MIDATECH PHARMA

Delivering Growth and Focused on Value Creation

Annual Report and Accounts 2016

MIDATECH PHARMA

We are committed to improving patients' lives and creating value for all of our stakeholders.

Our business model and strategy are designed to build long-term, profitable growth and sustainable shareholder value.

SIGNIFICANT PROGRESS WITH MIDATECH'S Q-OCTREOTIDE PROGRAMME

Page 12

MIDATECH CONTINUES TO EXECUTE AGAINST ALL KEY AREAS OF ITS BUSINESS MODEL

Page 09

ZUPLENZ IN THE US

Approved for use in multiple indications in a

$10bn

US market

Product portfolio

Page 02

FINANCIAL HIGHLIGHTS

TOTAL GROSS REVENUES[1]
£9.21m
510%
2015: £1.51m
2014: £0.16m

CASH & DEPOSITS
£17.61m
2015: £16.8m
2014: £30.3m

STATUTORY REVENUE[2]
£6.38m
718%
2015: £0.78m
2014: £0.03m

NET LOSS AFTER TAX
£20.16m
2015: £10.10m
2014: £8.82m

- **Tax credit receivable of £1.44m (2015: £1.20m, 2014: £0.84m)**
- **Entered into a senior secured £6 million loan agreement with Silicon Valley Bank in Q1 2017**

OPERATIONAL HIGHLIGHTS

- **Preparation for final development and commercialisation of Q-Octreotide**

View our case study page 12

- **Successful integration and strong sales performance from recently acquired US commercial business**
- **Midatech's launch of our anti-nausea product Zuplenz® in the US**
- **Product candidate testing for hepatocellular carcinoma (HCC) and glioblastoma (GBM)**
- **Dosing commenced in first immunotherapy vaccine Phase I study for type 1 diabetes**
- **Further positive progress seen in the Company's OpsiSporin and MTX110/111 (DIPG) programmes**

View our case study page 12

1) Total gross revenues represents the full list price of products shipped to wholesales and other customers before product returns, discounts, rebates and other incentives based on the sales price and grant revenue.
2) Statutory Revenue represents total gross revenue, excluding grant revenue and after deductions for product returns, discounts, rebates and other incentives.

CONTENTS

For more information and the latest share price, go to:

www.midatechpharma.com/investors

Midatech Pharma Overview

Midatech has a balanced portfolio of fast-growth marketed oncology products and development programmes for its own products, using its proprietary platform technologies to target diseases with unmet medical need.

In the US, Midatech commercialises oncology treatment and supportive care products. The acquisition of DARA BioSciences in December 2015 brought three cancer supportive care products, along with an established oncology-focused sales and marketing capability in the largest and most profitable pharmaceuticals market in the world.

Six products are marketed in the US for oncology treatment and supportive care[1]:

Zuplenz® (ondansetron) oral soluble film

Zuplenz®: an anti-emetic for the treatment of post-chemotherapy anti-nausea that does not need to be injected or swallowed. Acquired in December 2015 and launched by Midatech in the US in April 2016.

For more information:
www.zuplenz.com

gelclair® Bioadherent Oral Gel

Gelclair: oral gel for the management and relief of pain from oral mucositis and other oral lesions caused by chemo- or radiotherapy.

For more information:
www.gelclair.com

once-daily ORAVIG® (miconazole) buccal tablets 50 mg

Oravig: the only orally dissolving buccal tablet for treatment of oral thrush associated with chemo- and radiotherapy and in HIV patients.

For more information:
www.oravig.com

soltamox®
(tamoxifen citrate) oral solution

Soltamox: the only liquid form of tamoxifen, for the treatment of metastatic breast cancer, the adjuvant treatment of node-positive breast cancer in premenopausal women.

For more information:
www.soltamox.com

Rx Only
Ferralet® 90
90 mg Dual-Iron Delivery

Ferralet: prescription iron tablet for the treatment of all anaemias that are responsive to oral iron therapy.

For more information:
www.ferralet.com

Rx Only
aquoral®
artificial saliva
PROTECTIVE ORAL SPRAY

Aquoral: artificial saliva spray to provide relief from chemo- and radiotherapy-induced dry mouth.

For more information:
www.aquoral.com

Note: 1. 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®.

In Europe, the Group is advancing a pipeline of novel clinical and pre-clinical product candidates. Midatech repurposes existing drug compounds by using its targeted delivery and sustained release technologies, with the aim of improving safety and efficacy in the treatment of rare or orphan diseases.

Midatech has two proprietary platform technologies for the targeted delivery and controlled release of existing therapeutic drugs to the right place at the right time:

GNP
GOLD NANOPARTICLE PLATFORM

Q-SPHERA
SUSTAINED RELEASE MICRO PARTICLES

Midatech is collaborating with several universities as well as pharmaceutical and biotechnology companies to develop its platform technologies into a range of potential high value revenue opportunities within priority therapeutic areas.

Three core programmes:

- MTD201, Q-Octreotide for carcinoid syndrome and acromegaly
- MTX110 for DIPG
- MTR104 for hepatocellular carcinoma

Intellectual property

The Group has a strong intellectual property base with 77 granted patents, 81 applications in process and 35 patent families covering a range of technologies.

Investment Proposition

Midatech offers the potential for rapid revenue growth through its differentiated product portfolio and exciting development pipeline, supported by strong IP and, an ambitious and highly experienced leadership team.

FOCUSED

COMMERCIAL

BALANCED

DELIVERING VALUE

Rapid revenue growth

Delivery of strong revenue growth is core to Midatech's business model, allowing the organisation to become sustainably profitable in the shortest possible time.

With its infrastructure in the US, Midatech is focused on building its commercial business through product acquisitions and by launching its wholly-owned products, leveraging the capabilities of its own sales force, and thus shortening its path to profitability.

Differentiated product offering

Each of Midatech's niche cancer therapies, currently in research and development, has revenue potential of well over $100m per year and in some cases, much more. Midatech's multiple programmes utilising its two platform technologies allow the Group to defray development risks and thus be in a position to deliver benefits to patients and healthcare professionals and to deliver high growth revenue for the Company.

Intellectual property

The foundation of Midatech's IP is on two core platform technologies which have enabled multiple patent filings. The Group continues to strive to protect its future revenues and assets using its technology advantages, delivered by actively managing its patent portfolio and know-how.

Balanced risk reward profile

The Group has diversified its risk 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 Midatech improves the way they work as medicines.

Ambitious leadership team

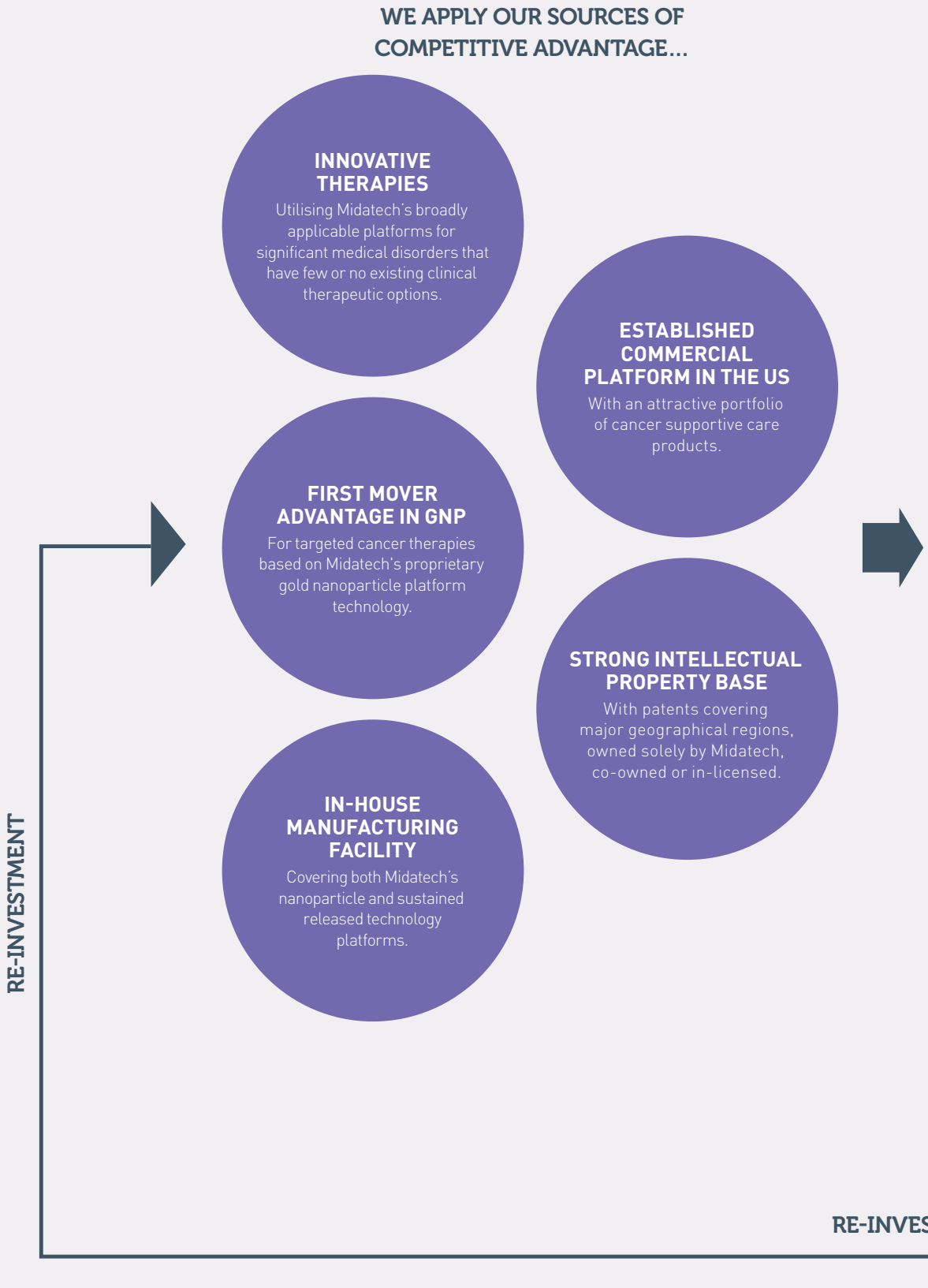
Midatech's leadership has significant experience in the pharmaceutical industry and of creating value from high growth companies.

During 2016, our R&D team identified the optimal constructs of chemotherapeutics and targeting agents to balance efficacy and tolerability for our brain and liver cancer programmes, having screened a vast number of possible combinations.

STRATEGIC REPORT

Business Model

Midatech's vertically integrated business model is built on diversified revenue streams from licensed and in-house targeted therapies for major diseases with unmet medical need.



...TO OUR CHOSEN APPLICATIONS AND MARKETS...

WHAT MIDATECH DOES

Midatech commercialises oncology treatments and cancer supportive care products through its US commercial organisation, Midatech Pharma US. In Europe, the Group is principally engaged in the development of pharmaceutical products utilising its nanomedicine and sustained release technologies.

PRODUCTS

OWN
Development and commercialisation of in-house products with a particular focus on oncology applications.

PARTNER
Development and commercialisation of partner-supported and in-licensed products.

ACQUISITIONS
Acquisition of later stage, strategic opportunities with complementary focused portfolios or technologies that are synergistic to that of Midatech.

OPERATIONS

R&D is undertaken in the Group's UK labs in Abingdon and Cardiff, where Midatech employs a total of 29 scientific personnel.

The Group has a licenced in-house manufacturing facility in Bilbao, Spain, producing nanoparticle and sustained release products.

ROUTE TO MARKET

The Group has US commercial infrastructure, complemented by partnerships. The Group intends to further develop its US presence and will, in due course, establish a European commercial organisation to sell its in-house products.

...TO CREATE VALUE FOR OUR STAKEHOLDERS

HOW MIDATECH CREATES VALUE: COMMERCIALISATION STRATEGY

Near-term

- **Existing commercial operations with marketed product portfolio** in the US.
- **Research and development collaborations**, with existing and prospective customers using Midatech's technologies to address their pharmaceutical challenges.
- **Partner licensing and royalty deals**, from existing and prospective partnerships, with possible milestone income and product royalties potentially realised from 2017 onwards.

Mid-term

- **Commercialisation of in-house developed products**, initially through Midatech's existing commercial sales organisation in the US and subsequently in Europe. In-house sales capability will be supplemented by existing and prospective partnerships.
- **Acquisitions** of value accretive and synergistic target companies, products or portfolios may be sought from time to time.

RE-INVESTMENT

Vision and Strategy

Midatech has a clear strategy and roadmap to build a sustainable, commercially focused and profitable organisation.

THREE STRATEGIC PRIORITIES	PROGRESS IN 2016
GROW US COMMERCIAL ORGANISATION	Midatech has a US sales and marketing function comprising 28 staff including 20 sales representatives in the highest prescribing oncology markets. We recently finalised a co-promotion agreement with R-Pharm US LLC providing additional reach and frequency for the promotion of Zuplenz® and Oravig® to oncology accounts across the US.
PROGRESS DEVELOPMENT OF IN-HOUSE ONCOLOGY PRODUCTS	Significant progress has been made on liver cancer, brain cancer and DIPG programmes with all moving towards pivotal human studies in the 2017/18 timeframe. The development of sustained release manufacturing capability in the Bilbao facility was completed as part of the ongoing development and eventual commercialisation of Q-Octreotide.
DRIVE DEVELOPMENT OF PARTNER PROGRAMMES	The Group entered into a licensing agreement with Emergex Vaccines Limited, a private UK biotechnology company focused on infectious diseases, utilising Midatech's Gold Nanoparticle Technology. Midatech has also agreed a Service and Manufacturing Agreement with Emergex for synthesis and development manufacturing of undefined cGMP material for clinical trials.

