality, global commercial partners:
    - 7 diagnostics evaluations including 4 with top 10 global in vitro diagnostic companies all of which could lead to licensing deals.
    - 14 projects with pharma and biotech companies including 4 out of the top 10 large pharma.
    - 2 evaluations with bioprocessing companies, one being a global leader in affinity purification, and both with the potential to deliver licensing deals.

- Agreed commercial license with New England Biolabs® (NEB®), a global leader in the discovery and production of enzymes for molecular biology applications. This agreement is to commercialise a product using the Affimer technology for use in both life science research and diagnostics assays. NEB is now working with customers in field testing.
- A proprietary pipeline of Affimer diagnostic assays aimed at accelerating licensing deals, continues to grow. The target of having two such assays completed by the end of 2019 is on track with a D-dimer and an estradiol assay nearing completion.

Financial highlights

- Initial up-front milestone payment of $2.5m received from LG Chem Life Sciences.
- Cash balances £6.5m (£5.2m 31 July 2018).
- Revenues of £4.1m greater than expectation (£2.8m FY18) due to recognition of up-front milestone payment of $2.5m from LG Chem Life Sciences.
- Operating loss of £11.2m (£10.4m FY18) due to significant investment in research and development increasing to £5.9m (£3.8m FY18).
- Increased R&D investment leading to reported loss of £9.7m (£8.8m FY18).

Post-period highlights

- The Company has today also announced a fundraising to raise gross proceeds of up to £9 million to deliver the next key value inflection points.
- Collaboration and option agreement with ADC Therapeutics SA (Lausanne, CH) to develop Affimer-drug conjugates combining Avacta's Affimer® technology with ADC Therapeutics' warhead and linker technologies. Under the terms of the agreement, ADC Therapeutics will cover all Avacta's research costs during the collaboration and Avacta will also receive option fees, development and commercialization milestones, as well as a single-digit royalty on sales of successfully developed products.
- Appointment of David Wilson, a diagnostics industry veteran with over 25 years of experience, as Commercial Director for Affimer research and diagnostics reagents.

Alastair Smith, Chief Executive Officer, commented:

"I am very pleased to see the strong growth in Affimer® reagents revenue and order intake over the reporting period. This has been driven by the growing reputation of the Affimer technology particularly in the diagnostics and pharmaceutical sectors; two markets where the Company will be focusing our resources in the reagents business going forwards. We have numerous evaluation projects ongoing with large diagnostics partners, each of which could lead to a lucrative license deal. In order to reduce the time taken to reach the point of signing license deals, we are close to completing the first two in-house Affimer diagnostic assays, as set out last year. Building a profitable Affimer reagents business remains a high priority for the Group.

I am also delighted to report that the collaboration and license deal established with Professor Bill Bachovchin of Tufts University Medical School is progressing very well. The opportunity to test the tumour targeting chemistry in the clinic as early as next year is well ahead of schedule and could be game-changing for Avacta. Doxorubicin is a $1bn drug despite severe cardiotoxicity issues that limits its effectiveness. In the case of Avacta's improved version of this drug, AVA6000 pro-Doxorubicin that is based on the Tufts technology, we have seen a dramatic improvement in safety in pre-clinical animal models. If we see a similar reduction in cardiotoxicity in humans in the planned phase I clinical trial of AVA6000 in 2020, then there is the potential for a major license deal that could generate a transformational, non-dilutive, upfront payment of tens of millions of dollars. This funding would support all our other programmes. For this reason, we are prioritising this programme with respect to use of the proceeds of today's successful placing.

Our continued good progress across our Affimer therapeutic programmes helps our business development efforts and I am confident that these will manifest in further commercial deals in the near future that will be fully funded by the new partner.

It is an exciting time on all fronts for the Group. I look forward to updating the market as we deliver on key commercial and technical milestones for both therapeutics and diagnostics in the next twelve months."

- Ends -

For further information from Avacta Group plc, please contact:

Avacta Group plc	Tel: +44 (0) 844 414 0452
Alastair Smith, Chief Executive Officer	www.avacta.com
Tony Gardiner, Chief Financial Officer	
finnCap Ltd (Nominated Adviser and Joint Broker)	Tel: +44 (0) 207 220 0500
Geoff Nash / Giles Rolls – Corporate Finance	www.finncap.com
Tim Redfern - ECM	
WG Partners (Joint Broker)	Tel: +44 (0) 203 705 9318
Nigel Birks / Nigel Barnes	Tel: +44 (0) 203 705 9217
David Wilson / Claes Spang	www.wgpartners.co.uk
Turner Pope Investments (TPI)	Tel: +44 (0) 203 657 0050
Zoe Alexander / Andy Thacker	www.turnerpope.com
Yellow Jersey PR (Financial Media and IR)	
Sarah Hollins	Tel: +44 (0)7764 947 137
Harriet Jackson	Tel: +44 (0)7544 275 882
	avacta@yellowjerseypr.com
Zyme Communications (Trade and Regional Media)	Tel: +44 (0)7787 502 947
Katie Odgaard	katie.odgaard@zymecommunications.com

About Avacta Group plc - https://www.avacta.com

Avacta is developing novel cancer immunotherapies combining its two proprietary platforms - Affimer® biotherapeutics and tumour targeted chemotherapy. With this approach, the Company aims to address the lack of a durable response to current immunotherapies experienced by most patients. The Company's therapeutics development activities are based in Cambridge, UK.

