MIDATECH PHARMA

A Year of Major Progress

Annual Report and Accounts 2015

What we do

Midatech is an international specialty pharmaceutical group of companies focused on the development and commercialisation of multiple, high-value, targeted therapies for major diseases with unmet medical need.

Our business model and strategy, based on four key components, intends to build long-term, profitable growth and sustainable shareholder value.

Contents

Why we do it

To profitably use our nanomedicine and sustained release technology platforms to improve patients' lives and, in doing so, deliver and create value for all our stakeholders.

Orphan Oncology

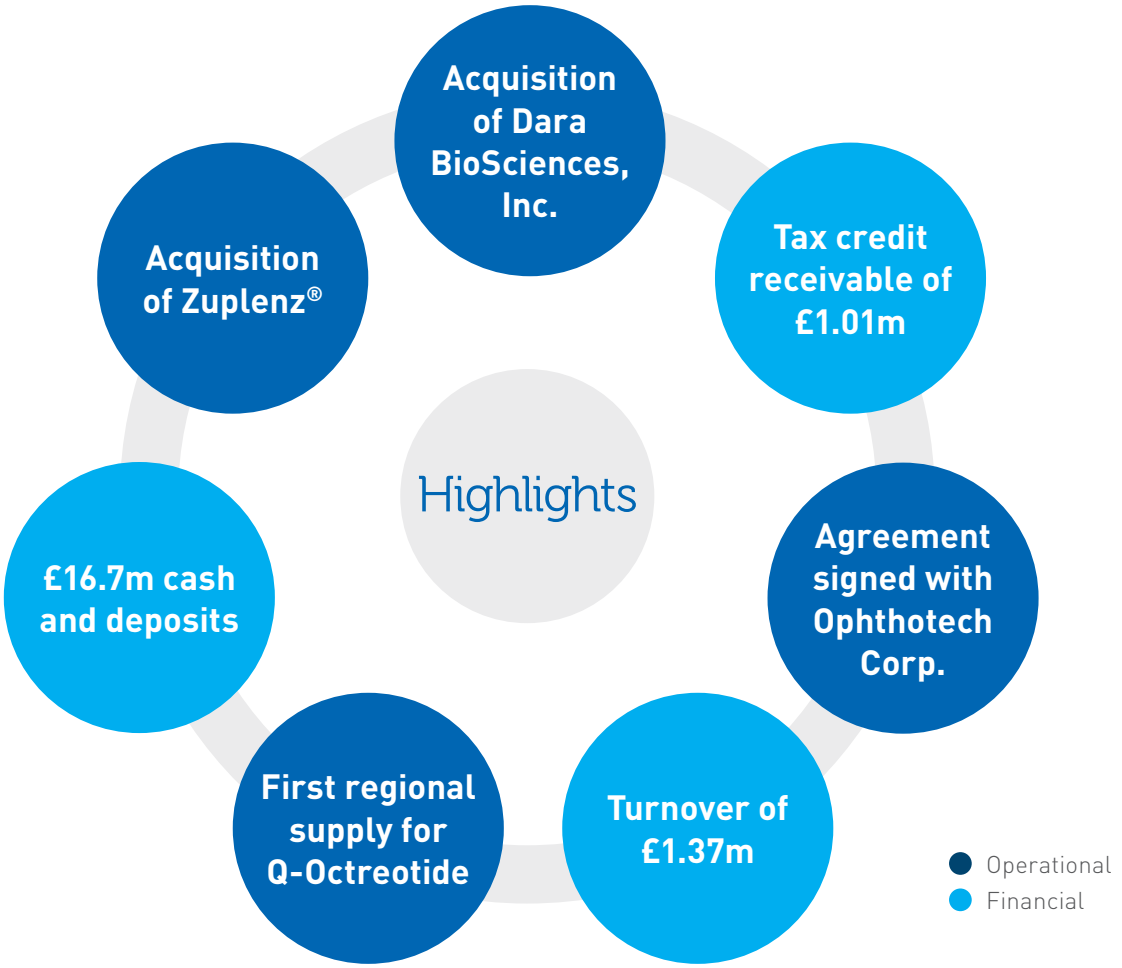
Midatech is developing improved forms of cancer therapy for orphan and rare indications using its platform technologies that will reduce side effects and increase efficacy.

Other Areas

ENDOCRINOLOGY

NEUROSCIENCE

Highlights


Acquisition of Dara BioSciences, Inc.
Tax credit receivable of £1.01m
Agreement signed with Ophthotech Corp.
Turnover of £1.37m
First regional supply for Q-Octreotide
£16.7m cash and deposits
Acquisition of Zuplenz®
Highlights
Operational
Financial

OPERATIONAL HIGHLIGHTS

including post period end highlights

- Acquisition of DARA BioSciences, Inc., an oncology supportive care pharmaceutical company, bringing an attractive portfolio of cancer supportive care products and an established commercial platform in the US market with a field sales organisation – December 2015
- Acquisition of marketed oncology product, Zuplenz® (ondansetron), a marketed anti-emetic oral soluble film for the prevention of post-operative, chemotherapy and radiation-induced nausea and vomiting – December 2015 with full launch by Midatech in April 2016
- First regional supply agreement for Q-Octreotide signed with Centurion Pharma, a Turkish company focused on the development and commercialisation of specialty products for the Turkish market – December 2015
- Agreement signed with Ophthotech Corporation, to explore the feasibility of using Midatech's Q Sphera microencapsulation technology for sustained delivery formulations of select Ophthotech products for the treatment of wet Age-related Macular Degeneration and other ocular indications – August 2015
- Commencement of a Phase IIa open label, cross-over, seven arm study of Midatech's Insulin Buccal Soluble Film (MSL-001) for type 1 diabetes mellitus – July 2015 (treatment phase completed in January 2016)

FINANCIAL HIGHLIGHTS

- Total revenue for the year up 763% to £1.38m (2014: £0.16m, 2013: £0.15m)
- £16.18m cash and deposits at 31 December 2015 (2014: £30.33m, 2013: £2.39m)
- Net loss after tax of £10.10m (2014: £8.82m, 2013: £4.08m) with net cash outflow in the year of £14.17m (2014: £27.94m inflow, 2013: £2.25m inflow)
- Tax credit receivable of £1.20m (2014: £0.84m, 2013: £0.80m)

About Midatech

Midatech is an international specialty pharmaceutical group of companies ("Midatech" or the "Group") focused on the development and commercialisation of multiple, high-value, targeted therapies for major diseases with unmet medical need.

Midatech is commercialising oncology treatment and supportive care products through its US commercial organisation, Midatech Pharma US ("Midatech Pharma US") (formerly DARA BioSciences, Inc.). In Europe, Midatech is advancing a pipeline of novel clinical and pre-clinical product candidates based on its proprietary drug conjugate and sustained release delivery platforms with a clear focus on the key therapeutic areas of cancer, endocrine disorders such as diabetes, and immunotherapy for autoimmune diseases.

Midatech's strategy is to expand its US commercial arm as well as develop its products in-house in rare cancers and with partners in other indications, and to accelerate growth of its business through strategic acquisition of complementary products and technologies.

The Group's two platform technologies are designed to enable targeted delivery and sustained release of existing therapeutic drugs to the "right place" at the "right time". The Group is not engaged in the discovery of new drug compounds and hence does not carry the same risk usually associated with the development of new pharmaceuticals.

Midatech's core technology platform is based on a patented form of gold nanoparticles ("GNPs"), which has been developed to improve key parameters of existing and new drugs. GNPs target individual cell types with specific targeting agents and deliver a therapeutic payload into the cell, while ensuring this can be achieved safely. Midatech believes that GNP technology represents the latest generation of nanomedicine and is a fast growing sector within the nanomedicine market with demonstrated safety in the clinic to date.

Midatech's secondary platform of sustained release technology involves the consistent and precise encapsulation of active drug compounds within polymer microspheres. The microspheres are designed to release the active drug compound into the body in a highly controlled manner over a prolonged period of time, from a number of weeks to three months and potentially longer. Midatech believes that sustained release technology provides the added capacity to sustain the optimal range of drug concentrations, which has wide medical applicability with diverse pharmaceutically active molecules.

Midatech is collaborating with a number of universities, and specialty and major pharmaceutical companies to develop its platform technologies into a broad number of products in order to achieve a range of potential revenue opportunities within priority therapeutic areas. Collaboration partners include several pharmaceutical and biotechnology companies and the Dana-Faber Cancer Institute (an affiliate of Harvard Medical School). Furthermore, Midatech has a joint venture with MonoSol to develop and commercialise transbuccal delivery, which means the delivery administered through the cheek, of insulin for diabetic patients using insulin conjugated GNPs formulated into dissolvable, oral film strips.

The Group has developed a strong intellectual property base and has a wide IP portfolio of 150 granted patents, 92 applications in process and 34 patent families covering a range of technologies.

Acquisition of DARA BioSciences

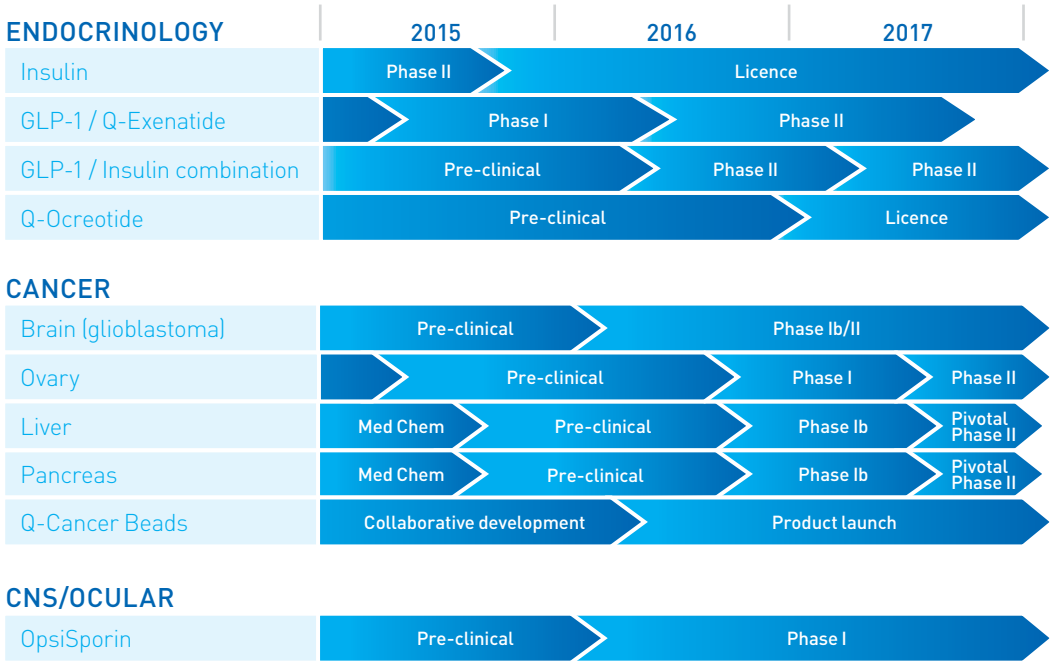
On 4 December 2015, Midatech completed the acquisition of DARA BioSciences Inc., now Midatech Pharma US, a specialty pharmaceutical company primarily focused on the commercialisation of oncology treatment and supportive care pharmaceutical products. The acquisition of Midatech Pharma US provides the Group with a commercial arm in the United States, with access to a portfolio of products and a revenue stream in Midatech's

targeted therapeutic area of oncology. Midatech Pharma US holds exclusive US marketing rights to Soltamox® (tamoxifen citrate) oral solution, which has been approved by the US Food and Drug Administration ("FDA") for the prevention and treatment of breast cancer, Gelclair® oral rinse gel, a FDA-cleared oral gel for the treatment of certain approved indications in the United States, including the management of pain due to oral mucositis, and Oravig® (miconazole) which is the first and only orally-dissolving buccal tablet approved for oral thrush. Midatech Pharma US licensed the US rights to Soltamox® from UK-based Rosemont Pharmaceuticals, Ltd, Gelclair® from the Helsinn Group in Switzerland, and Oravig® from Onxeo S.A. in France.

Acquisition of Zuplenz®

On 24 December 2015, following the acquisition of Midatech Pharma US, Midatech acquired certain assets related to Zuplenz® (ondansetron) Oral Soluble Film from Galena Biopharma, Inc. ("Galena"). Zuplenz® is an FDA-approved, marketed anti-emetic oral soluble film used in adult patients for the prevention of highly and moderately emetogenic chemotherapy-induced nausea and vomiting ("CINV"), radiotherapy-induced nausea and vomiting ("RINV"), and post-operative nausea and vomiting ("PONV"). Zuplenz® is also approved in paediatric patients with moderately emetogenic CINV.

Upcoming milestones and newsflow



Chairman's Review

In a little over a year Midatech has completed three acquisitions as well as listing on AIM and on NASDAQ

Midatech has come a long way in the two years that I have worked with the Company. I joined Midatech because I was excited by the potential of its gold nanoparticle technology, but back in early 2014 there was a lot of work to be done. By the end of 2014 the Company had a new management team, a clear, commercially-focussed strategy and, with the acquisition of the former Q Chip business, it had a second platform technology and a number of sustained release pipeline products that were closer to market than Midatech's own. Finally, thanks to a successful IPO and listing on AIM, Midatech went into 2015 with the funds to build on these technologies.

2015 has been no less exciting as the Company has continued to develop rapidly.

US ACQUISITIONS

The main highlight of the year followed the announcement in June that Midatech intended to acquire the US-based pharmaceutical sales organisation DARA BioSciences Inc., which, following completion in December 2015, was renamed Midatech Pharma US Inc. ("MTPUS"). I am a strong supporter of this transaction as it de-risks Midatech and expands the business in a number of directions.

Most obvious is the addition of three cancer supportive care products, Gelclair®, Oravig® and Soltamox® along with an established oncology focussed, sales and marketing capability in the biggest and most profitable pharmaceuticals market in the world. This is an essential part of the commercial development of Midatech as it will provide an established, specialised sales channel for the Company's oncology products currently under development. Subject to regulatory approval, they could reach the market as early as 2018/19. MTPUS adds solid top-line line revenue and good growth potential that management believes will bring forward the Group's monthly profitability.

The MTPUS purchase further enabled us to acquire the anti-nausea product Zuplenz®. This product is highly complementary to MTPUS's existing US product portfolio and is an excellent opportunity to leverage the sales and marketing capabilities of this promising US business.

In tandem with the conclusion of the MTPUS deal, in December Midatech listed its shares on NASDAQ through the issue of American Depositary Receipts ("ADRs"). This dual-listing is another exciting development and, with the fundamental strength of the Midatech business and the wide range of anticipated news flow over the next few months, which is expected to bring the opportunity to open up the US investor base as well as further expand the UK one.

2015 also saw significant progress for both of Midatech's platform technologies; gold nanoparticle nanotechnology, and sustained release microsphere, where we continue to move forward with a broad range of programmes.

In summary, in a little over a year Midatech has completed three acquisitions as well as listing on AIM and on NASDAQ through the issue of ADRs. Furthermore, excellent progress has been made on the development pipeline. Management has demonstrated its ability to execute the Company's strategy as presented during the IPO and I am confident that they will continue to do so over the forthcoming months and years.

On behalf of the Board I should like to thank Midatech's shareholders, the Board, management and staff for their continuing support and I look forward to further successes in 2016 and beyond.

Rolf Stahel
Chairman

ACQUISITION OF ZUPLENZ®

On 24 December 2015, following the acquisition of Midatech Pharma US, Midatech acquired certain assets related to Zuplenz® (ondansetron) Oral Soluble Film from Galena Biopharma, Inc.

Zuplenz® is an FDA-approved, marketed anti-emetic oral soluble film used in adult patients for the prevention of highly and moderately emetogenic chemotherapy-induced nausea and vomiting ("CINV"), radiotherapy-induced nausea and vomiting ("RINV"), and post-operative nausea and vomiting ("PONV"). Zuplenz® is also approved in paediatric patients with moderately emetogenic CINV.

Our Investment Case

Midatech has differentiated its risk as a business through having a balanced mix of fast-growth marketed oncology products, different types of development programmes at different stages of progress and an approach to research that reduces risk.

RAPID PROFITABLE GROWTH TRAJECTORY

Our commercialisation strategy is intended to swiftly build a long-term, profitable and commercially focused enterprise.

With our infrastructure in the US we are focussed on building our commercial business through product acquisitions, such as Zuplenz® in December 2015, and by launching our wholly-owned products, leveraging the capabilities of our own sales force, and thus ensuring the quickest path to those products becoming highly profitable. Core to our business model is to deliver strong revenue growth that allows the organisation to become sustainably profitable in the shortest reasonable time.

NICHE MARKET POTENTIAL

We are advancing a pipeline of product candidates in clinical and pre-clinical development for diseases for which there are currently few or no treatment options available.

Each of our niche cancer therapies, currently in research and development, has revenue potential of well over $100m per year and in some cases much more than this. We have multiple programmes that allow us to defray development risks and thus be in a position to deliver benefits to patients, healthcare professionals and to deliver high growth revenue for the company.

INTELLECTUAL PROPERTY

The Group has developed a strong intellectual property base and has a wide IP portfolio of 150 granted patents, 92 applications in process and 34 patent families covering a range of technologies.

The foundation of our IP is on two core platform technologies, which have allowed multiple patent filings and we continue to strive to protect our future revenues and assets using our technology advantages; delivered by actively managing our patent portfolio and know-how.

Focused

Commercial

BALANCED RISK REWARD PROFILE

Our robust portfolio of collaborations and internal product pipeline positions Midatech for multiple shots on goal.

Midatech has differentiated its risk as a business through having a balanced mix of fast-growth marketed oncology products, different types of development programmes at different stages of progress and an approach to research that reduces risk by using known chemical entities where we improve the way they work as medicines.

AMBITIOUS LEADERSHIP

Significant experience and track record in the pharmaceutical industry creating value out of high growth companies.

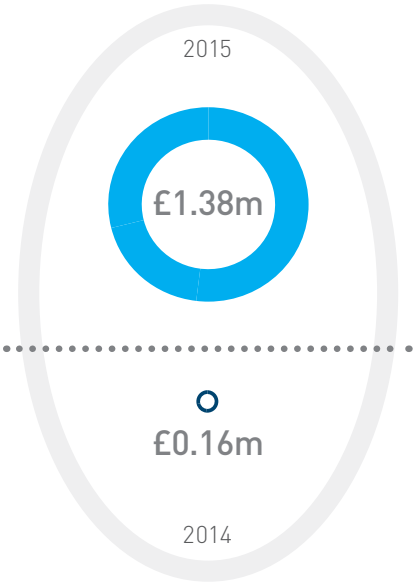
From our Board of Directors Chaired by Rolf Stahel (former CEO of Shire plc) through to the global, senior leadership team (comprised of 11 executives), all of our senior staff have been successful leaders in their area of responsibility and bring their knowledge and experience to bear in order to ensure success at Midatech.

Balanced

Delivering value

Chief Executive's Statement

Midatech has successfully evolved in line with strategy into a revenue generating, US commercial-facing high-growth specialty pharmaceutical business.



Revenues have grown by 763% year-on-year

YEAR IN REVIEW

2015 marked a year of transformational progress in Midatech Pharma plc's delivery against the objectives set around the time of the IPO in 2014, and we are now being recognised as a leading emerging specialty pharma company, globally. In 2015, progress was seen across all areas of the Group and 2016 has already commenced with a strong tailwind both operationally and financially. Our key focus is now moving towards oncology.

Total revenues for 2015 were £1.38m, comfortably above market expectations, and our operating expenses were in line with expectations. During 2015, the business incurred certain non-recurring expenses relating to the two acquisitions, and we ended the year with strong cash reserves of £16.18m. Our negative EBIT, which is fully expected for a company with some development pipeline, was (subject to exceptional items) marginally better than the market view.