Our vision

To profitably use the Group's nanomedicine and sustained release technologies to improve patients' lives and, in so doing, create value for all stakeholders.

FOCUS FOR 2017

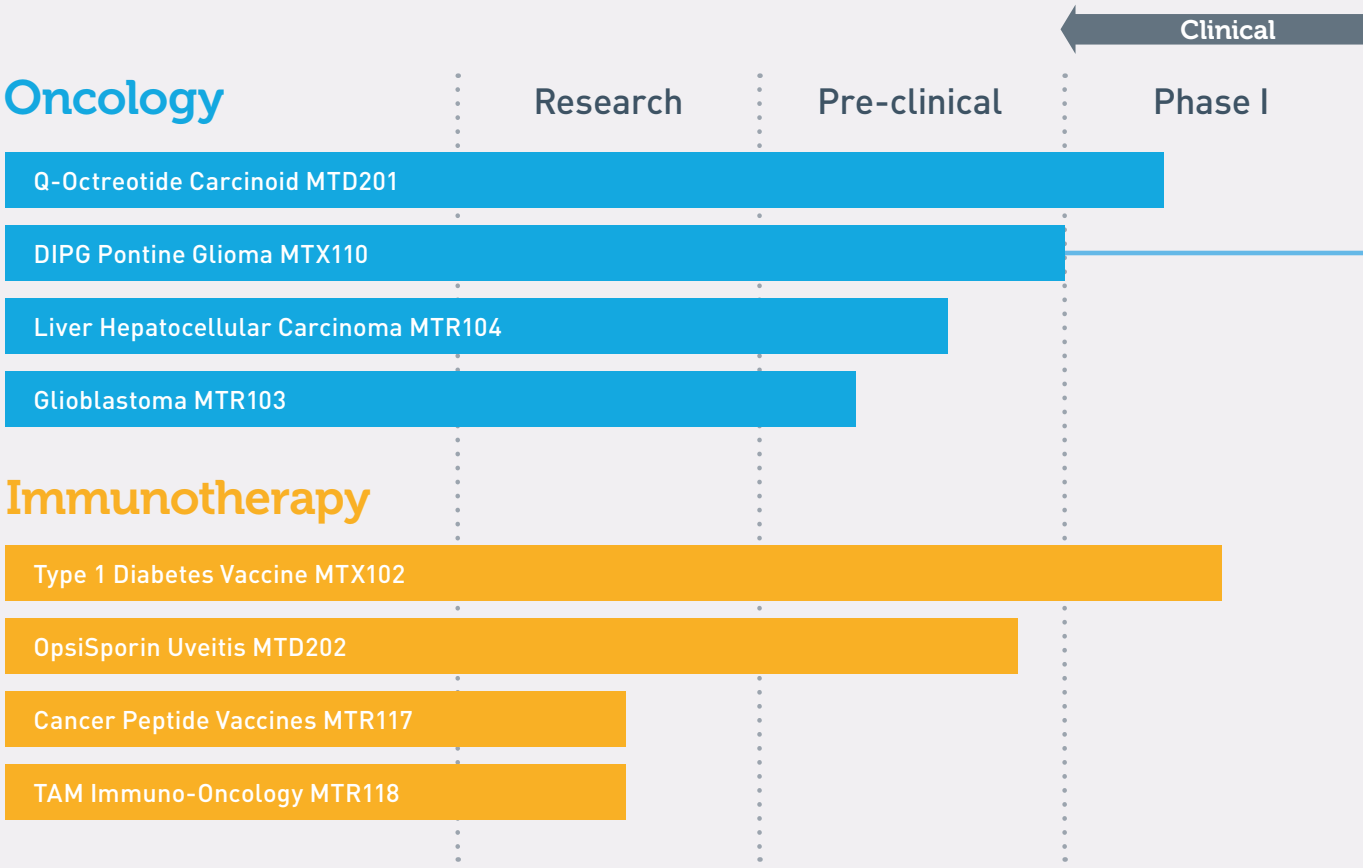
Midatech Pharma US is focused on expanding the uptake of its supportive care product portfolio in the oncology market, through field based promotion, non-personal promotion, co-promotion partnerships, and GPO and Specialty Pharmacy relationships. MPUS is also working to leverage its current product portfolio in indicated non-oncology markets through non-personal promotion and strategic partnerships.

Advance key technology platforms into the clinic for our target therapeutic areas. For our Sustained Release Technology, MTD201 Q-Octreotide, for the treatment of acromegaly/carcinoid, will enter its First-In-Human trial midway through 2017, to be followed by a subsequent study through 2018. For our Gold Nanoparticle Technology, MTX102 will complete its First-In-Human study for the antigen specific immunotherapy of Type 1 diabetes. In addition, our GNP conjugate product MTR104 for the treatment of liver cancer (and potentially MTR103 for GBM brain cancer) is expected to enter IND enabling studies during 2017 in preparation for IND filing in 2018. We also plan to commence a Phase I study of our MTX110 product for the treatment of Diffuse Intrinsic Pontine Glioma via direct delivery to the tumour using convection enhanced delivery.

There is a shift in focus for 2017 as Midatech looks to build on its commercial success in 2016 and move its in-house products closer to market. Partnering will be considered where it can bring added value.

Product Pipeline

We are advancing a rich pipeline of high-value, targeted therapies, based on our key technology platforms, for major diseases with unmet medical need.



Focus Programme: MTD201 Q-Octreotide

- Long-acting formulation of octreotide acetate for chronic treatment of Carcinoid Syndrome and Acromegaly
- Estimated global market $2 billion
- Easy to use and administer:
  - Less pain due to smaller needle and lower injection volume
  - Fewer injection failures
  - Rapid reconstitution
  - Reduced clinical visit time
- Investment in Midatech's Bilbao manufacturing facility completed in preparation for product launch
- MTD201 Pivotal clinical programme during 2017/18
- Marketing authorisation submission anticipated in 2017/18
- Launch anticipated in 2018/19

Our Sustained Release Technology will deliver products to treat the debilitating effects of carcinoid syndrome and endocrine disorders, our gold nanoparticle (GNP) technology will focus on providing improved, and targeted products for the treatment of liver cancer and brain cancer, and our nano-inclusion (NI) technology will address severe unmet needs in childhood brain tumours. In immunotherapy, our nanotechnology is being developed for cutting edge applications in immuno-oncology, as well as autoimmune disease.

(Human Studies)

Phase II | Phase III | Launched

Experimental Use NPS Program Underway

Focus Programme: MTX110

- Treatment for rare childhood brain tumour (DIPG) with delivery of therapeutic constructs directly into tumour
- c.1,000 cases per year worldwide
- Devastating childhood brain tumour, universally fatal with average survival time of 9 months
- No effective, current treatment
- Surgical removal not possible
- MTX110 expedited clinical development programme planned during 2017/18
- Accelerated approval anticipated 2018/19

Focus Programme: MTR104

- Targeted therapy treatment for liver cancer
- Third leading cause of cancer deaths worldwide, over 800,000 people affected
- 95% non-curable, non-operable and median survival less than one year
- Successful outcomes with chemotherapy are rare and generally short lived
- MTR104 focus is to increase tolerability and generate higher anti-tumour efficacy
- Clinical trial enabling programme during 2017
- First study in humans planned 2018, followed by accelerated approval 2019

Chairman's and Chief Executive's Statement

We have made significant progress in 2016 and laid down sound foundations for future growth both across the commercial side of the business and with the exciting pipeline of drugs in development.

YEAR IN REVIEW

Midatech has continued to make good progress in 2016 in research and development of its niche cancer therapies including some potentially ground-breaking new therapies for brain cancer and liver cancer using our GNP-enabled technology platforms and know-how.

This has also been a year of strong revenue growth, with the successful launch of Zuplenz®, alongside growing traction within our wider product base, and the reorganisation and optimisation of our US operation. We have brought in new management talent and new national accounts positions to allow us greater contact with hospital consortia, giving formulary access capabilities that did not exist before.

Total gross revenues for 2016 were £9.2m, in line with market expectations, up 510% from £1.51m in 2015 and an increase of 88% from £4.9m for the pro-forma combined Midatech and pre-acquisition DARA BioSciences, Inc. businesses in 2015.

Statutory Revenue was also up, by 718%, to £6.4m from £0.8m in 2015. Loss after tax was up significantly to £20.2m from £10.1m in 2015. However, 2016 included a full year of Midatech US costs and a one-off charge of £11.4m in respect of our Oravig product, discussed below. Cash balance at year end was £17.6m, an increase of £1.4m (including exchange gains) on 2015, thanks to the oversubscribed fundraise completed in Q4 2016, discussed below.

STRATEGY AND PATH TO PROFITABILITY

Our primary objective is to grow our innovative product related revenues and launch our new products for rare cancers so that we can create value for our shareholders through a profitable and self-sustaining business with the resultant benefit to patients and clinicians.

Our strategic priorities are to grow revenues from the products we already have (which alone have the potential to allow the business to achieve profitability) and to take our three key R&D investment programmes efficiently through drug development and into commercialisation.

As part of this strategy, a significant step was completion of the latest investment in our Bilbao facility, enabling the manufacture of our sustained release products on a larger scale. This means we will be able to manufacture in-house most of our own products to clinical stage, i.e. human studies, and in some cases to early commercial scale. Following a recent, successful inspection by the Spanish Medicines Agency, AEMPS, we await the issuance of a revised licence that will allow us to manufacture products based on both of our platform technologies for use in humans.

COMMERCIALISED PRODUCTS

The US business, with the addition of Zuplenz®, continued to perform well after its reorganisation in the first quarter of 2016, and we met our revenue targets for the year. We continue to look for ways to increase our access to the US market, such as co-promotional deals of the type we have recently signed with R-Pharm, where they will be co-promoting our products into places that we don't currently have the capacity to call on, potentially doubling our reach into the US market.

Sales of our Oravig product, acquired as part of the DARA deal, have been disappointing, particularly in the latter part of the year. We were therefore required to write down the value of that asset. However, total sales of our other products, in aggregate, have outperformed our expectations, compensating for any shortfall in revenue from Oravig, such that the US business overall is doing well against expectations. Accounting standards do not permit us to reassess the book value of these other assets upwards where performance exceeds expectations.

R&D PIPELINE

Our EU based R&D operation is very much focussed on our three, lead research and development programmes, each of which could transform the business, both in terms of saving lives and in driving revenue growth and future profitability. Each has the potential to achieve highly significant revenue that would transform our financial performance.

Our Q-Octreotide programme for the treatment of acromegaly and carcinoid syndrome is preparing for a short phase of first in-man bioequivalence clinical trials in 2017 to take the product to market. Over the last year, we have completed the formulation of the product (which is a new version of an existing drug, requiring less clinic time and is easier to use) and completed pre-clinical testing. Now, we hope to follow an expedited route to get the product registered and filed over the next two years, requiring a small number of clinical trials.

The product would be entering a global market for the chronic treatment of acromegaly and metastatic carcinoid syndrome, worth an estimated $2 billion per year. The revised manufacturing licence for our Spanish facility opens the way for our first in-man study of Q-Octreotide in 2017.

MTX110 is a treatment for DIPG, a rare childhood brain cancer for which there is currently no satisfactory treatment. Patients' average survival time is just 7-9 months. Following unsolicited requests from treating physicians, the treatment has been made available on a compassionate use basis. We look forward this year to taking that programme into pivotal clinical trials which we hope will lead to successful regulatory filing and approval.

The third key programme is a new treatment for liver cancer. After having tested a large number of drug and targeting agent constructs, built around our gold nanoparticle platform, in 2016 we were able to identify a combination that appears to have a significant impact on liver cancer cells, while sparing the healthy tissues in the body. Levels of chemotherapy that, without our technology can be lethal to animals, have been exceptionally well tolerated when targeted using our nanoparticle system, while clearly showing strong anti-tumour activity. We are now taking that product forward to prepare it for clinical trials by 2018.

We have now exited the legacy insulin programme following the clinical trial readout in Q2 2016. The negative result has no impact on our cancer focus, however, and the learnings of the insulin programme have been applied – our current nanotechnology formulations are suitable for injection/ infusion, but we do intend to develop alternative, novel forms for oral administration.

FUND RAISE

In Q4 2016 we concluded the first round of fundraising since the Group's IPO in 2014, culminating in a significantly oversubscribed offer which allowed the Company to raise £16.7m before costs. The additional capital will be used to fund the ongoing development of our R&D pipeline products and growth of the commercial business with a view to achieving sustainable profitability.

SUMMARY AND OUTLOOK

Midatech delivered against its business plan in 2016.

We are aware of increased scrutiny on pricing in the US but we do not expect it to have a significant impact on our product portfolio. As a business, we are not overly exposed to the potential implications of the UK leaving the EU. We earn revenues mainly in US dollars and our expenses are largely in Sterling or Euros, so the net effect of Brexit-related currency movements has had a generally positive impact on reported revenue and net assets. US and other non-EU pharmaceutical businesses operate successfully in Europe and we expect to continue to do so, however, through our operation in Bilbao, Spain, we are well established within the ongoing European Union.