The Company benefits from near-term revenues generated from Affimer reagents for diagnostics, bioprocessing and research, through a separate business unit based in Wetherby, UK.

The Affimer platform is an alternative to antibodies derived from a small human protein. Despite their shortcomings, antibodies currently dominate markets worth in excess of $100bn. Affimer technology has been designed to address many of these negative performance issues, principally: the time taken, and the reliance on an animal's immune response, to generate new antibodies; poor specificity in many cases; large size and cost.

Avacta's proprietary targeted chemotherapy platform, releases active drug only in the tumour, thereby limiting systemic exposure and improving the overall safety and therapeutic potential of these powerful anti-cancer treatments.

By combining these two platforms the Company is building a wholly owned pipeline of novel cancer therapies with the aim of creating effective treatments for all cancer patients including those who do not respond to existing immunotherapies. Avacta expects to take its first drug, a targeted form of the standard-of-care Doxorubicin, into the clinic in the middle of 2020.

Avacta has established drug development partnerships with pharma and biotech, including with Moderna Therapeutics Inc., and a deal with LG Chem worth up to $310m, and actively seeks to license its proprietary platforms in a range of therapeutic areas.

Avacta reagents business unit works with partners world-wide to develop Affimers for evaluation by those third parties with the objective of establishing royalty bearing license deals with a particular focus on the diagnostics sector. The Company is also developing a small in-house pipeline of Affimer-based diagnostic assays for licensing.

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Chairman and Chief Executive Officer's Statement

Business Overview

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First Targeted Chemotherapy Programme to Enter the Clinic in 2020

Summary: 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 tumour targeted chemotherapies to improve the outcome for cancer patients. In the near term the Group has identified an opportunity to use this intellectual property to dramatically reduce the side effects of chemotherapy, whilst maintaining its effectiveness, and will test that in humans in 2020 creating a major licensing opportunity.

The Company's long term strategy is to bring together Affimer immunotherapies with targeted chemotherapies to develop superior cancer treatments with better patient outcomes. In the near term, the tumour targeting chemistry developed at Tufts provides the Company with an opportunity to advance a potentially highly valuable asset into the clinic within the next twelve months. This is a form of a standard chemotherapy expected to have dramatically reduced safety issues but with the same efficacy.

When the tumour targeting chemistry (the "FAP substrate") is attached to a chemotherapy drug it prevents the drug from entering cells, both cancer and healthy cells, and therefore renders the

chemotherapy inactive and harmless. The FAP substrate is removed by an enzyme that is in high concentration in tumours allowing it to enter and kill cancer cells in the tumour. This enzyme is in very low concentration in healthy tissue; thus, the chemotherapy is activated predominantly in the tumour, reducing the exposure of healthy tissues to the activated drug and therefore reducing side effects caused by the damage to healthy tissues. This improvement in the safety profile of efficacious cancer drugs creates a huge opportunity for the Company through licensing and, the longer term, through combinations with Affimer immunotherapies as planned.

The FAP substrate can be applied to a wide range of chemotherapies to improve their safety profile but initially the Company is focusing on Doxorubicin which has been the standard-of-care for over 40 years for patients with advanced soft tissue sarcoma such as breast cancer. Patients are taken off treatment with Doxorubicin due to irreversible heart damage once the cumulative dose reaches a certain level, even if they are experiencing clinical benefit in terms of their cancer. This is because standard Doxorubicin is not targeted to the cancer and therefore the exposure of healthy tissue such as the heart to the drug is the same as the exposure of the tumour. As a result, patients cannot be dosed for long enough to achieve a better median progression free survival than approximately 6 months, with median overall survival of 12-15 months. This severe cardiotoxicity limits the size of the Doxorubicin market, but it is still a $1bn drug[1].

In the collaboration with Professor Bachovchin at Tufts Avacta has compared the safety and efficacy of standard Doxorubicin and a novel, proprietary form of Doxorubicin targeted to the tumour using the FAP substrate called pro-Doxorubicin (AVA6000). In mice, standard Doxorubicin is distributed between the tumour and heart with a 1:1 ratio causing the dose limiting sever cardiotoxicity seen in humans. However, the pro-Doxorubicin has been shown to target the active Doxorubicin to the tumour by a factor 18:1 compared with the heart. This results in 100% survival at 60 days of the animals in a xenograft cancer model treated with pro-Doxorubicin compared with 0% survival of the animals treated with standard Doxorubicin.

