midatech pharma

Annual Report & Accounts 2019

Contents

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www.midatechpharma.com

Financial highlights

Cash and deposits at 31 December 2019

£10.9m

- Total gross revenue[1] for the year of £0.7m (2018: £1.9m, 2017: £1.0m).
- Statutory revenue[2] for 2019 of £0.3m (2018: £0.1m, 2017: £0.1m).
- Subscription, Placing and Open Offer in February 2019 raised £12.3m (net) and Registered Direct Offering in the US in October 2019 raised $2.5m (£1.8m) (net).
- Receipt of €3.6m (£3.1m) net non-dilutive Reindus loan and award of Guazatu loan of €1.5m.
- Provisional award of a GlioKIDS grant of €2.7m (£2.3m), subject to confirmation of Midatech's status as an SME, to support a Phase II trial of MTX110.
- Cash and deposits at 31 December 2019 of £10.9m (2018: £2.3m, 2017: £13.2m).
- Net loss from continuing operations of £9.1m (2018: £10.4m loss, 2017: £11.7m loss) with net cash inflow in the year of £8.4m (2018: £10.9m outflow, 2017: £4.1m outflow).
- Tax credit receivable of £1.8m (2018: £2.0m, 2017: £1.2m).

(1) Total gross revenue represents collaboration income from continuing operations plus grant revenue.
(2) Statutory Revenue represents total gross revenue, excluding grant revenue.

Midatech is a drug delivery technology company focused on improving the biodelivery and biodistribution of medicines

We are developing an internal pipeline of Q-Sphera formulations and progressing MTX110 through the clinic.

Spotlight on...

Operational highlights

- First substantive licensing agreement with China Medical System Holdings Ltd ("CMS") for the Group's pipeline products for Greater China accompanied by an £8.0m strategic investment in the Company, as part of a Subscription, Placing and Open Offer executed in February 2019.
- MTX110 received orphan drug designation for malignant glioma including DIPG from the FDA.

Post period end highlights

- In January 2020, a study of subcutaneous administration of MTD201 compared with traditional intramuscular administration in healthy volunteers showed similar pharmacokinetics and bioavailability, offering the potential for a differentiated, more patient-friendly product profile.
- In March 2020, an exploratory study was initiated by Columbia University in five patients with DIPG using an alternative convection enhanced delivery system.
- Also in March 2020, following a General Meeting, the Company's ordinary shares of £0.00005 each were consolidated on a one-for-20 basis into ordinary shares of £0.001 each. At the same meeting a resolution was passed to change the ratio of the Company's American Depositary Receipts ("ADRs"). This will change from one ADR representing 20 Existing Ordinary Shares to one ADR representing five new ordinary shares.
- On 31 March 2020, the Company announced a wide-ranging strategic review including termination of in-house development of MTD201, closure of the Company's Bilbao operations and a re-alignment of the Board.
- On 20 April 2020, the Company announced an update to the strategic review including the appointment of an adviser and start of a "formal sale process" under the Takeover Code.
- On 18 May 2020, the Company announced that it had raised gross proceeds of £4.3m (£3.8m net of expenses) in a combined UK Placing and Registered Direct Offering in the US. The combined offerings resulted in the issuance of 15.8m new Ordinary Shares and 16.5m new Warrants.
- On 8 June 2020, the Company received a letter sent on behalf of Secura Bio, Inc. ("Secura Bio"), dated 1 June 2020, purporting to terminate a License Agreement, dated 5 June 2017 (the "Secura License Agreement"), by and between Midatech Limited and Novartis AG, which Novartis AG subsequently transferred to Secura Bio. Pursuant to the Secura License Agreement, Midatech Limited was granted a non-exclusive worldwide, sublicenseable license to certain patents of panobinostat, the active pharmaceutical ingredient of the Company's development product MTX110. Midatech Limited's rights are limited to the treatment of brain cancer in humans, administered by convection-enhanced delivery. The Company plans to continue to pursue development of MTX110 and the strategic review process previously disclosed. The Company is also reviewing with its outside counsel remedies it may have if Secura Bio does not withdraw the notice and otherwise cease to interfere with its ongoing business and strategic review process, which the Company has formally requested. The Company is evaluating available actions to protect its rights under the Secura License Agreement and its assets.

Midatech Pharma at a glance

Listed on AIM and NASDAQ, Midatech is headquartered in Cardiff, UK. Following the announcement of a strategic review on 31 March 2020, the Company has terminated in-house development of MTD201 and is in the process of closing down its operations in Bilbao, Spain. After the closure, Midatech's remaining 20 employees will be focused on extracting value from its technology platforms.

On 20 April 2020, the Company provided a further update to the strategic review including the appointment of Noble Capital Markets, Inc. to advise the Board and the initiation of a "formal sale process" under the City Code on Takeovers and Mergers.

Technologies

Midatech is focused on developing products based on its three proprietary platform technologies, designed to deliver therapeutic drugs to the right place at the right time. The Company has three proprietary drug delivery technologies based on 120 granted patents, 70 applications in-process across 36 patent families:

Q-Sphera™

Technology

- Micro-encapsulation PLGA polymer depot system
- Advanced piezo printing technology
- Several million microspheres produced per second

Clinical

- Superior sustained-release pharmacokinetics
- Improves usability, patient experience and compliance
- Enhanced dosing and administration routes

Manufacture

- Scalable, efficient high yield manufacture
- Modest infrastructure, environmentally very friendly
- Low CoGS and broad API compatibility
- Multiple patent families

MidaSolve™

Technology

- Solubilises inherently insoluble drugs
- Nano inclusion technology for chemotherapeutics
- Complex has hydrophobic core and hydrophilic surface

Clinical

- Converts oral drugs into liquid administration forms
- Enables infusion directly into the tumour
- Aim to enhance efficacy and reduce toxicity

Manufacture

- Simple manufacturing process
- No solvents, non-toxic
- Lyophilised powder, long shelf-life
- Product-specific patents

MidaCore™

Technology

- Gold nanotechnology to deliver chemo/immuno therapeutics
- Key attributes are small size and multi-valent binding sites
- Decorated with therapeutic and targeting moieties

Clinical

- Size (2–4nm) improves delivery, targeting, reduces toxicity
- Enters immune cells to enhance immune responses against tumour cells
- Research programmes in psoriasis and solid tumours

Manufacture

- Simple manufacturing process
- Modest infrastructure
- Multiple patent families

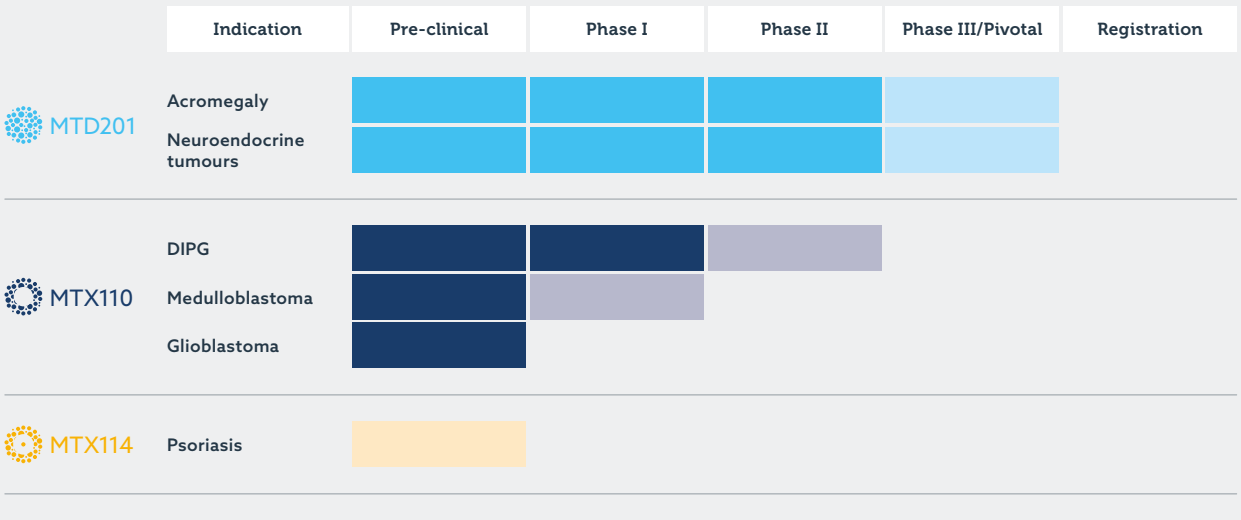
We have established proof of concept formulations using all three drug delivery platforms and have been tested in human clinical trials.

See our spotlight on lead programmes on pages 06 and 07

Employees	Granted patents	Patent Families
65	120	36

Development product pipeline

Midatech's two lead programmes, MTD201 and MTX110, are both in clinical development.



Our business model and strategy

Following the divestment in November 2018 of Midatech Pharma US, Inc., the Group's sales and marketing business, the Company re-focused on building stakeholder value through the development and exploitation of its three proprietary platform technologies. When it became clear the Company was unable to raise additional capital in March 2020, the Company's strategy was refined further as a result of the termination of further in-house development of MTD201 and closure of Bilbao operations.

Midatech's drug delivery technologies are supported by a strong intellectual property base including 120 granted patents, 70 applications in-process across 36 patent families.

Precision clinical performance and high usability	Converts oral meds into liquid meds	Ultra small size
Advanced manufacturing technology	Increases routes of administration	Can bind multiple agents (targeting and therapeutic)

Development

Our development strategy is to take existing, approved therapies and "make them better" by applying one of our three proprietary platform drug delivery technologies to improve the bio-delivery and bio-distribution of drugs, through either sustained delivery (Q-Sphera), direct delivery (MidaSolve), or targeted delivery (MidaCore). Our R&D is based in Cardiff, UK where we currently employ 15 scientific personnel engaged in pharmaceutical development, engineering, pilot-scale manufacture and development of analytical methods and testing.

Midatech's near term goal is to deploy its proprietary drug delivery technologies to formulate a compelling portfolio of novel first-in-class sustained release formulations of products with significant commercial potential for licensing to pharmaceutical company partners at proof-of-concept stage. Other than its ongoing commitments for MTX110, the Company has no plans to undertake additional trials in humans unless a license partner or grant funding has been secured.

Once a licensing partner has been secured, Midatech would expect any future development costs to be reimbursed by that partner.

Manufacturing

Following the announcement on 31 March 2020 that it had decided to terminate the in-house development of MTD201, the Company also decided to close its operations in Bilbao, Spain which were largely dedicated to the manufacturing scale-up of MTD201.

To establish proof-of-concept for potential licensees, Midatech is able to manufacture non-GMP material at pilot scale at its Cardiff facility. Midatech would expect a licensee to assume responsibility for manufacturing GMP material and commercial scale-up pursuant to a technology transfer agreement.

Opportunities for value creation

Commercialisation (future)

Once proof-of-concept has been established, Midatech intends to seek to license its products to a partner who would complete the development and subsequently market and sell them in the licensed territory. In addition to reimbursement of development costs, the partner would be expected to make milestone payments based on sales targets and royalty payments.

MTD 201 Q-Sphera™

for neuroendocrine tumours and acromegaly

On 31 March 2020, the Company announced that, because of prevailing conditions in the capital markets and the prospects for raising funds to support MTD201 and/or partnering of MTD201, the Board of Midatech had decided to terminate further in-house development of MTD201 including manufacturing scale-up. The Company continues to believe MTD201 represents a viable R&D asset and it therefore remains available for licensing by third parties.

Benefits

Enhanced clinical profile with consistent, predictable and reproducible release kinetics of the active drug into the body.

Simple, quick and reliable reconstitution, reducing clinical preparation time, no needle blockages, and no wastage of expensive product.

Compared to current therapeutics, MTD201 is administered through a smaller needle, with less injection site irritation for patients.

Subcutaneous injection administration, versus intramuscular for current therapies, offering the potential for self-administration by patients, with fewer hospital visits and substantial cost savings.

Potential for longer dosing intervals compared with current therapies, again with cost savings.

Indications

Acromegaly: a hormonal disorder usually caused by a pituitary tumour secreting excessive growth hormone (GH). Symptoms include increased bone size, and skin, sensory and metabolic disorders.

Neuroendocrine tumours (NET): benign or malignant neoplasms most commonly found in the intestine but also in the pancreas and other parts of the body.

Both are debilitating conditions with significant morbidity and mortality.

Addressable market

Acromegaly affects approx. 28–140 per million[1] people.

Incidence of NET is up to 2/100,000[2] people (0.5% of all cancer diagnoses).

Significant opportunity for MTD201 to enter an estimated global market of approximately $2.5Bn, dominated by Sandostatin® LAR® and Somatuline® Autogel®.