We are well placed to deliver further growth: our existing products give us the future opportunity to become profitable (even without further products coming to market), we have a strong management team and an exciting pipeline with the capability to increase our revenues substantially over the next five to ten years as those products come to market.

Thanks to the motivation, talent and hard work of our colleagues, we are optimistic that the business can continue to deliver strong revenue growth in preparation for the launch of our new products, currently in development, as they come to market over the coming years.

On behalf of the Board, we would like to thank all of Midatech staff, investors, clinicians and patients for their support in 2016.

Rolf Stahel
Chairman

Dr Jim Phillips
Chief Executive Officer
3 April 2017

Financial Review

Midatech generated consolidated total revenue of £9.2m an increase of 510% on the prior year and ahead of expectations.

Key performance indicators

TOTAL GROSS REVENUES[1]
£9.21m
510%

STATUTORY REVENUE
£6.38m
718%

US REVENUE
£5.60m
900%

INTRODUCTION

Midatech Pharma plc (the "Company") was incorporated as a Company on 12 September 2014 and is domiciled in England. 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. The Group was expanded when, on 8 December 2014, the Company acquired the entire issued share capital of UK based Q Chip Limited ("Q Chip"), a pharmaceutical development company. Q Chip was subsequently renamed Midatech Pharma (Wales) Limited ("MPW"). On 4 December 2015, the Company acquired the entire issued share capital of U.S. based, DARA BioSciences, Inc. ("DARA"), an oncology supportive care pharmaceutical company. DARA was subsequently renamed Midatech Pharma US, Inc. ("MPUS").

The MPUS business brought with it a portfolio of five cancer supportive care products and an established commercial platform in the U.S. market with a field sales organisation. To supplement this acquisition, 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, radiotherapy-induced nausea and vomiting, and post-operative nausea and vomiting.

The Company was admitted to the London Stock Exchange's Alternative Investment Market ("AIM") on 8 December 2014, raising £32.0m before costs in new capital. On 4 December 2015, following the DARA acquisition, American Depositary Receipts ("ADRs") with each ADR representing the right to receive two ordinary shares, were admitted to trading on the NASDAQ Stock Market LLC trading platform ("NASDAQ").

On 28 October 2016, the Company announced that at a General Meeting, shareholders had approved the issuance of 15,157,044 new ordinary shares following a substantially oversubscribed Placing to new and existing institutional shareholders and additional Open Offer. This raised proceeds of £16.67m before expenses and the new shares were admitted to AIM on 31 October 2016.

FINANCIAL ANALYSIS

Midatech's KPIs have historically been focused on the key areas of cash management, operating results and R&D spend. These areas continue to be critical to the business, however, Midatech's US commercial operation is increasingly important and KPIs in this area are now included. Additional financial and non-financial KPIs, including further KPIs in respect of the research and development programmes and commercial operation, will be formalised in due course.

For the year ended 31 December 2016, Midatech generated consolidated total gross revenues(1) of £9.21m (2015: £1.51m), an increase of 510% on the prior year and in-line with the upper end of market expectation. Statutory Revenue for the year also increased, by 718%, to £6.38m (2015: £0.78m).

As part of the DARA deal, Midatech acquired the sales and marketing rights to five products, including Oravig®, for the treatment of oral thrush, a common side effect of chemotherapy. Whilst overall performance of the MPUS business has been good, sales of Oravig has been disappointing and, as a result, the value of this element of the acquired intangible assets has become impaired, resulting in a charge of £11.41m to the Income Statement. It is unfortunate that accounting standards do not permit an impairment to be offset by any increase in the value of other intangibles, however, the performance of the other products, including Zuplenz®, has enabled us to support the carrying value of goodwill in the MPUS business.

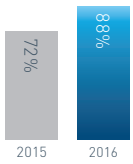
Net cash inflows for the year were £0.97m (2015: outflow of £14.17m) reflecting the share issue in October 2016 where £15.57m was raised after costs. Stripping out the share issue proceeds, the adjusted outflow of £14.14m was in line with the forecast for the year. Cash management continues to be a major focus for the Board and senior management.

Cost of sales

Cost of sales has increased commensurately with product sales to £0.67m (2015: £0.07m) reflecting both a full year of commercial operations and continued growth in sales.

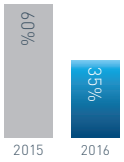
* before intangible asset impairment charges and acquisition and listing costs and acquisition expenses

US REVENUE AS % OF STATUTORY REVENUE
88%



R&D COSTS
£6.68m
13%

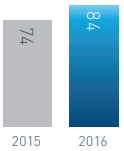
R&D AS % OF OPERATING COSTS*2
35%



LOSS FROM OPERATIONS BEFORE INTANGIBLE ASSET IMPAIRMENT CHARGES & ACQUISITION & LISTING COSTS & ACQUISITION EXPENSES[2]
(£19.17m)
13%

NET CASH INFLOW/(OUTFLOW) FOR THE YEAR
£0.97m

AVERAGE HEADCOUNT
84
13%



Research and development expenditure

Research and development costs increased on the previous year to £6.68m (2015: £5.92m) reflecting significant, ongoing investment in Midatech's R&D programmes. Activities in the year included:

- Final pre-clinical studies of Midatech's Q-Octreotide sustained release treatment of acromegaly and carcinoid syndrome. This project is moving into its first in-man, bio-equivalence study in 2017.
- Ongoing development work on MTX110 for the treatment of the rare children's cancer, DIPG. This programme is moving towards a pivotal human study, expected during 2017.
- Investigational New Drug ("IND") enabling studies and final candidate selection for our liver cancer and glioblastoma (brain cancer) programmes. Further IND enabling programmes planned for 2017 and first human study in late 2017/early 2018.
- Final pre-clinical formulation development and toxicological studies of Opsisporin sustained release treatment for uveitis in readiness for clinical development phase.
- Preparatory work leading to the Phase I study for our first immunotherapy vaccine for type 1 diabetes.

Distribution costs, sales and marketing

Prior to the acquisition of DARA/MPUS in December 2015, Midatech did not classify any of its costs as specifically relating to distribution, sales or marketing. With a full year of commercial operations in the US, distribution costs, sales and marketing has increased significantly to £9.52m (2015: £0.37m). This includes amortisation of intangible assets acquired as part of the acquisition of DARA/MPUS resulting in a charge of £3.38m (2015: £0.23m).

Administrative costs

Midatech's administrative costs also increased on the prior year to £9.22m (2015: £7.93m), largely due to the inclusion of a full year of US commercial operations (2015: included listing and acquisition expenses of £2.99m).

The increase in 2016 administrative costs was driven by consolidation of the US commercial business for a full year added £4.38m to administrative costs (2015: £0.33m) including £1.10m associated with the departure of three former senior executives.

Impairment Charge

As noted above, write down by £11.41m of the product sales and marketing rights of our Oravig product following disappointing sales performance, particularly during the latter part of 2016.

Staff costs

During the year, the average number of staff employed grew by 13% to 84 (2015: 74) and the payroll cost increased by 66% to £7.49m (2015: £4.52m), including £1.1m relating to former, senior DARA management who left during 2016.

Capital expenditure

The total cash expenditure on property plant and equipment in 2016 was £1.35m (2015: £0.92m), principally reflecting investment in Midatech's sustained release ("SR") platform technology in advance of the Q-Octreotide first in-man clinical trial scheduled for early 2017. Midatech's manufacturing facility in Bilbao, Spain was expanded to enable the in-house production of Q-Octreotide and additional equipment was purchased for our SR development facility in Cardiff, UK.

Movement in total assets

Total assets saw a reduction from £64.0m at 31 December 2015 to £56.7m at 31 December 2016. This was principally the result of the net effect of impairment and amortisation charges on product right intangible assets of £15.0m, and a £4.8m foreign exchange gain arising on US denominated intangible assets as set out in note 10. Property plant and equipment increased by £0.8m mainly as a result of the manufacturing facility in Bilbao, noted above. Cash and cash equivalents, increased by £1.4m as a result of the cash from the fundraise that completed in October 2016 being greater than net cash used in operating and investing activities during the year.

[1] Total gross revenues represents the full list price of products shipped to wholesalers and other customers before product returns, discounts, rebates and other incentives based on the sales price plus grant revenue.

[2] Total operating costs used to calculate R&D as a percentage of operating costs is stated before Oravig impairment charge of £11.41m (2015: stated before listing and acquisition expenses of £2.99m).

Financial Review continued

Movement in total liabilities

Total liabilities saw a reduction from £17.2m at 31 December 2015 to £11.0m at 31 December 2016. This was principally the result of the reduction of the £6.5m deferred tax liability as at 31 December 2015 to £nil at 31 December 2016. This reduction has been driven by the impairment and amortisation charges on product right intangible assets and the recognition of a deferred tax asset in respect of losses set against any remaining deferred tax liability. Furthermore, the derivative financial liability reduced by £1.2m as a result of the share options and warrants acquired with Midatech Pharma US lapsing during 2016 and the reduction in the share price as described in more detail in the notes to the financial statements.

Other comprehensive income

Other comprehensive income comprises £3.23m (2015: £0.40m) foreign exchange gain arising on retranslation of Midatech Pharma US operations.

Cash flow

Net cash outflow from operating activities for the year was £13.09m (2015: £12.42m). There was, however, a net cash inflow from financing activities of £15.26m (2015: outflow of £0.22m) which, along with the capital expenditure in the year, resulted in a net cash inflow for the year of £0.97m (2015: outflow of £14.17m). This saw the year end cash balance increase to £17.61m (2015: £16.18m).

CAPITAL STRUCTURE

As noted above, 15,157,044 new ordinary shares were issued on 28 October 2016 to subscribers in a Placing and additional Open Offer. This raised proceeds of £16.67m before expenses and the new shares were admitted to AIM on 31 October 2016. In addition, on 1 July 2016, 74,908 new ordinary shares were issued to former shareholders of Q Chip as the second and final tranche of deferred consideration shares for that acquisition. No other new shares were issued during the year.

As at 31 December 2016 Midatech Pharma plc had in issue 48,699,456 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 highly-regulated sector.

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, sale, 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 manufacturing facility in Bilbao operates under the current Good Manufacturing Practice ("cGMP") guidelines for Investigational Medicinal Products and has been licensed to manufacture non-sterile products based on Midatech's Gold Nanoparticle Technology platform since March 2011, with indefinite validity (subject to passing regular inspections). The facility was refurbished in 2014 to enable the manufacture of sterile products and the additional certification of the facility to include production of sterile material was confirmed in February 2016. A further upgrade was carried out to enable the production of sustained release formulations, based around Midatech's second technology platform. The regulatory licence will be issued for these products in early 2017. 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 manufacturing health and safety control in its Spanish facility 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.

Competition and technological advances

The Group's drug nanoconjugate platform is among the latest generation of nanomedicine technologies. 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 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 and subsequent fundraise in October 2016 generated sufficient cash to take the Group toward break even and to 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 further 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.

In Q1 2017, Midatech entered into a senior secured loan agreement for £6m with Silicon Valley Bank, thereby helping to reduce its short to medium term funding risk.

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.

POLITICAL LANDSCAPE AND EXTERNAL RISK

In the referendum in June 2016, voters approved the United Kingdom's exit from the European Union (commonly referred to as "Brexit"). On 29 March 2017, the United Kingdom formally initiated its withdrawal from the European Union by triggering Article 50 of the Treaty of Lisbon. As a result of the triggering of Article 50, the process of negotiation with EU member states will commence in order to determine the future terms of the UK's relationship with the EU. This has led to a period of uncertainty and volatility particularly in relation to UK financial and banking markets. As the Brexit process unfolds, asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility.

Depending on the terms of Brexit, Midatech may face a new regulatory landscape and challenges that may have a material adverse effect on it and its operations. Midatech's manufacturing infrastructure is located in Bilbao, Spain, and when the UK ceases to be a member of the EU, Midatech's ability to integrate its UK and Spanish operations could be adversely affected. For example, depending on the terms of Brexit, Midatech could become subject to export tariffs and regulatory restrictions that could increase the costs and time related to doing business in Spain. Conversely, having a long-established presence inside the EU may become increasingly beneficial providing tariff-free access to the European market and to EU grant funding.

On 20 January 2017, Donald Trump was sworn in as the forty-fifth president of the United States. As a candidate, President Trump proposed various policies including reforming the US Food and Drug Administration that regulates, inter alia, the development, manufacture and sale of pharmaceutical products, repealing the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the "Affordable Care Act") and changing the manner in which drug prices are negotiated by the US national social insurance Medicare programme. Notwithstanding these possible reforms, we do not expect the new administration to have a significant impact on the Midatech business given our product portfolio, but changes in United States social, political, regulatory and economic conditions or in laws and policies governing foreign trade, importation, manufacturing, development, registration and approval, commercialisation and reimbursement of our products in the United States could adversely affect our business.

Nick Robbins-Cherry
Chief Financial Officer

Risk Management

The Group has formal procedures to monitor and mitigate risk.