Avacta plans to complete IND enabling studies and file regulatory applications at the end of Q1 2020 to allow dosing of first patients with pro-Doxorubicin in Q2. This study will be a dose escalation study with up to 15 patients with soft tissue sarcoma at sites in Europe and North America. Initial data are expected in Q3/4 2020. If these data in humans demonstrate significantly reduced cardio-toxicity allowing patients to be dosed for longer than with standard Doxorubicin then better overall survival is anticipated and a huge commercial opportunity is created. The Company aims to license pro-Doxorubicin as soon as possible following positive phase I data to generate substantial non-dilutive funding for its other programmes. Since the FAP chemistry can be applied to a wide range of chemotherapies to improve their safety, demonstrating an improvement in the safety profile of Doxorubicin in the planned phase I study will also open up a tremendous commercial opportunity to partner a pipeline of improved safety profile chemotherapies.

The Company will prioritise the use of proceeds of the placing announced today to complete this phase I clinical trial as it is expected to deliver a transformational value inflection point. Significant non-dilutive funding from licensing the pro-Doxorubicin drug could include tens of millions of dollars in upfront payments.

Progress of the Affimer Platform Towards First-Time-in-Human Studies

1 https://www.grandviewresearch.com/press-release/global-doxorubicin-market

Summary: At the end of the reporting period the Group remained on track to enter the clinic for first-time-in-human trials of the Affimer platform and has been working with partners to generate clinical grade material for a regulatory submission in Q4 2020.

The focus of Avacta's therapeutic programme is in immuno-oncology and in order to generate key first-time-in-human data for the Affimer platform as quickly as possible to de-risk the platform from the perspective of potential partners the Group has selected an inhibitor of PD-L1, arguably the most well understood of the immune checkpoints, as the lead programme.

The Group's objective has been to file an regulatory application for a phase I dose escalation study in Q4 2020. In order to achieve this goal, the Group has initiated cell line development with a view to committing to GMP manufacturing development of its candidate PD-L1 antagonist (AVA004-251) late in 2019. This would provide clinical grade material for toxicology and other studies to be completed in 2020 leading to a regulatory filing in late 2020. Excellent progress has been made with cell line development which is now almost completed.

As described above, the Company will prioritise the use of proceeds from the placing announced today to deliver the phase I data for pro-Doxorubicin because of the transformational potential of this clinical trial and a subsequent license deal. The cell line development for AVA004-251 will be completed shortly and then the Company will pause the commitment to the next stage of GMP manufacturing of AVA004-251, which will cost £5m, and the subsequent IND enabling studies. The progression of the Affimer platform into the clinic will continue with LG Chem and the Company's other partners who fully fund those programmes.

Building a Pipeline of Valuable Chemotherapy/Immunotherapy Drug Assets

Summary: The combination of the Company's immunotherapies/chemotherapies is designed to provide a benefit to those patients who do not experience a durable response to existing immunotherapies. It is the combination of these two proprietary platforms that creates a clearly differentiated and highly valuable clinical 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 FAP targeted chemotherapies to develop superior combination 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 FAP substrate is incorporated into the linker that joins the chemotherapy and the Affimer immunotherapy into a single drug molecule.

Co-administered Combination Therapies

Progress in the development of the AVA6000 pro-Doxorubicin and AVA004-251 PD-L1 Affimer antagonist has been outlined above. The Company aims to progress these two programmes in parallel to provide the opportunity in future to conduct a clinical trial of the combination therapy which has the potential to outperform those clinical studies currently being carried out by a number of pharmaceutical companies such as AstraZeneca, Merck and Pfizer combining monoclonal antibody inhibitors of the PD-1/PD-L1 pathway with standard Doxorubicin.

Drug Conjugates

The FAP substrate can also be incorporated into a chemical linker joining an Affimer immunotherapy with a chemotherapy to create a single drug molecule that can be delivered to

the patient in a single infusion. The linker is cut in the tumour microenvironment by the enzyme, in the same manner as described above, releasing and activating the chemotherapy in the tumour alongside the Affimer immunotherapy. By selecting the chemotherapy to have a mechanism of action that stimulates and recruits the immune system to the tumour, the Affimer checkpoint blockade provides synergistic support for this immune response. This *tumour microenvironment activated* approach is novel compared with standard drug conjugates and the Company has made a joint patent application with Tufts University Medical School to protect the concept.

The first of Avacta's tumour microenvironment activated drug conjugates (TMACs) combines an Affimer PD-L1 inhibitor with a powerful chemotherapy called I-DASH (Talabostat Mesylate) that kills macrophage in the tumour microenvironment leading to a significant inflammatory event that attracts the immune system to the tumour. The immune response is then supported by the presence of the Affimer PD-L1 blockade.

The Company is collaborating with Professor Bachovchin, and is on track, to generate efficacy data in animal models for the first TMAC molecule (AVA004-100) by the end of 2019. Currently Tufts is developing the appropriate mouse models that contain the enzyme required to release the chemotherapy from the TMAC to allow this efficacy study to be carried out.

Initial efficacy data in mice has been generated by co-administration (two separate molecules) of the lead Affimer PD-L1 candidate with AVA100 as two separate drugs as an intermediate step towards generating these data with a single drug molecule TMAC. These data show that the PD-L1 Affimer performs as effectively as Atezolizumab, a marketed PD-L1 antibody, and also show a synergistic effect of the combination of PD-L1 blockade with AVA100. Some animals are showing regression of the tumours and an immunity to being challenged with the same tumour 60 days later.