(1) Epidemiology of acromegaly, Pituitary 1999 Jun; 2(1):29-4

(2) Öberg K. Diagnosis and treatment of carcinoid tumors. Expert Review of Anticancer Therapy 2003; Volume 3: 863–877

Using Q-Sphera sustained release technology, MTD201's favourable clinical profile is designed to provide a cost-effective alternative in an established $2.5bn global somatostatin analogue market.

> The clinically favourable Phase I pharmacokinetic and pharmacodynamic data reported in healthy subjects has shown the potential of Midatech's Q-Sphera™ technology to deliver flexible sustained-release octreotide options. "

Professor Shlomo Melmed
Dean of Medical Faculty, Cedars-Sinai Medical Centre, Los Angeles

MTX 110 MidaSolve™

for incurable cancers of the brain

Using our MidaSolve technology in combination with panobinostat, an otherwise insoluble drug, MTX110 is designed for direct-to-tumour treatment of DIPG, an intractable childhood brain cancer.

Benefits

MidaSolve technology converts the active drug panobinostat from an oral formulation, not used in DIPG since it cannot cross the blood brain barrier, into a liquid formulation that can be injected directly into the tumour.

Enables elevated drug concentrations of solubilised MTX110 to be infused directly into the tumour, while minimising systemic toxicity and peripheral side effects.

Panobinostat, licensed from Novartis in June 2017, demonstrated high potency against DIPG tumour cell lines in animal studies.

Indication(s)

Diffuse Intrinsic Pontine Glioma (DIPG): a tumour located in the pons (middle) of the brain stem that is diffusely infiltrating and cannot be surgically removed. Occurring mostly in children, median survival rate is nine months[1]. There is no effective treatment; surgical resection is not possible; radiotherapy and chemotherapy do not improve survival since anti-cancer drugs cannot cross the blood-brain barrier to reach the tumour.

In adults, MTX110 represents an exciting treatment prospect for glioblastoma multiforme (GBM), the most common and most aggressive brain cancer, with median survival of around 12 months[3]. Again, no effective therapies currently exist.

Addressable market(s)

Approximately 1,000[2] individuals are diagnosed with DIPG each year, representing a potential $100m[4] market; highly under-served. Medulloblastoma diagnoses are similar.

For GBM, approximately 2–3/100,000[3] diagnoses per annum and an estimated $3bn addressable market.

(1) Veldhuizen S, Jansen M. A twenty-year review of diagnosing and treating children with diffuse intrinsic pontine glioma in The Netherlands, Expert Rev. Anticancer Therapy 2014 1–8

(2) Louis DN, Ellison DW, et al. The 2016 World Health Organization Classification of Tumors of the Central Nervous System: a summary. Acta Neuropathol 2016; 131:803–820

(3) American Association of Neurosurgeons

(4) Real Endpoints Payor Research: data on file

Chief Executive's review

> Our near term goal is to deploy our proprietary drug delivery technologies to formulate a compelling portfolio of novel first-in-class sustained release formulations of products with significant commercial potential for licensing to pharmaceutical company partners at proof-of-concept stage."

Stephen Stamp
Chief Executive Officer, Chief Financial Officer

Introduction

The clarity of our strategy and the simplification of the investment case enabled us to attract new investment, both dilutive and non-dilutive, into the Company during 2019. That, in turn, allowed us to start Phase I studies in each of our two lead programmes and report our MTD201 '102 study in January 2020.

Like most development-stage biotech companies, Midatech is reliant on licensing revenues and/or cash injections from investors to fund operations. Unfortunately, in view of the precipitous fall in global capital markets in the first quarter of 2020 and the prospects for raising additional funds and partnering of assets, the Board concluded Midatech could no longer continue to fund MTD201. As a direct consequence, the Company's operations in Bilbao which are largely dedicated to the manufacturing and scale-up of MTD201, will be closed. Significant progress was made in the development of MTD201 during 2019 and early 2020 and the asset remains available for licensing to a third party.

R&D progress

Our R&D strategy remains clear and robust. By applying our proprietary drug delivery technology to existing approved medicines, we can make them better, generate new products, and/or give products new patent life. We do not take typical "biotech" risks on the side effects or efficacy of the medicine, since these are already approved products. We only need prove that our technology delivers the drug as required and confers one or more advantages over the originator product such as usability, greater efficacy, lower side effects, ease of manufacture and/or lower cost to the payer.

See our development pipeline on **page 03**

MTD201 (octreotide using Q-Sphera technology)

The '101 Phase I study which reported in August 2018 in 24 healthy volunteers comparing MTD201 with Sandostatin LAR (SLAR) demonstrated MTD201 had a host of advantages over SLAR. These include a longer dosing profile, less inter patient release kinetics variability, no initial burst release, smaller needle gauge resulting in less painful injections and injection site reactions and quicker, simpler reconstitution of the product. Based on extensive regulatory and opinion leader input, we determined that developing MTD201 as a differentiated product would be more valuable commercially and medically than a generic version of SLAR.

We initiated the '102 Phase I study in 28 healthy volunteers comparing subcutaneous versus intramuscular administration of MTD201 which reported headline data in January 2020 and showed similar kinetics and bioavailability for the two routes of administration. These latest results further differentiated MTD201 from SLAR and offer the potential for patients to administer therapy themselves at home, significantly reducing the frequency of hospital visits and therefore payer costs.

Our two Phase I trials have already established a number of key advantages of MTD201 compared with the currently available therapies in the market as illustrated in the following table:

Demonstrated advantages of MTD201 vs. Sandostatin LAR	Study information				
	Clinical study	Phase	Subjects	Design	Status
Favourable release profile (with intramuscular injection) Minimal burst release Less painful injections & injection site reactions Smaller needle gauge Quicker, simpler reconstitution and injection	MTD201-101	Phase I	24 healthy volunteers	Randomized, double blind	**Completed**
Confirmation of higher strengths (30mg – 90mg)	MTD201-Lab	Research	None	Laboratory research	**Completed**
Subcutaneous dosing in addition to intramuscular dosing	MTD201-102	Phase I	24 healthy volunteers	Randomized, open label	**Completed, preliminary data**

The next step for MTD201 would be the preparation for the pivotal trial in acromegaly. These preparations were underway and a CRO had been appointed to manage the trial. Following the Board's decision in March 2020 to terminate in-house development of MTD201, activities are being wound down as expeditiously as possible.

MTX110 (panobinostat using MidaSolve technology)

DIPG is an intractable cancer of the brain, most common in children. MTX110 may be an important advancement in transforming patient outcomes. Our '101 Phase I study being conducted by UCSF requires the recruitment of one more patient in the first in-human clinical trial of MTX110 and is expected to report safety and tolerability in mid 2020. This study which includes dose escalation, is designed to confirm the dose for a Phase II trial of safety and efficacy study in 19 patients with Kinderspital, Zurich and the Princess Máxima Center, Utrecht using a Convection Enhanced Delivery (CED) system whereby MTX110 will be infused under slight pressure directly into and around the tumour. The primary endpoint of the study will be patient survival rates after 12 months. Start of the Zurich / Utrecht study was contingent on the receipt of the €2.7m GlioKIDS grant from the EU. Receipt of this grant, which was provisionally awarded in December 2019, is dependent upon confirmation that Midatech falls within the EU definition of an SME. Following the successful fundraising in May 2020, the Phase II trial will now move ahead. We have also initiated an exploratory trial in five patients with DIPG at Columbia University, New York using an alternative CED infusion system although recruitment may be impacted by restrictions on movement of patients due to COVID-19.

MTX110 was awarded orphan drug designation for DIPG in October 2019 and, subject to further favourable results from the studies, we could pursue accelerated approval, a fast track process generally reserved for orphan conditions where there are no existing treatments.

We are evaluating other indications in which MTX110 might make a difference.

Estimated global market for MTD201

£2bn

Estimated global market for MTX110

£85m

MidaCore

Whilst we have directed our resources to the MTD201 and MTX110 products, there are several early phase programmes based on the MidaCore gold nanoparticle targeted delivery platform that may be progressed, subject to receiving further funding. First among these will be MTX114, a topical methotrexate-complexed gold nanoparticle that has been shown to be better tolerated and more effective than systemic methotrexate in animal psoriasis models.

Financing activities

Like many companies in our sector, funding and therefore resource allocation is an ongoing challenge. We met this challenge head-on in 2019, raising a total of £17.2m in additional funding, net of expenses. This included £3.1m of non-dilutive funding and £14.1m of equity and equity-related funding. The Company recognised £1.1m as a warrant liability in relation to the fundraising completed on NASDAQ in October 2019 (note 21).

Non-dilutive funding in the year was a €6.6m (£5.6m) loan under the Spanish Government's Reindus programme, offset by a deposit by the Company of €3.0m (£2.5m). In addition, we were awarded a €1.5m (£1.3m) soft loan (Guazatu) from the Basque regional government, which was not drawn down during 2019. Both loans were earmarked to support the commercial scale-up for MTD201 and the Q-Sphera™ platform in our Bilbao manufacturing site. As a result of the Strategic Review announced in March 2020 the Reindus loan will be repaid and the Guazatu loan cancelled following the decision to terminate in-house development of MTD201 and close Bilbao operations. In December 2019 we were awarded, subject to meeting the EU's definition of an SME, a grant from the EU of €2.7m (£2.3m) to support the Phase II trial of MTX110 in DIPG at Kinderspital, Zurich and Princess Máxima Center, Utrecht.

In terms of equity and equity-related financings, there were two events. In February 2019, we raised a total of £12.3m, net of expenses, from a combined subscription, placing and open offer of "Units" comprising one ordinary share at 3.85p and one warrant exercisable at 50p, adjusted to 77p and £10.00 respectively on a post share consolidation basis. Of the total invested, £8.0m was subscribed by China Medical System Holdings Limited (CMS) in parallel with an important and wide-reaching license agreement described below, with the remainder coming from UK institutional and individual investors. In October 2019, we utilised our NASDAQ listing for the first time to raise $2.5m (£1.8m) net of expenses at $1.00 per American Depositary Share (ADS) in a "Registered Direct Offering". Each ADS issued had one warrant attached exercisable at $1.25. At the time, each ADS represented 20 ordinary shares.

Licensing and technology partnerships

In line with our strategy to partner our products at key value inflexion points, and for the first time with human data in hand for MTD201, we have geared up our business development and licensing capabilities.

Our first substantive license agreement was signed in February 2019 with CMS, simultaneously with their £8m equity investment. Under the terms of the wide-ranging licence agreement, CMS has rights to develop and commercialise the Company's pipeline of products, at its cost, in Greater China and certain countries in South East Asia. This includes promotion through its network of around 2,800 sales staff in China alone. Subject to certain milestones being achieved, Midatech will receive regulatory and sales-based payments, as well as royalty payments. In addition, CMS may identify further product opportunities using Midatech's technologies beyond our current focus. Midatech would undertake the initial development on CMS' behalf, funded by CMS. If such products obtain marketing approval, CMS would own the rights in the territories covered by the agreement and Midatech would retain the rights in the rest of the world, including the US and Europe. CMS also provides manufacturing options for Midatech products, with an impressive manufacturing capability and facility based in Shenzhen, China.

Under our collaboration with Emergex, they are using our MidaCore gold nanoparticle technology to develop vaccines for infectious viral illnesses such as Ebola and Dengue Fever.

Strategic review

On 31 March 2020 we announced the Board had initiated a wide-ranging strategic review of its operations. The Board concluded that, in the context of its cash runway, the Company was unlikely to conclude a license transaction or raise sufficient funds to continue the required remaining investment in MTD201 on a timely basis. The Board therefore decided to terminate further in-house development of the MTD201 programme with immediate effect. The Company will continue to seek licensing partners for this asset.

In line with the decision to terminate MTD201, the Board also took the difficult decision to close the Company's MTD201 dedicated manufacturing facilities in Bilbao and offer redundancy to all 42 employees.

In accordance with Spanish law, the Company engaged in a period of consultation with its Bilbao based employees. In addition, a further five UK-based employees in clinical research and administrative roles were offered redundancy.

Following these changes, Midatech's remaining 20 employees and operations are concentrated in Cardiff. With the exception of our commitments with respect to MTX110 clinical trials, we have no plans to undertake additional trials in humans unless a license partner or grant funding has been secured.

On 20 April 2020, we announced an update to the strategic review of operations including the appointment of Noble Capital Markets, Inc to advise the Company on options for extracting value from its technologies. These options include partnering our clinical stage assets, partnering existing and upcoming proof of concept formulations, partnering or selling one or more of its technologies or selling the entire company. A sale of the Company would be by way of a "Formal Sale Process", as defined by The City Code on Takeovers and Mergers, or Takeover Code. Pursuant to the Formal Sale Process, the Company and our advisers are able to conduct discussions with a range of potential offerors without the requirement to publicly identify interested parties as ordinarily required under Rule 2.4a) and Rule 2.4b) of the Takeover Code.