Some of the principal risks facing the Group include:

Risk	Description	Mitigation	Change
Competition / technological progression	Although R&D is directed towards areas of currently unmet medical need, existing and prospective competitors may have superior capabilities, and/or alternative products may become available. There is a risk of our products losing commercial viability in the fast-moving biotechnology sector.	• Keep a watching brief on drug delivery industry developments and academic outputs to identify disruptive technology and products early • Protect our own technologies and products as broadly as possible with patents and trademarks • Review commercial relevance of the company's technology platforms regularly • Direct innovation effort towards identified strengths and USPs • Examine opportunities to diversify the pipeline by adding some non-sustained release and non-GNP projects	
Obtaining / maintaining regulatory approval	There can be no certainty that our products will receive regulatory approvals in the countries where we intend to operate, either within the timescale envisaged or at all. Regulations may also change after approval has been granted, and subsequent regulatory difficulties with products may result in impositions against us.	• Develop products using safe, well-characterised active compounds • Seek early scientific and regulatory advice • Track the changing regulatory environment to ensure that we remain in compliance with all regulations and expectations	
Commercial viability of products	There can be no assurance that our products will be commercially viable; the amounts and costs of production may not be acceptable for commercial use, or superior products may be developed. The ability to sell products at an acceptable cost would also be affected by healthcare reform in individual countries where we plan to operate.	**1. R&D:** • Maintain a detailed understanding of GNP and SR technologies to maximise successful application thereof in Midatech therapeutic areas, whether in relation to chemistry, manufacturing, development or commercialisation • Have clear go/no-go decision criteria allowing early identification of projects unlikely to succeed • Portfolio management to balance higher risk projects with lower risk projects • Hold Scientific and Therapeutic Advisory Board meetings to review the viability of the pipeline and allocate resources accordingly **2. Commercial:** • Evaluate M&A activity to add approved and marketed products with proven commercialisation track records to the portfolio • Use desk research, conferences, key opinion leaders and advisory boards to track market dynamics	
Dependence on suppliers, partners and customers	We source materials from certain suppliers, depend on contract research organisations to undertake clinical research, and have collaboration agreements with various partners for aspects of the product development and commercialisation processes.	• Identify and maintain relationships with alternative suppliers, particularly for critical materials • Seek partnerships with companies of diverse interests and sizes • Hold regular dialogue with partners to increase understanding of respective interests • Optimise the portfolio mix and number of projects and improve R&D productivity to expand the pipeline	
Dependence on key personnel	We depend on our senior management team, and on the recruitment and retention of skilled individuals to undertake product development.	• Utilise the Group's appraisal system to encourage two-way communication with individuals • Utilise HR function to: - Identify and deal with any issues as they emerge - Develop succession planning - Ensure stimulating and open culture and environment - Identify and develop talent, both internally and externally	

This Strategic Report was approved by the Board on 3 April 2017 and signed on its behalf.

Dr Jim Phillips
Chief Executive Officer

In 2016, our US business put in place a Key Account Management function to address the increasingly consolidated market for cancer treatment in the US and to enable better patient access.

GOVERNANCE

Directors' Remuneration Report

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

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 31 December 2016, which sets out the remuneration policy for the Directors and the amounts earned during the current year.

The Remuneration Committee welcomes feedback on any aspect of Group remuneration and remuneration policy as disclosed in this report. We have not consulted with shareholders during the year, but will do so in the future where appropriate.

Sijmen de Vries
Chairman of the Remuneration Committee

THE REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in carrying out 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 is required to meet at least twice a year. During 2016 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 pharmaceutical industry, as well as advice and external benchmarking 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, and during 2016, the Remuneration Committee implemented a more structured and consistent approach to the incentivisation of Midatech employees, including bonuses and share based compensation:

(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 three distinct share option schemes for employees including the Executive Directors, to motivate those individuals through equity participation. The choice of scheme depends on the location of the individual:

a) Approved share options awarded to UK based staff under the 2014 Midatech Pharma plc Enterprise Management Incentive Scheme;

b) Share options awarded to eligible employees of Midatech Pharma US, Inc. under the Midatech Pharma plc 2016 U.S. Option Plan, which is a sub-plan of the approved UK plan; and

c) Unapproved share options awarded to non-UK or non-US staff.

Prior to the Company's IPO in December 2014, some unapproved share options were granted to certain staff and key consultants however, since then, the award of unapproved share options has been limited to employees of Midatech Pharma España SL. Exercise of all 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. Since 2016, the quantum of any award is based on a fixed percentage of base salary dependent upon the position of the employee within the Group. The exercise price of all awards is the volume weighted average price for the 20 days prior to the date of the Board meeting at which the award is made.

The UK Corporate Governance Code ("the Code") requires a significant proportion of the total remuneration package of Executive Directors to comprise performance related 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 based on a fixed on-target percentage of base salary dependent upon the position of the employee within the Group, which is moderated depending on the achievement of corporate and personal objectives.

Specific details of the objectives used to measure performance are considered commercially sensitive and hence are not disclosed in detail, however, the corporate and personal objectives for 2016, used to determine bonus payments, included the following:

- Cash position at year-end;
- Revenue for the year; and
- Specific measures linked to key R&D programmes.

Each specific objective had an associated bonus weighting. The Remuneration Committee reviews actual performance against each objective and applied the appropriate weighting to individuals' maximum potential bonus in order to determine the amount payable. The maximum amount payable against these objectives is 100% of the individual's fixed, on-target percentage of base salary.

The Remuneration Committee and the Board seek to set objectives that encourage optimal, short-term financial performance and maximise potential progress with the R&D portfolio thereby creating long-term improvements in stakeholder value.

(iv) Pension contributions

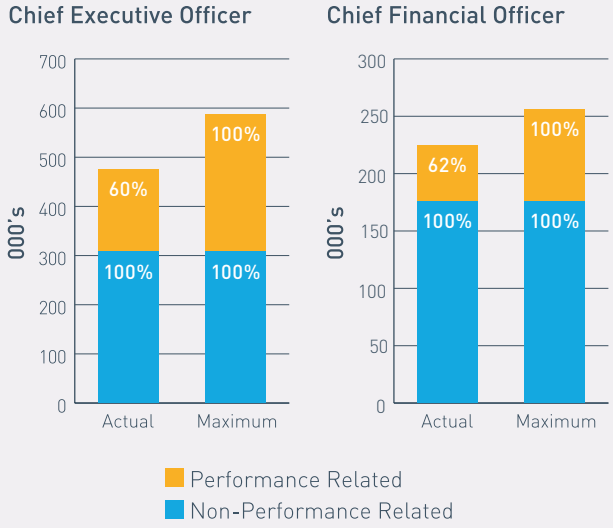
The Group pays a defined contribution to the pension schemes of Executive Directors and other employees. The individual pension schemes are private and their assets are held separately from the Group.

(v) Loss of office

The Group has no specific policy on loss of office other than to ensure that employees and Directors are compensated in accordance with their contractual entitlements.

Scenarios

The charts below set out the maximum potential remuneration, excluding share options, that could have been paid to the Executive Directors in the year ended 31 December 2016.



Directors' Remuneration Report
continued

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.

Relative importance of spend on pay
The total amount paid by the Group in remuneration to all employees since the incorporation of the Company is as follows:

	2016 £'000	2015 £'000	2014 £'000
Remuneration	7,492	4,515	2,813

No dividends to shareholders have yet been paid.

Chief Executive Officer remuneration
The total remuneration paid to Dr Jim Phillips, the Chief Executive Officer since the incorporation of the Company is as follows:

	2016 £'000	2015 £'000	2014 £'000
Remuneration	477	377	345

In recognition of the increased scrutiny on executive pay and of initiatives such as the 2011 Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States, where the US Securities and Exchange Commission was charged with drawing up rules for mandatory disclosure of pay ratios, the Board has calculated that the emoluments paid to the Chief Executive Officer, Dr, Jim Phillips, is a multiple of 5.5 times (2015: 6.3 times) the average amount paid to staff in the Midatech Group. This is a relatively new initiative and the availability of comparative data is limited, however this compares very favourably with FTSE100 companies where the average ratio is reported to be around 130 times.

The total remuneration, including bonus, paid to the Chief Executive Officer in the current year represents an increase of 26% compared to the prior year. The corresponding increase in the average amount paid per employee in the same period is 46%.

No performance related share options vested during the year.

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. Mr Johnston retired by rotation prior to the Company's Annual General Meeting held on 11 May 2016 during which he was re-elected by the Company's members. 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). Mr Luzi retired by rotation prior to the Company's Annual General Meeting held on 11 May 2016 during which he was re-elected by the Company's members. 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). Dr Turton retired by rotation prior to the Company's Annual General Meeting held on 11 May 2016 during which he was re-elected by the Company's members. 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.

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 £	2016 £	2015 £
Non Executive Directors					
Rolf Stahel	100,000	–	–	100,000	107,640
John Johnston	38,000	–	–	38,000	35,000
Michele Luzi	38,000	–	–	38,000	35,000
Pavlo Protopapa	38,000	–	–	38,000	35,000
Simon Turton	38,000	–	–	38,000	35,000
Sijmen de Vries	38,000	–	–	38,000	35,000
Jeff Brown (resigned 30 April 2015)	–	–	–	–	46,667
Executive Directors					
Jim Phillips	280,000	168,000	28,000	476,000	377,289
Nick Robbins-Cherry	160,000	49,600	16,000	225,600	199,639
Directors' remuneration	730,000	217,600	44,000	991,600	906,235

Directors' Remuneration Report
continued

Share based payment expense of £184k in respect of the Directors was charged to the income statement during the year. In addition to the amounts stated above, Dr Jim Phillips received a benefit in kind of £1k (2015: £6k).

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

The Directors' interests in the shares of the Company are set out below:

	31 December 2016		31 December 2015	
Directors' interests in shares	**Beneficial Interests**	**Non-Beneficial Interests**	**Beneficial Interests**	**Non Beneficial Interests**
Non-Executive Directors				
Rolf Stahel[1]	550,572		527,215	–
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]	209,413	–	215,328	–
Sijmen de Vries	8,802	59,150	8,802	59,150
Executive Directors				
Jim Phillips	46,896	–	36,871	–
Nick Robbins-Cherry	500	–	500	–

(1) At 31 December 2016, 306,101 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. 61,221 shares become unrestricted on each of 1 March 2017 and 1 March 2018
b. 122,440 shares become unrestricted when the market capitalisation of the Company achieves £155m
c. 122,440 shares become unrestricted when the market capitalisation of the Company achieves £213m

(2) During the year, Simon Turton transferred 5,915 shares to various underlying beneficial owners under the terms of an agreement with the former owners of Q Chip Limited.

Directors' interests in share options

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 Executive Directors' and employees' interests with those of shareholders in order to provide incentives and reward them based on improvements in Group performance.

	31 December 2016 Options Held over Ordinary shares	31 December 2015 Options Held over Ordinary shares
Non Executive Directors		
Rolf Stahel	–	–
John Johnston	–	–
Michele Luzi	18,796	18,796
Pavlo Protopapa	–	–
Simon Turton	–	–
Sijmen de Vries	17,000	17,000
Executive Directors		
Jim Phillips	1,340,000	600,000
Nick Robbins-Cherry	353,000	60,000

Directors' Remuneration Report
continued

All share options were granted with an exercise price at or above market value on the date of grant. As detailed below, some of the share options 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 remains 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 (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
	31/10/2016[4]	250,000	2.68	Time based[3]	02/12/2025
	19/12/2016	490,000	1.21	Time based[3]	07/12/2026
Nick Robbins-Cherry	30/06/2014	60,000	0.075	Share price[2]	30/06/2024
	31/10/2016[4]	125,000	2.68	Time based[3]	02/12/2025
	19/12/2016	168,000	1.21	Time based[3]	07/12/2026

(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.
(3) 25% of the options vest 12 months after the grant date, followed by vesting of 12 equal quarterly tranches, over a subsequent three-year period.
(4) Share option award relates to 2015 but the acquisition of DARA BioSciences and other activities during that year meant that there was insufficient time during Open periods to make the awards until 2016.

Total shareholder return performance

The graph below illustrates the daily movements of the Company's AIM share price compared to the value of the FTSE UK Pharma & Bio share index, rebased to the Company's share price at IPO.

Sijmen de Vries
Chairman of the Remuneration Committee

Corporate Governance

As at 31 December 2016 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.

BOARD OF DIRECTORS

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.

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 any 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 2016 the Audit Committee has met three 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 of the 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 strong control environment exists facilitated by the use of SAP Business One accounting and business management software, that supports a comprehensive and auditable purchasing control and approvals process. This is supplemented by the close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated responsibilities and 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 has been developed whereby the Chief Financial Officer presents a report to the Board each year on the key business risks.

GOING CONCERN

As disclosed in the Directors' Report on page 36 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.

Rolf Stahel
Chairman

Board of Directors

As at 31 December 2016 the Board consisted of two Executive Directors and six Non Executive Directors. Brief biographies of the current Directors are set out below. The Directors believe that Midatech Pharma plc benefits from a strong, stable and proven Executive and Senior Management team.

JAMES PHILLIPS
Chief Executive Officer (54)

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.

NICK ROBBINS-CHERRY
Chief Financial Officer (47)

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.

ROLF STAHEL
Non-Executive Chairman (72)

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 Ampha Limited, and was previously the non-executive chairman of Ergomed plc, Connexios Life Sciences Pvt Limited, EUSA Pharma Inc., Cosmo Pharmaceuticals SpA, PowderMed Limited and Newron Pharmaceuticals SpA.