The Group believes that the FAP substrate and Affimer platforms allow a range of proprietary immune checkpoint mono- and bi-specific therapies to be combined with powerful and safer chemotherapy drugs. This provides the potential to develop an extensive, highly differentiated and valuable drug pipeline in the years ahead.

Drug Development Collaborations

Summary: The Group has recently reported substantial commercial progress with regards drug development collaborations. Avacta agreed a therapeutics partnership and licensing deal with LG Chem Life Sciences (LG Chem) *potentially worth over $300m and Moderna, with whom Avacta has been collaborating on several programmes, exercised its option to an exclusive commercial license. Post period end the Company announced a collaboration with ADC Therapeutics to develop Affimer-drug conjugates. The Company is continuing its extensive business development activities to generate further such fully funded partnerships and license deals in the near future.*

In Q4 2018 the Group announced that it had agreed an Affimer therapeutics development partnership and license agreement with LG Chem, part of the South Korean LG Group.

This multi-target therapeutics development agreement provides an upfront payment of $2.5m and near-term milestone payments of up to a further $5.5m, plus longer-term clinical development milestones totalling $180m. Avacta will also receive royalties on any future product sales and LG Chem will cover the Group's costs of research and development associated with the collaboration. Avacta may receive an additional $130m in option fees and milestone payments should LG Chem elect to exercise their options for additional targets.

Avacta is generating and carrying out early-stage optimisation of Affimer drug candidates against undisclosed targets in oncology and inflammatory disease. For reasons of confidentiality it is not possible to provide detailed information about the LG Chem collaboration but the Company is able to report that excellent progress has been made with the first target that LG Chem nominated. In addition, the two parties are advanced in their discussions and planning to commence work on a second target. LG Chem will be responsible for pre-clinical and regulatory studies, clinical development and world-wide marketing of any resulting products. LG Chem has stated that it aims to make the first regulatory filing for an Affimer therapeutic in 2021.

Moderna Therapeutics (NASDAQ: MRNA) exercised its option to enter into an exclusive licensing agreement with respect to certain Affimers against a potential therapeutic target that has been part of an ongoing research collaboration between the two companies.

In 2015, Avacta and Moderna entered into a collaboration, license and option agreement under which Moderna was granted exclusive access to Avacta's Affimer technology for certain collaboration targets and the option to enter into exclusive license agreements on pre-agreed terms to further research, develop and commercialise Affimers selected by Moderna. Under the terms of the agreement Avacta may receive undisclosed payments upon future clinical development milestones and royalties in connection with future product sales.

The Group recently announced that it had entered a collaboration and option agreement with ADC Therapeutics SA (Lausanne, CH), a clinical-stage oncology-focused biotechnology company pioneering the development of highly potent and targeted antibody-drug conjugates for patients suffering from haematological malignancies and solid tumors. The agreement is to develop Affimer-drug conjugates combining Avacta's Affimer technology with ADC Therapeutics' pyrrolobenzodiazepine (PBD)-based warhead and linker technologies.

As part of the multi-target collaboration the Company will generate and optimise Affimer binders against three undisclosed cancer targets and provide these to ADC Therapeutics to target its proprietary cytotoxic warheads (PBDs) to the site of the tumour. ADC Therapeutics will carry out pre-clinical research and development programmes to evaluate each of the Affimer-drug conjugates with a view to generating clinical candidates.

The commercial agreement between the two companies provides ADC Therapeutics with options, on a target by target basis, to obtain exclusive licenses to the Affimer® proteins for clinical development and commercialisation.

Under the terms of the agreement, ADC Therapeutics will cover all Avacta's costs during the collaboration. Upon ADC Therapeutics entering into each of the commercialisation licenses and successfully bringing new Affimer-drug conjugates to market, Avacta will receive option fees, development and commercialization milestones, as well as a single-digit royalty on sales. Further financial details are not disclosed.

Affimer Research and Diagnostic Reagents

Summary: Combined revenue/order intake figure at 31 July 2019 shows strong growth at 130% compared with previous 12 months. The Company agreed a commercial license 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 license agreements and in response to the slower than anticipated licensing deal flow from third party evaluations, the Company last year set out a plan to circumvent the evaluation process and develop a small in-house pipeline of Affimer diagnostic assays ready for licensing and development into products. The Company's

objective of having two assays completed by the end of 2019 will be met. An experienced Commercial Director dedicated to the Affimer reagents and diagnostics business, David Wilson, has been appointed to capitalise on growing commercial traction.

The Affimer technology has significant commercial potential outside therapeutic applications. Good commercial traction has now been established in the reagents/diagnostics business with strongly growing revenue/order intake and an expanding sales pipeline of high quality, global partners. However, license deal flow resulting from technology evaluations has been slower than anticipated and the Company believes that the reagents/diagnostics business unit now requires full time and dedicated commercial leadership at its operating site in Wetherby.