As a result of the announcement of the Formal Sale Process, we are considered to be in an "Offer Period" under the Takeover Code.

COVID-19

We established a COVID-19 task force in mid-March 2020 with the objectives of safeguarding the heath and wellbeing of our staff members and monitoring the impact on our vendors and collaborators. From mid-March, our employees have for the most part been working from their homes with only very few colleagues working in our Cardiff laboratories at any one time. Our expectation is that the COVID-19 pandemic is likely to negatively affect businesses globally for an indeterminate period and that, once the pandemic is under control, recovery to normalisation will not be instantaneous. Accordingly, we believe governmental limitations on travel will certainly cause delays to timelines. These delays may be the result of a limitation on the number of staff permitted in our facilities at any one time or delays in our vendor's supply chains. In addition, delays are likely in the recruitment and execution of clinical trials as prospective and enrolled patients are unable to visit clinical sites. We require one more patient in our MTX110 Phase I trial at UCSF before that trial can report safety and tolerability and a recommended dose established for a Phase II trial.

It is not possible to quantify the impact of COVID-19 and resultant delays on Midatech until it becomes clear that the global crisis has abated, and a normalisation of the business environment can be foreseen with confidence.

Outlook

The implications of our strategic review and the ongoing impact of COVID-19 has had a dramatic impact on Midatech. Despite the cost-cutting measures announced, our cash resources are limited and there can be no certainty that we will be able to secure milestone payments from licensee partners and/or raise additional funds before our cash runway runs out in early 2021. Accordingly, the Board is considering all possible strategies to optimise outcomes for stakeholders.

In the meantime, our near term goal is to deploy our proprietary drug delivery technologies to formulate a compelling portfolio of novel first-in-class sustained release formulations of products with significant commercial potential for licensing to pharmaceutical company partners at proof-of-concept stage.

I look forward to a busy and productive 2020 and beyond. On behalf of the Board, I would like to thank all our stakeholders; investors, partners and employees for their continued support.

> "With the exception of our commitments with respect to MTX110 clinical trials, we have no plans to undertake additional trials in humans unless a partner or grant funding has been secured."

Stephen Stamp
Chief Executive Officer, Chief Financial Officer

Financial review

> The strategic review announced on 31 March 2020 resulted in a further narrowing of focus of operations and significant expected closure and redundancy costs.

Stephen Stamp
Chief Executive Officer, Chief Financial Officer

Following the sale of Midatech's commercial operations in the US in November 2018, and the closure of the Abingdon R&D centre, 2019 was a year of consolidation and re-focus as a drug delivery technology company. The strategic review announced on 31 March 2020 resulted in a further narrowing of focus of operations and significant expected closure and redundancy costs which are described below.

Introduction

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

Financial analysis

Key performance indicators (from continuing operations)

	2019	2018	Change
Total gross revenue[1]	£0.7m	£1.9m	(65)%
Statutory revenue	£0.3m	£0.1m	109%
R&D costs	£7.8m	£9.4m	(16)%
R&D as % of operating costs	65%	68%	n/a
Loss from continuing operations	£(9.1)m	£(10.4)m	(12)%
Net cash inflow/(outflow) for the year	£8.4m	£(10.9)m	n/a
Average headcount	65	85	(24)%

(1) Total gross revenue represents collaboration income from continuing operations plus grant revenue.

For the year ended 31 December 2019, Midatech generated consolidated total gross revenue of £0.7m (2018: £1.9m), a decrease of 65% on the prior year. Statutory Revenue for the year was £0.3m (2018: £0.1m), the difference between gross and statutory revenue being grant revenue of £0.4m (2018: £1.8m).

Research and development expenditure

Research and development costs decreased 16% to £7.8m (2018: £9.4m) in the year primarily due to lower research and development headcount costs and associated overheads of £2.18m offset by £0.66m of higher clinical development costs, primarily associated with our lead clinical programs, MTD201 and MTX110. R&D expenses in 2019 included:

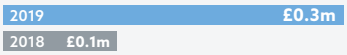
- Completion of the second Phase I study in 24 healthy volunteers of MTD201, which demonstrated similar pharmacokinetics and bioavailability from subcutaneous administration of MTD201 compared with traditional intramuscular administration; and
- Continuation of our Phase I safety and tolerability study of MTX110 with UCSF in DIPG.

Distribution costs, sales and marketing

Distribution costs, sales and marketing costs in 2019 were £0.3m (2018: £nil) representing certain market and payor research expenses associated with our pipeline R&D products.

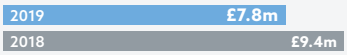
Total gross revenue[1]

£0.7m



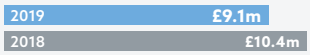
Statutory Revenue

£0.3m



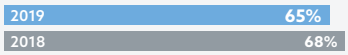
R&D costs

£7.8m



Loss from continuing operations

£9.1m



R&D as % of operating costs

65%

(1) Total gross revenue represents collaboration income from continuing operations plus grant revenue.

Administrative costs

Administrative costs in the year decreased 13% to £3.8m (2018: £4.4m) reflecting higher foreign exchange losses of £0.44m and a loan redemption penalty and other costs relating to the early repayment of the MidCap Credit Agreement of £0.30m in 2018, offset by a reduction in accommodation and other overheads as a result of closure of the Abingdon facility.

Loss from discontinued operations

Loss from discontinued operations relates to the sale of Midatech Pharma US(MPUS) in November 2018. The loss of £0.9m in 2019 is the impairment of a deposit paid by Midatech pursuant to an indemnity claim following the sale of MPUS to Barings LLC in November 2018. Under the terms of the sale and purchase agreement, Midatech indemnified the purchaser against, inter alia, any liability related to any prescription drug user fee amounts owed to the FDA under the Prescription Drug Fee User Act ("PDUFA") by MPUS for the United States government's fiscal year ended 30 September 2018. Since paying the deposit, Midatech has requested a waiver from the FDA a number of times without success. Loss from discontinued operations of £4.7m in 2018 includes net losses after tax of MPUS of £3.3m and loss on disposal of £1.4m.

Staff costs

During the year, the average number of staff decreased to 65 (2018: 85), reflecting the closure of the Abingdon R&D facility. Total staff cost for continued operations fell by 22% to £3.4m (2018: £4.4m). Total staff costs for discontinued operations in 2019 were £nil (2018: £1.8m).

Capital expenditure

The total cash expenditure on property plant and equipment in 2019 was £0.3m (2018: £0.2m), largely in respect of investment in our small-scale manufacturing and R&D facility in Bilbao, Spain. Property, plant and equipment with a net book value of £0.2m was sold or written off as part of the closure of the Abingdon R&D facility in 2018.

Other comprehensive income

Other comprehensive income in 2019 comprised a foreign exchange loss of £0.2m (2018: gain of £1.2m) arising on retranslation of Midatech's non-UK operations. In 2018, a foreign exchange loss of £3.8m was realised on the disposal of MPUS.

Impact of IFRS 16

Prior to the implementation of IFRS 16, leases classified as operating leases were not recorded as related assets and liabilities; instead lease payments were spread on a straight-line basis over the lease term. By contrast, IFRS 16 requires us to recognise right-of-use assets and lease liabilities on our Balance Sheet for all contracts that are, or contain, a lease.

We implemented IFRS 16 with effect from 1 January 2019, applying the modified retrospective adoption method and therefore have not re-stated periods prior to that date. At 31 December 2019 we recorded, in respect of our operating leases, right-of-use assets of £1.1m, offset by accumulated depreciation of £0.3m, for a net book value of £0.8m.

Instead of recognizing an operating expense for our operating lease payments, under IFRS 16 we instead recognise interest on our lease liabilities and amortization on our right-of-use assets. In 2019, we recognised £0.2m interest in respect of leases previously recorded as operating leases.

Cash flow

Net cash outflow from operating activities in 2019 was £6.5m (2018: outflow £13.5m) driven by a net loss of £10.1m (2018: loss £15.0m) and after positive movements in working capital of £1.8m (2018: negative £1.5m), taxes received of £1.9m (2018: £1.4m) and other net negative adjustments for non-cash items totalling £0.1m (2018: positive £1.7m).

Investing activities outflow in 2019 of £3.8m (2018: inflow of £9.0m) comprised purchases of property, plant and equipment of £0.3m (2018: £0.2m) and the purchase of a long term asset of £2.5m as security for the loan received from the Spanish Government under the Reindus Program. The remaining investing activities outflow of £1.0m in 2019 related to the disposal of MPUS (2018: inflow £9.3m).

Financing activities inflow in 2019 of £18.7m (2018: outflow of £6.5m) was driven by the receipt of Government loans of £5.6m offset by a related deposit of £2.5m and net cash inflow from share issues of £14.1m (2018: £nil). Financing activities outflow in 2018 included the repayment of the MidCap financial loan including early redemption penalty of £5.8m.

As a result of the foregoing, net cash inflows for the year were £8.4m (2018: outflow of £10.9m).

Capital structure

Following approval by shareholders at a General Meeting of the Company on 2 March 2020, the Ordinary Shares of 0.005 pence each were consolidated on a one for 20 basis with effect from 3 March 2020 with new ISIN GB00BKT14T00. Consequently, Midatech's capital structure on a pre- and post-consolidation basis as at 31 December 2019 was as follows:

	Pre-consolidation Ordinary Shares of 0.005 pence	Post-consolidation Ordinary Shares of 0.1 pence
Ordinary Shares	469,899,613	23,494,981
Warrants 2022 exercisable at £0.50 (post consolidation £10.00)	313,846,440	15,692,276
Warrants exercisable at $0.0625 (post consolidation, ratio change $1.25)	63,000,000	3,150,000
Midatech options	6,720,222	336,026
Warrants assumed in connection with DARA acquisition	92,480	4,624
Options assumed in connection with DARA acquisition	57,150	2,857

In addition, there were 1,000,001 deferred shares of £1 each, unaffected by the consolidation.

As a consequence of the consolidation, per share amounts have been restated based on one twentieth of the weighted average number of Ordinary Shares outstanding during the year, being 18,330,588 (2018 restated: 3,056,303).

Strategic review

The Company announced a wide ranging strategic review of its operations. Having concluded it was unlikely the Company could execute a fundraise under prevailing market conditions and/or secure a licensee on a timely basis, the Board decided to terminate further in-house development of MTD201. In line with its termination, the Board also decided to close the Company's MTD201 dedicated facilities in Bilbao and offer redundancy to all 42 Bilbao based employees. At the same time, five UK employees in clinical operations and administration were also made redundant. The estimated one-time cash outflows and non-cash costs of these actions are expected to be as follows:

	Estimated cash outflow £000
Staff redundancy	933
Repayment of loans, net of deposit returned	3,569
Property lease termination costs	–
Settlement of finance leases	130
Repayment of grant funding	230
Other	70
	4,933

	Estimated non-cash costs £000
Impairment of acquired IPRD	9,300
Impairment of goodwill	2,291
Write down of tangible assets to net realisable value	975
Right of use asset – IFRS 16	(61)
Other	(186)
	12,319

The cash outflows and non-cash costs will be reflected in the Company's financial statements for the year ending 31 December 2020.

Going concern

The Group and Company has experienced net losses and significant cash outflows from cash used in operating activities over the past years as it develops its portfolio. For the year ended 31 December 2019, the Group incurred a consolidated loss from operations of £10.1m and negative cash flows from operations of £6.5m. As of 31 December 2019, the Group had an accumulated deficit of £99.8m.

The Group's consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As at 31 December 2019, the Group had cash and cash equivalents of £10.93m. In May 2020, the Group completed an equity offering, raising £3.8m net of costs. The Directors forecast that the Group currently has enough cash to fund its planned operations into the second quarter of 2021.

The Group's future viability is dependent on its ability to generate cash from operating activities, to raise additional capital to finance its operations and to successfully obtain regulatory approval to allow marketing of its 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. For example, due to the Group's current and forecasted cash position, on 31 March 2020, the Directors made the decision to cease certain of the Group's research and development programs, close its Spanish operations and make certain terminations within its UK operations. In connection with the strategic review announced on the same date, the Directors are in the process of seeking to license or assign one or more of the Group's technologies to a partner or, alternatively, to seek a buyer for the Company. Any or all of these transactions may be on unfavourable terms.

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next five years including the period twelve months from the date of approval of the consolidated financial statements. These forecasts show that further financing will be required before the second quarter of 2021 assuming, inter alia, that certain development programs and other operating activities continue as currently planned. This requirement for additional financing in the short term represents a material uncertainty that may cast significant doubt upon the Group and parent company's ability to continue as a going concern.