JOHN JOHNSTON
Non Executive Director (58)

Mr Johnston has served as a Non Executive member of Midatech's Board of Directors since November 2014. Mr. Johnston served as the Non-Executive Chairman of Constellation Healthcare Technologies, Inc. (AIM: CHT) from December 2014 to 30 January 2017 when the takeover of the Company was completed and the shares were delisted. Mr Johnston served as Managing Director of Institutional Sales at Nomura Code Securities Ltd, a brokerage company, from 2011 to 2013. From 2008 to 2011, he served as Director of Sales and Trading at the investment bank Seymour Pierce. Prior to this Mr Johnston ran his own asset management company and held positions with various investment firms, including Legg Mason (NYSE: LM), Murray Johnstone, Scottish Amicable and Ivory & Sime. Mr Johnston began his investment career at the Royal Bank of Scotland in 1981, before moving to General Accident in 1985, holding the position of Head of Retail Funds before his move to Scottish Amicable. Mr Johnston is currently Non Executive Director of Flowgroup plc, Action Hotels and MaxCyte Inc.

SIMON TURTON
Senior Non-Executive Director (49)

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 (57)

Dr de Vries has served as a Non Executive member of Midatech's Board of Director since October 2004 (including his service to Midatech's predecessor entity). Dr. de Vries has served as of the Chief Executive Officer of Pharming Group NV (Euronext: PHARM) since November 2008. Prior to that, Dr. de Vries served as Chief Executive Officer of 4-Antibody and Morphochem AG. 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 M.D. degree from the University of Amsterdam and a Masters of Business Administration in General Management from Ashridge Management College (UK).

PAVLO PROTOPAPA
Non Executive Director (50)

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 (59)

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.

Directors' Report

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2016.

DIRECTORS

The Directors during the year were:

Rolf Stahel
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.

POST BALANCE SHEET EVENTS

In Q1 2017, the Company entered into a senior secured loan agreement for £6m with Silicon Valley Bank. The loan is available to be drawn down in three tranches of £2m each, the first being available following signing of the loan agreement and the other two traches dependent upon future research milestones.

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 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
03 April 2017

In December 2016, our manufacturing facility was inspected by the Spanish Medicines Agency ("AEMPS") to enable manufacture of our sustained release products. We expect to be ready to manufacture material for the first human trials of Q-Octreotide for the treatment of Acromegaly and Carcinoid Syndrome, scheduled for H1 2017.

FINANCIAL STATEMENTS

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 2016 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 2016 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, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

- We have nothing to report in respect of the following matters 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

03 April 2017

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 2016

	Note	2016 £'000	2015 £'000	2014 £'000
Gross sales	3	8,659	914	25
Grant revenue		547	600	132
Total gross revenues		9,206	1,514	157
Revenue	3	6,376	775	25
Grant revenue		547	600	132
Total revenue		6,923	1,375	157
Cost of sales		(667)	(70)	–
Gross profit		6,256	1,305	157
Research and development costs		(6,684)	(5,920)	(3,639)
Distribution costs, sales and marketing		(9,523)	(374)	–
Administrative costs		(9,222)	(7,929)	(4,405)
Impairment of intangible assets		(11,413)	–	(1,800)
Loss from operations before intangible asset impairment charges, listing costs and acquisition expenses		(19,173)	(9,927)	(6,952)
Included in administrative costs:				
Impairment of intangible assets		(11,413)	–	(1,800)
Listing and acquisition expenses - included in administrative costs		–	(2,991)	(935)
Loss from operations	4	(30,586)	(12,918)	(9,687)
Finance income	6	1,337	1,691	8
Finance expense	6	(73)	(5)	(161)
Loss before tax		(29,322)	(11,232)	(9,840)
Taxation	7	9,160	1,133	1,018
Loss for the year attributable to the owners of the parent		(20,162)	(10,099)	(8,822)
Other comprehensive income:				
Items that will or may be reclassified subsequently to profit or loss when specific conditions are met: Exchange gains/(losses) arising on translation of foreign operations		3,228	399	(151)
Total other comprehensive income/(loss), net of tax		3,228	399	(151)
Total comprehensive loss attributable to the owners of the parent		(16,934)	(9,700)	(8,973)
Loss per share				
Basic and diluted loss per ordinary share - pence	8	(56p)	(36p)	(98p)

Consolidated Statement of Financial Position

at 31 December 2016

Company Number 09216368	Note	2016 £'000	2015 £'000	2014 £'000
Assets				
Non-current assets				
Property, plant and equipment	9	2,766	1,984	1,516
Intangible assets	10	31,172	41,339	13,094
Other receivables due in greater than one year	17	448	387	425
		34,386	43,710	15,035
Current assets				
Inventories	19	817	459	–
Trade and other receivables	17	2,439	2,496	462
Taxation		1,439	1,201	841
Cash and cash equivalents	18	17,608	16,175	30,325
		22,303	20,331	31,628
Total assets		56,689	64,041	46,663
Liabilities				
Non-current liabilities				
Borrowings	21	1,620	1,508	1,488
Deferred tax liability	24	–	6,547	354
		1,620	8,055	1,842
Current liabilities				
Trade and other payables	20	8,407	7,084	2,341
Borrowings	21	538	442	491
Derivative financial liability – equity settled	22	400	1,573	–
		9,345	9,099	2,832
Total liabilities		10,965	17,154	4,674
Issued capital and reserves attributable to owners of the parent				
Share capital	25	1,002	1,002	1,001
Share premium	26	47,211	31,643	31,643
Merger reserve	26	53,003	52,803	37,776
Shares to be issued	26	–	200	800
Foreign exchange reserve	26	3,618	390	(9)
Accumulated deficit	26	(59,110)	(39,151)	(29,222)
Total equity		45,724	46,887	41,989
Total equity and liabilities		56,689	64,041	46,663

The financial statements were approved and authorised for issue by the Board of Directors on 03 April 2017 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 2016

	Note	2016 £'000	2015 £'000	2014 £'000
Cash flows from operating activities				
Loss for the year		(20,162)	(10,099)	(8,822)
Adjustments for:				
Depreciation of property, plant and equipment	9	772	501	321
Amortisation of intangible fixed assets	10	3,583	236	1
Loss on disposal of fixed assets		–	–	89
Net interest (income)/expense	6	(1,264)	(1,686)	153
Impairment of product and marketing rights	14	11,413	–	–
Impairment of IPRD	14	–	–	1,800
Gain on bargain purchase	13	–	(165)	–
Share based payment expense	5	203	170	–
Taxation	7	(9,160)	(1,133)	(1,018)
Cash flows from operating activities before changes in working capital		(14,615)	(12,176)	(7,476)
Increase in inventories		(237)	(62)	–
(Increase)/Decrease in trade and other receivables		(242)	(1,540)	761
Increase in trade and other payables		358	711	466
Cash used in operations		(14,736)	(13,067)	(6,249)
Taxes received		1,650	646	794
Net cash used in operating activities		(13,086)	(12,421)	(5,455)
Investing activities				
Purchases of property, plant and equipment		(1,347)	(922)	(1,030)
Purchase of intangibles		(19)	(3)	–
Acquisition of subsidiary, net of cash acquired	12	–	1,867	115
Acquisition of business, net of cash acquired	13	–	(2,528)	–
Interest received		164	53	8
Net cash used in investing activities		(1,202)	(1,533)	(907)
Financing activities				
Interest paid		(74)	(5)	(48)
Payments to finance lease creditors		(69)	(49)	(48)
Repayment of borrowings		(235)	(165)	(346)
New bank loan		65	–	–
Loan finance raised		–	–	890
Share issues net of costs	18	15,568	–	33,852
Net cash generated from/(used in) financing activities		15,255	(219)	34,300
Net increase/(decrease) in cash and cash equivalents		967	(14,173)	27,938
Cash and cash equivalents at beginning of year		16,175	30,325	2,387
Exchange gains on cash and cash equivalents		466	23	–
Cash and cash equivalents at end of year	18	17,608	16,175	30,325

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	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 2016	1,002	31,643	52,803	200	390	(39,151)	46,887
Loss for the year	–	–	–	–	–	(20,162)	(20,162)
Foreign exchange translation	–	–	–	–	3,228	–	3,228
Total comprehensive loss	–	–	–	–	3,228	(20,162)	(16,934)
Transactions with owners							
Shares issued on 31 October 2016 – note 18	–	16,673	–	–	–	–	16,673
Costs associated with share issue – note 18	–	(1,105)	–	–	–	–	(1,105)
Share option charge	–	–	–	–	–	203	203
Shares issued as deferred consideration for business combination	–		200	(200)	–	–	–
Total contribution by and distributions to owners	–	15,568	200	(200)	–	203	15,771
At 31 December 2016	1,002	47,211	53,003	–	3,618	(59,110)	45,724

	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)	–	170	14,598
At 31 December 2015	1,002	31,643	52,803	200	390	(39,151)	46,887

Consolidated Statement of Changes in Equity continued

for the year ended 31 December 2016

	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 2014	–	21,018	–	–	142	(20,400)	760
Loss for the year as restated (see note 11)	–	–	–	–	–	(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

	Share capital £'000	Share premium £'000	Merger reserve £'000	Shares to be issued £'000	Foreign exchange reserve £'000	Accumulated deficit £'000	Total equity £'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

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

Notes Forming Part of the Financial Statements

for the year ended 31 December 2016

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 United Kingdom Generally Accepted Accounting Practice.

Accordingly, although the units which comprise the Group did not form a legal group for the entire comparative period ended 31 December 2014, and the 2014 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 2016, and therefore have not been applied in preparing these accounts.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

The Company plans to adopt the new standard on the required effective date. The Company expects no significant impact on its balance sheet and equity.

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company plans to adopt the new standard on the required effective date. The Company has not yet performed a preliminary assessment of IFRS 15, but plans to do so by the end of Q3 which will then be subject to changes arising from a more detailed ongoing analysis. Once the analysis is performed the transition method will be chosen. Based on the current sales contracts, both methods are feasible from implementation perspective. Furthermore, the Company is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

1 ACCOUNTING POLICIES CONTINUED

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, subject to endorsement by the European Union. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

During 2017 the Company plans to assess the potential effect of IFRS 16 on its consolidated financial statements. To see the volume of operating leases please refer to note 27.

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 are 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 for consolidation

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 in December 2015 is 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.

Basis of consolidation

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	Dormant
Midatech Pharma (Wales) Limited (formerly Q Chip Limited)	Trading company
Midatech Pharma US, Inc. (formerly DARA Biosciences, Inc.)	Trading company
Dara Therapeutics, Inc.	Dormant
Midatech Pharma Pty	Trading company

Going concern

The Group is subject to a number of risks similar to those of other development and early-commercial stage pharmaceutical companies. These risks include, amongst others, generation of revenues from the existing product portfolio and in due course the development portfolio and risks associated with research, development, testing and obtaining related regulatory approvals of its pipeline products. Ultimately, the attainment of profitable operations is dependent on future uncertain events which include obtaining adequate financing to fulfil the Group's commercial and development activities and generating a level of revenue adequate to support the Group's cost structure.

The Group has experienced net losses and significant cash outflows from cash used in operating activities over the past years as it develops its portfolio. As at 31 December 2016 the Group had total equity of £45.72m which includes an accumulated deficit of £59.11m, it incurred a net loss after tax for the year to 31 December 2016 of £20.16m and used cash in operating activities of £13.09m for the same period. As at 31 December 2016, the Group had cash and cash equivalents of £17.61m.

The future viability of the Group is dependent on its ability to generate cash from operating activities, to raise additional capital to finance its operations or to successfully obtain regulatory approval to allow marketing of the Group's development products. The Group's failure to raise capital as and when needed could have a negative impact on its financial condition and ability to pursue its business strategies.

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Group for a period including twelve months from the date of approval of this interim financial information. These forecasts show that the Group has sufficient cash resources for at least the next 12 months. The Directors therefore consider it appropriate to continue to adopt the going concern basis in preparing the financial information.

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. It represents the full list price of products shipped to wholesalers and other customers less product returns, discounts, rebates and other incentives based on the sales price. 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, this has 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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

1 ACCOUNTING POLICIES CONTINUED

Business combinations and externally acquired intangible assets continued

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 four products approved by the Food and Drug Administration: Zuplenz®, Gelclair®, 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; and
- 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.

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 £11.4m was recognised in 2016 against the product rights of Oravig, a product of Midatech Pharma US and £1.8m was recognised in 2014 against the IPRD of the 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 2016 had two cash generating units (2015: Two, 2014: One), 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 in accordance with the corresponding treatment of the development expenditure for the product to which they relate or capitalised if the development expenditure to which they relate has reached the point of capitalisation as an intangible asset.

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; and
- 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 £Nil during 2016 (2015: Nil, 2014: £12k).

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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

1 ACCOUNTING POLICIES CONTINUED

Foreign currency continued

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.

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 22.

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.
- 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 shares in existence:

- ordinary shares of £0.00005 each are classified as equity instruments; and
- 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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

1 ACCOUNTING POLICIES CONTINUED

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.

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 £14.5 million and intangibles not yet ready for use was £10.8 million as at 31 December 2016.

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 2016 or in 2015 for goodwill, however there was an impairment charge of £11.4m against the Midatech Pharma US product rights in 2016. An impairment charge of £1.8m was also recognised against the IPRD of the Midatech Pharma (Wales) Limited cash generating unit in the year ended 31 December 2014. See note 14.

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; and
- 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 2016

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 2016, there were £26.96million (2015: £23.29 million, 2014: £16.02 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 pre-clinical 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

Gross sales

Gross sales of £8.66m in the year ended 31 December 2016 (2015: £0.91m; 2014: £0.03m) represents the full list price of products shipped to wholesalers and other customers before product returns, discounts, rebates and other incentives based on the sales price.