In August 2019, the Company appointed David Wilson, a highly experienced commercial professional in the diagnostics markets, to the role of Commercial Director Reagents/Diagnostics. David brings to Avacta over 25 years international experience in business development, marketing and sales management in the in-vitro diagnostic medical devices industry, having held senior commercial and Board level positions in global corporations, angel and venture capital funded start-ups and a sector specific trade association including a 12 year period at Genzyme Corporation where David led the international sales, marketing and business development functions for the Diagnostics Products division. He is currently a Board member for two early-stage diagnostic businesses developing novel point of care diagnostic testing platforms, and has served on the Executive Committee of the British In Vitro Diagnostics Association (BIVDA). David's role in Avacta mirrors that of Matt Vincent who is VP Business Development and Strategy (Therapeutics). Dr Philippe Cotrel, who joined Avacta Life Sciences in 2016 as Chief Commercial Officer, and who initiated the commercialisation of the Affimer platform in both the therapeutic and diagnostic markets, has been instrumental in evolving this commercial leadership structure. Following a transition period Philippe stepped down from his role in September 2019 to pursue his other business interests.

The reagents business unit is focusing its business development and other resources on:

- Paid-for evaluations of Affimer technology with a view to longer term, royalty bearing licensing deals for Affimer molecules incorporated into third party products particularly focused on the diagnostics sector;
- Custom Affimer services to generate Affimer molecules that will be used in-house by a third party to support R&D with particular focus on generating anti-idiotypic Affimers for PK measurements in drug development and clinical trials; and
- Development of an in-house pipeline of Affimer diagnostic assays for licensing.

The Company has seven ongoing Affimer evaluations with diagnostic partners including four out of the top ten global diagnostics companies. All of these evaluations have the potential to deliver licensing deals. The licensing deal with New England Biolabs (NEB®), that was announced in Q4 2018, arose directly out of a paid for technology evaluation in this way. The evaluation with NEB took over two years to complete and the Company is experiencing similar timescales with other partners in the pipeline. In order to circumvent this long evaluation process, the Company announced in 2018 that it would also develop a small number of Affimer diagnostics assays.

The Company believes that, by developing the working assays itself, it will be able to progress to commercial license deals more quickly than through the process of third party evaluations in which the partner develops the assay. The target of having two assays completed by the end of 2019 will be met with the two assays being:

- A D-dimer assay -
    - D-dimer is a cardiac marker for embolism.

    - D-dimer market expected to reach $2.8bn by 2025[2]. Growth is driven by rising incidences of deep vein thrombosis and pulmonary embolisms. Asia-pacific market has significant opportunity for growth.
    - Current tests lack specificity and are not suitable for point-of-care.
    - Avacta's objectives are to develop a D-dimer assay with superior specificity that could be used in point-of-care devices.
- An estradiol assay -
    - A hormone predominantly used to monitor women's health particularly during fertility treatment.
    - Estradiol is a significant part of the larger endocrine testing market worth $7bn in 2016 and growing at 8% CAGR through to 2024[3].
    - Current tests lack sensitivity and dynamic range and are 'negative read' tests which are not ideal.
    - Avacta's objectives are to develop an estradiol assay with better sensitivity and dynamic range and function as a 'positive read' test.

A growing short term revenue stream is being generated from custom Affimer services to generate bespoke Affimer binders for third parties to use in R&D applications. One example of such an application that has generated significant interest is the measurement of the level of a drug in serum samples to support clinical development programmes, so called *pharmacokinetic* (PK) analysis. Reagents that can be used for PK analysis are called anti-idiotypic binders and the Company has demonstrated that it can quickly, with a very high success rate, generate anti-idiotypic Affimers that outperform the market leading anti-idiotypic antibodies.

Since running a marketing campaign to launch this service last year the Company now has multiple custom anti-idiotypic Affimer services projects completed and ongoing with large pharma and biotechs. Each project is worth approximately £40k revenue and, in principle, every monoclonal antibody drug in development, of which there are thousands, requires a reagent for PK measurements. Therefore, as the Company builds its reputation for rapidly supplying these critical reagents it anticipates that it can grow a substantial recurring revenue stream of several millions of pounds.

Avacta Animal Health

Summary: Before the acquisition of the Affimer technology IP in 2012 and subsequent focusing of the Group's investments in this area, the Group comprised two other businesses; Avacta Analytical which was sold to US buyers in 2015 and Avacta Animal Health which remains part of the Group.

Avacta Animal Health provides specialised laboratory services to veterinary professionals worldwide. Trading over the twelve month period has been broadly consistent with last year.

We continue to strengthen our position providing veterinary testing services, contract research services and sales of laboratory testing kits. This provides the platform for growth in the next twelve months. To support our strategy, we are updating our online presence and digital strategy, alongside acceleration of our R&D projects to support both UK and International growth.