In addition, the global spread of the pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions placed and being placed on the movement of people will likely cause delays to some of the Group's plans. The scale of the impact of COVID-19 is evolving and it is difficult to assess to what extent, and for how long, it will cause delays to the Group's operations. The Directors have established a COVID-19 task force internally to monitor the impact of COVID-19 on the business and prioritize activities to minimize its effect.

In addition to utilizing the existing cash reserves, as part of the Group's ongoing strategic review, the Directors and its advisors are evaluating a number of near-term funding options potentially available to the Group, including fundraising, the partnering of assets and technologies or the sale of the Company. After considering the uncertainties, the Directors consider it is appropriate to continue to adopt the going concern basis in preparing these financial statements

Macro-economic environment

The United Kingdom completed its exit from the European Union on 31 January 2020 although a transition period is expected to continue until 31 December 2020, by which time the United Kingdom is expected to negotiate a new trade agreement with the EU. It is unknown what terms will emerge from a new trade agreement between the UK and the EU, and the impact of market risks is uncertain. Depending on the terms of any such agreement, there may be an impact on the general and economic conditions in the United Kingdom that could have a negative effect on our business. Subject to meeting the EU's definition of an SME, we were provisionally awarded the GlioKIDS grant by the EU in December 2019; our expectation is that it is unlikely we will receive further grants from the EU.

A novel strain of coronavirus, COVID-19, first discovered in Wuhan, China has spread globally and been recognised by the WHO as a "pandemic". Apart from the devastating effect on public health, COVID-19 has had a widespread impact on business confidence and global capital markets. In addition to the potential impact on our clinical trial operations, the availability of certain equipment and products used in our operations and our ability to raise additional capital. This pandemic is considered to be a post balance sheet event.

Section 172 Statement

The Directors are required to include a statement of how they have had regard to stakeholders to promote the success of the Company, in accordance with section 172 of the Companies Act 2006. Under s172, a Director must act in the way he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members, as a whole, and in doing so have regard to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

In accordance with the QCA Code, as well as what is most likely to promote the success of the Group in the long term, the Board considers the interests of the Group's employees and other stakeholders in its decision making and understands the importance of taking into account their views and considers the impact of the Group's activities on the community, environment and its reputation.

Information about our stakeholders are detailed in the section on Corporate Governance on pages 24 to 27.

During 2019 the key decisions for the Board are highlighted within the Chief Executive's Review on pages 08 to 11. The key decisions during the year are as follows:

- in February 2019 the Group entered into a licensing agreement with CMS, simultaneously with their £8m equity investment. The Board gave regard to all relevant stakeholders, including potential alternative sources of finance, and consulted with shareholders during the process; and
- the initiation of the MTD201-102 Phase 1 study. The Board gave regard to all relevant stakeholders in arriving at their decision to proceed. The trial offered the potential for patients to administer therapy themselves at home, significantly reducing the frequency of hospital visits and therefore payer costs, resulting in enhanced shareholder value.

Risk management

The Group has formal procedures to monitor and manage risk.

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 s tatutes and regulations require the expenditure of substantial time and financial resources.

Following the announcement on 31 March 2020 that the Company had terminated further in-house development of MTD201, the Company also commenced the shutdown of its facilities in Bilbao which were largely dedicated to the manufacture of MTD201. Other than its ongoing commitments for MTX110 trials, the Company's strategy is to deploy its drug delivery technologies to develop new formulations to proof-of-concept stage. The Company has no plans to undertake clinical development unless underwritten by a licensee partner or grant funding.

Accordingly, the successful development, manufacture and commercialisation of its products will be dependent upon the expertise and compliance of its licensee partners with regulations. These include current Good Clinical Practice ("cGCP") and current Good Manufacturing Practice ("cGMP").

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

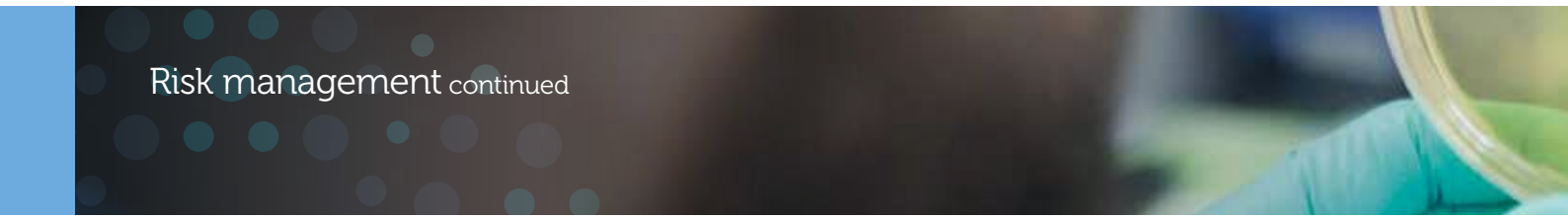
Midatech's Q-Sphera™ sustained release technology relies on a novel manufacturing process that, the Directors believe, is unique in the pharmaceutical industry. Competing sustained release technologies are well established in the market, however, the Q-Sphera platform has the potential for improved drug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

The Group's MidaSolve™ technology is employed for increasing the aqueous solubility of small molecule cancer therapeutics to enable parenteral administration. This platform relies on internal know-how that uniquely applies prevailing chemistry techniques to enhance the solubility of certain insoluble agents.

The Group's MidaCore™ 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.

Commercial success of Midatech's portfolio of development product candidates depends in part on the market's acceptance of these products and technologies. 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 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 sustained release, solubility enhancement and nanoparticle 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 equity settled derivative financial liabilities as set out in note 21.

Funding risk

The Group continues to incur substantial operating expenses. The IPO in December 2014 and subsequent fundraises in October 2016, October 2017 and most recently in February 2019 and October 2019, allowed the Group to advance the development pipeline products towards future value inflection points. However, until the Group generates positive net cash inflows from the out-licence or commercialisation of its development products it is expected to have to seek additional funding, whether through the injection of further equity capital from share issues, grants or debt finance. The Group may not be able to generate positive net cash inflows in the future or be able to attract such additional funding as may be required, either at all, or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and business operations cut back.

The Group seeks to reduce this risk by keeping a tight control on expenditure, avoiding long term supplier contracts (other than for clinical trials), prioritising development spend on products closest to potential revenue generation, obtaining government grants (where possible), 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 UK's exit from the European Union (commonly referred to as "Brexit"). On 29 March 2017, the UK formally initiated its withdrawal from the European Union by triggering Article 50 of the Treaty of Lisbon. On 9 January 2020, a withdrawal agreement, setting out the terms of the UK's withdrawal from the EU, was approved by Parliament, and on 31 January 2020, the UK formally completed its exit from the EU. However, a transition period is expected to continue until 31 December 2020, by which time the UK is expected to negotiate a new trade agreement with the EU, though such an agreement is not guaranteed in that timeframe. It is unknown what terms will emerge from a new trade agreement between the UK and the EU, and the exact impact of market risks we face is uncertain. Depending on the terms of such agreement, including whether or not the UK could lose access to the EU market, there may be an impact on the general and economic conditions in the UK that could have a material adverse effect on our business, financial condition and results of operations.

From a regulatory perspective, a basic requirement of EU law relating to the grant of a marketing authorization for a medicinal product in the EU is that the applicant is established in the EU. The scope of a marketing authorization for a medicinal product granted by the European Commission pursuant to the centralized procedure might not, in the future, include the UK.

In these circumstances, an authorization granted by competent UK authorities would be required to place medicinal products on the UK market. In addition, the laws and regulations that will apply after the UK withdraws from the EU would affect the manufacturing sites that hold a certification issued by the UK competent authorities, and vice versa. Upon expiry of the transition period following the withdrawal of the UK from the EU, our ability to integrate our UK and Spanish operations could be adversely affected. For example, depending on the terms of any agreement establishing the future relationship between the European Union and the United Kingdom which relate to medicinal products, or if there is no such agreement, we could become subject to export tariffs and regulatory restrictions that could increase the costs and time related to doing business in Spain.

In the United States, President Trump has proposed or sought to implement 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 this administration to have a significant impact on the Midatech business given our development 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.

COVID-19

Public health epidemics or outbreaks could adversely impact our business. In December 2019, a novel strain of coronavirus, COVID-19, emerged in Wuhan, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it has now spread to several other countries and infections have been reported globally. We have taken, and may continue to take, measures to mitigate the effect of these conditions, including restricting all non-essential business travel for our personnel and employees. As of mid March 2020 our employees have been largely working from home with limited numbers of employees attending our laboratories for certain essential activities. Our expectation is that recruitment for our ongoing MTX110 clinical trials with UCSF and Columbia University will be delayed due to restrictions on travel. The extent to which COVID-19 impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others. In particular, the continued spread of COVID-19 globally could adversely impact our operations, including among others, our sales and marketing, our clinical trial operations, and the availability of certain equipment and products used in our operations, and accordingly, the impact of COVID-19 could have an adverse impact on our business and our financial results.

Risk mitigation

The Group has formal procedures to monitor and mitigate risk. Some of the principal risks facing the Group include:

Risk	Description	Mitigation	Change from prior year
Availability of funding	Until the Group generates positive net cash inflows from the commercialisation of its development products it may be required to seek additional funding, whether through the injection of further equity capital from share issues, grant or debt finance. The Group may not be able to generate positive net cash inflows in the future or be able to attract such additional funding as may be required, either at all, or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and business operations cut back. The risk of availability of funding is exacerbated by recent macro-economic developments including Brexit and COVID-19.	• Securing fee-for-service contracts to formulate third parties' APIs together with development of an attractive in-house pipeline for licensing should provide cash flow to support operations. • Dual NASDAQ and AIM listings may provide access to additional funding sources	^ Increased

Risk	Description	Mitigation	Change from prior year
Competition / technological progression	Although R&D is directed towards large market opportunities, 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 generic competition and disruptive technology and products early • Protect our own technologies and products as broadly as possible with patents and trademarks • Review commercial relevance of the Group's technology platforms regularly • Direct innovation effort towards identified strengths and USPs • Examine opportunities to diversify the pipeline by adding additional sustained release and GNP projects	^ Increased
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	^ Increased
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 and by access to appropriate sales channels and infrastructure in individual countries where we plan to operate.	• Maintain a detailed understanding of in-house platform 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	^ Increased

Risk	Description	Mitigation	Change from prior year
Dependence on third party manufacturing capability	We no longer operate our own in-house manufacturing facility and will therefore be reliant on third party contract manufacturers. There can be no assurance that we will be able to contract with third party contract manufacturers on appropriate terms or at all. In addition, we cannot be sure such third parties will be capable of manufacturing sufficient quantities, in compliance with regulatory requirements at an acceptable cost or within an acceptable timeframe.	• Early involvement of experienced and suitably qualified organisations and individuals to plan and manage the commercial scale-up process • Commitment of appropriate resources to ensure the scale-up plan can be properly executed • Audit of external contract manufacturing organisations to ensure compliance with GMP. • Clear go/no-go decision criteria to determine the optimal manufacturing partner.	^ Increased
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	<> No change
COVID-19	The COVID-19 pandemic has resulted in global restrictions on movement of people which, in turn has caused delays in the provision of supply chain materials and services. It has also resulted in volatility in the capital markets, impacting on fundraising activities.	• Preserve the health and wellbeing of employees by working from home and staggering essential workplace attendance • Establish a COVID-19 task force to (1) monitor government recommendations and implement as appropriate and (2) identify potential delays in vendor deliverables and recommend corrective / alternative action, if viable.	New

This Strategic Report was approved by the Board on 15 June 2020 and signed on its behalf.

Stephen Stamp
Chief Executive Officer, Chief Financial Officer

Board of Directors

Stephen Stamp
Chief Executive Officer,
Chief Financial Officer (58)

Mr Stamp is an experienced public company CFO and has held senior positions in a number of healthcare companies in the UK and the US including CFO of Shire plc, Chief Operating Officer of Xanodyne Pharmaceuticals Inc., CFO of Assurex Health, Inc and CFO and latterly CEO, of Ergomed plc. He has also been CFO of Regus plc (now IWG plc) and EZCORP Inc. Mr Stamp also has considerable M&A experience, having worked for Lazard in London.

He is a Chartered Accountant and qualified with KPMG and has a BA(Econ) from the University of Manchester.

Rolf Stahel
Non-Executive Chairman (age 76)

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 (United Kingdom, Switzerland and United States) and private life science companies registered in Europe, the United States and Asia. Mr Stahel joined Shire as CEO in 1994 following a 27-year career at Wellcome plc (now GlaxoSmithKline). He 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.