Revenue

Geographical analysis of revenue by destination of customer

	2016 £'000	2015 £'000	2014 £'000
United Kingdom	491	–	25
Turkey	–	73	–
Europe	35	25	–
United States	5,850	677	–
	6,376	775	25

In 2016, the Group had three customers, all in the Commercial segment, that each accounted for at least 10% of total revenue (2015: one customer in Pipeline R&D, 2014: none):

	2016	2015	2014
Customer A (Pipeline R&D)	–	11%	–
Customer B (Commercial)	20%	–	–
Customer C (Commercial)	15%	–	–
Customer D (Commercial)	10%	–	–

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 2016

	Pipeline R&D £'000	Commercial £'000	Consolidated £'000
Gross sales	776	7,883	8,659
Grant revenue	547	–	547
Total gross revenues	1,323	7,883	9,206
Revenue	776	5,600	6,376
Grant revenue	547	–	547
Total revenue	1,323	5,600	6,923
Cost of sales	(8)	(659)	(667)
Research and development costs	(6,684)	–	(6,684)
Distribution costs, sales and marketing	(248)	(5,692)	(5,940)
Administrative costs	(4,071)	(4,379)	(8,450)
Depreciation	(762)	(10)	(772)
Amortisation	(193)	(3,390)	(3,583)
Impairment	–	(11,413)	(11,413)
Segmental operating loss	(10,643)	(19,943)	(30,586)
Finance income			1,337
Finance expense			(73)
Loss before tax			(29,322)
Taxation			9,160
Loss after tax			(20,162)

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

3 SEGMENT INFORMATION CONTINUED

Revenue continued

Segmented results for the year ended 31 December 2015

	Pipeline R&D £'000	Commercial £'000	Unallocated Costs[1] £'000	Consolidated £'000
Gross sales	273	641	–	914
Grant revenue	600	–	–	600
Total gross revenues	873	641	–	1,514
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)
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 There were no unallocated costs in 2016. Unallocated costs in 2015 represent fees associated with the acquisitions of Midatech Pharma US, Inc. and Zuplenz® in 2015.

For the year ended 31 December 2014 there was only one reportable segment being Pipeline R&D. The unallocated costs in respect of 2014 were £1.216m.

Non-current assets by location of assets

	2016 £'000	2015 £'000	2014 £'000
Spain	2,125	1,433	1,578
United Kingdom	16,489	14,019	13,457
United States	15,772	28,258	–
	34,386	43,710	15,035

All material additions to non-current assets in 2016, 2015 and 2014 were in the Pipeline R&D segment.

4 LOSS FROM OPERATIONS

	2016 £'000	2015 £'000	2014 £'000
Loss from operations is stated after charging/(crediting):			
Changes in inventories of finished goods and work in progress	256	62	–
Write down of inventory to net realisable value	287	–	–
Depreciation of property, plant and equipment	772	501	321
Amortisation of intangible assets	3,583	236	1
Impairment of intangible assets	11,413	–	1,800
Fees payable to the Company's auditor for the audit of the parent Company	100	100	21
Fees payable to the Company's subsidiary auditors for the audits of the subsidiary accounts	139	115	31
Fees payable to the Company's auditor for:			
Corporate finance services	–	438	281
Tax compliance	–	–	14
Tax advisory	–	7	14
Other services	72	36	6
Operating lease expense:			
Property	385	246	97
Plant and machinery	194	86	57
Foreign exchange loss/(gain)	31	(23)	(37)
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)	–
Share based payment	203	170	–

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.

Amortisation of product and marketing rights are included with distribution, sales and marketing expenses.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

5 STAFF COSTS

	2016 £'000	2015 £'000	2014 £'000
Staff costs (including Directors) comprise:			
Wages and salaries	6,314	3,731	2,322
Defined contribution pension cost (note 28)	206	183	169
Social security contributions and similar taxes	769	431	322
Share based payment	203	170	–
	7,492	4,515	2,813

Employee numbers

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

	2016 £'000	2015 £'000	2014 £'000
Research and development	57	45	28
General and administration	19	22	10
Sales and marketing	8	7	–
	84	74	38

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 33, and the Chief Operating Officer.

	2016 £'000	2015 £'000	2014 £'000
Wages and salaries	1,054	850	546
Defined contribution pension cost	59	59	36
Payments made to third parties	142	223	184
Social security contributions and similar taxes	152	88	78
Benefits in kind	2	7	36
Share based payment	184	170	–
	1,593	1,397	880

Emoluments disclosed above include the following amounts in respect of the highest paid Director. Directors' emoluments are disclosed on page 27.

	2016 £'000	2015 £'000	2014 £'000
Salary	448	347	323
Total pension and other post–employment benefit costs	28	24	22
Benefits in kind	1	6	–
	477	377	345

None of the Directors has exercised share options during the year (2015: Nil, 2014: Nil).

During the year two Directors (2015: two) participated in a defined contribution pension scheme.

6 FINANCE INCOME AND EXPENSE

	2016 £'000	2015 £'000	2014 £'000
Finance income			
Interest received on bank deposits	164	53	8
Gain on equity settled derivative financial liability	1,173	1,638	–
Total finance income	1,337	1,691	8

The gain on the equity settled derivative financial liability in 2016 has arisen due to the reduction in the share price and the lapsing of warrants and options. The gain in 2015 arose due to the reduction in share price between the date of acquisition of Midatech Pharma US, Inc. and 31 December 2015.

	2016 £'000	2015 £'000	2014 £'000
Finance expense			
Bank loans	16	2	126
Other loans	57	3	–
Interest on convertible loans	–	–	35
Total finance expense	73	5	161

7 TAXATION

	2016 £'000	2015 £'000	2014 £'000
Current tax credit			
Current tax credited to the income statement	1,936	1,002	663
Taxation payable in respect of foreign subsidiary	(25)	–	(5)
	1,911	1,002	658
Deferred tax credit			
Reversal of temporary differences	7,249	131	360
Total current tax and tax credit	9,160	1,133	1,018

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

7 TAXATION CONTINUED

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:

	2016 £'000	2015 £'000	2014 £'000
Loss before tax	(29,322)	(11,232)	(9,840)
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%)	(5,864)	(2,274)	(2,115)
Fixed asset differences	–	–	12
Expenses not deductible for tax purposes	1,022	185	385
Adjustments to brought forward values	–	(8)	33
Additional deduction for R&D expenditure	4	(789)	(566)
Surrender of tax losses for R&D tax refund	(1,503)	406	419
Adjust deferred tax opening/closing rate	–	–	59
Income not taxable	–	–	(44)
Effects of other tax rates	(3,421)	–	–
Unrelieved tax losses and other deductions arising in the period	(166)	(78)	(35)
Foreign exchange differences	712	–	–
Deferred tax not recognised	491	1,425	834
Adjustment in respect of prior years	(435)	–	–
Total tax credited to the income statement	9,160	(1,133)	(1,018)

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 2016 £'000	Total 2015 £'000	As restated Total 2014 £'000
Numerator			
Loss used in basic EPS and diluted EPS	(20,162)	(10,099)	(8,822)
Denominator			
Weighted average number of ordinary shares used in basic EPS	36,072,752	28,229,814	9,026,347
Basic and diluted loss per share – pence	(56p)	(36p)	(98p)

The Group has made a loss in the current and previous years presented, and therefore the options and warrants are anti-dilutive. As a result, diluted earnings per share is not provided for any of the periods presented.

9 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment £'000	Laboratory equipment £'000	Total £'000
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
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
Additions	2	715	43	609	1,369
Disposal	–	–	(1)	–	(1)
Transfer	(1,125)	–	(122)	1,247	–
Exchange differences	32	172	7	211	422
At 31 December 2016	228	1,999	281	3,050	5,558

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

9 PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment £'000	Laboratory equipment £'000	Total £'000
Accumulated depreciation					
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
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
Charge for the year	41	134	54	543	772
Transfer	(369)	(96)	(118)	583	–
Exchange differences	19	101	6	110	236
At 31 December 2016	149	872	122	1,649	2,792
Net book value					
At 31 December 2016	79	1,127	159	1,401	2,766
At 31 December 2015	861	379	174	570	1,984
At 31 December 2014	723	401	55	337	1,516

The transfers between asset classes have arisen as a result of reallocation of acquired assets in 2015 to more appropriately recognise their classification. Included within the total net book value of tangible fixed assets is £33k (2015: £266k and 2014: £224k) in respect of assets held under finance leases and similar hire purchase contracts. The depreciation charge for the year on these assets was £22k (2015: £26k and 2014: £79k). 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

	In-process research and development £'000	Product and marketing rights £'000	Goodwill £'000	IT/Website costs £'000	Total £'000
Cost					
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
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
Additions	–	–	–	19	19
Acquired in business combinations					
Foreign exchange	–	3,160	2,032	–	5,192
Disposals				(8)	(8)
At 31 December 2016	12,600	21,481	14,488	26	48,595

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

10 INTANGIBLE ASSETS CONTINUED

	In-process research and development £'000	Product and marketing rights £'000	Goodwill £'000	IT/Website costs £'000	Total £'000
Accumulated amortisation					
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
Amortisation charge for the year	–	3,578	–	5	3,583
Impairment	–	11,413	–	–	11,413
Foreign exchange	–	374			374
At 31 December 2016	1,800	15,608	–	15	17,423
Net book value					
At 31 December 2016	10,800	5,873	14,488	11	31,172
At 31 December 2015	10,800	18,078	12,456	5	41,339
At 31 December 2014	10,800	–	2,291	3	13,094

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

	Carrying amount			Remaining amortisation period		
	2016 £'000	2015 £'000	2014 £'000	2016 (years)	2015 (years)	2014 (years)
Midatech Pharma (Wales) Limited acquired IPRD	10,800	10,800	10,800	n/a in process	n/a in process	n/a in process
Midatech Pharma US, Inc., product and marketing rights	3,557	15,570	–	Between 1 and 4	Between 2 and 5	–
Zuplenz® – product and marketing rights	2,316	2,508	–	12	13	–
	16,673	28,878	10,800			

11 ACQUISITION OF Q CHIP LIMITED

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:

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

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

11 ACQUISITION OF Q CHIP LIMITED CONTINUED

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.

The revenue and net loss included in the Consolidated Statement of Comprehensive Income since 8 December 2014 contributed by Midatech Pharma (Wales) Limited were 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.

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 between 4 December 2015 and 31 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. At 31 December 2016, 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

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

12 ACQUISITION OF MIDATECH PHARMA US, INC. CONTINUED

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 2016 there were DARA options outstanding over 300,728 Midatech ordinary shares (2015: 721,000) with a weighted average exercise price of $7.19 per share (2015: $7.62), within a range of $2.54 to $770.59 (2015: $2.54 to $770.59), and a weighted average remaining contractual life of 7.7 years (2015: 8.5 years). The risk-free rate ranged from 0.00% to 1.14% (2015: 0.63% to 1.81%), volatility from 60% to 77% (2015: 59% to 79%) and the expected life from 0.8 to 8.8 years (2015: 1.9 to 8.6 years). The exercise of all options would raise additional cash of $2.16m (2015: $5.50m).

Also at 31 December 2016 there were DARA warrants outstanding over 3,017,773 Midatech ordinary shares (2015: 3,034,437) with a weighted average exercise price of $9.44 per share (2015: $9.67), within a range of $3.06 to $27.58 (2015: $3.06 to $164.71), and a weighted average remaining contractual life of 2.1 years (2015: 3.1 years). The risk-free rate ranged from 0.00% to 0.71% (2015: 0.44% to 1.63%), volatility from 60% to 66% (2015: 59% to 79%) and the expected life from 0.1 to 5.9 years (2015: 0.1 to 7.0 years). The exercise of all warrants would raise additional cash of $28.48m (2015: $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 as a fair value through profit and loss instrument, 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
Gain from bargain purchase 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. The maximum amount payable is $26.0m however management does not consider it likely that the associated very high sales targets will be achieved.

No revenue or costs were contributed by Zuplenz in 2015. 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 2015.

The gain from the bargain purchase of £165k was included within administrative costs in 2015 in the consolidated statement of comprehensive income. It arose due to the seller of Zuplenz seeking to conclude the transaction as quickly as possible.

We are unable to quantity the impact on the 2015 Group revenue and Group loss had the acquisition 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:

	Indefinite lived						
	IPRD carrying amount			Goodwill carrying amount			
Name	2016 £'000	2015 £'000	2014 £'000	2016 £'000	2015 £'000	2014 £'000	Valuation Basis
CGU – Midatech Pharma (Wales) Ltd	10,800	10,800	10,800	2,291	2,291	2,291	Value in use

The assets of the Midatech Pharma (Wales) Ltd ("MPW") CGU were valued as at 31 December 2016 and 31 December 2015 and were found to support the IPRD and goodwill carrying amounts set out above. The IPRD was valued using 14-15 year (2015: 15–16 year), risk adjusted cash flow forecasts, in line with patent life, that have been approved by the Board. A period longer than five years is appropriate on the basis that the investment is long term and the development and commercialisation process is typically in excess of five years. Beyond the period from product launch and initial market penetration, a long-term growth rate of 5% was used.

In 2014, an impairment charge of £1.8m and a related £0.36m deferred tax credit was recorded in the MPW CGU as a result of the curtailment of an agreement with a commercial partner post acquisition. At the same time, 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.