PRODUCTS AND PIPELINE

Our M&A strategy delivered two acquisitions in 2015, the first of which, DARA BioSciences Inc. ("DARA"), has given us a commercial platform to launch our own products into the key US market. DARA also brought a portfolio of products that are in commercial launch or market growth phases. After acquiring DARA, we moved swiftly to acquire a complementary product, Zuplenz®, to add to our sales platform. Zuplenz® is a treatment for chemotherapy and radiotherapy induced nausea and vomiting and is highly complementary to DARA's existing cancer supportive care product portfolio. The acquisition cost was approximately one fold historic (un-promoted) sales, with some additional milestone payments that are only triggered once sales exceed our current expectations for the product. We are therefore anticipating accelerating our revenue growth for 2016 and beyond, in line with our original strategic objectives. Midatech's full launch of this product was announced on 11 April 2016.

Our platform technologies continued to deliver new potential products and collaborations in 2015, the most important of which was the collaboration with the US company, Ophthotech, to work on two products it has in development. This ongoing work follows-on from previous collaborations, affirming confidence in our technology's capabilities. Our MidaSol joint venture in diabetes completed a small Phase II trial in type 1 diabetes with the transbuccal insulin strip.

Elsewhere, our in-house programmes all proceeded well, with Q-Octreotide, the closest to market, completing product formulation work, and Q-Opsisporin giving a good response to treatment in pre-clinical testing.

Our work in targeted cancer therapies continued apace and, in Q3 2015, led to the first compassionate use request for a Midatech treatment to be used in a condition called Diffuse Intra Pontine Glioma ("DIPG") one of the rarest brain cancers in children. This programme has brought forward our

ACQUISITION OF DARA BIOSCIENCES

On 4 December 2015, Midatech completed the acquisition of DARA BioSciences Inc., now Midatech Pharma US, a specialty pharmaceutical company primarily focused on the commercialisation of oncology treatment and supportive care pharmaceutical products.

The acquisition of Midatech Pharma US provides the Group with a commercial arm in the United States, with access to a portfolio of products and a revenue stream in Midatech's targeted therapeutic area of oncology. Midatech Pharma US holds exclusive US marketing rights to Soltamox® (tamoxifen citrate) oral solution, which has been approved by the US Food and Drug Administration ("FDA") for the prevention and treatment of breast cancer, Gelclair® oral rinse gel, a FDA-cleared oral gel for the treatment of certain approved indications in the United States, including the management of pain due to oral mucositis, and Oravig® (miconazole) which is the first and only orally-dissolving buccal tablet approved for oral thrush. Midatech Pharma US licensed the US rights to Soltamox® from UK-based Rosemont Pharmaceuticals, Ltd, Gelclair® from the Helsinn Group in Switzerland, and Oravig® from Onxeo S.A. in France.

product development and will lead to patient treatments and possibly a clinical trial in 2016. In March 2016, the University of California, San Francisco, requested use of our treatment and Midatech will continue to manufacture in line with demand.

GROUP GROWTH

At the year-end the Group had 81 employees plus a further 20 dedicated, outsourced sales force across the US, UK and Spain, and we have been fortunate to attract more high quality people to work with us in all departments. This means that in a Group like Midatech, where business execution is the key to success, we are in a great place to be able to deliver continuing growth and positive news throughout 2016 and beyond.

SUMMARY AND OUTLOOK

Midatech has successfully evolved in line with strategy into a revenue generating, US commercial-facing high-growth specialty pharmaceutical business.

In the first three months of 2016 we have seen strong revenues from our marketed products and, as a result, the Group is trading slightly ahead of market expectations. In addition, our clinical and preclinical pipelines are advancing well and showing great promise to patients.

Our supportive shareholders and strong team of international staff make our future very bright as we look forward to continuing to build the business on all fronts throughout 2016 and beyond.

Dr Jim Phillips
Chief Executive Officer
12 April 2016

Our Business Model

The Group is commercialising oncology treatments and supportive care products through its US commercial organisation, Midatech Pharma US. In Europe, the Group is principally engaged in the discovery and development of pharmaceutical products in the fields of nanomedicine and sustained release technology.

Midatech's business model has four components:

OWN PRODUCTS

Development and commercialisation of products is done in-house without engaging partners to support the product. This applies particularly to oncology applications.

ACQUISITIONS

Acquisitions of later stage, strategic opportunities with complementary focused portfolios, such as DARA; or complementary technologies that are synergistic to that of Midatech, accelerate revenue, and are value accretive.

ESTABLISH WORLDWIDE COMMERCIAL ORGANISATION

Build on US commercial infrastructure and establish European commercial organisation upon approval of own product candidates.

PARTNER PRODUCTS

Development and commercialization of Midatech's partner-supported and licensed products, principally in diabetes, ophthalmology and neuroscience.

Midatech also aims to expand its vertical integration by leveraging its integrated manufacturing capabilities.

Key strengths

The Directors believe that Midatech's key strengths include:

Established commercial platform

Established commercial platform and field sales organisation in the US market with an attractive portfolio of cancer supportive care products.

A rich science base

A rich science base having developed two platform technologies with broad application in healthcare that the Directors believe create value from multiple potential revenue opportunities within priority therapeutic areas.

First mover advantage in GNP

First mover advantage in GNPs and highly novel sustained release technology which has enabled the Group to focus on oncology and other therapeutic areas primarily through the use of GNP carriers and sustained release formulations for existing medications.

A strong intellectual property base

A strong intellectual property base comprising patents, "know-how" and trade secrets, to maximise innovation, protection and commercial success. The Group has an IP portfolio of 150 granted patents, 92 applications in process and 34 patent families covering major geographic regions, owned solely by the Group, co-owned with others or in-licensed.

In-house nanoparticle manufacturing facility

In-house nanoparticle manufacturing facility which the Directors believe is the first licensed nanoconjugate cGMP facility of its kind in Europe. This state-of-the-art facility, based in Bilbao, Spain, aids in the rapid execution of projects, control of manufacturing quality and supply of all aspects of Midatech's GNP platform, thus avoiding reliance on external manufacturing partners.

Innovative therapies

Innovative therapies utilising its broadly applicable drug conjugate platforms for significant medical disorders with few or no existing clinical therapeutic options. As such the Directors believe that the Group's therapies have the potential to be transformative for patients and their families as first or second therapies for disease treatment and can yield high returns for these poorly treated indications.

Experienced management team

The management team's significant experience in the specialty pharmaceutical industry and of managing high growth companies. The Group's management team comprises seasoned industry entrepreneurs, executives and scientists, and the Directors believe that the team is capable of executing a major value proposition in the specialty pharma field.

Our Strategy and Outlook

Midatech intends to leverage its US commercial operation to drive the business to profitability.

Midatech's business and commercialisation strategy is based on maturing its technology platforms with a clear focus on its key therapeutic areas of oncology, endocrinology and neuroscience (including ophthalmology), along with strategic late stage product focused acquisitions. Together, these are expected to drive a commercial pipeline of products with improved essential parameters, over and above the currently marketed source compound, including safety, tolerability, efficacy and compliance profiles. The Board believes that its management team has significant industry and technical experience and is highly capable of and committed to building the value of Midatech.

In diabetes, Midatech, alongside its MidaSol Therapeutics joint venture partner MonoSol, has completed a Phase IIa clinical trial with its MidaForm™-Insulin-PharmFilm® in humans with type 1 diabetes. Subject to results, due in Q2 2016, Midatech will look for potential out-licensing deals given this asset is non-core to the Group's strategy.

In oncology, Midatech believes that it has the opportunity to leverage its own commercial capabilities in the US and roll out similar infrastructure in Europe around the market entry of its orphan oncology program products. Midatech believes that the acquisition of Zuplenz® and DARA will accelerate its progress towards achieving this objective. These products require small, dedicated specialty pharmaceutical sales forces. Midatech will also look for further in-licensing acquisition opportunities to grow revenues in this sector.

In neuroscience/ophthalmology, commercialisation will focus on products for the treatment of uveitis and other conditions of the eye, Parkinson's disease, Alzheimer's disease and multiple sclerosis. Midatech aims to achieve this through partnerships with leading specialty pharmaceutical companies and academic institutions, where Midatech would seek to earn license payments, manufacturing revenue and royalties.

Our products

The oncology and supportive care products marketed by Midatech Pharma US are:

Oravig®

An orally-dissolving buccal tablet indicated for the local treatment of oropharyngeal candidiasis in adults.

Gelclair®

An oral gel indicated for the management and relief of pain due to oral mucositis and other oral lesions that can occur with common cancer treatments.

Zuplenz®

An anti-emetic which does not need to be injected or swallowed, offering patients a differentiated alternative.

Soltamox®

The only liquid form of tamoxifen, is indicated for the treatment of metastatic breast cancer, the adjuvant treatment of node-positive breast cancer in premenopausal women, the reduction in risk of invasive breast cancer in women with ductal carcinoma in situ ("DCIS"), and for the reduction of the incidence of breast cancer in women at high risk for breast cancer.

Aquoral®

An artificial saliva spray that is intended to provide relief from chemotherapy/radiation therapy-induced dry mouth.

Ferralet® 90

A prescription iron supplement indicated for the treatment of all anaemias that are responsive to oral iron therapy.

Midatech Pharma US has an exclusive license to Soltamox® and Oravig®, an exclusive license to distribute, promote and market Gelclair®, and a marketing agreement to co-promote two Mission products: Ferralet 90® and Aquoral®. In addition, Midatech also holds the exclusive license to Zuplenz®.

Our commercialisation strategy

Midatech's commercialisation strategy intends to build a long-term, profitable and commercially focused enterprise with revenues generated as follows:

Research and development collaborations

In the near-term, revenues are anticipated to be driven by collaborations such as those that currently exist and with new potential customers using Midatech's technologies to address their pharmaceutical challenges.

Commercial operations

The main growth driver in the period from 2016 to 2018 will be the Midatech Pharma US business with sales coming from the existing commercial product portfolio.

Partner licensing and royalty deals

In the period from 2016 to 2018, revenue growth will be supported by licensing transactions from those partnerships outlined herein, as well as new potential partnerships, with possible product royalties realised from 2016 to 2017.

Own products commercialisation

In the third stage of Midatech's evolution, expected to be from 2018 – 2019, Midatech's own products are anticipated to reach market in the specialised orphan sector, and Midatech's commercial sales organisation to be deployed initially in the US and then in Europe, to drive sales and revenue growth from Midatech's own product launches.

Acquisitions

In support of and in addition to above, Midatech may from time to time seek value accretive and synergistic target companies, such as DARA, and portfolios, such as Zuplenz®, that would accelerate its own product recurring revenues and profitability through products in market.

Financial Review

Midatech generated consolidated total revenue of £1.38m, an increase of 763% on the prior year and ahead of expectation.

INTRODUCTION

Midatech Pharma plc (the "Company") is a company domiciled in England and was incorporated on 12 September 2014. The Midatech Group was formed on 31 October 2014 when Midatech Pharma plc acquired the entire issued share capital of Midatech Limited and its wholly owned subsidiaries.

On 4 December 2015, the Company acquired the entire issued share capital of US-based, DARA BioSciences, Inc. ("DARA"), an oncology supportive care pharmaceutical company, through the issue of 5,422,028 ordinary shares valued at £14.43m. These shares were delivered to former DARA stockholders in the form of American Depositary Receipts ("ADRs") with each ADR representing the right to receive two ordinary shares. The ADRs were admitted to trading on the NASDAQ Stock Market LLC trading platform ("NASDAQ") on 4 December 2015. Additional consideration was paid in the form of a preference share settlement and the assumption of share options and warrants.

DARA stockholders also received one contingent value right ("CVR"), which represents the right to receive contingent payments if specified sales milestones are achieved for the years ended 31 December 2016 and 2017. Cash of up to $0.27 per CVR, or $5.7m in aggregate will be payable upon the achievement of the stringent sales milestones however, this amount has not been accrued as the Board, as at the time of the transaction, expected the targets to not be achieved.

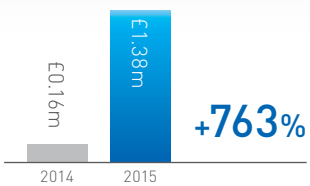
DARA provides the Group with an attractive portfolio of cancer supportive care products and an established commercial platform in the US market with a field sales organisation. Subsequent to the acquisition the name of DARA was changed to Midatech Pharma US Inc.

The acquisition of DARA included intangibles comprising £15.48m of "product sales and marketing rights" and £9.95m of goodwill.

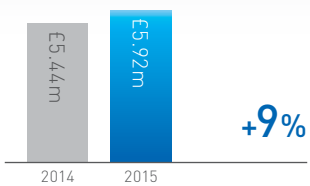
On 24 December 2015, the Company acquired Zuplenz® (ondansetron), a marketed anti-emetic oral soluble film from Galena Biopharma, Inc. (Nasdaq: GALE) for the prevention of chemotherapy-induced nausea and vomiting ("CINV"), radiotherapy-induced nausea and vomiting ("RINV"), and post-operative nausea and vomiting ("PONV") for up front consideration of $3.75 million in cash. Further cash payments, totalling up to $26 million, will become payable if certain sales milestones are achieved, the milestone period expires 31 December 2022 or at the date the highest milestone target is achieved, however, the Board does not expect these to be achieved. These further payments, if they become payable, are expected to be self-financed by milestone-generated cash flow.

The acquisition of Zuplenz® was treated as a business combination under the scope of IFRS 3 and included intangibles comprising £2.51m "product sales and marketing rights" and £0.17m of negative goodwill.

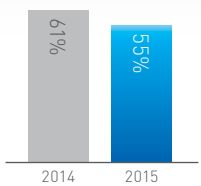
Key performance indicators



Total revenue



R&D Costs



R&D as a % of operating costs
(before listing and acquisition expenses)

To date, Midatech's KPIs have been focussed on the key areas of cash management and operating results and, most recently, R&D spend.

FINANCIAL ANALYSIS

For the year ended 31 December 2015, Midatech generated consolidated total revenue of £1.38m (2014: £0.16m), an increase of 763% on the prior year and ahead of expectation.

Net cash outflows for the year were £14.17m (2014: £5.91m excluding proceeds from share issues) which was in line with the forecast for the year adjusted for the costs of the DARA and Zuplenz® acquisitions as well as the ADR listing on NASDAQ. Cash management remains a major focus for management.

Administrative costs

Midatech's administrative costs increased on the prior year to £7.93m (2014: £4.41m), in part due to costs associated with the acquisition of DARA and listing ADRs on NASDAQ:

- Midatech Pharma US, Inc. ("MPUS") and Zuplenz® were acquired resulting in professional fees of £2.99m which includes significant professional fees in respect of the listing of ADRs on NASDAQ which formed a key component of the consideration.
- During the year the average number of staff employed grew by 36 to 74 (2014: 38) and the payroll cost increased by £1.71m to £4.52m (2014: £2.81m).

Research and development expenditure

Research and development costs also increased on the previous year to £5.92m (2014: £5.44m, including a charge of £1.80m relating to the impairment of IPRD acquired with Q Chip Limited) reflecting a significant increase in the number of active programmes. Activities in the year included:

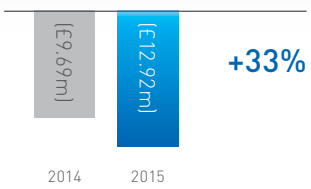
- Phase IIa study of Midatech's Insulin Buccal Soluble Film (MSL-001) enabling needle-free insulin delivery for type 1 diabetes mellitus (developed via our diabetes joint venture MidaSol Therapeutics).
- Pre-clinical trials of a number of compounds for the treatment of glioblastoma (brain) and liver cancers with Investigational New Drug ("IND") enabling programs potentially planned for 2016 or 2017.
- In vivo studies of Midatech's Q-Octreotide sustained release treatment of acromegaly and carcinoid syndrome. This project will move into bio-equivalence human studies in 2016.
- Pre-clinical formulation development of Q-Cyclosporin sustained release treatment for uveitis. This internally funded project is anticipated to reach clinical stage in the second half of 2016.

Capital expenditure

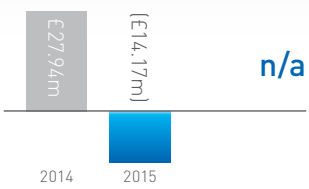
The total cash expenditure on property, plant and equipment in 2015 was £0.92m (2014: £1.03m) reflecting investment in 3 significant programmes:

- Move to new headquarters and research premises in Abingdon, UK, that included fit-out of GNP research laboratories.
- Investment in IT infrastructure necessary for operational effectiveness and data security.
- Implementation of Group-wide business management system.

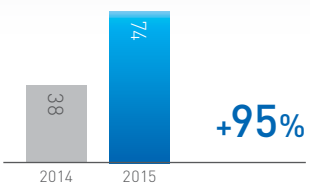
In addition, the Group spent $3.75 (£2.53m) on the acquisition of Zuplenz®, £2.51m was recorded in intangible assets.



Loss from operations



Net cash (outflow)/inflow for the year



Average headcount

KPIs relating to Midatech's recently acquired US commercial operation and non-financial KPIs, including further KPIs in respect of the research and development programmes, will be formalised in due course.

Financial Review continued

Cash flow

Net cash outflow from operating activities for the year was £12.42m (2014: £5.46m) resulting in a net cash outflow for the year of £14.17m (2014: inflow of £27.94m). This, along with the capital expenditure in the year, saw the year end cash balance reduce to £16.18m (2014: £30.33m).

CAPITAL STRUCTURE

On 4 December 2015, 5,422,028 Ordinary Shares of 0.005 pence each were issued to the shareholders of DARA BioSciences, Inc. (now Midatech Pharma US) as the initial share consideration for the acquisition of the entire issued share capital of that company. Additional consideration was paid in the form of a preference share settlement and the assumption of share options and warrants. These shares were delivered to former DARA stockholders in the form of American Depositary Receipts ("ADRs") with each ADR representing the right to receive two ordinary shares. The ADRs were admitted to trading on the NASDAQ Stock Market LLC trading platform ("NASDAQ") on 4 December 2015. Additional, cash consideration may become payable if specified milestones are achieved within agreed time periods, in accordance with the terms and conditions of an associated Contingent Value Rights Agreement dated as of 4 December 2015. These milestones are not expected to be achieved however if they should be then any further payments are expected to be self-financed by incremental milestone-generated cash flow.

As a result of the above transactions, and the exercise of employee share options, as at 31 December 2015 Midatech Pharma plc had in issue 33,467,504 Ordinary Shares of 0.005 pence each.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors consider the principal risks facing the business to be as follows:

Regulation

Midatech operates in a regulated sector where a number of regulations need to be adhered to.

Government authorities in the United Kingdom, United States and in other countries and jurisdictions, including the European Union, extensively regulate, among other things, the research, development, testing, manufacture, quality control, approval, distribution, marketing, post-approval monitoring and reporting of pharmaceutical products. The processes for obtaining regulatory approvals, along with subsequent compliance with applicable statutes and regulations require the expenditure of substantial time and financial resources.

The Group's GNP manufacturing facility in Bilbao operates under the cGMP guidelines for Investigational Medicinal Products and has been licensed to manufacture non-sterile investigational medicinal products since March 2011, with indefinite validity (subject to passing regular inspections). The facility was refurbished in 2014 to enable the manufacture of sterile injectables and the amended certification of the facility to include production of sterile material was confirmed in February 2016. Midatech performs its investigational work in accordance with the European Commission recommendation on a Code of Conduct for responsible nanosciences and nanotechnologies research.

The Group's health and safety control is subcontracted to a specialist provider and complies with all Spanish employee and work regulations.

Waste solutions and products are suitably disposed of under contract with a licensed provider for this purpose. Prior to disposal, hazardous waste materials are stored under appropriate conditions. Solvents and other inflammable reagents are stored in appropriate fire containment storage cabinets.