Sijmen de Vries
Non-Executive Director (60)

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

Simon Turton
Senior Independent
Non-Executive Director (53)

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 group of dental clinics in the UK.

As at 31 December 2019 the Board consisted of two Executive Directors and five Non-Executive Directors.

On 31 March 2020, in line with the Company's streamlined strategy and operations and narrower focus, Craig Cook resigned as Chief Executive Officer and Director and Dr Huaizheng Peng and Frédéric Duchesne resigned as Non-Executive Directors. Stephen Stamp joined the Company as Chief Financial Officer and was appointed to the Board in September 2019 following the resignation of Nick Robbins-Cherry. Stephen Stamp was also appointed Chief Executive Officer on 31 March 2020 upon the resignation of Craig Cook.

Following the investment in the Company by China Medical System and other investors in February 2019, three Non-Executive Directors, Pavlo Protopapa, Michele Luzi and John Johnston stepped down and a new Non-Executive Director, Huaizheng Peng, was appointed to the Board. Brief biographies of the current Directors are set out below. Frédéric Duchesne joined the Board as a Non-Executive Director on 31 July 2019.

The Directors believe that the combined functional and industry expertise of Board members provides Midatech Pharma plc with a strong platform to lead the business.

Chairman's introduction to Corporate Governance

I am pleased to present the Company's Corporate Governance Report for the year ended 31 December 2019.

Rolf Stahel
Chairman

Corporate governance remains a strategic imperative for Midatech. As the Board of an AIM and NASDAQ listed company we are committed to ensuring the Midatech Group is managed in accordance with best practice and, specifically, in accordance with the principles and provisions set out in Quoted Companies Alliance Corporate Governance Code for Small and Mid-Sized Quoted Companies (QCA Code). This Corporate Governance Report, together with the Audit Committee and Directors' Remuneration Reports that follow, set out the principles of our governance framework and how the Group has applied the QCA Code.

The Board, through its Committees plays a key role in providing the necessary framework, challenge and support to the business, the executives and ensuring that a culture of good governance exists throughout the Midatech Group.

As Chairman, my role is to ensure that the Board operates in an open and transparent environment, allowing the Non-Executive Directors an opportunity to critically assess, challenge and support the Executive Directors and senior management team.

At Midatech, engaging with our stakeholders is an integral part of how we operate as a business – actively seeking to understand what really matters to our stakeholders and ensuring that we take this into account in our decision-making, both at a strategic and an operational level.

QCA Code

With effect from 28 September 2018, all AIM listed companies were required to formally apply a recognised corporate governance code. Midatech chose to adopt the principles of the QCA Code which identifies 10 principles to be followed in shareholder value, encompassing an efficient, effective and dynamic management framework, accompanied by good communication, to promote confidence and trust. I am very pleased to say that we are able to report full compliance with each of the 10 principles of the QCA Code. Details of the principles and how we comply are set out on our website www.midatechpharma.com.

Business Model

Since the divestment of the US commercial business in November 2018, Midatech has focused on its R&D activities. Our pipeline of therapies for rare cancers continued to progress during the year. MTD201, for the treatment of neuroendocrine tumours and acromegaly, and MTX110, for the treatment of the rare children's brain tumour, DIPG, are both now in clinical development. For more information on our strategy please see the Strategic Report on pages 04 to 21, including information about the key risks and challenges posed to the Company in executing its strategy, please see pages 17 to 21 of this Annual Report.

Strategic review

On 31 March 2020 the Company announce that the Board had concluded, in the context of its current cash runway, that the Company was unlikely to conclude a license transaction or raise sufficient funds to continue the required remaining investment in MTD201 on a timely basis. The Board therefore decided to terminate further in-house development of the MTD201 programme with immediate effect. The Company will continue to seek licensing partners for this asset.

In line with the decision to terminate MTD201, the Board also took the difficult decision to close the Company's MTD201 dedicated manufacturing facilities in Bilbao and offer redundancy to all 42 employees. In addition, a further five UK-based employees in clinical research and administrative roles were offered redundancy.

Following these changes, Midatech's remaining 20 employees and operations are concentrated in Cardiff. The Company's near term goal is to deploy its proprietary drug delivery technologies to formulate a compelling portfolio of novel first-in-class sustained release formulations of products with significant commercial potential for licensing to pharmaceutical company partners at proof of concept stage. The Company has no plans to undertake additional trials in humans unless a license partner or grant funding has been secured.

On 20 April 2020, we announced an update to the strategic review of operations including the appointment of Noble Capital Markets, Inc to advise the Company on options for extracting value from its technologies. These options are expected to include partnering our clinical stage assets, partnering existing and upcoming proof of concept formulations, partnering or selling one or more of its technologies or selling the entire company. A sale of the company would be pursuant to a "Formal Sale Process", as defined by The City Code on Takeovers and Mergers, or Takeover Code. The Takeover Panel has agreed to allow us and our advisers to conduct discussions with potential acquirors without the requirement to publicly identify any interested parties. As a result of the announcement, we are considered to be in an "Offer Period" which places certain restrictions and reporting obligations on us.

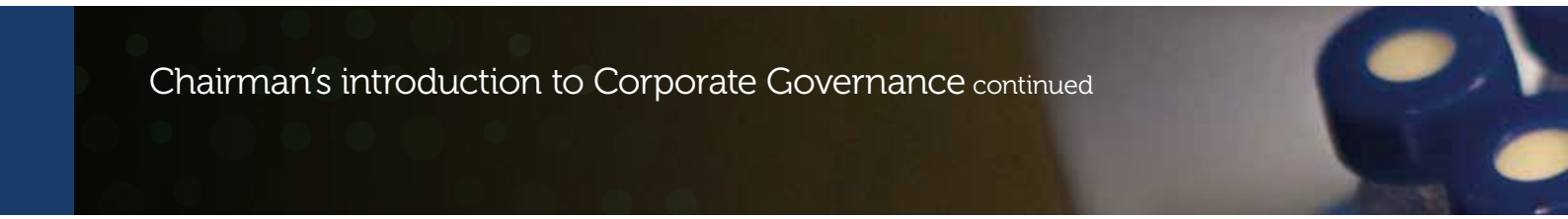
Board of Directors

The Board's role is to establish the vision and strategy for the Midatech Group and is responsible for the long term success of the Company. The Board is responsible to the Company's shareholders with its main objective being to increase the sustainable value of assets and long term viability of the Company. The Board reviews business opportunities and determines the risks and control framework. It also makes decisions on budgets, strategy and major capital expenditure. The day-to-day management of the business is delegated to the Executive Directors.

As at 31 December 2019 the Board comprised seven Directors, two of whom were Executive Directors and five Non-Executive Directors. The Board was realigned in February 2019 along with the refined strategy to focus on drug delivery technology. At that time, Pavlo Protopapa, Michele Luzi and John Johnston stepped down. At the same time, Dr Huaizheng Peng joined the Board as a Non-Executive Director following the investment by CMS. Dr Peng serves as General Manager of International Investment and Operations for CMS. Following a search, Frédéric Duchesne joined the Board as a Non-Executive Director in July 2019. Mr Duchesne was formerly President and Chief Executive Officer of the Pharmaceuticals Division of Pierre Fabre Laboratories and brings particular expertise in pharmaceutical supply chain and manufacturing, an area the Board identified as a skills gap.

Other than Dr Peng who is a representative of CMS, the Group regards the other Non-Executive Directors who served during the year as independent.

No remuneration is paid to any Non-Executive Directors in the form of shares. Sijmen de Vries and former Non-Executive Director, Michele Luzi, both hold share options granted by Midatech Limited, prior to the incorporation of Midatech Pharma plc in 2014.



Relationship with NASDAQ

The Company's shares are also listed on the NASDAQ market in the form of American Depositary Receipts (ADRs). Following a consolidation process, with effect from 8 April 2019, each ADR represents the right to receive 20 ordinary shares. Prior to that date, each ADR represented two ordinary shares. This consolidation process did not affect the total number of ordinary shares in issue, but it did reduce the number of ADRs. With effect from 3 March 2020 the Company's ordinary shares were consolidated on a one for 20 basis. On the same day, the ADR ratio changed such that each ADR now represents five ordinary shares on a consolidated basis. 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.

Board and Committee Meetings

The Board and its Committees meet regularly to consider strategy, performance and the framework of internal controls. To enable the Board and/or its Committees 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, remuneration, and nomination 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, the external audit and internal controls. This includes 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.

Prior to the Board changes announced in February 2019, the Audit Committee was chaired by Pavlo Protopapa, a qualified accountant, and its other members were Simon Turton and John Johnston. The Audit Committee meet not less than twice a year. During 2019, the Audit Committee met four times. Following the Board changes, the Audit Committee is chaired by Simon Turton who is considered to have significant, recent and relevant financial experience, and its other members are Sijmen de Vries and Rolf Stahel.

The Report of the Audit Committee for the year ended 31 December 2019 can be found on page 28.

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, including any payment of a discretionary bonus and the award of all share options. The Remuneration Committee ensures compliance with the QCA Code in relation to remuneration wherever possible.

The Remuneration Committee is chaired by Sijmen de Vries, and its other members are Simon Turton and Rolf Stahel. Prior to the Board changes announced in February 2019, Michele Luzi was also a member. The Remuneration Committee is required to meet at least twice a year. The Directors Remuneration Report for the year ended 31 December 2019 can be found on pages 31 to 37.

The Nomination Committee

The Nomination Committee assists 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 members of the Board. The Nominations Committee was formally convened twice during 2019.

Going concern

As disclosed in the Directors' Report on pages 38 to 39 the Group financial statements have been prepared on the going concern basis. The Directors have prepared cash flow forecasts and considered the cash flow requirement for the next five years, including the period twelve months from the date of the approval of the financial statements. These forecasts show that further financing will be required during the course of the next 12 months, assuming, inter alia, that certain development programs and other operating activities continue as currently planned. This requirement for additional financing represents a material uncertainty that may cast significant doubt over about our ability to continue as a going concern. The Directors believe that the Group will be able to access adequate resources to continue in operational existence for the foreseeable future and therefore the Directors, after considering the uncertainties, consider it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Relationship with shareholders

The Directors seek to build and maintain 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. There is regular dialogue with financial stakeholders with the intention of providing transparent communication. The Chief Executive/Chief Financial Officer meets with institutional shareholders following interim and final results. The Chairman also makes himself available to liaise with shareholders as necessary. 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.

Suppliers

We aim to work collaboratively with our suppliers to build long term, mutually beneficial relationships. The Group is committed to eliminating unlawful discrimination and to promoting equality and diversity in its professional dealings with suppliers and other third parties. The Group endeavours to enter into clear and fair contracts with its suppliers.

Employees

Our people are the foundation of our business and imperative to its success. The Group promotes a positive working environment for all employees with rigorous policies and procedures that protect, develop and satisfy our existing and future employees.

Community

The Group seeks to support as many interactions with research and development community as possible through regular meetings and continuous collaborations.

Health, Safety and Environment

The Directors are committed to ensuring the highest standards of health and safety, both for their employees and for the communities within which the Group operates. The Directors are committed to minimising the impact of the Group's operations on the environment. As set out in the Chief Executive's Review we established a COVID-19 task force in mid-March 2020 with the objectives of safeguarding the health and wellbeing of our staff members and monitoring the impact on our vendors and collaborators, details on page 11.

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.

I should like to recognise the contributions of the Directors who served on the Board of Midatech and resigned during the year including Non-Executives Pavlo Protopapa, Michele Luzi and John Johnston, and Executive Director Nick Robins-Cherry. As part of the restructuring announced in March 2020, Non-Executives Huaizheng Peng and Frédéric Duchesne resigned, and Craig Cook resigned as CEO. Each of these former colleagues made valuable contributions to Midatech.

I would like to add my thank you to our shareholders, Directors, employees and partners for their support and considerable time spent for the benefit of our Company.

Rolf Stahel
Chairman

15 June 2020

Audit committee report

On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 December 2019.

Simon Turton
Chairman of the Audit Committee

The Committee plays a key role for the Board, monitoring and reviewing all aspects of the Group's financial reporting, risk management procedures and internal controls.

The following report provides an overview of the work undertaken by the Committee during the year. The most significant topics considered by the Committee during the year included the carrying value of goodwill and intangibles, revenue recognition, the recoverability of a deposit paid under the MPUS sale and purchase agreement and going concern. The Committee also reviewed the principal risk and mitigation disclosures which are set out on pages 17 to 21.