Financial Overview

[2] https://www.prnewswire.com/news-releases/global-d-dimer-testing-market-to-reach-over-us-28-billion-by-2025-observes-transparency-market-research-677083563.html

[3] https://www.grandviewresearch.com/industry-analysis/endocrine-testing-market

On 18 January 2019 it was announced that the accounting reference date of the Group had been changed from 31 July to 31 December. Therefore, these interim results are presented for the 12 month period ended 31 July 2019, with comparatives shown for the audited year ended 31 July 2018.

Revenue for the 12 months ended 31 July 2019 was £4.12millionn (2018: £2.76 million).

Revenue contribution from the Group's Affimer business, Avacta Life Sciences, increased to £2.60 million (2018: £1.19 million) whilst revenues from Avacta Animal Health, the allergy and diagnostic testing business, decreased marginally to £1.53 million (2018: £1.57 million). The increase in the Affimer revenues is due to the recognition of the initial up-front payment of $2.5 million (gross) in December 2018. The associated revenue was previously being spread over the three-year term of the development programme however, after a detailed analysis of the relevant contracts, it has been concluded that under the new revenue standard IFRS 15 recognition up-front is more appropriate. Also contributing to the change in Avacta Life Sciences revenue is a planned reduction in funded research services income following the successful transition of Affimer targets into Moderna's internal development team, whilst the funded research services income associated with the new LG Chem development programme commenced in February 2019 and contributed in the second half of the year.

Research and development costs from the expanding Affimer therapeutics programme, which are expensed through the income statement, increased to £4.20 million (2018: £2.64 million), as the Company continues to invest in the Affimer therapeutics programme.

Administration costs, which include costs associated with business development, operational delivery, administration, facilities, depreciation and share-based payment charges have decreased marginally to £8.47 million (2018: £8.52 million).

The Group's operating loss increased to £11.18 million (2018: £10.43 million) and the reported loss after taxation increased to £9.68 million (2018: £8.83 million).

The basic loss per share reduced to 8.76p (2018: 13.49p) due to the increase in the number of shares in issue following the completion of the fund raise in August 2018 when £11.6 million (gross) was raised and a further 46,472,724 ordinary shares were issued.

The Group capitalised £1.44 million (2018: £1.94 million) of development costs, primarily relating to the Affimer reagents and diagnostics development programmes. These development costs are recognised within the total intangible asset value of £12.53 million (31 July 2018: £12.20 million).

There was a cash outflow from operations of £7.62 million (2018: £5.47 million) and an outflow from investing activities of £2.01 million on capital expenditure and capitalised development costs (2018: inflow £1.48 million). Net proceeds from the issue of shares amounted to £10.92 million (2018: £0.05 million). The Group ended the period with £6.51 million net cash (31 July 2018: £5.22 million).

Outlook

The Group has reported strong growth in Affimer® reagents revenue and order intake over the reporting period. This has been driven by the growing reputation of the Affimer technology particularly in the diagnostics and pharmaceutical sectors; two markets where we will be focusing our resources going forwards. We have numerous evaluation projects ongoing with large diagnostics partners, each of which could lead to a lucrative license deal. In order to reduce the time it is taking to reach the point of signing license deals, we are close to completing the first two

in-house Affimer diagnostic assays, as we set out last year. Building a profitable Affimer reagents business remains a very high priority for the Group.

The Group announced the selection of a clinical candidate for the lead Affimer programmes, AVA004 PD-L1 antagonist in Q2 2019. This was a major development milestone and allowed the Company to initiate the first stage of manufacturing clinical grade material on schedule for planned regulatory submission at the end of 2020. This first stage of manufacturing, called cell line development, has gone very well and is nearing completion.

The collaboration and license deal established with Professor Bill Bachovchin of Tufts University Medical School is progressing very well. We remain on track to generate the first animal efficacy data for a TMAC Affimer drug conjugate by the end of 2020 and the opportunity to test the tumour targeting chemistry in the clinic with AVA6000 pro-Doxorubicin in the middle of 2020, well ahead of schedule, is very exciting. Standard Doxorubicin is a $1bn drug despite severe cardiotoxicity issues that limits its effectiveness. In the case of Avacta's AVA6000 pro-Doxorubicin we have seen a dramatic improvement in safety in pre-clinical animal studies. If we see a similar reduction in cardiotoxicity in humans then we believe that there is the potential for a major license deal generating transformational non-dilutive funding that could support all our other programmes and create a major value inflection point for the Company during 2020. For this reason we are prioritising this programme with respect to use of the proceeds of today's successful placing and will pause the GMP manufacturing of AVA004-251 as this could be fully funded with the proceeds of a licensing deal for AVA6000 pro-Doxorubicin.

We look forward with great excitement to the transition into a clinical stage biotech and to positive commercial progress in the Affimer reagents business in the coming twelve months.