The Group's polymer microsphere manufacturing activities in the UK is outsourced to a contract manufacturing organisation based in Leicester, UK. This facility is MHRA approved and product is manufactured to cGMP standards at an appropriate level for the Group's needs. Polymer manufacturing is compliant with all health and safety regulations. Waste handling is undertaken by a contract firm specialising in removal and disposal of hazardous waste.

Competition and Technological Advances

The Group's drug conjugate platform is among the latest generation of nanomedicine technology. Liposomes followed by various polymeric nanoparticles were the first nanotechnologies and now inorganic nanoparticles like Midatech GNPs are a rapidly emerging technology within the nanomedicine market.

The Group's sustained release technology relies on a manufacturing process that, the Directors believe, is unique in the pharmaceutical industry. Competing sustained release technologies are well established in the market however Midatech's platform has the potential for improved drug delivery kinetics and manufacturing efficiency.

Success of Midatech's portfolio of commercial products and its product candidates currently in development depends in part on the market's acceptance of these products as well as the successful operation of the Group's salesforce and marketing operations. There and there can be no guarantee that this acceptance will be forthcoming or that Midatech's technologies will succeed as an alternative to competing products. Furthermore, demand for Midatech's products may decrease if competitor products are introduced with perceived advantages over Midatech's products or product candidates.

The speed and nature of technological change means that physical science is always evolving and new competition and alternatives are always a possibility, however, the Directors believe that Midatech has established competitive advantage over its peers. As a result of the combination of its platform technologies, intellectual property and proprietary know-how, the Group has a protected position in the nanoparticle and sustained release spaces which allows the potential for highly differentiated drugs serving high unmet needs, such as orphan oncology, to be rapidly and independently manufactured and scaled.

Clinical development and regulatory risk

There can be no guarantee that any of the Group's products will be able to obtain or maintain the necessary regulatory approvals in any or all of the territories in respect of which applications for such approvals are made. Where regulatory approvals are obtained, there can be no guarantee that the conditions attached to such approvals will not be considered too onerous by the Group or its distribution partners in order to be able to market its products effectively.

The Group seeks to reduce this risk by developing products using safe, well-characterised active compounds, by seeking advice from regulatory advisers, consulting with regulatory approval bodies and by working with experienced distribution partners.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Board is responsible for coordinating the Group's risk management and focuses on actively securing the Group's short- to medium-term cash flows.

Finance risk

The Group enters into very few transactions involving significant complexity, potential material financial exposure or atypical risk. The Group does not actively engage in the trading of financial assets and has no financial derivatives other than an equity settled derivative financial liability as set out in note 22.

Funding risk

The Group continues to incur substantial operating expenses. The IPO in December 2014 generated sufficient cash to take the Group toward break even and becoming cash flow positive however until the Group generates positive net cash inflows from the commercialisation of its products it may be required to seek additional funding through the injection of equity capital from share issues. The Group may not be able to generate positive net cash inflows in the future or be able to attract such additional funding as may be required, either at all, or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and business operations cut back.

The Group seeks to reduce this risk by keeping a tight control on expenditure, avoiding long-term supplier contracts (other than for clinical trials), prioritising development spend on products closest to potential revenue generation, obtaining government grants (where applicable), maintaining a focused portfolio of products under development and by keeping shareholders informed of progress.

This report was approved by the Board on 12 April 2016 and signed on its behalf.

Nick Robbins-Cherry
Chief Financial Officer
12 April 2016

Board of Directors

As at 31 December 2015 the Board consisted of two Executive Directors and six Non-Executive Directors. Brief biographies of the current Directors are set out below.

Executive

JAMES (JIM) PHILLIPS
Chief Executive Officer (53)

Jim is a physician by training and has a strong background in company leadership and business development. Jim founded Talisker Pharma in 2004, which was the first and cornerstone acquisition of EUSA Pharma Inc. in 2006. As president of Europe and senior vice president, corporate development, of EUSA Pharma, Jim led the strategy resulting in the acquisition of OPi S.A. and which in turn lead to its ultimate acquisition by Jazz Pharmaceuticals Inc. in 2012. Jim is currently a non-executive director of Herantis Pharma plc, listed in Helsinki, Insense Limited, a private spin-out from Unilever, and, until joining Midatech, was chairman of Prosonix Limited, guiding its successful transformation into a respiratory-focused business. Prosonix was acquired by Circassia Pharmaceuticals PLC in 2015. Jim initially held senior positions at Johnson & Johnson and Novartis Pharmaceuticals. At Novartis, Jim was in Clinical and Business Development and was a board director of the $1.3 billion arthritis, bone, gastrointestinal, haematology and infectious diseases business unit and a member of the company's Clinical Leadership Team.

NICHOLAS (NICK) ROBBINS-CHERRY
Chief Financial Officer (46)

Nick is a Chartered Accountant and MBA with extensive commercial and finance experience gained in the life sciences, technology and consulting sectors, including roles at CACI Limited, Johnson & Johnson and ICI plc. Nick has a strong track record in mergers and acquisitions and of managing complex multi-national businesses. Nick qualified with Coopers & Lybrand (now PricewaterhouseCoopers) and also has a BSc in Pharmacology.

Non-Executive

ROLF STAHEL
Non-Executive Chairman (71)

Mr Stahel has approximately 40 years of experience in the pharmaceutical industry, of which around 20 years were spent at chief executive and board level in public companies listed in the United Kingdom, Switzerland and the United States and private life science companies registered in Europe, the United States and Asia. Mr Stahel joined Shire as chief executive in 1994 following a 27-year career at Wellcome plc (now GlaxoSmithKline plc). Mr Stahel is currently the non-executive chairman of Connexios Life Sciences Pvt Limited and Ergomed plc, and was previously the non-executive chairman of EUSA Pharma Inc., Cosmo Pharmaceuticals SpA, PowderMed Limited and Newron Pharmaceuticals SpA.

JOHN JOHNSTON
Non-Executive Director (57)

Mr Johnston is currently non-executive Chairman of Constellation Healthcare Technologies, non-executive director of Flowgroup plc, Action Hotels, MaxCyte, Inc. and prior to this, was managing director of Institutional Sales at Nomura Code. He was previously director of Sales and Trading at Seymour Pierce from 2008 to 2011. In 2003, Mr Johnston founded Revera Asset Management, where he oversaw an investment trust, a unit trust and a hedge fund, which he ran until 2007. From 1992 to 1997, Mr Johnston was Head of Small Companies at Scottish Amicable, before spending a year at Ivory and Sime, again as Head of Small Companies from 1997 to 1998. He joined Legg Mason Investors for three years as Director of Small Companies Technology and Venture Capital Trusts, from 2000 to 2003 having previously spent two years as Head of Small Companies with Murray Johnstone. Mr Johnston began his investment career at the Royal Bank of Scotland in 1981, working in the Trustee and Investment department, before moving to General Accident in 1985, holding the position of Head of Retail Funds before his move to Scottish Amicable.

The Directors believe that Midatech Pharma plc benefits from a strong, stable and proven Executive and Senior Management team.

Non-Executive

SIMON TURTON
Senior Non-Executive Director (48)

Dr Turton previously headed Warburg Pincus' healthcare investing activities in Europe and was a principal at Index Ventures in Geneva. He has over 10 years of experience investing in biopharma companies following a ten-year career in the international pharmaceutical industry incorporating roles in research, business development and general management. Dr Turton has an MBA from INSEAD and a Ph.D. in pharmacy from the University of London. He has been a board director of private and public biomedical companies: Archimedes Pharma, Eurand, ProStrakan and Tornier. Dr Turton was most recently chairman of Q Chip prior to its acquisition by the Group. He is currently CEO of Gensmile, a new dental corporate building a chain of dental clinics in the UK.

SIJMEN DE VRIES
Non-Executive Director (56)

Dr de Vries has extensive senior level experience in both the pharmaceutical and biotechnology industries. He is currently chief executive officer of Pharming Group N.V., the Euronext-listed pharmaceutical company. Dr de Vries was previously chief executive officer of Switzerland-based 4-Antibody and Morphochem AG, and prior to this he worked at Novartis Pharma, Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals plc, where he held senior business and commercial positions. Dr de Vries holds an MD degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

PAVLO PROTOPAPA
Non-Executive Director (49)

Mr Protopapa is the founder and managing partner of Ippon Capital, a private equity company based in Geneva, Switzerland. He is the chairman and chief executive officer of Spacecode Holdings, a technology provider in healthcare and luxury goods, which he founded in 2005. He also serves as a non-executive director and lead investor of Socure Inc, a SaaS-based internet security company. Mr Protopapa has a Bachelor of Commerce (accounting, economics and commercial law) and Bachelor of Accounting Science (accounting) from the University of the Witwatersrand and the University of South Africa, respectively. He completed his articles at KPMG in Johannesburg, South Africa and has more than 15 years of experience in international commerce as chief financial officer of the Steinmetz Diamond Group from 1997 to 2012.

MICHELE LUZI
Non-Executive Director (58)

Mr Luzi is a partner in Bain & Company, based in the London office. He has recently led Bain's EMEA Telecommunications Technology Media Practice for seven years and he was a board director of Bain & Company Global between 2006 and 2009. He has been a member of the World Economic Forum Global Agenda Council and of the Web Foundation Advisory Board. Prior to joining Bain & Company, Mr Luzi worked in international management positions with Pirelli and also worked in Agusta and with the Italian Trade Commission. Mr Luzi earned his MBA from INSEAD and graduated in Economics, with Honours, from the University of Rome.

Remuneration Report

Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Group.

THE REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Group's policy on executive remuneration, setting the over-arching principles, parameters and governance framework of the Group's remuneration policy and determining the individual remuneration and benefits package of each of the Executive Directors and the Group Secretary.

The Remuneration Committee ensures compliance with the UK Corporate Governance Code in relation to remuneration wherever possible.

The Remuneration Committee is chaired by Sijmen de Vries, and its other members are Simon Turton, Rolf Stahel and Michele Luzi. The Remuneration Committee meet not less than twice a year. During 2015 the Remuneration Committee met on three occasions.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Group with reference to benchmarking comparable groups. The Remuneration Committee recommends remuneration packages to the Board by reference to individual performance and uses the knowledge and experience of the Committee members, published surveys relating to AIM companies and the nanomedicine industry, as well as advice from a UK remuneration specialist company and market changes generally. The Remuneration Committee has responsibility for recommending any long-term incentive schemes.

The Board determines whether or not Executive Directors are permitted to serve in roles with other companies. Such permission is only granted where a role is on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is no adverse impact on the commitments required to the Group. Earnings from such roles are not disclosed to the Group.

There are four main elements of the remuneration package for Executive Directors and staff:

(i) Basic salaries and benefits in kind

Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Benefits in kind comprising death in service cover and private medical insurance are available to staff and Executive Directors. Benefits in kind are non-pensionable.

(ii) Share options and other share-based incentives

The Group currently operates approved share option schemes for the Executive Directors and other employees to motivate those individuals through equity participation. Historically some unapproved share options have been granted to staff and key consultants however, the Board and Remuneration Committee do not plan on issuing further unapproved share options. Exercise of share options under the schemes is subject to specified exercise periods and compliance with the AIM Rules.

The schemes are overseen by the Remuneration Committee, which recommends all grants of share options to the Board based on the Remuneration Committee's assessment of personal performance and specifying the terms under which eligible individuals may be invited to participate.

The UK Corporate Governance Code ("the Code") requires a significant proportion of the total remuneration package of Executive Directors to comprise performance related elements of remuneration and should be designed to align Executive Directors' interests with those of the shareholders. The Remuneration Committee currently considers that the best alignment of these interests is through the continued use of performance-based incentives through the award of share options or other share-based arrangements.

(iii) Bonus scheme

The Group has a discretionary bonus scheme for staff and Executive Directors. Bonus payments are directly linked to the achievement of corporate and personal objectives.

(iv) Pension contributions

The Group pays a defined contribution to the pension schemes of Executive Directors and other employees. The individual pension schemes are private and their assets are held separately from the Group.

SERVICE CONTRACTS

Set out below are summary details of the service agreements and letters of appointment entered into between the Company and the Directors:

Executive Directors

Dr Jim Phillips (Chief Executive Officer)

Dr Phillips entered into a service agreement with the Company to act as Chief Executive Officer on 2 December 2014. His continuous employment with the Group commenced 1 May 2013. Dr Phillips retired by rotation prior to the Company's Annual General Meeting held on 26 May 2015 during which he was re-elected by the Company's members. His appointment is terminable upon one year's notice.

Nick Robbins-Cherry (Chief Financial Officer)

Mr Robbins-Cherry entered into a service agreement with the Company to act as Finance Director on 2 December 2014 and has since been appointed as the Group's Chief Financial Officer. Mr Robbins-Cherry's continuous employment with the Group commenced 4 February 2014. Mr Robbins-Cherry retired by rotation prior to the Company's Annual General Meeting held on 26 May 2015 during which he was re-elected by the Company's members. His appointment is terminable upon six months' notice.

Non-Executive Directors

The service contracts of the Non-Executive Directors are made available for inspection at the AGM.

Rolf Stahel (Non-Executive Chairman)

Mr Stahel entered into an agreement with Midatech Limited on 15 April 2014 and was subsequently appointed Chairman with effect from 1 March 2014. Mr Stahel subsequently entered into a revised appointment agreement with the Company on 2 December 2014. With effect from 1 March 2015, the appointment became terminable upon the election of the Board.

John Johnston (Non-Executive Director)

Mr Johnston entered into a non-executive director appointment letter with the Company on 2 December 2014. The appointment is terminable upon the election of the Board.

Michele Luzi (Non-Executive Director)

Mr Luzi entered into a non-executive director appointment letter with the Company on 2 December 2014. Mr Luzi was originally appointed as a non-executive director of Midatech Limited on 20 August 2010 (subsequently terminated on 2 December 2014). The appointment is terminable upon the election of the Board.

Pavlo Protopapa (Non-Executive Director)

Mr Protopapa entered into a non-executive director appointment letter with the Company on 2 December 2014. Mr Protopapa was originally appointed as a non-executive director of Midatech Limited on 5 December 2013 (subsequently terminated on 2 December 2014). The appointment is terminable upon the election of the Board.

Simon Turton (Senior Independent Non-Executive Director)

Dr Turton entered into a non-executive director appointment letter with Midatech Limited on 2 December 2014. Dr Turton was originally appointed as chairman of Q Chip Limited on 24 March 2014 (subsequently terminated on 2 December 2014). The appointment is terminable upon the election of the Board.

Sijmen de Vries (Non-Executive Director)

Dr de Vries entered into a non-executive director appointment letter with the Company on 2 December 2014. Dr de Vries was originally appointed as a non-executive director of Midatech Limited on 29 October 2004 (subsequently terminated on 2 December 2014). Dr de Vries retired by rotation prior to the Company's Annual General Meeting held on 26 May 2015 during which he was re-elected by the Company's members. The appointment is terminable upon the election of the Board.

Policy on Non-Executive Directors' remuneration

The Non-Executive Directors receive a fee for their services as a director, which is approved by the Board, giving due consideration to the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. Non-Executive Directors are reimbursed for travelling and other incidental expenses incurred on Group business in accordance with the Group expenses policy.

The Board encourages the ownership of Midatech shares by Executives and in normal circumstances does not expect Directors to undertake dealings of a short-term nature.

Non-Executive Directors are preferred to remain independent to the extent that they do not trade in the Company's shares themselves.

Remuneration Report continued

The emoluments of the Directors of Midatech Pharma plc are set out below. No emoluments were paid to any Director by any other Group company:

	Salary and fees £	Bonus £	Pensions £	2015 £	2014 £
Non-Executive Directors					
Rolf Stahel	107,640	–	–	107,640	175,967
Jeff Brown (resigned 30 April 2015)	46,667	–	–	46,667	12,000
John Johnston	35,000	–	–	35,000	2,781
Michele Luzi	35,000	–	–	35,000	–
Pavlo Protopapa	35,000	–	–	35,000	–
Simon Turton	35,000	–	–	35,000	–
Sijmen de Vries	35,000	–	–	35,000	12,000
Executive Directors					
Jim Phillips	242,880	104,125	30,284	377,289	351,456
Nick Robbins-Cherry	145,696	38,360	15,583	199,639	55,993
Directors' remuneration	717,883	142,485	45,867	906,235	610,197

The 2014 emoluments include payments from all Group companies for that year. This includes emoluments earned in their capacity as directors of Midatech Limited prior to their appointment as directors of Midatech Pharma plc. Where they were not directors of Midatech Limited their emoluments commence from the date of appointment as a Midatech Pharma plc director.

Details of the payments to other related parties are disclosed in note 31.

DIRECTORS' INTERESTS IN SHARES

	31 December 2015		31 December 2014	
	Beneficial Interests	Non-Beneficial Interests	Beneficial Interests	Non-Beneficial Interests
Non-Executive Directors				
Rolf Stahel[1]	527,215	–	527,215	–
Jeff Brown (resigned 30 April 2015)	–	–	–	–
John Johnston	14,981	–	14,981	–
Michele Luzi	121,344	69,328	121,344	69,328
Pavlo Protopapa	–	1,649,334	–	1,649,334
Simon Turton[2]	215,328	–	215,328	–
Sijmen de Vries	8,802	65,014	8,802	65,014
Executive Directors				
Jim Phillips	36,871	–	31,339	–
Nick Robbins-Cherry	500	–	–	–

(1) At 31 December 2015 428,542 of Rolf Stahel's shares were subject to restrictions preventing their disposal or transfer to another party. These restrictions fall away on the following events:

a. 61,220 shares become unrestricted on 1 March 2016

b. 61,221 shares become unrestricted on each of and 1 March 2017 and 1 March 2018

c. 122,440 shares become unrestricted when the market capitalisation of the Company achieves £155m

d. 122,440 shares become unrestricted when the market capitalisation of the Company achieves £213m

(2) Simon Turton is entitled to receive 35,086 Deferred Consideration Shares to be converted into Ordinary Shares up to 30 June 2016 subject to there not being any successful warranty claims against the sellers of Q Chip Limited.

Other than as shown in the table and note above no Director had any interest in the shares of the Company or in any subsidiary company.

DIRECTORS' INTERESTS IN SHARE OPTIONS

The Board uses share options to align Directors' and employees' interests with those of shareholders in order to provide incentives and reward them based on improvements in Group performance.

	31 December 2015 Options Held over Ordinary shares	31 December 2014 Options Held over Ordinary shares
Non-Executive Directors		
Rolf Stahel	–	–
Jeff Brown	–	–
John Johnston (resigned 30 April 2015)	–	–
Michele Luzi	18,976	36,696
Pavlo Protopapa	–	–
Simon Turton	–	–
Sijmen de Vries	17,000	17,000
Executive Directors		
Jim Phillips	600,000	600,000
Nick Robbins-Cherry	60,000	60,000

All share options were granted with an exercise price at or above market value on the date of grant. The majority of share options only vest when the Company's share price achieves certain targets. Otherwise the main vesting condition of all share options is that the Director or employee remain employed with the Group as at the date of exercise or continues to provide consultancy services as at the date of exercise. The share options of the Directors under the Midatech Pharma plc Enterprise Management Incentive Scheme (included in totals in note 29) are set out below:

	Grant Date	Number Awarded	Exercise Price/Share £	Vesting Criteria	Expiry Date £
Non-Executive Directors					
Michele Luzi[1]	20/04/2012	18,796	4.19	Fully vested	20/04/2022
Sijmen de Vries	31/12/2008	3,000	1.425	Fully vested	31/12/2018
	20/04/2012	4,000	4.19	Fully vested	20/04/2022
	30/06/2014	10,000	0.075	Share price[2]	30/06/2024
Executive Directors					
Jim Phillips	09/05/2014	200,000	0.075	Fully vested	01/05/2023
	30/06/2014	400,000	0.075	Share price[2]	30/06/2024
Nick Robbins-Cherry	30/06/2014	60,000	0.075	Share price[2]	30/06/2024

(1) Share options held by Michele Luzi were granted as part of a 2011 investment round in Midatech Limited.