The Audit Committee

The Committee, which reports to the Board, is responsible for overseeing the Group's financial reporting process as well as monitoring the effectiveness of internal control, risk management and conduct of the external audit. It also monitors the independence of the external auditors and the provision of non-audit services, if any. Prior to the Board changes announced in February 2019, the Audit Committee was chaired by Pavlo Protopapa, a qualified accountant, and its other members were Simon Turton and John Johnston. Following the Board changes, the Audit Committee is chaired by Simon Turton who is considered to have significant, recent and relevant financial experience, and its other members are Sijmen de Vries and Rolf Stahel.

The Committee's meetings were also attended (by invitation) by the Chief Financial Officer, Group Financial Controller and senior representatives of the external auditor, BDO LLP (BDO).

External Auditor

The Committee oversees the relationship with BDO and is responsible for developing and monitoring the Group's policy on external audit and for monitoring the external auditor's independence. BDO has direct access to the Committee Chairman should they wish to raise any matters outside of formal Committee meetings.

The Committee monitors the external auditor's effectiveness on an ongoing basis, taking into account the views of management that BDO provides a good-quality audit service. The Committee is satisfied that BDO remains independent and objective and that the Group is receiving a robust audit.

Non-audit services

During the year there were no non-audit services provided by BDO.

The total fees charged by BDO in the year are shown in note 5.

Internal audit

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 and the robustness of the Group's accounting and business management systems, that an internal audit function was not required, however this remains a matter for ongoing review.

Risk management and internal controls

The Board has collective responsibility for risk management and is assisted by the Audit Committee in monitoring the principal risks and uncertainties faced by the Group, including those specific to the pharmaceutical sector, as well as other micro and macroeconomic factors. The Board also considers risks specific to the Group such as those relating to progress of the R&D programmes, the Spanish manufacturing operation and personnel.

The Board is responsible for reviewing and maintaining the Group's system of internal control and for monitoring 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 main features of the internal control system are outlined below:

- The Group uses 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 and Senior Management Team. The Group has a defined organisational structure with delineated responsibilities and approval limits.
- The Board and Committees of the Board have schedules of matters expressly reserved for their consideration. Matters reserved for the Board include 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 Senior Management Team before submission to the Board for approval. Budgets are updated to reflect significant, known changes in the business. Actual results, the cash position and future cash flow projections are all monitored against annual budgets in detail on a monthly basis, with variances highlighted to the Board and investigated.

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.

Material weaknesses

As a US registrant, we are subject to the Sarbanes-Oxley Act of 2002 which requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. We are required, under Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosures of any material weaknesses identified by management in its internal control over financial reporting.

A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting that results in more than a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. Section 404 of the Sarbanes-Oxley Act also generally requires an attestation from our independent auditor on the effectiveness of our internal control over financial reporting. However, for as long as we remain an emerging growth company, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are emerging growth companies including, but not limited to, not being required to comply with the independent auditor attestation requirement.

In preparing our interim financial statements for the six months ending 30 June 2019, we and our independent auditor identified a material weakness in the effectiveness of our internal controls over financial reporting, specifically that we had expensed a deposit in our income statement, as opposed to classifying it as a recoverable financial asset in other receivables during the six months ended 30 June 2019. As previously disclosed, in October 2018, pursuant to the terms of a Stock Purchase Agreement dated 26 September 2018, or Purchase Agreement, by and among the Company, Midatech US and Kanwa Holdings, LP, an affiliate of Barings LLC, we sold our subsidiary, Midatech US to Kanwa Holdings, LP. During the fiscal year ended 31 December 2019, following a request by Midatech US, we paid a deposit of £947,000 in connection with a certain indemnity obligation set forth in the Purchase Agreement. The deposit was originally expensed in the income statement. Following a review by our independent auditor of the interim financial information for the six months ended 30 June 2019, this deposit was reclassified as a recoverable financial asset in other receivables.

Furthermore, as part of their audit procedures, our independent auditor identified the following material weaknesses in our internal control environment:

- Regarding our IT general controls environment material weaknesses included an absence of new vendor approval, inappropriate access to administration accounts of finance systems, password segregation and access security which were not designed or operating effectively. The lack of appropriate IT general controls could lead to a material misstatement of our financial statements that will not be prevented or detected in a timely manner.
- Several control deficiencies were identified related to the consolidation and financial reporting close functions including; the adoption of IFRS 16, adjustments required to align the results of foreign subsidiaries prepared under Spanish GAAP to IFRS, the recognition of certain costs not yet incurred that occurred during the process of preparing our financial information during the period that, when considered in aggregate, would be considered a material weakness.
- The design and operation of our revenue recognition process, in which required policies and procedures either were not designed or were not operating effectively at the period end. While no adjustments to our consolidated financial statements during the course of the audit were required, there were no mitigating controls that would have prevented or detected such a material error should it have occurred.

Although we are instituting remedial measures to address the material weaknesses identified and to continually review and evaluate our internal control systems to allow management to report on the sufficiency of our internal control over financial reporting, we cannot assure you that we will not discover additional weaknesses in our internal control over financial reporting. Any such additional weaknesses or failure to adequately remediate any existing weakness could materially and adversely affect our financial condition and results of operations, as well as our ability to accurately report our financial condition and results of operations in a timely and reliable manner.

Additionally, the material weaknesses described above, or other material weaknesses or significant deficiencies we may become aware of in the future, could result in our determining that our controls and procedures are not effective in future periods or could result in a material misstatement of the consolidated financial statements that would not be prevented or detected.

Simon Turton
Chairman of the Audit Committee

15 June 2020

Directors' remuneration report

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 31 December 2019, which sets out the remuneration policy for the Directors and the amounts earned during the year.

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 QCA Code in relation to remuneration wherever possible.

The Remuneration Committee is chaired by Sijmen de Vries, and its other members are Simon Turton and Rolf Stahel. Prior to the Board changes announced in February 2019, Michele Luzi was also a member.

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. It also 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:

(i) Basic salaries and benefits in kind

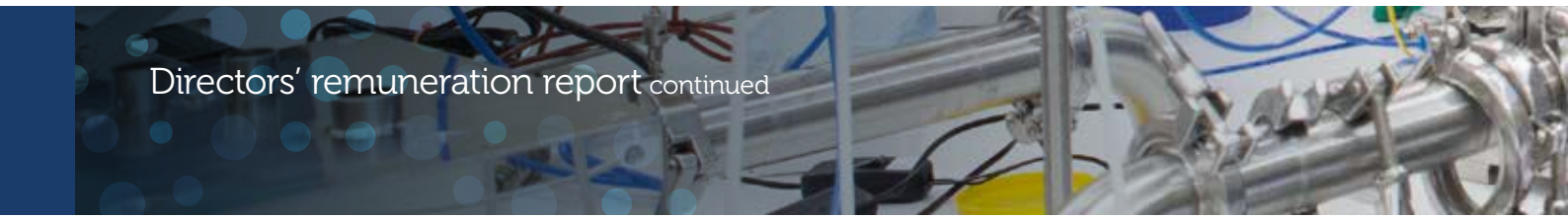
Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Benefits in kind comprising death in service cover and private medical insurance are available to staff and Executive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

(ii) Share options and other share-based incentives

The Group currently operates two 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 (the "UK Plan"); and

b) Unapproved share options awarded to non-UK 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 and Midatech Pharma US, Inc. prior to the sale of that business. 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. The quantum of any award made since 2016 is made with reference to 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 QCA 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. The bonus 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 2018, used to determine bonus payments, included the following:

- Commencement of various clinical studies for lead programmes;
- Divestment of the US business; and
- Cost containment measures and a successful re-financing of the Company

Each specific objective had an associated bonus weighting. The Remuneration Committee reviews actual performance against each objective and applies 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 medium and 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.

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.

Review of Executive Remuneration

Significant progress was made during the year, including the advancement of the Company's two lead development programmes, MTD201 and MTX110, together with fund raising success. These are detailed in the Chief Executive's Review on pages 08 to 11 of this Annual Report. Based on a set of objectives agreed by it, the Remuneration Committee determined that 75% of these objectives, weighted by importance, have been achieved and therefore bonuses of 75% were due and payable to the Executive Directors and senior management in accordance with their individual bonus entitlements.

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 Craig Cook

Chief Executive Officer

Dr Cook entered into a service agreement with the Company to act as Chief Executive Officer on 1 June 2018. His continuous employment with the Group commenced 1 January 2014. Dr Cook's appointment was ratified in accordance with the Company's Articles at the AGM held on 19 June 2019. His appointment is terminable upon six months' notice.

Stephen Stamp

Chief Financial Officer

Mr Stamp entered into a service agreement with the Company to act as Chief Financial Officer 9 September 2019. Mr Stamp will be subject to ratification in accordance with the Company's Articles at the 2020 AGM. 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, as disclosed in note 6, is as follows:

	2019 £'000	2018 £'000	2017 £'000
Remuneration	3,383	6,145	6,599

No dividends to shareholders have yet been paid.

Chief Executive Officer remuneration

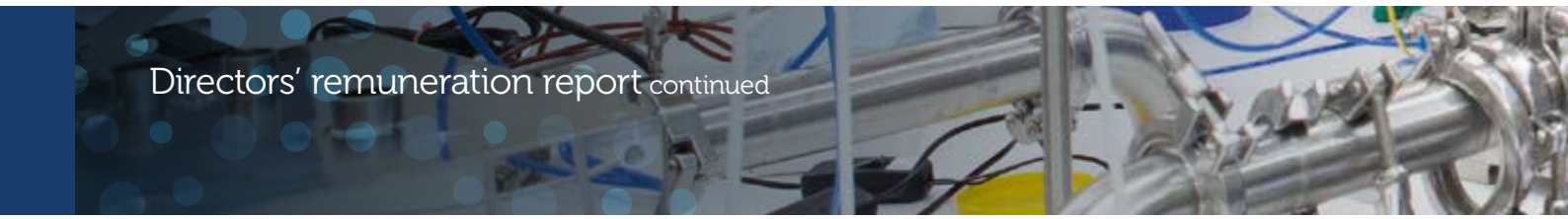
The total remuneration paid to Dr Craig Cook, since his appointment as Chief Executive Officer, and to Dr Jim Phillips, the previous Chief Executive Officer, including a payment in 2018 on termination of his employment of £99k, is as follows:

	2019 £'000	2018 £'000	2017 £'000
Craig Cook	266	146	–
Jim Phillips	–	214	310

Midatech has chosen to provide disclosure on executive pay in line with 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 emoluments paid to the Chief Executive Officer, Dr Craig Cook, taken from the date of his appointment as CEO, is a multiple of 4.2 times (2018: 2.4 times) the average remuneration of an employee of the Midatech Group.

The average amount paid per employee for all operations in the year, excluding share based payment charges, decreased by 28% (2018: increase of 2%).

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 13 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. The appointment is terminable upon the election of the Board. Mr Stahel offers himself for re-election at the 2020 AGM.

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). The appointment is terminable upon the election of the Board.

Frédéric Duchesne

Non-Executive Director

Mr Duchesne entered into a Non-Executive Director appointment letter with the Company on 31 July 2019. Mr Duchesne resigned from the Board on 31 March 2020.

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 AGM held on 27 June 2018 during which he was re-elected by the Company's members. Mr Johnston resigned from the Board on 26 February 2019.

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 AGM held on 27 June 2018 during which he was re-elected by the Company's members. Mr Luzi resigned from the Board on 26 February 2019.

Huaizheng Peng

Non-Executive Director

Dr Peng entered into a Non-Executive Director appointment letter with the Company on 26 February 2019 following the investment in the Company by China Medical System Holdings. Dr Peng resigned from the Board on 31 March 2020.

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). Mr Protopapa retired by rotation prior to the Company's AGM held on 3 May 2017 during which he was re-elected by the Company's members. Mr Protopapa resigned from the Board on 26 February 2019.

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). Mr Turton retired by rotation prior to the Company's AGM held on 19 June 2019 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 £	Benefits in kind £	2019 total £	2018 £	2017 £
Non-Executive Directors							
Rolf Stahel[1]	90,000	–	–	–	90,000	95,000	99,980
Sijmen de Vries	30,400	–	–	–	30,400	30,400	36,100
Frédéric Duchesne[2]	12,784	–	–	–	12,784	–	–
John Johnston[3]	7,600	–	–	–	7,600	30,400	36,100
Michele Luzi[3]	7,600	–	–	–	7,600	30,400	36,100
Huaizheng Peng[4]	25,765	–	–	–	25,765	–	–
Pavlo Protopapa[3]	7,600	–	–	–	7,600	30,400	36,100
Simon Turton	30,400	–	–	–	30,400	30,400	36,100
Executive Directors							
Craig Cook[5]	265,762	67,980	22,495	1,284	357,521	158,772	–
Nick Robbins-Cherry[6]	136,178	–	14,665	1,082	151,925	177,350	188,350
Stephen Stamp[7]	49,846	5,642	5,333	–	60,821	–	–
Directors' remuneration	663,935	73,622	42,493	2,366	782,416	791,654	756,987

(1) Mr Stahel's remuneration included Directors' fees of £40,000 and consulting fees of £50,000 from Chesyl Pharma, a company wholly-owned by Mr Stahel.