Dr Eliot Forster
Chairman
18 October 2019

Dr Alastair Smith
Chief Executive Officer
18 October 2019

Condensed consolidated income statement for the 12 months ended 31 July 2019

	Unaudited 12 months ended 31 July 2019 £000	Audited Year ended 31 July 2018 £000
Revenue	**4,123**	2,763
Cost of sales	**(905)**	(893)
Gross profit	**3,218**	1,870
Research and development costs	**(5,936)**	(3,783)
Administrative expenses	**(8,465)**	(8,518)
Operating loss	**(11,183)**	(10,431)
Finance income	**51**	41
Loss before taxation	**(11,132)**	(10,390)
Taxation	**1,449**	1,561
Loss and total comprehensive loss for the period attributable to equity shareholders	**(9,683)**	(8,829)
Loss per ordinary share:		
Basic and diluted	**(8.76p)**	(13.49p)

All activities relate to the continuing operations of the Group.

Condensed consolidated balance sheet as at 31 July 2019

	Unaudited As at 31 July 2019 £000	Audited As at 31 July 2018 £000
Non-current assets		
Intangible assets	**12,531**	12,204
Property, plant & equipment	**2,638**	3,054
	15,169	15,258
Current assets		
Inventories	**181**	187
Trade and other receivables	**2,356**	1,288
Income taxes	**1,512**	1,500
Cash and cash equivalents	**6,507**	5,220
	10,556	8,195
Total assets	**25,725**	23,453
Current liabilities		
Trade and other payables	**(2,289)**	(2,040)
Total liabilities	**(2,289)**	(2,040)
Net assets	**23,436**	21,413
Equity attributable to equity holders of the Company		
Share capital	**11,693**	6,976
Share premium	**7,448**	770
Capital reserve	**1,899**	1,899
Other reserve	**(1,729)**	(1,729)
Reserve for own shares	**(2,932)**	(2,802)
Retained earnings	**7,057**	16,299
Total equity	**23,436**	21,413

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

Approved by the Board and authorised for issue on 18 October 2019.

Dr Alastair Smith — **Chief Executive Officer**

Tony Gardiner — **Chief Financial Officer**

Condensed consolidated statement of changes in equity as at 31 July 2019

	Unaudited Share Capital	Unaudited Share premium	Unaudited Other reserve	Unaudited Capital reserve	Unaudited Reserve for own shares	Unaudited Retained earnings	**Unaudited Total Equity**
	£000	£000	£000	£000	£000	£000	**£000**
At 1 August 2017	**6,917**	**633**	**(1,729)**	**1,899**	**(2,651)**	**24,820**	**29,889**
Issue of shares	2	9	-	-	-	-	**11**
Exercise of options	34	-	-	-	-	-	**34**
Own shares acquired	23	128	-	-	(151)	-	**-**
Total comprehensive loss for the period	-	-	-	-	-	(8,829)	**(8.829)**
Share based payment charges	-	-	-	-	-	308	**308**
At 31 July 2018	**6,976**	**770**	**(1,729)**	**1,899**	**(2,802)**	**16,299**	**21,413**
Issue of shares	4,647	6,245	-	-	-	-	**10,892**
Exercise of options	33	341	-	-		-	**374**
Own shares acquired	37	92	-	-	(129)	-	**-**
Total comprehensive loss for the period	-	-	-	-	-	(9,683)	**(9,683)**
Share based payment charges	-	-	-	-	-	440	**440**
At 31 July 2019	**11,693**	**7,448**	**(1,729)**	**1,899**	**(2,932)**	**7,056**	**23,436**

Condensed consolidated statement of cash flows for the 12 months ended 31 July 2019

	Unaudited 12 months ended 31 July 2019 £000	Audited Year ended 31 July 2018 £000
Cash flow from operating activities		
Loss for the period	**(9,683)**	(8,829)
Amortisation	**1,128**	1,885
Depreciation	**974**	971
Loss on disposal of property, plant and equipment	**0**	6
Loss on disposal of intangible assets	**0**	155
Equity settled share-based payment charges	**440**	308
Financial income	**(51)**	(41)
Income tax credit	**(1,449)**	(1,561)
Operating cash outflow before changes in working capital	**(8,641)**	(7,106)
Movement in inventories	**6**	(29)
Movement in trade and other receivables	**(1,265)**	(11)
Movement in trade and other payables	**591**	376
Operating cash outflow from operations	**(9,309)**	(6,770)
Finance income received	**51**	41
Income tax received	**1,634**	1,261
Cash flows from operating activities	**(7,624)**	(5,468)
Cash flows from investing activities		
Purchase of plant and equipment	**(571)**	(578)
Development expenditure capitalised	**(1,442)**	(1,945)
Decrease in balances on short-term deposit	**0**	4,000
Net cash flow from investing activities	**(2,013)**	1,477
Cash flows from financing activities		
Proceeds from issue of new shares	**10,924**	45
Net cash flow from financing activities	**10,924**	45
Net increase/(decrease) in cash and cash equivalents	**1,287**	(3,946)
Cash and cash equivalents at the beginning of the period	**5,220**	9,166
Cash and cash equivalents at the end of the period	**6,507**	5,220

Notes to the condensed financial statements (unaudited) for the 12 months ended 31 July 2019

1) Basis of preparation

Avacta Group plc ('the Company') is a company incorporated in England and Wales under the Companies Act 2006. These condensed consolidated interim financial statements ('interim financial statements') as at and for the 12 months ended 31 July 2019 comprise the Company and its subsidiaries (together referred to as 'the Group').