(2) For those options noted as vesting based on share price 50% vest when the share price reaches £5.31 per share, a further 25% vests when the share price reaches £13.72 and the remaining 25% when the share price reaches £18.86.

Sijmen de Vries

Chairman of the Remuneration Committee

Corporate Governance

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders. The Board meet regularly to consider strategy, performance and the framework of internal controls.

BOARD OF DIRECTORS

As at 31 December 2015, the Board comprised eight Directors, two of whom are Executive Directors and six Non-Executive Directors, reflecting a blend of different experience and backgrounds. The Group regards all of the Non-Executive Directors as Independent. With a view towards maintaining the independence of the Board no remuneration is paid to either the Chairman or Non-Executive Directors in the form of shares.

Although, as a company that has securities which are traded on the Alternative Investment Market ("AIM"), adherence to the UK Corporate Governance Code is not compulsory, the Directors apply certain aspects of the UK Corporate Governance Code to the extent appropriate to the Group's size, resources and stage of development.

The Company's shares are also listed on the NASDAQ Capital Market in the form of American Depositary Receipts ("ADRs") with each ADR representing the right to receive two ordinary shares. The Company's status as a Foreign Private Issuer means that we are permitted to follow English corporate law and the Companies Act 2006 with regard to certain aspects of corporate governance; such practices differ in significant respects from the corporate governance requirements applicable to US companies on NASDAQ. For the years ended 31 December 2015 and 2014, we have not been required to assess and report on the effectiveness of our internal controls over financial reporting under Section 404(a) of the Sarbanes-Oxley Act.

The Board is responsible for inter alia, approving interim and annual financial statements, formulating and monitoring Group strategy, approving financial plans and reviewing performance, as well as complying with legal, regulatory and corporate governance matters. There is a schedule of matters reserved for the Board.

The Board meet regularly to consider strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings.

The Company has established audit, nomination, remuneration and disclosure committees of the Board with formally delegated duties and responsibilities.

THE AUDIT COMMITTEE

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing and monitoring the integrity of the Group's annual and interim financial statements, advising on the appointment of external auditors, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, overseeing the Group's relationship with its external auditors, reviewing the effectiveness of the external audit process and reviewing the effectiveness of the Group's internal control review function. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Audit Committee is chaired by Pavlo Protopapa and its other members are Simon Turton and John Johnston. The Audit Committee meet not less than twice a year. During 2015, the Audit Committee has met five times.

THE NOMINATION COMMITTEE

The Nomination Committee assist the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It is responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and committees of the Board, retirements and appointments of additional and replacement Directors and committee members and will make appropriate recommendations to the Board on such matters.

The Nomination Committee is chaired by Rolf Stahel and its other members are all other members of the Board. There has not as yet been any requirement to formally convene the Nomination Committee.

INTERNAL CONTROL

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure of the achievement of business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee continues to monitor and review the effectiveness of the system of internal control and report to the Board when appropriate with recommendations.

The annual review of internal control and financial reporting procedures did not highlight any issues warranting the introduction of an internal audit function. It was concluded, given the current size and transparency of the operations of the Group that an internal audit function was not required however this remains a matter for ongoing review.

The main features of the internal control system are outlined below:

- A control environment exists through the close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by the Executive Directors.
- The Board has a schedule of matters expressly reserved for its consideration and this schedule includes acquisitions and disposals, major capital projects, treasury and risk management policies and approval of budgets.
- The Group utilises a detailed budgeting and forecasting process. Detailed budgets are prepared annually by the Executive Directors before submission to the Board for approval. Forecasts are updated at least quarterly to reflect changes in the business and are monitored by the Board including future cash flow projections. Actual results are monitored against annual budgets in detail on a monthly basis, with variances highlighted to the Board.

Financial risks are identified and evaluated for each major transaction for consideration by the Board and senior management.

- Standard financial control procedures are operated throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.
- A risk review process is in development whereby the Chief Financial Officer will present a report to the Board each year on the key business risks.

GOING CONCERN

As disclosed in the Directors' Report on page 28 the Group financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

RELATIONSHIP WITH SHAREHOLDERS

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders. The Company reports formally to shareholders in its Annual Report and Interim Statements setting out details of the Group's activities. In addition, the Company keeps shareholders informed of events and progress through the issue of regulatory news in accordance with the AIM Rules for Companies ("AIM Rules") of the London Stock Exchange and the Foreign Private Issuer reporting requirements as set out in Rules 13a–16 or 15d–16 of the United States Securities Exchange Act of 1934. The Chief Executive and Chief Financial Officer meet with institutional shareholders following interim and final results. The Company also maintains investor relations pages and other information regarding the business, the Group's products and activities on its website at www.midatechpharma.com.

The Annual Report is made available to shareholders at least 21 days before the Annual General Meeting ("AGM") along with notice of the AGM. Directors are required to attend the AGM, unless unable to do so for personal reasons or due to pressing commercial commitments, and shareholders are given the opportunity to vote on each separate resolution proposed at the AGM. The Company counts all proxy votes and will indicate the level of proxies lodged for each resolution after it has first been dealt with by a show of hands.

Nick Robbins-Cherry
Company Secretary

Directors' Report

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2015.

DIRECTORS

The Directors during the year were:

Rolf Stahel
Jeff Brown (resigned 30 April 2015)
John Johnston
Michele Luzi
Pavlo Protopapa
Simon Turton
Sijmen de Vries
Jim Phillips
Nick Robbins-Cherry

RESEARCH AND DEVELOPMENT

The Group is continuing to develop products within its chosen areas of therapeutic focus.

MATTERS COVERED IN THE STRATEGIC REPORT

Details of the Group's financial instruments are presented in note 23 and future developments and policies are given in the Strategic Report.

DIVIDEND

The Directors are not recommending the payment of a dividend at this time due to the level of maturity of the Group. The Directors intend implementing a dividend policy of progressive payments when the Group reaches the right stage of development.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has, as permitted by s234 and 235 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

EMPLOYEES

Midatech recognises the essential importance of employees to the success of the business and ensures that they are fully informed of events that directly affect them and their working conditions. Information on matters of concern to employees is given in briefings that seek to provide a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

DISABLED EMPLOYEES

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. It is the policy of the Group that training and promotion opportunities should be available to all employees.

DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Group and Company and of the profit or loss of the Group for that period. The Directors are required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The Directors are also required to prepare and file a Form 20-F in accordance with the rules of the US Securities and Exchange Commission which require the financial statements to also be prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union and as issued by the International Accounting Standards Board (IASB), subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' STATEMENT AS TO THE DISCLOSURE OF INFORMATION TO AUDITORS.

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

WEBSITE PUBLICATION

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Nick Robbins-Cherry
Chief Financial Officer
12 April 2016

Independent Auditor's Report

to the Members of Midatech Pharma plc

We have audited the financial statements of Midatech Pharma plc for the year ended 31 December 2015 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the parent Company balance sheet, the parent Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

SEPARATE OPINION IN RELATION TO IFRSs AS ISSUED BY THE IASB

As explained in note 1 to the group financial statements, the Group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ("IASB"). In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Christopher Pooles (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

Reading

12 April 2016

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

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Note	2015 £'000	2014 (as restated) £'000	2013 £'000
Revenue	3	775	25	147
Grant revenue		600	132	–
Total revenue		1,375	157	147
Cost of sales		(70)	–	–
Gross profit		1,305	157	147
Research and development costs		(5,920)	(5,439)	(1,925)
Distribution costs, sales and marketing		(374)	–	–
Administrative costs	4	(7,929)	(4,405)	(2,721)
Loss from operations before listing and acquisition expenses		(9,927)	(8,752)	(4,499)
Listing and acquisition expenses included in administrative costs	4	(2,991)	(935)	–
Loss from operations		(12,918)	(9,687)	(4,499)
Finance income	6	1,691	8	1
Finance expense	6	(5)	(161)	(385)
Loss before tax		(11,232)	(9,840)	(4,883)
Taxation	7	1,133	1,018	799
Loss after tax attributable to the owners of the parent		(10,099)	(8,822)	(4,084)
Other comprehensive income:				
Items that will or may be reclassified subsequently to profit or loss when specific conditions are met:				
Exchange (losses)/gains arising on translation of foreign operations		399	(151)	5
Total other comprehensive income/(loss), net of tax		399	(151)	5
Total comprehensive loss attributable to the owners of the parent		(9,700)	(8,973)	(4,079)
Loss per share				
Basic and diluted loss per ordinary share – pence	8	(36p)	(98p)	(71p)

Consolidated statement of financial position

at 31 December 2015

	Note	2015 £'000	2014 (as restated) £'000	2013 £'000
Assets				
Non-current assets				
Property, plant and equipment	9	1,984	1,516	684
Intangible assets	10	41,339	13,094	4
Investment in equity accounted joint venture		–	–	12
Other receivables due in greater than one year	17	387	425	379
		43,710	15,035	1,079
Current assets				
Inventories	19	459	–	–
Trade and other receivables	17	2,496	462	909
Taxation		1,201	841	799
Cash and cash equivalents	18	16,175	30,325	2,387
		20,331	31,628	4,095
Total assets		64,041	46,663	5,174
Liabilities				
Non-current liabilities				
Borrowings	21	1,508	1,488	2,119
Deferred tax liability	24	6,547	354	–
		8,055	1,842	2,119
Current liabilities				
Trade and other payables	20	7,084	2,341	1,047
Borrowings	21	442	491	1,248
Derivative financial liability – equity settled	22	1,573	–	–
		9,099	2,832	2,295
Total liabilities		17,154	4,674	4,414
Issued capital and reserves attributable to owners of the parent				
Share capital	25	1,002	1,001	–
Share premium	26	31,643	31,643	21,018
Merger reserve	26	52,803	37,776	–
Shares to be issued	26	200	800	–
Foreign exchange reserve	26	390	(9)	142
Accumulated deficit	26	(39,151)	(29,222)	(20,400)
Total equity		46,887	41,989	760
Total equity and liabilities		64,041	46,663	5,174

The financial statements were approved and authorised for issue by the Board of Directors on 12 April 2016 and were signed on its behalf by:

Nick Robbins-Cherry
Chief Financial Officer

The notes form an integral part of these consolidated financial statements

Consolidated statement of cash flows

for the year ended 31 December 2015

	Note	2015 £'000	2014 (as restated) £'000	2013 £'000
Cash flows from operating activities				
Loss for the year after tax		(10,099)	(8,822)	(4,084)
Adjustments for:				
Depreciation of property, plant and equipment	9	501	321	246
Amortisation of intangible fixed assets	10	236	1	1
Loss on disposal of fixed assets		–	89	–
Net Interest (income)/expense		(1,686)	153	384
Impairment of IPRD		–	1,800	–
Gain on bargain purchase	13	(165)	–	–
Share-based payment expense		170	–	–
Taxation		(1,133)	(1,018)	(799)
Cash flows from operating activities before changes in working capital		(12,176)	(7,476)	(4,252)
Increase in inventories		(62)	–	–
(Increase)/decrease in trade and other receivables		(1,540)	761	(442)
Increase/(decrease) in trade and other payables		711	466	(330)
Cash used in operations		(13,067)	(6,249)	(5,024)
Taxes received		646	794	588
Net cash used in operating activities		(12,421)	(5,455)	(4,436)
Investing activities				
Purchases of property, plant and equipment		(922)	(1,030)	(47)
Purchase of intangibles		(3)	–	(3)
Acquisition of subsidiary, net of cash acquired	12	1,867	115	–
Acquisition of business, net of cash acquired	13	(2,528)	–	–
Interest received		53	8	–
Net cash used in investing activities		(1,533)	(907)	(50)
Financing activities				
Interest paid		(5)	(48)	(15)
Payments to finance lease creditors		(49)	(48)	(93)
Repayment of borrowings		(165)	(346)	(200)
Issue of convertible debt		–	–	1,251
Loan finance raised		–	890	–
Share issues net of costs		–	33,852	5,797
Net cash (used in)/generated from financing activities		(219)	34,300	6,740
Net (decrease)/increase in cash and cash equivalents		(14,173)	27,938	2,254
Cash and cash equivalents at beginning of year		30,325	2,387	133
Exchange gains on cash and cash equivalents		23	–	–
Cash and cash equivalents at end of year	18	16,175	30,325	2,387

The notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2015

	Share capital £'000	Share premium £'000	Merger reserve £'000	Shares to be issued £'000	Foreign exchange reserve £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2015	1,001	31,643	37,776	800	(9)	(29,222)	41,989
Loss for the year	–	–	–	–	–	(10,099)	(10,099)
Foreign exchange translation	–	–	–	–	399	–	399
Total comprehensive loss	–	–	–	–	399	(10,099)	(9,700)
Transactions with owners							
Shares issued on exercise of share options	1	–	–	–	–	–	1
Shares, warrants and share options issued as consideration for a business combination – 4 December 2015	–	–	14,427	–	–	–	14,427
Share option charge	–	–	–	–	–	170	170
Shares issued as deferred consideration for business combination	–	–	600	(600)	–	–	–
Total contribution by and distributions to owners	1	–	15,027	(600)	–	–	14,598
At 31 December 2015	1,002	31,643	52,803	200	390	(39,151)	46,887

	Share capital £'000	Share premium £'000	Merger reserve £'000	Shares to be issued £'000	Foreign exchange reserve £'000	As restated Accumulated deficit £'000	As restated Total Equity £'000
At 1 January 2014	–	21,018	–	–	142	(20,400)	760
Loss for the year as restated (see note 12)	–	–	–	–	–	(8,822)	(8,822)
Foreign exchange translation	–	–	–	–	(151)	–	(151)
Total comprehensive loss	–	–	–	–	(151)	(8,822)	(8,973)
Issue of Midatech Limited shares – pre-share for share exchange	–	3,202	–	–	–	–	3,202
Transfer to merger reserve on the merger of Midatech Pharma plc and Midatech Limited – 31 October 2014	–	(24,220)	24,220	–	–	–	–
Transfer of A Preference shares from liability to equity (28 October 2014) and subsequent conversion to Deferred shares – 8 December 2014	1,000	–	–	–	–	–	1,000
Issue of shares to settle A Preference share accrued dividend – 8 December 2014	–	994	–	–	–	–	994
Shares issued as consideration for a business combination – 8 December 2014	–	–	13,556	–	–	–	13,556
Shares to be issued as consideration for a business combination – 8 December 2014	–	–	–	800	–	–	800
Issue of shares on placing – 8 December 2014	1	32,000	–	–	–	–	32,001
Costs associated with share placing	–	(1,351)	–	–	–	–	(1,351)
Total contribution by and distributions to owners	1,001	10,625	37,776	800	–	–	50,202
At 31 December 2014	1,001	31,643	37,776	800	(9)	(29,222)	41,989

	Share capital £'000	Share premium £'000	Merger reserve £'000	Shares to be issued £'000	Foreign exchange reserve £'000	Accumulated deficit £'000	Total Equity £'000
1 January 2013	–	11,966	–	–	137	(17,194)	(5,091)
Loss for the year	–	–	–	–	–	(4,084)	(4,084)
Foreign exchange translation	–	–	–	–	5	–	5
Total comprehensive income/(loss)	–	–	–	–	5	(4,084)	(4,079)
Transaction with owners							
Conversion of convertible loan notes	–	–	–	–	–	584	584
Issue of shares	–	9,093	–	–	–	–	9,093
Cost of share issues	–	(41)	–	–	–	–	(41)
Capital contribution	–	–	–	–	–	294	294
Total contribution by and distributions to owners	–	9,052	–	–	–	878	9,930
31 December 2013	–	21,018	–	–	142	(20,400)	760

The notes form an integral part of these consolidated financial statements.

Notes forming part of the financial statements

for the year ended 31 December 2015

1 ACCOUNTING POLICIES

General information

Midatech Pharma plc (the "Company") is a company domiciled in England. The Company was incorporated on 12 September 2014.

The Company is a public limited company, which has been listed on the Alternative Investment Market ("AIM"), which is a submarket of the London Stock Exchange, since 8 December 2014.

In addition, since 4 December 2015 the Company has American Depository Receipts ("ADRs") registered with the US Securities and Exchange Commission ("SEC") and is listed on NASDAQ.

Basis of preparation

The Group was formed on 31 October 2014 when Midatech Pharma plc entered into an agreement to acquire the entire share capital of Midatech Limited and its wholly owned subsidiaries through the issue equivalent of shares in the Company which took place on 13 November 2014.

The acquisition of the Midatech subsidiaries on 13 November 2014 was outside the scope of IFRS 3 "Business combinations" and was treated under the principles of merger accounting as set out under UK GAAP. The capital structure for 2013 reflects the former holding company, Midatech Limited. Following the Group reconstruction the capital structure reflects that of Midatech Pharma plc.

Accordingly, although the units which comprise the Group did not form a legal group for the entire comparative period ended 31 December 2014, the 2014 and 2013 results comprise the results of the subsidiary companies as if the Group had been in existence throughout the entire period.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) and as adopted by the European Union ("adopted IFRSs") and are presented in £'000's Sterling.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented.

Adoption of new and revised standards

A number of new standards, amendments to standards, and interpretations are not effective for 2015, and therefore have not been applied in preparing these accounts.

IFRS 9 Financial Instruments and subsequent amendments

On 24 July 2014 the IASB published the complete version of IFRS 9, Financial instruments, which replaces most of the guidance in IAS 39. This includes amended guidance for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. It also contains a new impairment model which will result in earlier recognition of losses. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 also includes a new hedging guidance. It will be effective for annual periods beginning on or after 1 January 2018, subject to endorsement by the European Union.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies how and when a company will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five step model to be applied to all contracts with customers as follows:

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 was issued in May 2014 and replaces IAS 11–Construction Contracts, IAS 18–Revenue, IFRIC 13–Customer Loyalty Programmes, IFRIC 15–Agreements for the Construction of Real Estate, IFRIC 18–Transfers of Assets from Customers and SIC 31–Revenue–Barter Transactions involving Advertising Services. The IASB has voted to publish an Exposure Draft proposing a one-year deferral of the effective date of the revenue Standard to 1 January 2018. The reason for deferring the effective date is that the IASB is planning to issue an Exposure Draft with proposed clarifications to the Standard, stemming from the joint Transition Resource Group (TRG) meetings, as well as the desire to keep the effective date of the IASB's and the FASB's revenue Standards aligned. Earlier adoption is permitted. IFRS 15 is subject to endorsement by the European Union.

IFRS 16, Leases

On 13 January 2016, the IASB issued IFRS 16, Leases, which provides lease accounting guidance. Under the new guidance, lessees will be required to present right-of-use assets and lease liabilities on the statement of financial position. At the lease commencement date, a lessee is required to recognize a lease liability, which is the lessee's discounted obligation to make lease payments arising from a lease, as well as a right of use asset, representing the lessee's right to use, or control the use of, a specified asset for the lease term. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, subject to endorsement by the European Union.

Earlier application is permitted for entities that apply IFRS 15, Revenue from Contracts with Customers, at or before the initial application of IFRS 16.

The directors are currently reviewing the impact of the above-mentioned Standards and Interpretations and are yet to conclude on whether any such standards will have a significant impact on the financial statements of the Group in the year of initial application.

The other standards, interpretations and amendments issued by the IASB (of which some still subject to endorsement by the European Union), but not yet effective are not expected to have a material impact on the Group's future consolidated financial statements.

Basis of consolidation

Adoption of the other standards and interpretations referred to above is not expected to have a material impact on the results of the Company. Application of these standards may result in some changes in presentation of information within the Company's financial statements.