As at 31 December 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 key assumptions used in the model include the following:

Assumptions	2016 CGU – Q Chip Limited and subsidiaries	2015 CGU – Q Chip Limited and subsidiaries	2014 CGU – Q Chip Limited and subsidiaries
Pre-tax discount rate	18.1%	17.7-19.5%	17.7-19.5%
Cumulative probability of success of projects	46% to 81%	46% to 69%	23% to 57%

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

14 IMPAIRMENT TESTING CONTINUED

Midatech Pharma (Wales) Ltd continued

2016

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.

	2016 CGU – MPW Limited and subsidiaries
Pre-tax discount rate for all projects	increase to 26.4%
Cumulative probability of success of all projects	53%

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 – MPW 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 are as follows:

	Definite lived		Indefinite lived		
Name	Product and marketing rights carrying amount 2016 £000	Product and marketing rights carrying amount 2015 £000	Goodwill carrying amount 2016 £000	Goodwill carrying amount 2015 £000	Valuation basis
CGU – Midatech Pharma US, Inc	3,557	15,477	12,197	10,165	Value in use

The change in the goodwill carrying value as at 31 December 2016 is due to the movement in the Sterling and US Dollar exchange rate used to translate the underlying US Dollar value of goodwill, 2016: $1.2334 (at 31 December 2015: $1.4802).

Following the acquisition of Zuplenz® on 24 December 2015, the Group has considered Zuplenz® to be an asset of the MPUS cash generating unit as from 1 January 2016. The Zuplenz® product is wholly integrated within the MPUS portfolio of products and as such all related cash flows have been included with the value in use calculations of the CGU.

An impairment charge of £11.4m in relation to product and marketing rights and a related £4.6m deferred tax credit was recorded in MPUS as at 31 December 2016. This arose as a result of the underperformance of Oravig in comparison to forecast sales at the time of the acquisition. The carrying value of the product rights, was reduced from £11.4m to nil. The resulting impairment charge is shown seperately within the consolidated statement of comprehensive income.

The remaining assets of the MPUS CGU, including Zuplenz®, were valued as at 31 December 2016 and were found to support the product and marketing rights and goodwill carrying amounts set out above. The product and marketing rights were valued using 10-year cash flow forecasts, that have been approved by the Board. A period longer than 5 years is appropriate on the basis that the product patents afford a certain amount of protection from competitors thereby providing assurance that market share can be preserved throughout the period of patent life. A long-term growth rate of 5% was used.

As at 31 December 2015, the assets of the CGU were not identified as being materially different to the fair values determined at the acquisition date on 4 December 2015.

The key assumptions used in the model include the following:

Assumptions	2015 CGU – Midatech Pharma US, Inc
Pre-tax discount rate	24.7%
Overall CGU 10-year growth rate	10.6%

The discount rate is an estimated market-based weighted average cost of capital for the MPUS business, determined at the date of acquisition. The overall CGU 10-year growth rate is a composite of individual product forecasts, each with particular forecast growth rates over the next 5-years followed by a further 5-year period utilising a 5% long-term growth rate.

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

2016

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.

	2016 CGU – Midatech Pharma US, Inc
Pre-tax discount rate for all projects	increase to 25.2%
Overall CGU 10-year growth rate	10.5%

2015

The value in use calculations used to value the acquired intangibles and appraise the remaining carrying value of the intangibles at 31 December 2015 were materially the same. This is because of the impairment test date and acquisition date being only 27 days apart. Any increase in the discount rate or decrease in the probability of success of projects stated above would result in an impairment.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

15 SUBSIDIARIES

The subsidiaries of Midatech Pharma plc, all of which are 100% owned, either directly or through subsidiaries where indicated, 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	Registered office	Nature of business	Notes
Midatech Limited	65 Innovation Drive, Milton Park, Milton, Abingdon, Oxfordshire, OX14 4RQ	Trading company	
Midatech Pharma (Espana) SL	Parque Tecnológico de Vizcaya, Edificio 800 Planta 2, Derio, 48160, Vizcaya, Spain	Trading company	(a)
PharMida AG	c/o Kellerhals, Hirschgässlein 11, 4051 Basel, Switzerland	Dormant	(a) (b)
Midatech Pharma (Wales) Limited	Oddfellows House, 19 Newport Road, Cardiff, CF24 0AA	Trading company	
Midatech Pharma US, Inc.	8601 Six Forks Road, Suite 160, Raleigh, North Carolina 27615, USA	Trading company	(c)
Dara Therapeutics, Inc.	8601 Six Forks Road, Suite 160, Raleigh, North Carolina 27615, USA	Dormant	(d)
Midatech Pharma PTY	c/o Griffith Hack Consulting, 300 Queen Street, Brisbane, QLD 4000, Australia	Trading company	(e)

Notes:
(a) Wholly owned subsidiary of Midatech Limited
(b) PharMida AG became dormant in January 2016.
(c) 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.
(d) Wholly owned subsidiary of Midatech Pharma US, Inc.
(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% (2015: 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 is 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. Midasol operations effectively ceased during 2015.

	2016 £'000	2015 £'000	2014 £'000
Research and development spend on MidaSol Therapeutics	–	776	248
Year–end receivable due from joint operation partner	–	219	–

17 TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000	2014 £'000
Trade receivables	1,428	985	189
Prepayments	586	685	49
Other receivables	873	1,213	649
Total trade and other receivables	2,887	2,883	887
Less: non-current portion (rental deposit and on bond)	(448)	(387)	(425)
Current portion	2,439	2,496	462

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 2016, 2015 and 2014.

18 CASH AND CASH EQUIVALENTS AND CASH FLOW SUPPORTING NOTES

	2016 £'000	2015 £'000	2014 £'000
Cash at bank available on demand	17,608	16,175	30,325

Share issues net of costs – cash transactions	2016 £'000	2015 £'000	2014 £'000
Funds raised on Public Offering	16,673	–	32,000
Costs of raising funds on Initial Public Offering	(1,105)	–	(1,350)
Issue of shares in Midatech Limited pre flotation	–	–	3,202
	15,568	–	33,852

19 INVENTORIES

	2016 £'000	2015 £'000	2014 £'000
Work in progress	–	230	–
Finished goods	817	229	–
Total inventories	817	459	–

A reserve was established in December 2016 against Inventory that is not expected to be sold before its sell by date, resulting in a charge to the comprehensive statement of income of £287k (2015: Nil).

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

20 TRADE AND OTHER PAYABLES

Current	2016 £'000	2015 £'000	2014 £'000
Trade payables	3,268	2,285	981
Other payables	1,166	35	177
Accruals	2,003	3,101	732
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	6,437	5,421	1,890
Tax and social security	670	183	274
Deferred revenue	1,300	1,480	177
Total trade and other payables	8,407	7,084	2,341

Book values approximate to fair value at 31 December 2016, 2015 and 2014.

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

Government grants

The Group received development grant funding from the European Union under the Horizon 2020 "Nanofacturing" project, a European Union funded programme to develop a scalable manufacturing platform for the production of nanopharmaceutical products. Midatech is participating in this programme, along with seven other entities, through two Group companies, Midatech Pharma España ("MPE"), which is acting as project coordinator, and Midatech Limited ("MTL"). The project commenced on 1st February 2015 and is scheduled to complete on 31st January 2019. £547k (2015: £541k) of revenue has been recognised during the year in relation to this project and £1.24m (2015: £1.3m) of the deferred revenue balance relates to funds received but not yet recognised.

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 LOAN AND BORROWINGS

	2016 £'000	2015 £'000	2014 £'000
Current			
Bank loans	23	9	9
Finance lease	31	70	37
Government and research loans	484	363	445
Total	538	442	491
Non-current			
Bank loans	–	20	31
Finance lease	52	68	–
Government and research loans	1,568	1,420	1,457
Total	1,620	1,508	1,488

Book values approximate to fair value at 31 December 2016, 2015 and 2014.

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

	2016 £'000	2015 £'000	2014 £'000
Equity settled derivative financial liability	400	1,573	–
At 1 January/on acquisition – 5 December 2015	1,573	3,211	
Gain recognised in finance income within the consolidated statement of comprehensive income	(1,173)	(1,638)	–
At 31 December	400	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 £1.64m on re-measurement which was being credited to finance income in 2015.

At 31 December 2016, some 398,315 options and 16,664 warrants had lapsed, as described in note 12. In addition, the share price had fallen to £1.18, which resulted in a gain of £1.17m on re-measurement, which was credited to finance income in 2016.

23 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

- Credit risk;
- Foreign exchange risk; and
- 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; and
- Derivative financial liability.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

23 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

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

Financial assets – loans and receivables

	2016 £'000	2015 £'000	2014 £'000
Cash and cash equivalents	17,608	16,175	30,325
Trade receivables	1,428	985	189
Other receivables	873	1,213	649
Total financial assets	19,909	18,373	31,163

Financial liabilities – amortised cost

	2016 £'000	2015 £'000	2014 £'000
Trade payables	3,268	2,285	981
Other payables	1,166	35	177
Accruals	2,003	3,101	732
Loans and borrowings	2,158	1,950	1,979
Total financial liabilities – amortised cost	8,595	7,371	3,869

Financial liabilities – fair value through profit and loss – current

	2016 £'000	2015 £'000	2014 £'000
Equity settled derivative financial liability	400	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, additional disclosure is given in note 12:

Financial liabilities	Fair value as at 31/12/2016	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	£400k	Level 3	Black Scholes option pricing model	Volatility rates between a range of 60% and 76% determined using historical volatility of comparable companies.	The higher the volatility the higher the fair value.
				Expected life between a range of 0.1 and 8.6 years determined using the remaining life of the share options.	The shorter the expected life the lower the fair value.
				Risk–free rate between a range of 0.0% and 1.14% determined using the expected life assumptions.	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 £94k (2015: £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 £133k (2015: £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 £2k (2015: £5k).

There were no transfers between Level one and two in the period.

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

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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

23 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

General objectives, policies and processes continued

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.

The table below shows analysis of the Pounds Sterling equivalent of year-end cash and cash equivalent balances by currency:

	2016 £'000	2015 £'000	2014 £'000
Cash and cash equivalents:			
Pounds Sterling	10,229	14,494	30,026
US Dollar	2,186	819	–
Euro	5,143	862	270
Other	50	–	29
Total	17,608	16,175	30,325

The table below shows the foreign currency exposure that give rise to net currency gains and losses recognised in the consolidated income statement. Such exposures comprise the net monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the relevant Group entity. As at 31 December 2016, these exposures were as follows:

	2016 £'000	2015 £'000	2014 £'000
Net Foreign Currency Assets/(Liabilities):			
US Dollar	(206)	(1,691)	–
Euro	2,655	77	(460)
Other	58	(8)	19
Total	2,507	(1,622)	(441)

Foreign Currency Sensitivity Analysis

The most significant currencies in which the Group transacts, other than Pounds Sterling, are the US Dollar and the Euro. The Group also trades in other currencies in small amounts as necessary.

The following table details the Group's sensitivity to a 10% change in year-end exchange rates, which the Group feels is the maximum likely change in rate based upon recent currency movements, in the key foreign currency exchange rates against Pounds Sterling:

Year ended 31 December 2016	US Dollar £'000	Euro £'000	Other £'000
Loss before tax	521	(73)	(55)
Total equity	521	(73)	(55)

In the years ended 31 December 2015 and 2014, this foreign currency exposure risk was not considered material. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the exposure during the year.

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.

In Q1 2017, Midatech entered into a senior secured loan agreement for £6m with Silicon Valley Bank, thereby helping to reduce its short to medium term funding risk.

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:

2016	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	6,437	–	–	–	–
Bank loans	3	8	11	4	–
Finance leases	7	26	30	33	–
Government research loans	–	449	269	761	393
Total	6,447	483	310	798	393

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

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 2016

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:

	2016 £'000	2015 £'000	(As restated) 2014 £'000
Liability at 1 January	6,547	354	–
Arising on business combination	–	6,191	714
Credited to income on impairment and amortisation of intangibles	(5,509)	–	(360)
Credited to income statement	(1,740)	(131)	–
Foreign exchange gain	702	133	–
Liability at 31 December	–	6,547	354

A deferred tax liability has arisen due to deferred tax on intangible assets acquired in 2015. The liability recognised on the 2014 acquisition has tax losses in the acquired entity which qualifies for offset.

An intangible asset was impaired in the financial statements for the year ended 31 December 2014 by £1.8m and consequently a £0.36m credit was recognised in the income statement. Furthermore, another intangible asset was impaired by £11.4m in 2016 which resulted in a £4.6m tax credit being 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 2014	16,017	3,203
31 December 2015	23,286	4,191
31 December 2016	26,956	5,049

With the exception of the £3.67m (2015: £1.63m: 2014: £1.81m) deferred tax asset which qualifies for offset against the deferred tax liabilities arising on the acquisitions of Midatech Pharma (Wales) Limited and Midatech Pharma US, the remaining potential deferred tax asset (£8.1m) 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:

2016	Asset £'000	Liability £'000	Net £'000
Business Combinations	3,668	(3,668)	–

2015	Asset £'000	Liability £'000	Net £'000
Business Combinations	1,625	(8,172)	(6,547)

2014	Asset £'000	Liability £'000	Net £'000
Business Combinations	1,806	(2,160)	(354)

25 SHARE CAPITAL

Authorised, allotted and fully paid – classified as equity	2016 Number	2016 £	2015 Number	2015 £	2014 Number	2014 £
At 1 January						
Ordinary shares of 0.005p each	48,699,456	2,435	33,467,504	1,673	27,794,258	1,390
Deferred shares of £1 each	1,000,001	1,000,001	1,000,001	1,000,001	1,000,001	1,000,001
Total		1,002,436		1,001,674		1,001,391

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 Deferred shares were recorded as equity.