The interim financial statements for the 12 months ended 31 July 2019 are unaudited. This information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The financial figures for the year ended 31 July 2018, as set out in this report, do not constitute statutory accounts but are derived from the statutory accounts for that financial year. The statutory accounts for the year ended 31 July 2018 were prepared under IFRS and have been delivered to the Registrar of Companies. The auditors reported on those accounts. Their report was unqualified, did not draw attention to any matters by way of emphasis and did not include a statement under Section 498 of the Companies Act 2006.

The Board confirms that, to the best of its knowledge, these condensed financial statements have been prepared in accordance with IAS34 *Interim Financial Reporting* and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 July 2018 ('last annual financial statements'). They do not include all of the financial information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The Board approved these interim financial statements for issue on 18 October 2019.

2) Use of judgements and estimates

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

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

On 29 Mach 2017, the UK government invoked Article 50 of the *Treaty of Lisbon*, notifying the European Council of its intention to withdraw from the EU. At this stage, there is significant uncertainty about the withdrawal process, its timeframe and the outcome of the negotiations about the future arrangements between the UK and EU.

Management applied its judgement in determining the impact of the uncertainty on carrying amounts of assets and liabilities in these interim financial statements. As a result of this assessment, the Group has not identified any impairment triggers as of 31 July 2019.

3) Significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 July 2018.

The Group has initially adopted IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial Instruments* from 1 August 2018 but they do not have a material impact on the Group's interim financial statements.

4) Segmental reporting

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

All revenues have been generated from continuing operations and are from external customers. The Group's revenue to destinations outside the UK amounted to 72% (year to 31 July 2018: 60%).

The central overheads, which primarily relate to the operation of the Group function are not allocated to the operating segments.

	Unaudited 12 months ended 31 July 2019 £000	Audited Year ended 31 July 2018 £000
Revenue		
Life Sciences	**2,596**	1,194
Animal Health	**1,527**	1,569
	4,123	2,763
Operating loss		
• Life Sciences	**(8,416)**	(7,144)
• Animal Health	**(630)**	(678)
• Corporate and other unallocated items	**(2,137)**	(2,609)
Operating loss	**(11,183)**	**(10,431)**
Finance income	**51**	41
Loss before taxation	**(11,132)**	**(10,390)**
Taxation	**1,449**	1,561
Loss for the period attributable to equity shareholders	**(9,683)**	**(8,829)**
Operating net assets		
Life Sciences	**14,336**	13,139
Animal Health	**3,384**	3,385
Corporate and other unallocated items	**5,716**	4,889
Net assets	**23,436**	**21,413**

5) Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers. As set out in Note 3, there was no material impact of initially applying IFRS 15 on the Group's interim financial statements.

A. Disaggregation of revenue

In the following table, revenue is disaggregated by both its nature and the timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 4).

	Life Sciences		Animal Health		Total	
	Unaudited 12 months ended 31 July 2019 £000	Year ended 31 July 2018 £000	**Unaudited 12 months ended 31 July 2019 £000**	Year ended 31 July 2018 £000	**Unaudited 12 months ended 31 July 2019 £000**	Year ended 31 July 2018 £000
Nature of revenue						
Sale of goods		-	**787**	825	**787**	825
Provision of services	**635**	1,194	**740**	744	**1,375**	1,938
Licence related income	**1,961**	-	**-**	-	**1,961**	-
	2,596	1,194	**1,527**	1,569	**4,123**	2,763
Timing of revenue recognition						
Products or services transferred at a point in time	**2,214**	862	**1,429**	1,548	**3,740**	2,431
Products or services transferred over time	**382**	332	**98**	21	**382**	332
	2,596	1,194	**1,527**	1,569	**4,123**	2,763

B. Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	31 July 2019 £'000	1 August 2018 £'000
Receivables	**383**	304
Contract assets	**149**	66
Contract liabilities	**(197)**	(82)

The contract assets primarily relate to the Group's rights to consideration for work completed but not invoiced at the reporting date. The contract assets are transferred to receivables when the rights become unconditional, this usually occurs when the Group issues an invoice to the customer. The contract liabilities primarily relate to the advance consideration received from customers.

The full amount of £66,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the 12 months ended 31 July 2019.

6) Earnings per share

	Unaudited 12 months ended 31 July 2019	Audited Year ended 31 July 2018
Weighted number of Ordinary shares in issue	**110,480,239**	65,437,007
Loss for the period (£000)	**(9,683)**	(8,829)
Loss per Ordinary share:		
Basic and diluted (p)	**(8.76)**	(13.49)

7) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted, however, at this point the Group has not early adopted them in preparing these condensed consolidated interim financial statements.

The Group has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces existing lease guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease*.

The standard is effective for annual periods beginning on or after January 2019. Early adoption is permitted.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2020, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

Thus far, the most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases of office and laboratory facilities. As at 31 July 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to £950,000 on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2020, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2020, with no restatement of comparative information.

When applying a modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.