The Group financial statements consolidate those of the parent Company and all of its subsidiaries. The parent controls a subsidiary if it has power over the investee to significantly direct the activities, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

The loss and other comprehensive income of Midatech Pharma US, Inc. (formerly DARA Biosciences, Inc) acquired during the year are recognised from the effective date of acquisition i.e. 4 December 2015. Similarly the loss and other comprehensive income of Zuplenz® acquired as a business by Midatech Pharma plc is recognised from the 24 December 2015.

The consolidated financial statements consist of the results of the following entities:

Entity	Summary description
Midatech Pharma plc	Ultimate holding company
Midatech Limited	Trading company
Midatech Pharma (Espana) SL (formerly Midatech Biogune SL)	Trading company
Midatech Andalucia SL	Dormant
PharMida AG	Trading company
Midatech Pharma (Wales) Limited (formerly Q Chip Limited)	Trading company
Midatech Pharma US, Inc. (formerly DARA Biosciences, Inc.)	Trading company
Dara Theraputics, Inc.	Dormant
Midatech Pharma Pty	Trading Company

Notes forming part of the financial statements continued

for the year ended 31 December 2015

1 ACCOUNTING POLICIES CONTINUED

Revenue

The Group's income streams include milestone income from research and development contracts and the sale of goods. Milestone income is recognised as revenue in the accounting period in which the milestones are achieved. Milestones are agreed on a project by project basis and will be evidenced by set deliverables.

Revenue from the sales of goods by Midatech Pharma US, Inc. is recognised when the significant risks and rewards of ownership are transferred to the buyer and it is probable the previously agreed upon payment will be received. These criteria are considered to be met when the goods are delivered to the buyer.

Sales to wholesalers provide for selling prices that are fixed on the date of sale, although Midatech Pharma US, Inc. offers certain discounts to group purchasing organisations and governmental programs. The wholesalers take title to the product, bear the risk and rewards and have ownership of the inventory. The Group has sufficient experience with their material wholesaler distribution channel to reasonably estimate product returns from its wholesalers while the wholesalers are still holding inventory.

Grant revenue

Where grant income is received which is not a direct re-imbursement of related costs and at the point at which the conditions have been met for recognition as income, these have been shown within grant revenue.

Government grants and government loans

Where government grants are received as a re-imbursement of directly related costs they are credited to research and development expense in the same period as the expenditure towards which they are intended to contribute.

The Group receives government loans that have a below-market rate of interest. These loans are recognised and measured in accordance with IAS 39. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan discounted at a market rate of interest and the proceeds received.

The difference is held within deferred revenue as a government grant and is released as a credit to research and development expense in line with the expenditure to which it relates. In a situation where the proceeds were invested in plant and equipment, the deferred revenue is credited to research and development within the income statement in line with the depreciation of the acquired asset.

Business combinations and externally acquired intangible assets

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date at which the Group obtains control over the entity. The cost of an acquisition is measured as the amount of the consideration transferred to the seller, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The Group measures goodwill initially at cost at the acquisition date, being:

- the fair value of the consideration transferred to the seller, plus
- the amount of any non-controlling interest in the acquiree, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree re-measured at the acquisition date, less
- the fair value of the net identifiable assets acquired and assumed liabilities

Acquisition costs incurred are expensed and included in administrative costs. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, whether it is an asset or liability, will be recognised either as a profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not re-measured.

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Externally acquired intangible assets other than goodwill are initially recognised at cost and subsequently amortised on a straight line basis over their useful economic lives where they are in use. The amortisation expense is included within the administrative cost in the consolidated statement of comprehensive income. Goodwill is stated at cost less any accumulated impairment losses.

The amounts ascribed to intangibles recognised on business combinations are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

In-process research and development (IPRD) programmes acquired in business combinations are recognised as assets even if subsequent expenditure is written off because the criteria specified in the policy for development costs below are not met. IPRD is subject to annual impairment testing until the completion or abandonment of the related project. No further costs are capitalised in respect of this IPRD unless they meet the criteria for research and development capitalisation as set out below.

As per IFRS 3, once the research and development of each defined project is completed, the carrying value of the acquired IPRD is reclassified as a finite-lived asset and amortised over its useful life.

Product and marketing rights acquired in business combinations are recognised as assets and are amortised over their useful life. Under the terms of various licenses, the Group holds the US rights to sell three products approved by the Food and Drug Administration, Zuplenz®, Oravig® and Soltamox®.

The significant intangibles recognised by the Group and their useful economic lives are as follows:

Goodwill	– Indefinite life
IPRD	– In process, not yet amortising
IT and website costs	– 4 years
Product and marketing rights	– Between 2 and 13 years

The useful economic life of IPRD will be determined when the in-process research projects are completed.

Internally generated intangible assets (development costs)

Expenditure on the research phase of an internal project is recognised as an expense in the period in which it is incurred. Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- Completion of the asset is technically feasible so that it will be available for use or sale.
- The Group intends to complete the asset and use or sell it.
- The Group has the ability to use or sell the asset and the asset will generate probable future economic benefits (over and above cost).
- There are adequate technical, financial and other resources to complete the development and to use or sell the asset.
- The expenditure attributable to the asset during its development can be measured reliably.

Judgement is applied when deciding whether the recognition criteria are met. Judgements are based on the information available. In addition, all internal activities related to the research and development of new projects are continuously monitored by the Directors. The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to that product receiving regulatory approval in at least one country.

Development expenditure not satisfying the above criteria, and expenditure on the research phase of internal projects are included in research and development costs recognised in the Consolidated Statement of Comprehensive Income as incurred. No projects have yet reached the point of capitalisation.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

1 ACCOUNTING POLICIES CONTINUED

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, or intangible assets not ready for use, such as IPRD, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment charge of £1.8m was recognised in 2014 against the IPRD of Midatech Pharma (Wales) Limited cash generating unit.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Group at 31 December 2015 had two cash generating units (2014: One, 2013: None), see note 14. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Impairment charges are included in profit or loss, except, where applicable, to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Patents and trademarks

The costs incurred in establishing patents and trademarks are either expensed or capitalised in accordance with the corresponding treatment of the development expenditure for the product to which they relate.

Joint arrangements

The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement.
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement.
- The legal form of joint arrangements structured through a separate vehicle.
- The contractual terms of the joint arrangement agreement.
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures using the equity method. The equity accounted joint venture is highly immaterial with a profit and loss impact of only £Nil during 2015 (2014: £12k, 2013: £67k).

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Amounts received under collaborative joint agreements, representing contributions to the Group's research and development programmes, are recognised as a credit against research and development expense in the period over which the related costs are incurred. All costs related to these collaborative agreements are recorded as research and development expenditure.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

Foreign currency

Transactions entered into by subsidiaries entities in a currency other than the currency of the primary economic environment, in which they operate, are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

The functional currency of the Company is Pounds Sterling, and the reporting currency is also Pounds Sterling. Foreign subsidiaries use the local currencies of the country where they operate. On consolidation, the results of overseas operations are translated into Pounds Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognised in the profit or loss of Group entities on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Financial assets

The Group does not have any financial assets which it would classify as fair value through profit or loss, available for sale or held to maturity. Therefore, all financial assets are classed as loans and receivables as defined below.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, which are reported net such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents include cash in hand, deposits held at call with original maturities of three months or less.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

1 ACCOUNTING POLICIES CONTINUED

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Fair value through profit and loss ("FVTPL")

The Group assumed fully vested warrants and share options on the acquisition of DARA Biosciences, Inc. The number of ordinary shares to be issued when exercised is fixed, however the exercise prices are denominated in US Dollars being different to the functional currency of the parent company. Therefore, the warrants and share options are classified as equity settled derivative financial liabilities through the profit and loss account. The financial liabilities were valued using the Black-Scholes option pricing model. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporated any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 23.

Other financial liabilities include the following items:

- Borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Government loans received on favourable terms below market rate are discounted at a market rate of interest. The difference between the present value of the loan and the proceeds is held as a government grant within deferred revenue and is released to research and development expenditure in line with when the asset or expenditure is recognised in the income statement.
- Redeemable preference shares are classified as liabilities as they accrued fixed interest payable in cash when distributable profits are available and confer no right to assets or equity distributions of the Company.
- Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group has two classes of share in existence:

- Ordinary shares of £0.00005 each are classified as equity instruments;
- Deferred shares of £1 each are classified as equity instruments.

Retirement benefits: defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (including the share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. Where vesting conditions are accelerated on the occurrence of a specified event, such as a change in control or initial public offering, such remaining unvested charge is accelerated to the income statement.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax assets or liabilities are recovered or settled.

Shares to be issued

Deferred consideration shares of 299,624 Ordinary Shares were to be issued to the sellers of Midatech Pharma (Wales) Limited in two tranches; 224,718 were issued on 8 December 2015 and 74,906 are to be issued on 30 June 2016 as part consideration for the acquisition of 100% of the share capital. The number of shares will be revised downwards following any warranty claims not considered as part of the purchase price.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

1 ACCOUNTING POLICIES CONTINUED

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Depreciation is provided on all items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Fixtures and fittings	– 25% per annum straight line
Leasehold improvements	– 10% per annum straight line
Computer equipment	– 25% per annum straight line
Laboratory equipment	– 15% per annum straight line

Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the market value. In evaluating whether inventories are stated at the lower of cost or net realisable value, management considers such factors as the amount of inventory on hand and in the distribution channel, estimated time required to sell such inventory, remaining shelf life, and current and expected market conditions, including levels of competition.

If net realisable value is lower than the carrying amount a write down provision is recognised for the amount by which the carrying value exceeds its net realisable value.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements requires the Group to make estimates, assumptions and judgments that can have a significant impact on the reported amounts of assets and liabilities, revenue and expenses and related disclosure of contingent assets and liabilities, at the respective dates of our financial statements. The Group bases our estimates, assumptions and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management evaluates estimates, assumptions and judgments on a regular basis and makes changes accordingly, and discusses critical accounting estimates with the Board of Directors.

The following are considered to be critical accounting policies because they are important to the portrayal of the financial condition or results of operations of the Group and they require critical management estimates and judgments about matters that are uncertain.

Business combinations

The Directors determine and allocate the purchase price of an acquired business to the assets acquired and liabilities assumed as of the business combination date. The purchase price allocation process requires the use of significant estimates and assumptions, including the estimated fair value of the acquired intangible assets.

While the Directors use their best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the date of acquisition, our estimates and assumptions are inherently uncertain and subject to refinement. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from in-process research and development;
- the fair value of the property, plant and equipment; and
- discount rates.

Judgement has also been applied in the distinction of an asset purchase and business combination with regard to the Zuplenz® acquisition. Judgement was applied in assessing the inputs, processes and outputs relevant to the acquisition to arrive at the conclusion that the treatment should be a business combination.

Impairment of goodwill and intangible assets not yet ready for use

Goodwill and intangibles not yet ready for use are tested for impairment at the cash generating unit level on an annual basis at the year end and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a cash generating unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of cash generating units, assignment of assets and liabilities to such units, assignment of goodwill to such units and determination of the fair value of a unit and for intangible assets not yet ready for use the fair value of the asset. The fair value of each cash generating unit or asset is estimated using the income approach, on a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the business, estimation of the useful life over which cash flows will occur and determination of our weighted-average cost of capital. The carrying value of our goodwill was £10.8 million and intangibles not yet ready for use was £12.5 million, respectively, as at 31 December 2015.

The estimates used to calculate the fair value of a cash generating unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each such unit. Based on the analysis performed, there was no impairment in the year ended 31 December 2015 for goodwill or in-process research and development intangibles. An impairment charge of £1.8m was recognised against the IPRD of the Midatech Pharma (Wales) Limited cash generating unit in the year ended 31 December 2014.

Share-based payments

The Group accounts for share-based payment transactions for employees in accordance with IFRS 2 Share-based payment, which requires us to measure the cost of employee services received in exchange for the options on our ordinary shares, based on the fair value of the award on the grant date.

The Directors selected the Black-Scholes-Merton option pricing model as the most appropriate method for determining the estimated fair value of our share-based awards without market conditions. For performance-based options that include vesting conditions relating to the market performance of our ordinary shares, a Monte Carlo pricing model was used in order to reflect the valuation impact of price hurdles that have to be met as conditions to vesting.

The resulting cost of an equity incentive award is recognised as expense over the requisite service period of the award, which is usually the vesting period. Compensation expense is recognised over the vesting period using the straight-line method and classified in the consolidated statements of comprehensive income.

The assumptions used for estimating fair value for share-based payment transactions are disclosed in Note 29 to our consolidated financial statements and are estimated as follows:

- Volatility is estimated based on the average annualised volatility of a number of publicly traded peer companies in the biotech sector.
- The estimated life of the option is estimated to be until the first exercise period, which is typically the month after the option vests.
- The dividend return is estimated by reference to our historical dividend payments. Currently, this is estimated to be zero as no dividend has been paid in the prior periods.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

Income Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

In 2015, there were £23.29 million (2014: £16.02 million, 2013: £13.00 million) of gross unutilised tax losses carried forward. No deferred tax asset has been provided in respect of these losses as there was insufficient evidence to support their recoverability in future periods.

Intangible asset recognition

Research and development costs are charged to expense as incurred and are typically made up of salaries and benefits, clinical and preclinical activities, drug development and manufacturing costs, and third-party service fees, including for clinical research organisations and investigative sites. Costs for certain development activities, such as clinical trials, are periodically recognised based on an evaluation of the progress to completion of specific tasks using data such as patient enrolment, clinical site activations, or information provided by vendors on their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the financial statements as prepaid or accrued expenses.

3 SEGMENT INFORMATION

Revenue

Geographical analysis of revenue by destination of customer

	2015 £'000	2014 £'000	2013 £'000
United Kingdom	–	25	–
Turkey	73	–	–
Austria	25	–	–
United States	677	–	147
	775	25	147

One customer in respect of pipeline R&D accounts for 11% of revenue in 2015. In 2014 and 2013 no meaningful analysis of sales could be made.

Following the acquisition of Midatech Pharma US, Inc., the Group contains two reportable operating segments as follows:

- Pipeline Research and Development: The Pipeline Research and Development ("Pipeline R&D") segment seeks to develop products using the Group's nanomedicine and sustained release technology platforms.
- Commercial: The Commercial segment distributes and sells the Group's commercial products. Midatech Pharma US promotes the Group's commercial, cancer supportive care products in the US market, in which the Group has exclusive licenses to Soltamox®, Oravig® and Zuplenz®, an exclusive license to distribute, promote and market Gelclair®, and a marketing agreement to co-promote two other products: Ferralet® 90 and Aquoral®. As and when new products are introduced the Commercial segment will include revenues from the marketing of these commercial products.

The accounting policies of the reportable segments are consistent with the Group's accounting policies described in note 1. Segment result represents the result of each segment without the allocation of head office expenses, interest expense, interest income and tax.

No measures of segment assets and segment liabilities are reported to the Group's Board of Directors in order to assess performance and allocate resources. There is no intersegment activity and all revenue is generated from external customers.

Both the UK and Spanish entities meet the aggregation criteria and have therefore been presented as a single reportable segment under Pipeline R&D. The research and development activities involve the discovery and development of pharmaceutical products in the field of nanomedicine and sustained release technology. The US operating Company is engaged in the sale and marketing of cancer supportive care products and is reported under the Commercial segment.

Segmented results for the year ended 31 December 2015

	Pipeline R&D £'000	Commercial £'000	Unallocated Costs[1] £'000	Consolidated £'000
Revenue:	273	502	–	775
Grant revenue	600	–	–	600
Total revenue	873	502	–	1,375
Cost of sales	–	(70)	–	(70)
Research and development costs	(5,811)	(109)	–	(5,920)
Distribution costs, sales and marketing	–	(374)		(374)
Other administrative costs	(3,983)	(218)	(2,991)	(7,192)
Depreciation	(500)	(1)	–	(501)
Amortisation	(5)	(231)	–	(236)
Segmental result/operating loss	(9,426)	(501)	(2,991)	(12,918)
Finance income				1,691
Finance expense				(5)
Loss before tax				(11,232)
Taxation				1,133
Loss after tax				(10,099)

(1) Unallocated costs represent fees associated with the acquisitions of Midatch Pharma US, Inc. and Zuplenz® in 2015.

For the years ended 31 December 2014 and 2013 there was only one reportable segment being Pipeline R&D, the unallocated costs in respect of 2014 and 2013 were £1.216m and nil.

Non-current assets by location of assets

	2015 £'000	2014 £'000	2013 £'000
Spain	1,433	1,578	951
United Kingdom	14,019	13,457	128
United States	28,258	–	–
	43,710	15,035	1,079

Notes forming part of the financial statements continued

for the year ended 31 December 2015

4 LOSS FROM OPERATIONS

	2015 £'000	2014 £'000	2013 £'000
Loss from operations is stated after charging/(crediting):			
Changes in inventories of finished goods and work in progress	62	–	–
Depreciation of property, plant and equipment	501	321	246
Amortisation of intangible assets	236	1	1
Fees payable to the Company's auditor for the audit of the parent Company	100	21	6
Fees payable to the Company's subsidiary auditors for the audits of the subsidiary accounts	115	31	25
Fees payable to the Company's auditor for:			
– Corporate finance services	438	281	–
– Tax compliance	–	14	1
– Tax advisory	7	14	1
– Other services	36	6	1
Operating lease expense:			
– Property	246	97	194
– Plant and machinery	86	57	–
Foreign exchange (gain)/loss	(23)	(37)	28
IPO costs (in addition to fees payable to the Company's auditor)	–	763	–
Acquisition costs (in addition to fees payable to the Company's auditor)	2,553	172	–
Loss on disposal of property, plant and equipment	–	89	–
Gain on bargain purchase	(165)	–	–

US listing and IPO costs primarily relate to the professional fees incurred on the admission of the Group to Nasdaq in December 2015 and the IPO on AIM in December 2014.

Acquisition costs relate to professional fees incurred on the acquisition of Midatech Pharma US, Inc. and Zuplenz® in 2015 and Midatech Pharma (Wales) Limited in 2014.

5 STAFF COSTS

	2015 £'000	2014 £'000	2013 £'000
Staff costs (including Directors) comprise:			
Wages and salaries	3,731	2,322	1,866
Defined contribution pension cost (note 28)	183	169	177
Social security contributions and similar taxes	431	322	295
Share-based payment	170	–	–
	4,515	2,813	2,338

Employee numbers

The average number of staff employed by the Group during the financial year amounted to:

	2015 £'000	2014 £'000	2013 £'000
Research and development	45	28	22
General and administration	22	10	7
Sales and marketing	7	–	–
	74	38	29

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the Directors of the Company listed on page 20, and the Chief Operating Officer.

	2015 £'000	2014 £'000	2013 £'000
Wages and salaries	850	546	561
Defined contribution pension cost	59	36	55
Payments made to third parties	223	184	–
Social security contributions and similar taxes	88	78	72
Benefits in kind	7	36	7
Share-based payment	170	–	–
	1,397	880	695

Emoluments disclosed above include the following amounts in respect of the highest paid Director. Directors' emoluments are disclosed on page 24.

	2015 £'000	2014 £'000	2013 £'000
Salary	347	323	192
Total pension and other post-employment benefit costs	24	22	19
Benefits in kind	6	–	2
	377	345	213

None of the Directors has exercised share options during the year.

During the year 2 Directors (2014: 2) participated in a defined contribution pension scheme.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

6 FINANCE INCOME AND EXPENSE

	2015 £'000	2014 £'000	2013 £'000
Finance income			
Interest received on bank deposits	53	8	1
Gain on equity settled derivative financial liability	1,638	–	–
Total finance income	1,691	8	1

The gain on the equity settled derivative financial liability has arisen due to the reduction in the share price between the date of acquisition of Midatech Pharma US, Inc. and the year end.