Rights attaching to the shares prior to 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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

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 (costs shown in note 18)	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
1 July 2016	Deferred consideration re-acquisition of Q Chip Limited	74,908					2.67	200
31 October 2016	Placing and Open Offer (costs shown in note 18)	15,157,044					1.10	16,673
As at 31 December 2016		48,699,456	–	–	–	1,000,001		63,713

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

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.
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
2016		
Expiring In one year or less	371	7
Expiring Between one and five years	449	28
	820	35

	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

	Land and buildings £'000	Other £'000
2014		
Expiring In one year or less	150	79
Expiring Between one and five years	159	–
	309	79

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.

29 SHARE-BASED PAYMENTS

Share Options

The Group has issued options over ordinary shares under the 2014 Midatech Pharma plc Enterprise Management Incentive Scheme, the Midatech Pharma plc 2016 U.S. Option Plan, which is a sub-plan of the approved UK plan, and unapproved share options awarded to non-UK or non-US staff. In addition, certain share options originally issued over shares in Midatech Ltd under the Midatech Limited 2008 unapproved share option scheme or Midatech Limited 2013 approved Enterprise Incentive scheme were reissued in 2015 over shares in Midatech Pharma plc under the 2014 Midatech Pharma plc Enterprise Management Incentive Scheme. Exercise of an option is subject to continued employment.

Details of all share options granted under the Schemes are set out below:

Date of grant	At 1 January 2016	Granted in 2016	Exercised in 2016	Forfeited in 2016	At 31 December 2016	Exercise Price
31 December 2008	26,122	–	–	–	26,122	£1.425
31 December 2008	15,500	–	–	(12,500)	3,000	£3.985
1 April 2010	25,110	–	–	–	25,110	£4.00
20 August 2010	41,766	–	–		41,766	£4.19
13 September 2011	3,000	–	–	–	3,000	£4.19
20 April 2012	35,796	–	–	–	35,796	£4.19
9 May 2014	200,000	–	–	–	200,000	£0.075
30 June 2014	880,000	–	–	–	880,000	£0.075
11 July 2014	5,000	–	–	(2,000)	3,000	£0.075
31 October 2016	–	50,000			50,000	£1.710
31 October 2016	–	607,600			607,600	£2.680
14 December 2016	–	8,000			8,000	£1.550
14 December 2016	–	10,000			10,000	£1.700
14 December 2016	–	3,000			3,000	£1.710
14 December 2016	–	3,000			3,000	£1.730
14 December 2016	–	3,000			3,000	£1.740
14 December 2016	–	40,000			40,000	£1.870
14 December 2016	–	40,000			40,000	£1.880
15 December 2016	–	197,000			197,000	£1.210
19 December 2016		1,110,000			1,110,000	£1.210
	1,232,294	2,071,600	–	(14,500)	3,289,394	

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

29 SHARE-BASED PAYMENTS CONTINUED

Options exercisable at 31 December 2016	468,194
Weighted average exercise price of outstanding options at 31 December 2016	£1.234
Weighted average exercise price of options exercised in 2016	n/a
Weighted average exercise price of options forfeited in 2016	£3.446
Weighted average exercise price of options granted in 2016	£1.685
Weighted average remaining contractual life of outstanding options at 31 December 2016	8.6 years

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

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

Of the 2,071,600 options granted during 2016, 1,981,600 options contain the following conditions:

- 25% (i.e. 495,400 options) vest on the first anniversary of the relevant date of grant; and
- A further 6.25% (i.e. 123,850 options) vest every three months following the first anniversary of the date of grant such that by the fourth anniversary all 1,981,600 options shall have vested.
- 607,600 of these options related to 2015 but the acquisition of DARA BioSciences and other activities during that year meant that there was insufficient time during Open periods to make the awards until 2016. However, the effective date of grant and hence basis for vesting was in 2015. As a result, 151,900 of these options had vested by 31 December 2016.

The remaining 90,000 options granted during 2016 contain the following conditions:

- Vesting is conditional on the Midatech Pharma US, Inc. business achieving a revenue target for the year ended 31 December 2017;
- Subject to the achievement of the revenue target noted above, 25% (i.e. 22,500 options) vest on the first anniversary of the relevant date of grant; and
- A further 6.25% (i.e. 5,625 options) vest every three months following the first anniversary of the date of grant such that by the fourth anniversary, and subject to the achievement of the revenue target noted above, all 90,000 options shall have vested.

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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2016

29 SHARE-BASED PAYMENTS CONTINUED

The following information is relevant in the determination of the fair value of options granted during the year 2016 under the equity share based remuneration schemes operated by the Group.

	2016
Number of options	2,071,600
Option pricing models used	Black Scholes
Share price	£1.143–£1.19*
Exercise price of options issued in year	£1.21–£2.68
Contractual life	10 years
Expected life	5 years
Volatility	40%**
Expected dividend yield	0%
Risk free rate	0.63%–0.74%

* The share price used in the determination of the fair value of the options granted in 2016 was the average of the opening and closing share prices on the date of grant.

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

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 remaining unvested options vest immediately and have therefore vested due to the IPO in 2014.

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.

30 CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2016, 31 December 2015 and 31 December 2014.

31 RELATED PARTY TRANSACTIONS

Details of Directors' remuneration are given on page 27 and in note 5.

Transactions with Monosol RX, LLC

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

During the period, due to cessation of activities within the MidaSol joint operation no monies were receivable from Monosol (2015: £317K, 2014: £273k) for research services. Amounts receivable in prior years were credited to research and development expenditure. The year-end receivable due from Monosol was nil (2015: £219K, 2014: nil). As a result of the cessation of activities, Monosol ceased to be a related party on 2 May 2016.

Monosol is also the licensor of the Company's Zuplenz® product. In this capacity, the Group incurred royalty costs up to the date at which it ceased to be a related party of £187.7k, payable to Monosol (2015: nil). The year-end payable to Monosol was £48.7k (2015: nil).

The Group has not made any allowances for bad or doubtful debts in respect of related party debtors nor has any guarantee been given or received during 2016, 2015 or 2014 regarding related party transactions.

32 CONTINGENT LIABILITIES

The Group had no contingent liabilities at 31 December 2016, 31 December 2015 and 31 December 2014.

33 ULTIMATE CONTROLLING PARTY

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

34 POST BALANCE SHEET EVENTS

In Q1 2017, the Company entered into a senior secured loan agreement for £6m with Silicon Valley Bank. The loan is available to be drawn down in three tranches of £2m each, the first being available following signing of the loan agreement and the other two tranches dependent upon future research milestones.

Company Balance Sheet

for the year ended 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Intangible assets	4		2,357		2,561
Investments	5		7,405		7,405
Property, Plant & Equipment	6		285		335
			10,047		10,301
Current assets					
Inventory	7	–		230	
Debtors	8	22,093		8,874	
Cash at bank		11,957		14,324	
		34,050		23,428	
Creditors: amounts due falling due within one year	9	(1,291)		(3,331)	
Net current assets			32,759		20,097
Total assets less current liabilities			42,806		30,398
Capital and reserves					
Called up share capital	10		1,002		1,002
Share premium account	14		47,211		31,643
Accumulated deficit	14		(5,407)		(2,247)
Total equity attributable to owners of the Parent Company			42,806		30,398

The loss for the financial period, of the Company, as approved by the Board, was £3.34m (2015: £1.19m) (2014: £1.23m)

The financial statements on pages 93 to 99 were approved and authorised for issue by the Board of Directors on 3 April 2017 and were signed on its behalf by:

Nick Robbins-Cherry
Chief Financial Officer

The notes on pages 94 to 100 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital £'000	Share Premium £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2016	1,002	31,643	(2,247)	30,398
Loss for the year	–	–	(3,343)	(3,343)
Total comprehensive loss	–	–	(3,343)	(3,343)
Transactions with owners				
Shares issued on exercise of share options	–	15,568	–	15,568
Share option charge	–	–	183	183
Total contribution by and distributions to owners	1	15,568	183	15,751
At 31 December 2016	1,002	47,211	(5,407)	42,806
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

Notes Forming Part of the Company Financial Statements

for the year ended 31 December 2016

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 ('FRS102').

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 five 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 CGU's) 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 two and seven 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	four years
Fixtures and Fittings	four 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.

Notes Forming Part of the Company Financial Statements continued

for the year ended 31 December 2016

2 STAFF COSTS

	2016 £'000	2015 £'000
Staff costs (including Directors) comprise:		
Wages and salaries	883	766
Defined contribution pension cost	35	23
Social security contributions and similar taxes	156	67
Share based payment	183	170
	1,257	1,026

Employee numbers

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

	2016 £'000	2015 £'000
Research and development	–	–
General and administration	4	4
Sales and marketing	–	–
	4	4

Please also refer to note 5 in the consolidated financial statements regarding Directors' remuneration.

3 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 £3.34m (2015: £1.19m) (2014: £1.23m)

4 INTANGIBLES

	Product and marketing rights £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2016	2,512	53	2,565
Additions	–	–	–
At 31 December 2016	2,512	53	2,565
Amortisation			
At 1 January 2016	4	–	4
Charge for year	193	11	204
At 31 December 2016	197	11	208
NBV			
At 31 December 2016	2,315	42	2,357

	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

In 2015 £165k of negative goodwill relating to the acquisition of Zuplenz ® arose in the consolidated financial statements (see note 13). The treatment under FRS102 is different due to the capitalisation of acquisition costs of £218k.

Notes Forming Part of the Company Financial Statements continued

for the year ended 31 December 2016

5 INVESTMENTS

	2016 £'000	2015 £'000
Brought forward 1 January	7,405	1,001
Additions	–	6,404
Total investments at 31 December	7,405	7,405

At 31 December 2016, the Company held share capital in the following subsidiaries and joint arrangements:

Name	Registered office or Country of Incorporation	Nature of business	Proportion held	Notes
Midatech Limited	65 Innovation Drive, Milton Park, Milton, Abingdon, Oxfordshire, OX14 4RQ	Trading company	100%	
Midatech Pharma (Espana) SL	Parque Tecnológico de Vizcaya, Edificio 800 Planta 2, Derio, 48160, Vizcaya, Spain	Trading company	100%	(a)
PharMida AG	c/o Kellerhals, Hirschgässlein 11, 4051 Basel, Switzerland	Dormant	100%	(a)
Midatech Pharma (Wales) Limited	Oddfellows House, 19 Newport Road, Cardiff, CF24 0AA	Trading company	100%	(b)
Midatech Pharma US, Inc	8601 Six Forks Road, Suite 160, Raleigh, North Carolina 27615, USA	Trading company	100%	(c)
Dara Therapeutics, Inc.	8601 Six Forks Road, Suite 160, Raleigh, North Carolina 27615, USA	Dormant	100%	(d)
Midatech Pharma PTY	c/o Griffith Hack Consulting, 300 Queen Street, Brisbane, QLD 4000, Australia	Trading company	100%	(e)
MidaSol Therapeutics GP	Incorporated in the Cayman Islands	Dormant JV	50%	
Syntara LLC	Incorporated in the United States	Dormant JV	50%	

(a) Wholly owned subsidiary of Midatech Limited

(b) PharMida AG became dormant in January 2016.

(c) 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.

(d) Wholly owned subsidiary of Midatech Pharma US, Inc.

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

6 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment and software £'000	Total £'000
Cost				
At 1 January 2016	4	229	144	377
Additions	1	–	31	32
At 31 December 2016	5	229	175	409
Depreciation				
At 1 January 2016	1	30	11	42
Charge for year	1	48	33	82
At 31 December 2016	2	78	44	124
NBV				
At 31 December 2016	3	151	131	285

	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

7 INVENTORIES

	2016 £'000	2015 £'000
Work in progress	–	230

8 DEBTORS

	2016 £'000	2015 £'000
Trade Debtors	27	172
Amounts due from Group companies	21,631	8,161
Other debtors	191	276
Prepayments	244	265
	22,093	8,874

Notes Forming Part of the Company Financial Statements continued

for the year ended 31 December 2016

9 CREDITORS: AMOUNTS DUE FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Trade creditors	306	1,087
Accruals	352	599
Other creditors	233	72
Derivative financial liability	400	1,573
	1,291	3,331

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

10 SHARE CAPITAL

Allotted and fully paid	2016 Number	2016 £'000	2015 Number	2015 £'000
Ordinary shares of 0.005p each	48,699,453	2	33,467,504	2
Deferred shares of £1 each	1,000,001	1,000	1,000,001	1,000
Total		1,002		1,002

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

11 CAPITAL COMMITMENTS

The Company had no capital commitments at 31 December 2016 or at 31 December 2015.

12 CONTINGENT LIABILITIES

The Company had no contingent liabilities at 31 December 2016, or at 31 December 2015.

13 ULTIMATE CONTROLLING PARTY

There is not an ultimate controlling party.

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
Nick Robbins-Cherry
John Johnston
Michele Luzi
Pavlo Protopapa
Simon Turton
Sijmen de Vries

Secretary
Nick 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

Registered office

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

Registered number

09216368