(2) M. Duchesne was appointed a Director on 31 July 2019.

(3) Messrs. Johnston, Luzi and Protopapa resigned as Directors on 26 February 2019.

(4) Dr Peng was appointed a Director on 26 February 2019.

(5) Dr Cook was appointed a Director on 1 June 2018.

(6) Mr Robbins-Cherry resigned as a Director on 9 September 2019.

(7) Mr Stamp was appointed a Director on 9 September 2019.

Share based payment credit of £58,000 in respect of Dr Cook, Mr Robbins-Cherry and Mr Stamp was charged to the income statement during the year (in respect of Dr Cook and Mr Robbins-Cherry for 2018: £146,000).

Details of the payments to other related parties are disclosed in note 29.

	31 December 2019		31 December 2018	
Directors' interests in shares	Beneficial interests	Non-beneficial interests	Beneficial interests	Non-beneficial interests
Non-Executive Directors				
Rolf Stahel[1]	1,077,064	–	599,942	–
Sijmen de Vries	465,699	59,150	38,802	59,150
Frédéric Duchesne	–	–	–	–
Huaizheng Peng	–	–	–	–
Simon Turton	1,106,507	–	269,413	–
Executive Directors				
Craig Cook	124,682	–	10,000	–
Stephen Stamp	1,000,000	–	–	–

(1) At 31 December 2018, 244,880 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) 122,440 shares become unrestricted when the market capitalisation of the Company achieves £155m

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

Directors' interests in share options

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

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 2019 options held over Ordinary Shares	31 December 2018 options held over Ordinary Shares
Non-Executive Directors		
Rolf Stahel	–	–
Sijmen de Vries	14,000	14,000
Frédéric Duchesne	–	–
Huaizheng Peng	–	–
Simon Turton	–	–
Executive Directors		
Craig Cook	2,761,000	961,000
Stephen Stamp	1,000,000	–

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 27) are set out below:

	Grant date	Number awarded	Exercise price/ share £	Vesting criteria	Expiry date
Non-Executive Directors					
Sijmen de Vries	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					
Craig Cook	01/07/2014	360,000	0.075	Share price[2]	30/06/2024
	31/10/2016[4]	150,000	2.68	Time based[3]	02/12/2025
	19/12/2016	210,000	1.21	Time based[3]	07/12/2026
	15/12/2017	241,000	0.46	Time and price based[5]	15/12/2027
	24/04/2019	1,800,000	0.073	Time based[3]	15/03/2029
Stephen Stamp	09/09/2019	1,000,000	0.0525	Time based and performance based[6]	09/09/2029

(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.

(5) 25% of the options become eligible to vest 12 months after the grant date, followed by 12 equal quarterly tranches becoming eligible to vest, over a subsequent three-year period. All vesting subject to the 20-VWAP share price reaching £1 at any time during the life of the option.

(6) 40% of the options vest if the Company raises $20m before 9 September 2020, 15% vest on 9 September 2020 and the remainder vest in equal tranches at the end of the subsequent 12 quarters.

Directors' interests in warrants

Certain Directors acquired Warrants over ordinary shares as part of the purchase of Units (one Ordinary Share and one Warrant) in the Company's fundraise in February 2019.

	31 December 2019 Warrants over Ordinary Shares	31 December 2018 Warrants over Ordinary Shares
Non-Executive Directors		
Rolf Stahel	477,122	–
Sijmen de Vries	426,897	–
Frédéric Duchesne	–	–
Huaizheng Peng	–	–
Simon Turton	837,094	–
Executive Directors		
Craig Cook	118,682	–
Stephen Stamp	–	–

The warrants may be exercised through February 2022 at an exercise price of £0.50 per Ordinary Share.

Sijmen de Vries
Chairman of the Remuneration Committee

15 June 2020

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2019.

Directors

The Directors during the year were:

- Rolf Stahel
- Craig Cook (resigned 31 March 2020)
- Sijmen de Vries
- Frédéric Duchesne (appointed 31 July 2019, resigned 31 March 2020)
- John Johnston (resigned 26 February 2019)
- Michele Luzi (resigned 26 February 2019)
- Huaizheng Peng (appointed 26 February 2019, resigned 31 March 2020)
- Pavlo Protopapa (resigned 26 February 2019)
- Nick Robbins-Cherry (resigned 9 September 2019)
- Stephen Stamp (appointed 9 September 2019)
- Simon Turton

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 risk management, including financial risk objectives, 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.

Post balance sheet events

In December 2019, COVID-19 emerged in Wuhan, China and has spread to many countries globally. We have taken measures to mitigate the effect of these conditions, including restricting all non-essential business travel for our personnel and employees. The extent to which COVID-19 impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others.

In January 2020, a study of subcutaneous administration of MTD201 compared with traditional intramuscular administration in healthy volunteers showed similar pharmacokinetics and bioavailability, offering the potential for a differentiated, more patient-friendly product profile.

In March 2020, an exploratory study was initiated by Columbia University in five patients with DIPG using an alternative convection enhanced delivery system.

At a General Meeting of the Company on 2 March 2020 resolutions were passed to increase the Company's s.551 authority to allot shares, disapply pre-emption rights and consolidate the Company's Ordinary Shares of £0.00005 each on a one for 20 basis into Ordinary Shares of £0.001 each. At the same meeting a resolution was passed to change the ratio of the Company's American Depositary Receipts ("ADRs"). This will change from one ADR representing 20 Existing Ordinary Shares to one ADR representing five new ordinary shares.

On 31 March 2020 the Company announced a wide-ranging strategic review of the Company's operations. The components of that review and their impact are detailed in the Chief Executive's Review. On 20 April 2020 the Company announced an update to the strategic review including the appointment of an adviser and the initiation of a "formal sale process" as defined by The City Code on Takeovers and Mergers.

On 18 May 2020, the Company announced that it had raised gross proceeds of £4.3m (£3.8m net of expenses) in a combined UK Placing and Registered Direct Offering in the US. The combined offerings resulted in the issuance of 15.8m new Ordinary Shares and 16.5m new Warrants.

On 8 June 2020, the Company received a letter sent on behalf of Secura Bio, Inc. ("Secura Bio"), dated 1 June 2020, purporting to terminate a License Agreement, dated 5 June 2017 (the "Secura License Agreement"), by and between Midatech Limited and Novartis AG, which Novartis AG subsequently transferred to Secura Bio. Pursuant to the Secura License Agreement, Midatech Limited was granted a non-exclusive worldwide, sublicenseable license to certain patents of panobinostat, the active pharmaceutical ingredient of the Company's development product MTX110. Midatech Limited's rights are limited to the treatment of brain cancer in humans, administered by convection-enhanced delivery. The Company plans to continue to pursue development of MTX110 and the strategic review process previously disclosed. The Company is also reviewing with its outside counsel remedies it may have if Secura Bio does not withdraw the notice and otherwise cease to interfere with its ongoing business and strategic review process, which the Company has formally requested.

The Company is evaluating available actions to protect its rights under the Secura Bio License Agreement and its assets.

Directors' and Officers' liability insurance

The Company has, as permitted by s.234 and s.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 Annual 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

Stephen Stamp
Company Secretary

15 June 2020

Independent auditor's report

To the members of Midatech Pharma plc

Opinion

We have audited the financial statements of Midatech Pharma plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2019 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 Company balance sheet, the Company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the 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 the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 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 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 complying with its legal obligation to apply 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 give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements concerning the Group and Parent Company's ability to continue as a going concern. These matters explained in note 1 related to the requirement for additional funding to be raised by the Group and Parent Company within the next twelve months, indicate that a material uncertainty exists which may cast significant doubt over the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We have highlighted going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy.

We have performed the following work as part of our audit:

- We reviewed the Directors' formal assessment that going concern is an appropriate basis of preparation;
- We reviewed the latest available cash flow forecasts for the Group which included the twelve months from the date of approval of these financial statements;
- We agreed a sample of the restructuring costs incurred in April and May 2020 to supporting documentation, and agreed the receipts of the fundraise in May 2020 to bank statements;
- We challenged and corroborated management's assumptions included in the cash flow forecasts, in particular the impact of the restructuring actions announced on 31 March 2020, on future facilities and payroll costs, including comparison to prior actual costs for the continuing business; we challenged the Directors' assessment of the impact of the Covid-19 pandemic on their forecasts, based on our experience of the life sciences industry;
- We discussed with management and their advisors their progress to date with fundraising activities, based on the strategy review announced on 31 March 2020, and their expectations regarding concluding such transactions within the required timeframe; and
- We reviewed the disclosures made by the Directors in the financial statements, to ensure they were appropriate.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter referred to in the Material uncertainty related to going concern section above, the following key audit matters were identified.

Carrying value of goodwill and in-progress research and development

Key audit matter	**How our audit addressed the key audit matter**
See also note 1 (Accounting policies), note 2 (Critical estimates), note 12 (Intangible assets) and note 13 (Impairment testing) for further details. The Group has £10.1m of in-progress R&D ("IPRD") intangible assets (2018: £10.1m) and £2.3m (2018: £2.3m) of goodwill at the year end. The products to which the IPRD relate are not yet ready for use and are therefore required, along with the goodwill, to be tested for impairment on an annual basis. For IPRD, the impairment assessment requires management to make certain key assumptions and judgements on the clinical, technical and commercial viability of the products to which the intangible assets relate. For such products in development, the main risk for the Group is the outcome of clinical trials and obtaining required clinical and regulatory approvals for commercialisation. The assessment of the carrying values of IPRD and goodwill is therefore based on forecasting and discounting future cash flows, which are inherently highly judgemental.	• We reviewed management's impairment assessment, based on our knowledge of the Group's business and activities and from discussions with management; • We gained an understanding, through discussion with management and non-financial personnel, of the underlying stage of development and future opportunities for the IPRD intangible assets; • We evaluated and challenged management's assumptions used in assessing the recoverability of the goodwill and intangible assets, in particular, revenue, profit margins, the timing and quantum of cash flows, discount rates used and the probability of obtaining regulatory approval for products in trial; • We performed sensitivity analysis on the value-in-use models prepared by management to support the intangible asset valuations; • We reviewed the mechanics of the models in order to ensure they are appropriate for the purpose of the assessment of the carrying value of the intangible assets recorded; and • We assessed the adequacy of the related accounting policies and disclosures in the financial statements. Key observations: Nothing has come to our attention from performing the procedures above, to suggest that any impairment is required against the carrying values of IPRD and goodwill at 31 December 2019. We reviewed the disclosures in note 13 and are satisfied that they are appropriate.

Key audit matters continued

Recoverability of deposit paid under Midatech Pharma US, Inc. disposal agreement, for Prescription Drug User Fee Act ("PDUFA") fees

Key audit matter	How our audit addressed the key audit matter
See also note 1 (Accounting policies), note 2 (Critical estimates). In April 2019 the Group made a payment of $1.2m (£947,000) under the indemnities in the Midatech Pharma US, Inc. disposal agreement in relation to amounts due to the US Food and Drug Administration ("FDA") in respect of unpaid PDUFA fees, for the year to September 2018, which were and continue to be the subject of a fee waiver request as at the date of this report. Management has assessed the likelihood of receipt of a waiver from the FDA, as at 31 December 2019, to be possible but not probable and have therefore reduced the fair value of the deposit receivable to nil at that date. The amount has been recognised as a loss from discontinued operations in the year ended 31 December 2019. Given the amounts recorded are material to the financial statements and there is significant judgement exercised in the assessment, while the matter remains outstanding, we identified this as a key audit matter.	• We reviewed management's formal assessment of the probability of a successful FDA waiver being received by Fortovia Inc. (previously Midatech Pharma US, Inc.) as at 31 December 2019; • We vouched the payment to bank statements; • We reviewed submissions to and correspondence with the FDA on the matter; • We reviewed management's assessment of probability received from Fortovia's in-house regulatory expert; • We engaged an auditor's regulatory expert to consider the facts and provide an independent assessment. • We reviewed the disclosures surrounding the matter. Observation: Nothing has come to our attention from performing the procedures above, to suggest that management's assessment at 31 December 2019 is inappropriate. We considered the accounting treatment and disclosures surrounding the matter were appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as follows:

	Group	Parent Company
Overall materiality	£350,000 (2018: £400,000)	£175,000 (2018: £200,000)
How we determined it	Materiality was based on 3% of total operating expenses.	Materiality for the Parent Company financial statements was initially based on 3% of net assets, then capped at 50% of group materiality.
Rationale for benchmark applied	Total operating expenses is considered the most appropriate measure in assessing the performance of the Group given its pre-tax loss position, stage of development and level of activities during the year.	We considered an asset based measure to best reflect the nature of the parent company which acts as a holding company for the Group.