	2015 £'000	2014 £'000	2013 £'000
Finance expense			
Bank loans	2	126	3
Other loans	3	–	50
Interest on convertible loans	–	35	195
Non-equity preference shares	–	–	137
Total finance expense	5	161	385

7 TAXATION

	2015 £'000	2014 £'000	2013 £'000
Current tax credit			
Current tax credited to the income statement	1,002	663	799
Taxation payable in respect of foreign subsidiary	–	(5)	–
	1,002	658	799
Deferred tax credit			
Reversal of temporary differences	131	360	–
Total current tax and tax credit	1,133	1,018	799

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to losses for the year are as follows:

	2015 £'000	As restated 2014 £'000	2013 £'000
Loss before income tax	(11,232)	(9,840)	(4,883)
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 20.25% (2014: 21.49%, 2013: 20%)	(2,274)	(2,115)	(977)
Fixed asset differences	–	12	4
Expenses not deductible for tax purposes	185	385	67
Adjustments to brought forward values	(8)	33	–
Additional deduction for R&D expenditure	(789)	(566)	(811)
Surrender of tax losses for R&D tax refund	406	419	653
Adjust deferred tax opening/closing rate	–	59	–
Income not taxable	–	(44)	–
Difference in capital allowances and depreciation/amortisation	–	–	5
Other short-term timing differences	–	–	23
Unrelieved tax losses and other deductions arising in the period	(78)	(35)	237
Deferred tax not recognised	1,425	834	–
Total tax credited to the income statement	(1,133)	(1,018)	(799)

The taxation credit arises on the enhanced research and development tax credits accrued for the respective periods.

The Finance Act 2013 includes provision for the main rate of corporation tax to reduce from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015.

8 LOSS PER SHARE

	Total 2015 £'000	As restated Total 2014 £'000	Total 2013 £'000
Numerator			
Loss used in basic EPS and diluted EPS	(10,099)	(8,822)	(4,084)
Denominator			
Weighted average number of ordinary shares used in basic EPS	28,229,814	9,026,347	5,715,576
Basic and diluted loss per share – pence	(36p)	(98p)	(71p)

The 2013 loss per share is based on the Midatech Limited weighted average number of shares in issue which has been restated to take account of the share division that took place on 28 November 2014 whereby each 0.001p Ordinary Share was sub divided into two 0.0005p Ordinary Shares.

The 2014 loss per share before the prior year restatement (as discussed in note 11) was 82p.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

9 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment £'000	Laboratory equipment £'000	Total £'000
Cost					
At 1 January 2013	716	746	147	161	1,770
Additions	16	15	15	1	47
Exchange differences	16	6	3	–	25
At 31 December 2013	748	767	165	162	1,842
At 1 January 2014	748	767	165	162	1,842
Additions	524	259	18	229	1,030
Acquired through acquisition of subsidiary	3	19	15	207	244
Exchange differences	(42)	(41)	(3)	–	(86)
Disposals	(31)	(124)	–	(15)	(170)
At 31 December 2014	1,202	880	195	583	2,860
At 1 January 2015	1,202	880	195	583	2,860
Additions	183	283	173	385	1,024
Acquired through acquisition of subsidiary	–	–	–	16	16
Exchange differences	(66)	(51)	(14)	(1)	(132)
At 31 December 2015	1,319	1,112	354	983	3,768
Accumulated depreciation					
At 1 January 2013	321	400	94	79	894
Charge for the year	102	86	22	36	246
Exchange differences	7	9	2	–	18
At 31 December 2013	430	495	118	115	1,158
At 1 January 2014	430	495	118	115	1,158
Charge for the year	102	67	24	128	321
Exchange differences	(22)	(33)	(2)	3	(54)
Disposals	(31)	(50)	–	–	(81)
At 31 December 2014	479	479	140	246	1,344
At 1 January 2015	479	479	140	246	1,344
Charge for the year	3	282	48	168	501
Exchange differences	(24)	(28)	(8)	(1)	(61)
At 31 December 2015	458	733	180	413	1,784
Net book value					
At 31 December 2015	861	379	174	570	1,984
At 31 December 2014	723	401	55	337	1,516
At 31 December 2013	318	272	47	47	684
At 1 January 2013	395	346	53	82	876

Included within the total net book value of tangible fixed assets is £266k (2014: £224k and 2013: £346k) in respect of assets held under finance leases and similar hire purchase contracts. The depreciation charge for the year on these assets was £26k (2014: £79k and 2013: £90k). These assets were held as security in respect of their finance lease obligations.

No other assets were held as security other than those on finance lease.

10 INTANGIBLE ASSETS

	(As restated) In-process research and development £'000	Product and marketing rights £'000	(As restated) Goodwill £'000	IT/Website costs £'000	Total £'000
Cost					
At 1 January 2013	–	–	–	9	9
Additions	–	–	–	3	3
At 31 December 2013	–	–	–	12	12
At 1 January 2014	–	–	–	12	12
Acquired in business combinations	12,600	–	2,291	–	14,891
At 31 December 2014	12,600	–	2,291	12	14,903
At 1 January 2015	12,600	–	2,291	12	14,903
Additions	–	–	–	3	3
Acquired in business combinations	–	17,989	9,952	–	27,941
Foreign exchange	–	332	213	–	545
At 31 December 2015	12,600	18,321	12,456	15	43,392
Accumulated amortisation					
At 1 January 2013	–	–	–	7	7
Amortisation charge for the year	–	–	–	1	1
At 31 December 2013	–	–	–	8	8
At 1 January 2014	–	–	–	8	8
Amortisation charge for the year	–	–	–	1	1
Impairment charge for year	1,800	–	–	–	1,800
At 31 December 2014	1,800	–	–	9	1,809
Amortisation charge for the year	–	235	–	1	236
Foreign exchange	–	8	–	–	8
At 31 December 2015	1,800	243	–	10	2,053
Net book value					
At 31 December 2015	10,800	18,078	12,456	5	41,339
At 31 December 2014 (restated)	10,800	–	2,291	3	13,094
At 31 December 2013	–	–	–	4	4
At 1 January 2013	–	–	–	2	2

Notes forming part of the financial statements continued

for the year ended 31 December 2015

10 INTANGIBLE ASSETS CONTINUED

The individual intangible assets, excluding goodwill, which are material to the financial statements are:

	Carrying amount			Remaining amortisation period		
	2015 £'000	2014 £'000	2013 £'000	2015 (years)	2014 (years)	2013 (years)
Midatech Pharma (Wales) Limited acquired IPRD	10,800	10,800	–	n/a in process	n/a in process	–
Midatech Pharma US, Inc., product and marketing rights	15,570	–	–	Between 2 and 5	–	–
Zuplenz® product and marketing rights	2,508	–	–	13	–	–
	28,878	10,800	–			

11 PRIOR YEAR – ACQUISITION OF Q CHIP LIMITED – REVISED PROVISIONAL VALUES AND RESTATEMENT

On 8 December 2014, the Group acquired 100% of the voting equity of Q Chip Limited and its subsidiaries, a UK company principally involved in design and development of the Q-SpheraTM drug encapsulation and delivery system and underpinning microsphere manufacturing technology. On 20 January 2015 Q Chip Limited changed its name to Midatech Pharma (Wales) Limited. The principal reason for this acquisition was to strengthen the Group's technology and product portfolios, and thereby diversify risk through the following:

a) Add controlled-release technology to Midatech gold nanoparticle and portfolio

b) Expand the number of development projects

c) Q Chip's product portfolio offered Midatech a lower risk profile than Midatech's own technology thereby mitigating against potential future failure

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are:

	Provisional fair value £'000	Adjustments to provisional values £'000	(As restated) Final fair value £'000
Identifiable intangible assets:			
In-process research and development	14,100	(1,500)*	12,600
Property, plant and equipment	244	–	244
Receivables and other debtors	314	–	314
Payables and other liabilities	(494)	–	(494)
Deferred tax	(2,820)	2,106**	(714)
Cash	115	–	115
Total net assets	11,459	606	12,065
Equity instruments (5,077,122 ordinary shares)	13,556	–	13,556
Deferred Equity instruments (299,624 deferred consideration shares held as shares to be issued)	800	–	800
Total consideration – non cash movement	14,356	–	14,356
Goodwill on acquisition	2,897	(606)***	2,291

* The fair value of the intangible fixed assets has reduced by £1.50m, with a corresponding increase in the cost of goodwill.

** The deferred tax liability has reduced by £2.11m, due to the identification of tax losses available for offset and a reduction of the fair value of the identifiable intangible fixed assets of £1.5m, with a corresponding reduction in goodwill.

*** The net reduction in goodwill is £0.61m.

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the assembled workforce of the acquired entity and the expected synergies of the enlarged Group which do not qualify for separate recognition.

The goodwill and intangible assets recognised will not attract tax deductions.

Furthermore, subsequent to the approval and filing of the 2014 annual accounts, the Board and management of the Company became aware of circumstances that indicated that one of the intangible assets acquired with Midatech Pharma (Wales) Limited had become impaired as a result of a condition that existed at 31 December 2014. This resulted in the following impact on the 31 December 2014 financial statements:

- The impairment of £1.80m of IPRD intangible assets through the income statement (see note 10).
- The release of £0.36m deferred tax credit to the income statement (see note 7).
- The combined impact of the restatement reduced net assets by £1.44m.

As disclosed in the financial statements for the year ended 31 December 2014, the value of the identifiable net assets of Midatech Pharma (Wales) Limited had only been determined on a provisional basis due to a valuation carried out on certain assets not being finalised at the time the 2014 financial statements were issued. Had the valuation been finalised the 2014 financial statements would have differed to those previously reported as follows:

The revenue and net loss included in the Consolidated Statement of Comprehensive Income since 8 December 2014 contributed by Midatech Pharma (Wales) Limited was nil and £0.3m respectively.

If the acquisition had occurred on 1 January 2014, group revenue would have been £0.73m and group loss for the period would have been £11.01m.

The net cash inflow in the year in respect of acquisition comprised net cash acquired of £0.1m.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

12 ACQUISITION OF MIDATECH PHARMA US, INC.

On 4 December 2015, the Group acquired 100% of the voting equity of DARA BioSciences, Inc. whose principal activity is the sale and marketing of a portfolio of cancer supportive care pharmaceutical products. At completion of that transaction DARA BioSciences, Inc. was merged into a wholly owned subsidiary of Midatech Pharma PLC and the name of the merged entity was changed to Midatech Pharma US, Inc. The principal reason for this acquisition was to acquire commercial infrastructure and capability in the US market.

The revenue included in the consolidated statement of comprehensive income since 4 December 2015 contributed by Midatech Pharma US, Inc was £502k. Midatech Pharma US, Inc contributed a net loss of £238k over the same period. If the acquisition had occurred at 1 January 2015 Group revenue would have been £3.67m and the Group loss for the period would have been £19.34m. Acquisition related costs of £2.77m were incurred in relation to this acquisition and are included within (administrative expenses) within the consolidated statement of comprehensive income for the period.

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the assembled workforce of the acquired entity, its established commercial infrastructure and the expected synergies of the enlarged Group which do not qualify for separate recognition.

In addition to the consideration outlined below additional, cash consideration may become payable (up to a maximum of £3.85m/$5.7m) if specified sales milestones are achieved for the years ended 31 December 2016 and 2017. These milestones are not expected to be achieved and therefore the fair value is nil. However, should they be achieved then any further payments are expected to be self-financed by incremental milestone-generated cash flow.

The goodwill and intangible assets recognised will not attract tax deductions.

	Provisional fair value £'000
Identifiable intangible assets:	
Product and marketing rights	15,477
Property, plant and equipment	16
Receivables and other debtors	515
Stock	152
Payables and other liabilities	(4,150)
Deferred tax	(6,191)
Cash	2,289
Total net assets	8,108
Equity instruments (5,422,028 ordinary shares)	14,427
Deferred Equity instruments	
– Share options*	1,056
– Warrants*	2,155
– Preference share redemption**	422
Total consideration	18,060
Goodwill on acquisition	9,952

* The share options and the warrants were valued using the Black-Scholes model.

** The preference share redemption was valued on a cash basis

The net cash inflow in the year in respect of the acquisition of the subsidiary comprised:

	£'000
Cash paid on completion – preferred share redemption	(422)
Net cash acquired	2,289
	1,867

Assumption of DARA BioSciences, Inc. share options and warrants

At the time of completion of the merger with DARA BioSciences, Inc. there were a number of outstanding and unexercised options and warrants over common stock in DARA. Under the terms of the merger these options and warrants became exercisable for a number of Midatech ordinary shares equal to the product of (A) the number of shares of DARA common stock that were issuable upon exercise of the stock option or warrant immediately prior to the merger, multiplied by (B) a factor of 0.272, that being the Exchange Ratio defined in the merger agreement, rounded down to the nearest whole number of Midatech ordinary shares.

The per share exercise price for each Midatech ordinary share issuable upon exercise of each stock option or warrant will be equal to (C) the exercise price per share of DARA common stock at which the DARA stock option or warrant was exercisable divided by (D) the Exchange Ratio of 0.272, rounded up to the nearest whole cent. All other terms, notably including expiration dates, remained materially the same.

As at 31 December 2015 there were DARA options outstanding over 721,000 Midatech ordinary shares with a weighted average exercise price of $7.62 per share, within a range of $2.54 to $770.59, and a weighted average remaining contractual life of 8.5 years. The risk free rate ranged from 0.63% to 1.81%, volatility from 59% to 79% and the expected life from 1.9 – 8.6 years. The exercise of all options would raise additional cash of $5.50m.

Also at the year-end there were DARA warrants outstanding over 3,034,437 Midatech ordinary shares with a weighted average exercise price of $9.67 per share, within a range of $3.06 to $164.71, and a weighted average remaining contractual life of 3.1 years. The risk free rate ranged from 0.44% to 1.63%, volatility from 59% to 79% and the expected life from 0.1 – 7.0 years. The exercise of all warrants would raise additional cash of $29.33m.

The share options and warrants were valued using the Black-Scholes model for the purpose of calculating the consideration payable for the DARA business. These options and warrants are treated as an equity settled derivative, held at fair value through profit and loss, see note 22.

13 ACQUISITION OF ZUPLENZ®

On 24 December 2015, the Group acquired US sales and marketing rights to the product Zuplenz®, an FDA-approved, marketed anti-emetic oral soluble film used in adult patients for the prevention of highly and moderately emetogenic chemotherapy-induced nausea and vomiting, radiotherapy-induced nausea and vomiting and post-operative nausea and vomiting. This acquisition was deemed to be a business combination following a review of the inputs, processes and potential for a market participant to generate outputs using the assets and agreements acquired.

The goodwill recognised will not attract a tax deduction.

	Provisional fair value £'000
Identifiable intangible assets:	
Product and marketing rights	2,512
Stock	231
Total net assets	(2,743)
Cash consideration	2,528
Contingent consideration	50
Total consideration	2,578
Negative goodwill on acquisition	(165)

* The contingent consideration relates to various milestone payments which are dependent on the quarterly sales achieved in calendar years 2016 and 2017 and annual sales from 2018 to 2022 exceeding specified sales targets.

No revenue or costs were contributed by Zuplenz® in the year. Acquisition related costs of £218k were incurred in relation to this acquisition and are included within administrative expenses within the consolidated statement of comprehensive income for the period.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

13 ACQUISITION OF ZUPLENZ® CONTINUED

The negative goodwill of £165k is included within administrative costs in the consolidated statement of comprehensive income. It arose due to the seller of Zuplenz® seeking to conclude the transaction as quickly as possible.

No revenue was included in the consolidated statement of comprehensive income since 24 December 2015 by Zuplenz®. Zuplenz® contributed a net loss of £nil over the same period. We are unable to quantity the impact on group revenue and group loss had the occurred on 1 January 2015 due to the seller of the product not providing separable accounting records.

The net cash outflow in the year in respect of the business acquisition comprised:

	£'000
Cash paid on completion	2,528

14 IMPAIRMENT TESTING

Midatech Pharma (Wales) Ltd

Details of goodwill and IPRD allocated to the acquired cash generating unit and the valuation basis is as follows:

	IPRD carrying amount		Goodwill carrying amount		Valuation basis
Name	2015 £'000	2014 £000	2015 £'000	2014 £000	£'000
CGU – Midatech Pharma (Wales) Ltd	10,800	10,800	2,291	2,291	Value in use

An impairment charge of £1.8m and a related £0.36m deferred tax credit was recorded in the Midatech Pharma Wales Ltd CGU as a result of the curtailment of an agreement with a commercial partner post acquisition. The carrying value of a component of IPRD, was reduced from £1.8m to nil. The resulting impairment charge was recorded in research and development expenditure within the consolidated statement of comprehensive income in 2014.

The remaining assets of the cash generating unit were not identified as being materially different to the fair values determined at the acquisition date on 8 December 2014. The IPRD was valued using 15-16 year risk adjusted cash flow forecasts, in line with patent life, that have been approved by the Board. A period longer than 5 years is appropriate on the basis that the investment is long-term and the development and commercialisation process is typically in excess of 5 years.

The key assumptions used in the model include the following:

Assumptions	2015 CGU – Q Chip Limited and subsidiaries	2014 CGU – Q Chip Limited and subsidiaries
Pre-tax discount rate	17.7-19.5%	17.7-19.5%
Cumulative probability of success of projects	46% to 69%	23% to 57%

2015

If any one of the following changes were made to the above key assumptions, applied to all projects, the carrying value and recoverable amount would be equal.

	2015 CGU – Q Chip Limited and subsidiaries
Pre-tax discount rate for all projects	Increase to 23.9%
Cumulative probability of success of all projects	44%

2014

The value in use calculations used to value the acquired intangibles and appraise the remaining carrying value of the intangibles at 31 December 2014 were materially the same. This is because of the impairment test date and acquisition date being only 23 days apart. Any increase in the discount rate or decrease in the probability of success of projects stated above would result in an impairment.

Midatech Pharma US, Inc

Details of goodwill and intangibles allocated to the acquired cash generating unit and the valuation basis is as follows:

Name	Goodwill carrying amount 2015 £000	Product and marketing rights carrying amount 2015 £000	Valuation basis
CGU – Midatech Pharma US, Inc	9,952	15,477	Value in use

The remaining assets of the cash generating unit were not identified as being materially different to the fair values determined at the acquisition date on 4 December 2015. The IPRD was independently valued using a 10-year risk adjusted cash flow forecasts, in line with patent life, that have been approved by the Board. Cash flows were modelled going forward until the point where cash flows on a present value basis reduce to a minimal amount.

The key assumptions used in the model include the following:

Assumptions	2015 CGU – Midatech Pharma US, Inc
Pre-tax discount rate	23.2%

The value in use calculations used to value the acquired intangibles and appraise the remaining carrying value of the intangibles at 4 December 2015 were materially the same. This is because of the impairment test date and acquisition date being only 27 days apart and no event occurred during that period that would lead to a revision in the underlying assumptions of the forecast.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

15 SUBSIDIARIES

The subsidiaries of Midatech Pharma plc, all of which are 100% owned and have been included in these financial statements in accordance with the details set out in the basis of preparation and basis of consolidation note 1, are as follows:

Name	Country of incorporation	Nature of Business	Notes
Midatech Limited	United Kingdom	Trading company	
Midatech Pharma (Espana) SL	Spain	Trading company	(a)
Midatech Andalucia SL	Spain	Dormant	
PharMida AG	Switzerland	Trading company	(b)
Midatech Pharma (Wales) Limited	United Kingdom	Trading company	(c)
Midatech Pharma US, Inc	USA	Trading company	(d)
Dara Therapeutics, Inc.	USA	Dormant	
Midatech Pharma Pty	Australia	Trading company	(e)

Notes:

(a) Midatech Biogune SL was renamed Midatech Pharma (Espana) Limited on 16 April 2015.

(b) PharMida AG became dormant in January 2016.

(c) Q Chip Limited was renamed Midatech Pharma (Wales) Limited on 23 January 2015.

(d) DARA Bio Sciences, Inc. was acquired on 4 December 2015 through a merger with a specially incorporated subsidiary of Midatech Pharma plc. This merger subsidiary was renamed Midatech Pharma US, Inc. on 4 December 2015.

(e) Midatech Pharma Pty was incorporated on 16 February 2015.

16 JOINT ARRANGEMENTS

Name	Country of incorporation	Nature of business	Type of arrangement
Syntara LLC	USA	Dormant	Joint venture
MidaSol Therapeutics GP	Cayman Islands	Research and development partner	Joint operation

The Group has a 50% (2014: 50%) interest in two joint arrangements: Syntara LLC and MidaSol Therapeutics. The primary activity of these joint arrangements was to provide the partners with collaborative research and development on drug delivery systems in the market, which is in line with the Group's strategy to develop a safe and effective drug delivery system.

Syntara LLC is a dormant joint venture where the Group has joint control over the separate legal entity. The Group equity accounts for its interests in this arrangement; the results are immaterial to the financial statements.

MidaSol Therapeutics has a separate legal entity however no costs or revenues pass through it. The Group and its collaborative partner incur costs in respect of research and development and periodically agree on a contribution from either side to ensure that both parties have incurred 50% of the total costs. Contributions from their research partner are netted against the costs to which they relate within research and development and the arrangement is accounted for as a joint operation.

	2015 £'000	2014 £'000	2013 £'000
Research and development spend on MidaSol Therapeutics	776	248	542
Year-end receivable due from joint operation partner	219	–	146

17 TRADE AND OTHER RECEIVABLES

	2015 £'000	2014 £'000	2013 £'000
Trade receivables	985	189	160
Prepayments	685	49	68
Other receivables	1,213	649	1,060
Total trade and other receivables	2,883	887	1,288
Less: non-current portion (rental deposit and bond)	(387)	(425)	(379)
Current portion	2,496	462	909

Trade and other receivables do not contain any impaired assets. The Group does not hold any collateral as security and the maximum exposure to credit risk at the Consolidated Statement of Financial Position date is the fair value of each class of receivable.

Book values approximate to fair value at 31 December 2015, 2014 and 2013.

18 CASH AND CASH EQUIVALENTS AND CASH FLOW SUPPORTING NOTES

	2015 £'000	2014 £'000	2013 £'000
Cash at bank available on demand	16,175	30,325	2,387

Significant non-cash transactions are as follows:

	2015 £'000	2014 £'000	2013 £'000
Financing activities			
Conversion of convertible local notes into equity	–	–	3,255

Share issues net of costs – cash transactions

	2015 £'000	2014 £'000	2013 £'000
Funds raised on the Initial Public Offering	–	32,000	–
Costs of raising funds on Initial Public Offering/listing	–	(1,350)	–
Issue of shares in Midatech Limited pre flotation	–	3,202	5,797
	–	33,852	5,797

Notes forming part of the financial statements continued

for the year ended 31 December 2015

19 INVENTORIES

	2015 £'000	2014 £'000	2013 £'000
Work in progress	230	–	–
Finished goods	229	–	–
Total inventories	459	–	–

20 TRADE AND OTHER PAYABLES

	2015 £'000	2014 £'000	2013 £'000
Current			
Trade payables	2,285	981	522
Other payables	35	177	177
Accruals	3,101	732	58
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	5,421	1,890	757
Tax and social security	183	274	78
Deferred revenue	1,480	177	212
Total trade and other payables	7,084	2,341	1,047

Book values approximate to fair value at 31 December 2015, 2014 and 2013.

All current trade and other payables are payable within 3 months of the period end date shown above.

Government grants in UK

The Group received development grant funding from the European Commission of £0.15m on 18 August 2014 and £0.07m on 16 December 2014 under the Health Cooperation Work Programme of the 7th Framework Programme of which £0.15m (2013: £0.21m) is recorded as deferred revenue. The collaborative project supported by this grant is part of the EE-ASI European Research network.

Government grants/loans in Spain

Five tranches of government loans have been received by Midatech Pharma Espana SL (formerly Midatech Biogune SL) for the finance of research, technical innovation and the construction of their laboratory. The loans are term loans which carry an interest rate below the market rate, and are repayable over periods through to 2022. The loans carry default interest rates in the event of scheduled repayments not being met. On initial recognition the loans are discounted at a market rate of interest with the credit being classified as a grant within deferred revenue. The deferred grant revenue is released to the consolidated statement of comprehensive income within research and development costs in the period to which the expenditure is recognised.

The debt element of the government loans is designated within note 21 as borrowings, the gross contractual repayment of the loans is disclosed in note 23.

21 LOANS AND BORROWINGS

	2015 £'000	2014 £'000	2013 £'000
Current			
Bank loans	9	9	–
Finance lease	70	37	47
Government and research loans	363	445	138
Preference share dividends payable	–	–	1,063
Total	442	491	1,248
Non-current			
Bank loans	20	31	–
Government and research loans	1,420	1,457	1,006
Preference shares	–	–	1,075
Finance lease	68	–	38
Total	1,508	1,488	2,119

Book values approximate to fair value at 31 December 2015, 2014 and 2013.

Obligations under finance leases are secured by a fixed charge over the fixed assets to which they relate.

The Group had no undrawn committed borrowing facilities at any year end.

22 DERIVATIVE FINANCIAL LIABILITY – CURRENT

	2015 £'000	2014 £'000	2013 £'000
Equity settled derivative financial liability	1,573	–	–
On acquisition – 5 December 2015	3,211	–	–
Gain recognised in finance income within the consolidated statement of comprehensive income	(1,638)	–	–
At 31 December	1,573	–	–

Equity settled derivative financial liability is not a liability that is to be settled for cash. The Group assumed fully vested warrants and share options on the acquisition of DARA Biosciences, Inc. The number of ordinary shares to be issued when exercised is fixed, however the exercise prices are denominated in US Dollars being different to the functional currency of the parent company. Therefore, the warrants and share options are classified as equity settled derivative financial liabilities through the profit and loss account. The financial liabilities were valued using the Black-Scholes option pricing model. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporated any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 23. A key input in the valuation of the instrument is the company share price. The share price of the company reduced from £2.65 at the date of acquisition of DARA Biosciences, Inc. to £1.74 at 31 December 2015, resulting in a gain of £1.638m on re-measurement which has been credited to finance income.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

23 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. The Board does not believe that its risk exposure to financial instruments, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note has changed in the past year.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Accruals
- Loans and borrowings
- Derivative financial liability

A summary of the financial instruments held by category is provided below:

Financial assets – loans and receivables

	2015 £'000	2014 £'000	2013 £'000
Cash and cash equivalents	16,175	30,325	2,387
Trade receivables	985	189	160
Other receivables	1,213	649	1,060
Total financial assets	18,373	31,163	3,607

Financial liabilities – amortised cost

	2015 £'000	2014 £'000	2013 £'000
Trade payables	2,285	981	522
Other payables	35	177	177
Accruals	3,101	732	58
Loans and borrowings	1,950	1,979	3,367
Total financial liabilities – amortised cost	7,371	3,869	4,124

Financial liabilities – fair value through profit and loss – current

	2015 £'000	2014 £'000	2013 £'000
Equity settled derivative financial liability	1,573	–	–

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Management.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of the Group's financial liability is measured at fair value on a recurring basis.

The following table gives information about how the fair value of this financial liability is determined:

Financial liabilities	Fair value as at 31/12/2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equity settled financial derivative liability	£1,573k	Level 3	Black-Scholes option pricing model	Volatility rates between a range of 59% and 76% determined using historical volatility of comparable companies. Expected life between a range of 0.1 and 8.6 years determined using the remaining life of the share options. Risk-free rate between a range of 0.44% and 1.81% determined using the expected life assumptions.	The higher the volatility the higher the fair value. The shorter the expected life the lower the fair value. The higher the risk-free rate the higher the fair value.

If the above unobservable volatility input to the valuation model were 10% higher while all other variables were held constant, the carrying amount of shares would increase by £273k.

If the above unobservable expected life input to the valuation model were 1 year shorter while all other variables were held constant, the carrying amount of shares would decrease by £70k.

If the above unobservable risk free rate input to the valuation model were 10% higher while all other variables were held constant, the carrying amount of shares would increase by £5k.

There were no transfers between Level 1 and 2 in the period.

The financial liability measured at fair value on Level 3 fair value measurement represents consideration relating to a business combination.

The Group had no material financial instruments carried at fair value in the statement of financial position on 31 December 2014 or 31 December 2013.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

23 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

General objectives, policies and processes continued

Credit risk

Credit risk is the risk of financial loss to the Group if a development partner or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from amounts due from collaborative partners which is deemed to be low.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with high credit status are accepted.

The Group does not enter into derivatives to manage credit risk.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out in note 17. This includes details regarding trade and other receivables, which are neither past due nor impaired.

The total exposure to credit risk of the Group is equal to the total value of the financial assets held at each year end as noted above.

Cash in bank

The Group is continually reviewing the credit risk associated with holding money on deposit in banks and seeks to mitigate this risk by holding deposits with banks with high credit status.

Foreign exchange risk

Foreign exchange risk arises because the Group has a material operation located in Bilbao, Spain, and operations in the US whose functional currencies are not the same as the functional currency of the Group. The Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. Given the levels of materiality, the Group does not hedge its net investments in overseas operations as the cost of doing so is disproportionate to the exposure.

Foreign exchange risk also arises when individual Group entities enter into transactions denominated in a currency other than their functional currency; the Group's transactions outside the UK to the US, Europe and Australia drive foreign exchange movements where suppliers invoice in currency other than sterling. These transactions are not hedged because the cost of doing so is disproportionate to the risk.

As of 31 December 2015, 2014 and 2013, the Group's exposure to foreign exchange risk was not material, however, the board will monitor the situation going forward.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

It is the Group's aim to settle balances as they become due.

The Group's current financial position is such that the Board does not consider there to be a short-term liquidity risk however the Board will continue to monitor long-term cash projections in light of the development plan and will consider raising funds as required to fund long-term development projects. Development expenditure can be curtailed as necessary to preserve liquidity.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

2015	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	5,421	–	–	–	–
Bank loans	2	7	9	13	–
Finance leases	7	71	27	56	–
Government research loans	36	352	195	644	755
Total	5,466	430	231	713	755

2014	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	1,890	–	–	–	–
Bank loans	2	7	9	24	–
Finance leases	11	27	–	–	–
Government research loans	–	485	207	891	351
Total	1,903	519	216	915	351

2013	Up to 3 Months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	757	–	–	–	–
Finance leases	12	35	38	–	–
Government research loans	–	159	169	535	445
Preference shares	–	–	–	–	1,075
Preference share dividends payable	1,063	–	–	–	–
Total	1,832	194	207	535	1,520

More details which regard to the line items above are included in the respective notes:

- Trade and payables – Note 20
- Loans and borrowings – Note 21

Notes forming part of the financial statements continued
for the year ended 31 December 2015

23 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

Capital risk management

The Group monitors capital which comprises all components of equity (i.e. share capital, share premium, foreign exchange reserve and accumulated deficit).

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, and
- to have sufficient resource to take development projects forward towards commercialisation.

The Group continues to incur substantial operating expenses. Until the Group generates positive net cash inflows from the commercialisation of its products it remains dependent upon additional funding through the injection of equity capital and government funding. The Group may not be able to generate positive net cash inflows in the future or to attract such additional required funding at all, or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and business operations cut back.

The Group seeks to reduce this risk by keeping a tight control on expenditure, avoiding long-term supplier contracts (other than clinical trials), prioritising development spend on products closest to potential revenue generation, obtaining government grants (where applicable), maintaining a focused portfolio of products under development and keeping shareholders informed of progress.

There have been no changes to the Group's objectives, policies and processes for managing capital and what the Group manages as capital, unless otherwise stated in this note, since the past year.

24 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using tax rates applicable in the tax jurisdictions where the tax asset or liability would arise.

The movement on the deferred tax account is as shown below:

	2015 £'000	(As restated) 2014 £'000
Liability at 1 January 2015	354	–
Arising on business combination	6,191	714
Credited to income on impairment of IPRD	–	(360)
Credited to income statement	(131)	–
Foreign exchange gain	133	–
Liability at 31 December 2015	6,547	354

A deferred tax liability has arisen due to deferred tax on intangible assets acquired during the period. The liability recognised on the 2014 acquisition was restated due to the availability of tax losses in the acquired entity which qualifies for offset, see note 11.

An intangible asset was impaired in the restated financial statements for the year ended 31 December 2014 by £1.8m and consequently a £0.36m credit was recognised in the income statement.

Unused tax losses carried forward, subject to agreement with local tax authorities, were as follows:

	Gross losses £'000	Unrecognised deferred tax asset £'000
31 December 2013	13,004	2,601
31 December 2014 – Restated	16,017	3,203
31 December 2015	23,286	4,191

With the exception of the £1.63m (2014: £1.81m) deferred tax asset which qualifies for offset against the deferred tax liability arising on the acquisition of Midatech Pharma (Wales) Limited and the remaining potential deferred tax asset has not been provided in these accounts due to uncertainty as to the whether the asset would be recovered.

Details of the deferred tax liability are as follows:

2015	Asset £'000	Liability £'000	Net £'000
Business Combinations	1,625	(8,172)	(6,547)
2014			
Business Combinations	1,806	(2,160)	(354)

25 SHARE CAPITAL

	2015 Number	2015 £	2014 Number	2014 £	2013 Number	2013 £
Allotted and fully paid – classified as equity						
At 1 January						
Ordinary shares of 0.005p each	33,467,504	1,673	27,794,258	1,390	2,889,229	289
Deferred shares of £1 each	1,000,001	1,000,001	1,000,001	1,000,001	–	–
C preference shares of 0.01p each	–	–	–	–	565,064	57
Total		1,001,674		1,001,391		346

	2015 Number	2015 £	2014 Number	2014 £	2013 Number	2013 £
Allotted and fully paid up – classified as liabilities						
A 7.5% preference shares of £1 each	–	–	–	–	1,000,000	1,000,000
B 15% preference shares of £1 each	–	–	–	–	75,000	75,000
Total		–		–		1,075,000

In accordance with the Articles of Association for the Company adopted on 13 November 2014, the share capital of the Company consists of an unlimited number of ordinary shares of nominal value 0.005 pence each. Ordinary and C preference shares were recorded as equity.

Notes forming part of the financial statements continued
for the year ended 31 December 2015

25 SHARE CAPITAL CONTINUED

Rights attaching to the shares prior to the incorporation of Midatech Pharma plc

Shares classified as equity

The holders of ordinary shares and C preference shares in the capital of the Company had the following rights and ranked pari passu with one another:

(a) to receive notice of, to attend and to vote at all general meetings of the Company, in which case shareholders shall have one vote for each share of which they are the holder.

(b) to receive such dividend as is declared by the Board on each share held.

In the event of a distribution of assets, the capital return would be distributed as follows:

(a) C preference shareholders to receive original issue price.

(b) A and B preference shareholders to receive an agreed amount per share as set out in the Company's Articles.

(c) C preference and ordinary shareholders to receive remaining capital and rank pari passu.

Shares classified as liabilities

The A and B preference shares have a nominal value of £1 and have right to a fixed cumulative, preferential dividend at a rate of 7.5% and 15% respectively, dividends ceased to accrue from 28 October 2013. Accrued dividends ranked equally amongst A and B preference shares and were compounded at the end of each period. Preference dividends are ranked before any other class of share. The preference dividends did not confer any further rights to participation in the profits or assets of the Company. The preference shares only became redeemable on a listing or change of control. Preference shareholders were entitled to attend and speak at general meetings of the Company but did not have the right of a vote.

A and B preference shares were categorised as liabilities and held at amortised cost until the right to a fixed dividend ceased to accrue.

Rights attaching to the shares following the incorporation of Midatech Pharma plc

Shares classified as equity

The holders of ordinary shares in the capital of the Company have the following rights:

(a) to receive notice of, to attend and to vote at all general meetings of the Company, in which case shareholders shall have one vote for each share of which he is the holder.

(b) to receive such dividend as is declared by the Board on each share held.

The holders of Deferred Shares in the capital of the Company:

(a) shall not be entitled to receive notice of or to attend or speak at any general meeting of the Company or to vote on any resolution to be proposed at any general meeting of the Company;

(b) shall not be entitled to receive any dividend or other distribution of out of the profits of the Company.

In the event of a distribution of assets, the Deferred shareholders shall receive the nominal amount paid up on such share after the holder of each ordinary share shall have received (in cash or specie) the amount paid up or credited as paid up on such ordinary share together with an additional payment of £100 per share. The Company has the authority to purchase the Deferred Shares and may require the holder of the Deferred Shares to sell them for a price not exceeding 1p for all the Deferred Shares.

Date of Issue	Type of Share Issue	Ordinary Shares Number	A Preference Shares Number	B Preference Shares Number	C Preference Shares Number	Share Price £	Total consideration £'000
2013							
As at 1 January 2013	Brought forward	2,457,493	1,000,000	75,000	–	–	–
11 February 2013	Convertible loan	234,196	–	–		8.38	1,963
21 February 2013	Subscription option	16,489	–	–	–	13.70	226
27 February 2013	Subscription option	133,808	–	–	–	8.38	1,120
30 April 2013	Subscription option	5,474	–	–	–	13.70	75
10 May 2013	Subscription option	4,806	–	–	–	13.70	66
03 June 2013	Subscription option	962	–	–	–	13.70	13
18 June 2013	Subscription option	5,715	–	–	–	17.50	100
04 July 2013	Subscription option	14,286	–	–	–	17.50	250
15 July 2013	Subscription option	5,715	–	–	–	17.50	100
05 August 2013	Subscription option	2,857	–	–	–	17.50	50
08 August 2013	Subscription option	1,428	–	–	–	17.50	25
26 September 2013	Subscription option	3,000	–	–	–	17.50	53
27 September 2013	Subscription option	3,000	–	–	–	17.50	53
05 December 2013	Convertible	–	–	–	144,552	8.95	1,294
05 December 2013	Share issue	–	–	–	420,512	8.81	3,705
Total 2013		2,889,229	1,000,000	75,000	565,064		9,093

Notes forming part of the financial statements continued

for the year ended 31 December 2015

25 SHARE CAPITAL CONTINUED

Date of Issue	Type of Share Issue	Ordinary Shares Number	A Preference Shares Number	B Preference Shares Number	C Preference Shares Number	Deferred Shares Number	Share Price £	Total consideration £'000
2014								
As at 1 January 2014		2,889,229	1,000,000	75,000	565,064	–	–	9,093
30 January 2014	Equalisation round	39,853	–	–	–	–	–	–
19 April 2014	Subscription option	244,881	–	–	–	–	0.15	37
13 June 2014	Subscription option	8,250	–	–	–	–	0.15	1
4 September 2014	Rights issue	105,314	–	–	511,738	–	5.13	3,165
12 September 2014	Share redemption	–	–	(75,000)	–	–	–	–
	Total pre-share for share exchange – Midatech Limited	3,287,527	1,000,000	–	1,076,802	–		12,296
12 September 2014	Subscriber share – Midatech Pharma plc	1					1.0000	–
13 November 2014	Share for share exchange	3,287,527	1,000,000	–	1,076,802	–	–	–
13 November 2014	Sub-division of subscriber share	9,999	–	–	–	–	0.0001	–
28 November 2014	Warrant exchange share issue	628,356	–	–	–	–	0.0001	–
28 November 2014	Share conversion	(10,000)	–	–	–	1	–	–
28 November 2014	Share conversion	1,076,802	–	–	(1,076,802)	–	–	–
	Total ordinary shares pre-subdivision	4,992,685						
28 November 2014	Share sub division	9,985,370	–	–	–	–	–	–
8 December 2014	Share issue on acquisition of Q Chip Limited	5,077,122	–	–	–	–	2.67	–
8 December 2014	Public offering	11,985,019	–	–	–	–	2.67	32,000
8 December 2014	Share conversion	746,747	(1,000,000)	–	–	1,000,000	–	–
		27,794,258	–	–	–	1,000,001		32,000

Date of Issue	Type of Share Issue	Ordinary Shares Number	A Preference Shares Number	B Preference Shares Number	C Preference Shares Number	Deferred Shares Number	Share Price £	Total consideration £'000
2015								
As at 1 January 2015		27,794,258	–	–	–	1,000,001		32,000
24 April 2015	Exercise of employee share options	16,500	–	–	–	–	0.00005	–
25 September 2015	Exercise of employee share options	10,000	–	–	–	–	0.00005	–
4 December 2015	Share issue on acquisition of DARA BioSciences, Inc.	5,422,028	–	–	–	–	2.63	14,240
23 December 2015	Deferred consideration re: acquisition of Q Chip Limited	224,718	–	–	–	–	2.67	600
As at 31 December 2015		33,467,504	–	–	–	1,000,001		46,840

26 RESERVES

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Represents the difference between the fair value and nominal value of shares issued on the acquisition of subsidiary companies where the Company has elected to take advantage of merger relief. This is added to the share premium of Midatech Limited prior to the merger as set out in note 1.
Shares to be issued	Shares for which consideration has been received but which are not yet issued and which form part of consideration in a business combination.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Accumulated deficit	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

27 LEASES

The Group had commitments under non-cancellable operating leases as set out below:

	Land and buildings £'000	Other £'000
2015		
Expiring In one year or less	313	1
Expiring Between one and five years	410	2
	723	3
2014		
Expiring in one year or less	150	79
Expiring between one and five years	159	–
	309	79
2013		
Expiring in one year or less	48	67
Expiring between one and five years	50	56
	98	123

28 RETIREMENT BENEFITS

The Group operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are administered by trustees in funds independent from those of the Group. The pension costs charged for each year are listed below:

	2015 £'000	2014 £'000	2013 £'000
Defined contribution pension scheme	183	169	177

Notes forming part of the financial statements continued

for the year ended 31 December 2015

29 SHARE-BASED PAYMENTS

Share Options

The Group has issued options over ordinary shares under the Midatech Limited 2008 unapproved share option scheme and Midatech Limited 2013 approved Enterprise Incentive scheme. Exercise of an option is subject to continued employment. All options were originally issued over shares in Midatech Ltd however they were reissued during the year as options over shares in Midatech Pharma plc

Details of all share options granted under the Midatech Limited schemes are set out below:

Date of grant	At 1 January 2015	Granted in 2015	Exercised in 2015	Forfeited in 2015	At 31 December 2015	Exercise Price
31 December 2008	26,122	–	–	–	26,122	£1.425
31 December 2008	15,500	–	–	–	15,500	£3.985
1 April 2010	25,110	–	–	–	25,110	£4.00
20 August 2010	59,666	–	–	(17,900)	41,766	£4.19
13 September 2011	3,000	–	–	–	3,000	£4.19
20 April 2012	35,796	–	–	–	35,796	£4.19
3 April 2014	26,500	–	(26,500)	–	–	£0.075
9 May 2014	200,000	–	–	–	200,000	£0.075
30 June 2014	880,000	–	–	–	880,000	£0.075
11 July 2014	11,000	–	–	(6,000)	5,000	£0.075
	1,282,694	–	(26,500)	(23,900)	1,232,294	

Options exercisable at 31 December 2015	366,044
Weighted average exercise price of outstanding options at 31 December 2015	£0.502
Weighted average exercise price of options exercised in 2015	£0.075
Weighted average exercise price of options forfeited in 2015	£4.19
Weighted average exercise price of options granted in 2015	n/a
Weighted average remaining contractual life of outstanding options at 31 December 2015	7.8 years

Date of grant	At 1 January 2014	Granted in 2014	Exercised in 2014	Forfeited in 2014	At 31 December 2014	Exercise Price
31 December 2008	44,622	–	–	(18,500)	26,122	£1.425
31 December 2008	15,500	–	–	–	15,500	£3.985
1 September 2009	12,500	–	–	(12,500)	–	£3.985
13 November 2009	25,000	–	–	(25,000)	–	£4.00
1 April 2010	25,110	–	–	–	25,110	£4.00
20 August 2010	59,666	–	–	–	59,666	£4.19
13 September 2011	3,000	–	–	–	3,000	£4.19
20 April 2012	47,796	–	–	(12,000)	35,796	£4.19
1 May 2013	100,000	–	–	(100,000)	–	£6.85
3 April 2014	–	43,000	(16,500)	–	26,500	£0.075
9 May 2014	–	200,000	–	–	200,000	£0.075
30 June 2014	–	880,000	–	–	880,000	£0.075
11 July 2014	–	11,000	–	–	11,000	£0.075
	333,194	1,134,000	(16,500)	(168,000)	1,282,694	

Options exercisable at 31 December 2014	125,847
Weighted average exercise price of outstanding options at 31 December 2014	£0.54
Weighted average exercise price of options forfeited in 2014	£5.43
Weighted average exercise price of options granted in 2014	£0.08
Weighted average remaining contractual life of outstanding options at 31 December 2014	8.5 years

Date of grant	At 1 January 2013	Granted in 2013	Exercised in 2013	Forfeited in 2013	At 31 December 2013	Exercise Price
31 December 2008	46,222	–	–	(1,600)	44,622	£1.425
31 December 2008	15,500	–	–	–	15,500	£3.985
25 March 2009	25,000	–	–	(25,000)	–	£3.985
1 September 2009	12,500	–	–	–	12,500	£3.985
13 November 2009	25,000	–	–	–	25,000	£4.00
1 April 2010	25,110	–	–	–	25,110	£4.19
20 August 2010	59,666	–	–	–	59,666	£4.19
13 September 2011	3,000	–	–	–	3,000	£4.19
20 April 2012	47,796	–	–	–	47,796	£4.19
1 May 2013	–	100,000	–	–	100,000	£6.85
	259,794	100,000	–	(26,600)	333,194	

Options exercisable at 31 December 2013	148,528
Weighted average exercise price of outstanding options at 31 December 2013	£4.57
Weighted average exercise price of options forfeited in 2013	£3.83
Weighted average exercise price of options granted in 2013	£6.85
Weighted average remaining contractual life of outstanding options at 31 December 2013	6.0 years

Options granted in 2014 relate to the Midatech Limited 2013 approved Enterprise Incentive scheme.

Notes forming part of the financial statements continued

for the year ended 31 December 2015

29 SHARE-BASED PAYMENT CONTINUED

The 200,000 options issued on 9 May 2014 contained the following conditions:

- 25,000 vested immediately;
- 25,000 vest on 1 May 2015, a further 25,000 on 1 May 2016 and a further 25,000 on 1 May 2017;
- 50,000 vest when the ordinary price of a share reaches £13.70;
- 50,000 vest when the ordinary price of a share reaches £27.40; and
- On the event of an initial public offering all of the options vest immediately and have therefore vested.

The 880,000 and 11,000 share options granted on 9 May 2014 and 11 July 2014 only vest when the Company's share price achieves certain targets as follows:

- 50% vest when the share price reaches £5.31 per share;
- A further 25% vests when the share price reaches £13.72; and
- The remaining 25% when the share price reaches £18.86.

Otherwise the main vesting condition of all share options is that the Director or employee remain employed with the Group as at the date of exercise or continues to provide consultancy services as at the date of exercise.

The following information is relevant in the determination of the fair value of options granted during the year 2014 under the equity share-based remuneration schemes operated by the Group. No share options were granted by the Company in 2015, however, a number of share options and warrants were assumed by the Company on the acquisition of Dara BioSciences, Inc. (see note 12).

	2014
Number of options	1,134,000
Option pricing models used	Black-Scholes/Monte Carlo
Share price	£2.67*
Exercise price of options issued in year	7.5p
Contractual life	9–10 years
Volatility	60%**
Expected dividend yield	0%
Risk free rate	1.51%

* The share price used in the determination of the fair value of the options granted in 2014 was the price of ordinary shares issued at initial public offering in December 2014.

** Volatility was calculated with reference to the historic share price volatility of comparable companies measured over a four-year period.

All other share options relate to the Midatech Limited 2008 unapproved share option scheme. 2013 comparative figures have been restated to reflect the share split in that year.

On 13 November 2009 subscription options over 12,500 ordinary shares exercisable over a 5-year period were issued at an exercise price of £8.00 per share. On 5 December 2013 the expiry date of part of this option over 9,375 ordinary shares was extended to 13 November 2019.

On 15 June 2010 an option to subscribe for up to 133,808 ordinary shares was issued over a 3-year period. The option was exercised in full on 27 February 2013 for a cash consideration of £1,121,311.

Upon the issuance of convertible loan notes on 20 August 2010, subscription options over 1,282,813 ordinary shares were issued as follows:

- A subscription option of 29,833 ordinary shares exercisable over 5 years at an exercise price of £8.38 per share. On 5 December 2013 the expiry date of part of this option over 20,883 ordinary shares was extended to 20 August 2020.
- A subscription option of up to a maximum of 417,660 ordinary shares exercisable over 6 months from 19 December 2010 at an exercise price of £8.38 per share. On 19 June 2011, pursuant to the exercise of this option, 251,635 ordinary shares of 0.01p each were issued for a cash consideration of £2.1 million.
- Two subscription options of up to a maximum of 417,660 ordinary shares each at an exercise price of £8.38 per share exercisable on a "follow on" basis to match any exercise of the above option. Following the exercise of the above option, the two options of 251,635 ordinary shares each were to be exercised by 19 December 2011. On 5 December 2011, 119,332 options were exercised and the remaining options over 383,938 shares were exercised on 19 December 2011.
- On 29 October 2012 the Company issued subscription options over 119,332 ordinary shares at an exercise price of £8.38 per share and over 182,482 ordinary shares at an exercise price of £13.70 per share. Both options were valid until 30 June 2013. On 31 January 2013 options over 16,489 ordinary shares were exercised for an aggregate cash consideration of £225,899.

30 CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2015, 31 December 2014 and 31 December 2013.

31 RELATED PARTY TRANSACTIONS

Details of Directors' remuneration are given on page 24 and in note 5.

Transactions with Monosol RX, LLC

The Directors consider Monosol RX, LLC to be a related party by virtue of the fact that Monosol RX, LLC is a shareholder of the Company and are a collaborative partner in the MidaSol Therapeutics joint operation.

During the period, £317k (2014: £273k, 2013: £542k) was receivable from Monosol RX, LLC for research services and was credited to research and development expenditure. The year-end receivable due from Monsol RX LLC was £219k (2014: Nil, 2013: £146k).

32 CONTINGENT LIABILITIES

The Group had no contingent liabilities at 31 December 2015, 31 December 2014 or 31 December 2015.

33 ULTIMATE CONTROLLING PARTY

The Directors do not consider that there is an ultimate controlling party.

Company balance sheet

for the year ended 31 December 2015

	Note	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Fixed assets					
Intangible assets	3		2,561		1,001
Investments	4		7,405		–
Property, Plant & Equipment	5		335		–
			10,301		1,001
Current assets					
Inventories	6	230		–	
Debtors	7	8,874		1,051	
Cash at bank		14,324		29,599	
		23,428		30,650	
Creditors: amounts due falling due within one year	8	(3,331)		(236)	
Net current assets			20,097		30,414
Total assets less current liabilities			30,398		31,415
Capital and reserves					
Called up share capital	9		1,002		1,001
Share premium account	14		31,643		31,643
Accumulated deficit	14		(2,247)		(1,229)
Total equity attributable to owners of the parent company			30,398		31,415

The financial statements on pages 79 to 84 were approved and authorised for issue by the Board of Directors on 12 April 2016 and were signed on its behalf by:

Nick Robbins-Cherry
Chief Financial Officer

The notes on pages 79 to 84 form part of these financial statements.

Parent Company statement of changes in equity

for the year ended 31 December 2015

	Share capital £'000	Share Premium £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2015	1,001	31,643	(1,229)	31,415
Loss for the year	–	–	(1,188)	(1,188)
Total comprehensive loss	–	–	(1,188)	(1,188)
Transactions with owners				
Shares issued on exercise of share options	1	–	–	1
Share option charge	–	–	170	170
Total contribution by and distributions to owners	1	–	170	171
At 31 December 2015	1,002	31,643	(2,247)	30,398
At 1 January 2014	–	–	–	–
Loss for the year	–	–	(1,229)	(1,229)
Total comprehensive loss	–	–	(1,229)	(1,229)
Transactions with owners				
Shares issued as consideration for a business combination – 8 December 2014	1,001	31,643	–	32,644
Total contribution by and distributions to owners	1,001	31,643	(1,229)	32,644
At 31 December 2014	1,001	31,643	(1,229)	31,415

Notes forming part of the Company financial statements

for the year ended 31 December 2015

1 ACCOUNTING POLICIES

Basis of preparation

Midatech Pharma plc is a Company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the Group's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102").

These financial statements are the first financial statements prepared under FRS 102. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical;
- No cash flow statement has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments and share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

The following principal accounting policies have been applied:

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid. Costs of acquisition of investments are capitalised.

Intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight line basis over their useful economic lives where they are in use. The amortisation expense is included within the administrative cost in the profit and loss account income.

The amounts ascribed to intangibles recognised on business combinations are arrived at by using appropriate valuation techniques.

Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Acquisition costs of a business are capitalised within goodwill. Goodwill on acquisitions is included in 'intangible assets'. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill amortisation is calculated by applying the straight-line method to its estimated useful life. If a reliable estimate cannot be made, the useful life of goodwill is presumed to be 5 years. Goodwill is being amortised to 'administrative expenses' over a period of 5 years.

Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the market value. In evaluating whether inventories are stated at the lower of cost or net realisable value, management considers such factors as the amount of inventory on hand and in the distribution channel, estimated time required to sell such inventory, remaining shelf life, and current and expected market conditions, including levels of competition.

If net realisable value is lower than the carrying amount a write down provision is recognised for the amount by which the carrying value exceeds its net realisable value.

Revenue

The income streams comprise milestone income from research and development contracts and the sale of goods. Milestone income is recognised as revenue in the accounting period in which the milestones are achieved. Milestones are agreed on a project by project basis and will be evidenced by set deliverables.

Impairment of goodwill and intangible assets

Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGUs) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Product marketing rights acquired in business combinations are recognised as assets and are amortised over their useful life.

Product and marketing rights	–	Between 2 and 7 years

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset in respect of unutilised tax losses has not been recognised on the basis that the future economic benefit was not certain.

Going concern

Accounting standards require the Directors to consider the appropriateness of the going concern basis when preparing the financial statements. The Directors are of the opinion that they consider the going concern basis will remain appropriate. The Directors have taken notice of the Financial Reporting Council guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2010" which requires the reasons for this decision to be explained. The Directors regard the going concern basis as remaining appropriate as the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Depreciation

Depreciation on assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Leasehold Improvements	–	The term of the lease
Computer Equipment and Software	–	4 years
Fixtures and Fittings	–	4 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other operating income or losses" in the statement of comprehensive income.

2 LOSS ATTRIBUTABLE TO SHAREHOLDERS

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The loss for the financial period, of the holding Company, as approved by the Board, was £1.19m (2014: £1.23m).

Notes forming part of the Company financial statements

for the year ended 31 December 2015 continued

3 INTANGIBLES

	Product and marketing rights £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2015	–	–	–
Additions	2,512	53	2,565
At 31 December 2015	2,512	53	2,565
Amortisation			
At 1 January 2015	–	–	–
Charge for year	4	–	4
At 31 December 2015	4	–	4
NBV	–	–	–
At 31 December 2015	2,508	53	2,561

£165k of negative goodwill relating to the acquisition of Zuplenz® arose in the consolidated financial statements (see note 13 of the of the consolidated financial statements). The treatment under FRS 102 is different due to the capitalisation of acquisition costs of £218k.

4 INVESTMENTS

	2015 £'000	2014 £'000
Brought forward 1 January	1,001	–
Additions	6,404	1,001
Total investments at 31 December	7,405	1,001

At 31 December 2015 the Company held share capital in the following subsidiaries and joint arrangements:

Name	Country of incorporation	Nature of business	Proportion held	Notes
Midatech Pharma Wales Limited	United Kingdom	Trading company	100%	
Midatech Limited	United Kingdom	Trading company	100%	
Midatech Pharma (Espana) SL	Spain	Trading company	100%	(a)
Midatech Andalucia SL	Spain	Dormant	100%	(a)
PharMida AG	Switzerland	Trading	100%	(a)
MidaSol Therapeutics GP	Cayman Islands	Trading	50%	(b)
Syntara LLC	United States	Dormant	50%	(b)
Midatech Pharma US, Inc	United States	Trading	100%	
DARA Therapeutics, Inc.	United States	Dormant	100%	
Midatech Pharma Pty	Australia	Trading	100%	

(a) All 100% owned via Midatech Limited.

(b) Joint venture, with 50% owned by Midatech Limited.

PharMida AG became dormant from January 2016.

5 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment and software £'000	Total £'000
Cost				
At 1 January 2015	–	–	–	–
Additions	4	229	144	377
At 31 December 2015	4	229	144	377
Depreciation				
At 1 January 2015	–	–	–	–
Charge for year	1	30	11	42
At 31 December 2015	1	30	11	42
NBV				
At 31 December 2015	3	199	133	335

6 INVENTORIES

	2015 £'000	2014 £'000
Work in progress	230	–

7 DEBTORS

	2015 £'000	2014 £'000
Trade Debtors	172	–
Amounts due from group companies	8,161	1,035
Other debtors	276	16
Prepayments	265	–
	8,874	1,051

8 CREDITORS: AMOUNTS DUE FALLING DUE WITHIN ONE YEAR

	2015 £'000	2014 £'000
Trade creditors	1,087	92
Amounts due to group companies	–	130
Accruals	599	14
Other creditors	72	–
Derivative financial liability	1,573	–
	3,331	236

Details of the derivative financial liability are provided in note 22 of the consolidated financial statements.

Notes forming part of the Company financial statements

for the year ended 31 December 2015 continued

9 SHARE CAPITAL

	2015 Number	2015 £'000	2014 Number	2014 £'000
Allotted and fully paid				
Ordinary shares of 0.005p each	33,467,504	2	27,794,260	1
Deferred shares of £1 each	1,000,001	1,000	1,000,001	1,000
Total		1,002		1,001

Details of shares issued by the Company in the year are given in note 25 to the consolidated financial statements.

10 CAPITAL COMMITMENTS

The Company had no capital commitments at 31 December 2015 and 31 December 2014.

11 CONTINGENT LIABILITIES

The Company had no contingent liabilities at 31 December 2015 and 31 December 2014.

12 ULTIMATE CONTROLLING PARTY

There is not an ultimate controlling party.

13 FIRST TIME ADOPTION OF FRS 102

This is the first year that the company has prepared its financial statements in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland. The last financial statements prepared in accordance with accounting standards previously applicable in the United Kingdom and Republic of Ireland were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. There are no changes to previously reported profit or loss and equity between the previous accounting framework and FRS 102.

14 RESERVES

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Accumulated deficit	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Company information

Directors

Rolf Stahel
James Phillips
Nicholas Robbins-Cherry
John Johnston
Michele Luzi
Pavlo Protopapa
Simon Turton
Sijmen de Vries

Secretary

Nicholas Robbins-Cherry

Registered office

65 Innovation Drive
Milton Park
Abingdon
Oxfordshire
OX14 4RQ
United Kingdom

Registered number

09216368

Auditor

BDO LLP
Kings Wharf
20–30 Kings Road
Reading
RG1 3EX
United Kingdom

Designed and produced by
ACCRUE FULTON
www.accruefulton.com

MIDATECH PHARMA PLC

Registered office

65 Innovation Drive
Milton Park
Abingdon
Oxfordshire
OX14 4RQ
United Kingdom