In considering individual account balances and classes of transactions, we apply a lower level of materiality (performance materiality) in order reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.

Performance materiality was set at £245,000 (2018: £280,000) for the Group, representing 70% of materiality. The level was set taking into account a number of factors including our past experience of adjusted and unadjusted errors, complexity of the audit and controls within the Group. The same percentage was applied to each component materiality including the Parent Company.

Where financial information from components was audited separately, component materiality levels were set for this purpose at lower levels varying from 34% to 69% (2018: 50% to 87%) of Group materiality.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £14,000 (2018: £12,000), being 4% (2018: 3%) of Group materiality. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit scope focussed on the Group's principal operating locations and legal structure. The Group has operating entities based in the UK, Spain and Australia. The UK and Spanish entities were deemed significant components.

The UK and Spanish subsidiaries were subject to full scope audits by the Group audit team. The Group audit team were assisted by staff from the BDO Network firm in Spain who provided subcontracted staff to perform audit procedures under the supervision of the Group audit team. The Senior Statutory Auditor visited the Spanish operations during the local audit, reviewed workpapers, discussed risk areas with the BDO network firm team members and attended a completion meeting for the Spanish audit with local and group management.

The Australian entity was deemed a non-significant component on which we performed analytical review procedures.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the 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 in relation to which 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Oliver (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
Reading, UK

15 June 2020

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

Consolidated statements of comprehensive income

For the year ended 31 December

	Note	2019 £'000	2018 £'000	2017 £'000
Revenue	3	312	149	149
Grant revenue		362	1,789	840
Total revenue		674	1,938	989
Other income		15	–	–
Research and development costs		(7,843)	(9,359)	(8,329)
Distribution costs, sales and marketing		(323)	–	(170)
Administrative costs		(3,841)	(4,394)	(4,266)
Impairment of intangible assets	12,13	–	–	(1,500)
Loss from operations	5	(11,318)	(11,815)	(13,276)
Finance income	7	492	2	415
Finance expense	7	(97)	(587)	(109)
Loss before tax		(10,923)	(12,400)	(12,970)
Taxation	8	1,785	2,032	1,265
Loss from continuing operations		(9,138)	(10,368)	(11,705)
Loss from discontinued operations net of tax	4	(947)	(4,662)	(4,359)
Loss for the year attributable to the owners of the parent		(10,085)	(15,030)	(16,064)
Other comprehensive income:				
Items that will or may be reclassified subsequently to profit or loss when specific conditions are met:				
Exchange (losses)/gains arising on translation of foreign operations		(207)	1,156	(1,233)
Exchange losses realised on disposal of subsidiaries	4	–	(3,842)	–
Total other comprehensive (loss)/income, net of tax		(207)	(2,686)	(1,233)
Total comprehensive loss attributable to the owners of the parent		(10,292)	(17,716)	(17,297)
Loss per share				
Continuing operations				
Basic and diluted loss per ordinary share – pence	9	(50)p	(339)p	(456)p
Discontinued operations				
Basic and diluted loss per ordinary share – pence	9	(5)p	(153)p	(170)p

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

Consolidated statements of financial position
At 31 December

Company number 09216368	Note	2019 £'000	2018 £'000	2017 £'000
Assets				
Non-current assets				
Property, plant and equipment	10	2,154	1,983	2,529
Intangible assets	12	12,379	12,374	27,647
Other receivables due in greater than one year	15	2,625	469	465
		17,158	**14,826**	**30,641**
Current assets				
Inventories	17	–	–	941
Trade and other receivables	15	992	1,323	3,242
Taxation		1,817	1,952	1,196
Cash and cash equivalents	16	10,928	2,343	13,204
		13,737	**5,618**	**18,583**
Total assets		**30,895**	**20,444**	**49,224**
Liabilities				
Non-current liabilities				
Borrowings	19	5,670	884	6,185
Provisions	20	–	165	–
		5,670	**1,049**	**6,185**
Current liabilities				
Trade and other payables	18	4,494	2,103	8,002
Borrowings	19	412	368	361
Provisions	20	97	–	–
Derivative financial liability – equity settled	21	664	–	–
		5,667	**2,471**	**8,363**
Total liabilities		**11,337**	**3,520**	**14,548**
Issued capital and reserves attributable to owners of the parent				
Share capital	24	1,023	1,003	1,003
Share premium	25	65,879	52,939	52,939
Merger reserve	25	53,003	53,003	53,003
Foreign exchange reserve	25	(508)	(301)	2,385
Accumulated deficit	25	(99,839)	(89,720)	(74,654)
Total equity		**19,558**	**16,924**	**34,676**
Total equity and liabilities		**30,895**	**20,444**	**49,224**

The financial statements were approved and authorised for issue by the Board of Directors on 15 June 2020 and were signed on its behalf by:

Stephen Stamp
Chief Financial Officer

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

Consolidated statements of cash flows

For the year ended 31 December

	Note	2019 £'000	2018 £'000	2017 £'000
Cash flows from operating activities				
Loss for the year		(10,085)	(15,030)	(16,064)
Adjustments for:				
Depreciation of property, plant and equipment	10	979	1,016	983
Depreciation of right of use asset	10	303	–	–
Amortisation of intangible fixed assets	12	3	434	1,577
Loss on disposal of fixed assets		–	165	27
Impairment of intangible assets	12,13	–	–	1,500
Finance income	7	(492)	(2)	(415)
Finance expense	7	97	587	166
Share-based payment expense	5	(34)	(36)	520
Taxation	8	(1,785)	(2,032)	(1,265)
Loss on sale of subsidiary	4	–	1,407	–
Loss from discontinued operations, net of tax	4	947	–	–
Foreign exchange (gains)/losses		(140)	130	–
Cash flows from operating activities before changes in working capital		**(10,207)**	**(13,361)**	**(12,971)**
Decrease/(Increase) in inventories		–	347	(202)
Decrease/(Increase) in trade and other receivables		725	1,030	(968)
Increase/(Decrease) in trade and other payables		1,141	(2,995)	(267)
(Decrease)/Increase in provisions		(68)	165	–
Cash used in operations		**(8,409)**	**(14,814)**	**(14,408)**
Taxes received		1,920	1,364	1,455
Net cash used in operating activities		**(6,489)**	**(13,450)**	**(12,953)**
Investing activities				
Purchases of property, plant and equipment	10	(310)	(244)	(707)
Proceeds from disposal of fixed assets		–	25	–
Purchase of intangibles	12	(9)	–	(778)
Long term deposit for guarantee for Government loan		(2,549)	–	–
Disposal of discontinued operation, net of cash disposed of	4	–	9,259	–
Deposit paid in connection with disposed subsidiary	4	(947)	–	–
Interest received		8	2	15
Net cash (used in)/generated from investing activities		**(3,807)**	**9,042**	**(1,470)**
Financing activities				
Interest paid		(30)	(587)	(111)
Receipts from sub-lessors		107	–	–
Amounts paid on lease liabilities (2018 & 2017: Amounts paid on finance leases)		(450)	(64)	(25)
Repayment of borrowings		(577)	(5,821)	(552)
Proceeds from bank borrowings		–	–	5,237
Proceeds from Government loan		4,436	–	–
Proceeds from Government subsidy		1,139	–	–
Share issues including warrants, net of costs	16	14,108	–	5,728
Net cash generated from/(used in) financing activities		**18,733**	**(6,472)**	**10,277**
Net increase/(decrease) in cash and cash equivalents		**8,437**	**(10,880)**	**(4,146)**
Cash and cash equivalents at beginning of year		**2,343**	**13,204**	**17,608**
Exchange gains/(losses) on cash and cash equivalents		148	19	(258)
Cash and cash equivalents at end of year	**16**	**10,928**	**2,343**	**13,204**

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

Consolidated statements of changes in equity

For the year ended 31 December

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2019	**1,003**	**52,939**	**53,003**	**(301)**	**(89,720)**	**16,924**
Loss for the year	–	–	–	–	(10,085)	(10,085)
Foreign exchange translation	–	–	–	(207)	–	(207)
Total comprehensive loss	**1,003**	**52,939**	**53,003**	**(508)**	**(99,805)**	**6,632**
Transactions with owners						
Shares issued on 26 February 2019 – note 16	17	13,388	–	–	–	13,405
Costs associated with share issue on 26 February 2019 – note 16	–	(1,120)	–	–	–	(1,120)
Shares issued on 29 October 2019 – note 16	3	1,211	–	–	–	1,214
Costs associated with share issue on 29 October 2019 – note 16	–	(539)	–	–	–	(539)
Share-based payment charge	–	–	–	–	(34)	(34)
Total contribution by and distributions to owners	**20**	**12,940**	**–**	**–**	**(34)**	**12,926**
At 31 December 2019	**1,023**	**65,879**	**53,003**	**(508)**	**(99,839)**	**19,558**

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2018	**1,003**	**52,939**	**53,003**	**2,385**	**(74,654)**	**34,676**
Loss for the year	–	–	–	–	(15,030)	(15,030)
Reclassification of foreign exchange on disposal	–	–	–	(3,842)	–	(3,842)
Foreign exchange translation	–	–	–	1,156	–	1,156
Total comprehensive loss	**–**	**–**	**–**	**(2,686)**	**(15,030)**	**(17,716)**
Share-based payment charge	–	–	–	–	(36)	(36)
Total contribution by and distributions to owners	**–**	**–**	**–**	**–**	**(36)**	**(36)**
At 31 December 2018	**1,003**	**52,939**	**53,003**	**(301)**	**(89,720)**	**16,924**

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2017	**1,002**	**47,211**	**53,003**	**3,618**	**(59,110)**	**45,724**
Loss for the year	–	–	–	–	(16,064)	(16,064)
Foreign exchange translation	–	–	–	(1,233)	–	(1,233)
Total comprehensive loss	**–**	**–**	**–**	**(1,233)**	**(16,064)**	**(17,297)**
Transactions with owners						
Shares issued on 16 October 2017 – note 16	1	6,157	–	–	–	6,158
Costs associated with share issue – note 16	–	(429)	–	–	–	(429)
Share option charge	–	–	–	–	520	520
Total contribution by and distributions to owners	**1**	**5,728**	**–**	**–**	**520**	**6,249**
At 31 December 2017	**1,003**	**52,939**	**53,003**	**2,385**	**(74,654)**	**34,676**

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

1 Accounting policies

General information

Midatech Pharma plc (the "Company") is a company registered and domiciled in England and Wales. 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 the NASDAQ Capital Market.

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.

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, unless stated otherwise.

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.

On 2 March 2020 a resolution was passed at a general meeting of shareholders of the Company to consolidate its ordinary shares on a one for 20 basis into new ordinary shares of 0.1p each in the capital of the Company. At the same meeting a resolution was passed to change the ratio of the Company's American Depositary Receipts ("ADRs"). This will change from one ADR representing 20 Existing Ordinary Shares to one ADR representing five new ordinary shares. Numbers of shares and share options/warrants and related exercise/issue prices are shown prior to the impact of the March 2020 share consolidation, with the exception of loss per share and note 9 Loss per share, where the weighted average share denominator has been adjusted for the share consolidation

The consolidated financial statements have been prepared on a historical cost basis, except for the following item (refer to individual accounting policies for details):

- Financial instruments – fair value through profit or loss.

Adoption of new and revised standards

New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Group that were adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

- IFRS 16 Leases (IFRS 16); and
- IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)

Details of the impact these two standards have had are given in note 32 below. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

1 Accounting policies continued

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The following amendments are effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

These new accounting standard amendments are not expected to have a material impact on the Group.

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that "settlement" includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

The Group is currently assessing the impact of this new accounting standard amendment.

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

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 through to the date of sale on 1 November 2018. Similarly, the loss and other comprehensive income of Zuplenz®, acquired as a business by Midatech Pharma plc, is recognised from 24 December 2015 until 31 October 2018 (up to the formal completion of the sale of MPUS on 1 November 2018).

Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post–tax profit or loss of the discontinued operation along with the post–tax gain or loss recognised on the re–measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

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 (España) SL (formerly Midatech Biogune SL)	Trading company
PharMida AG	Dormant
Midatech Pharma (Wales) Limited (formerly Q Chip Limited)	Trading company
Midatech Pharma Pty	Trading company
Midatech Pharma US, Inc. (formerly DARA Biosciences, Inc.) (until 1 November 2018)	Trading company
Dara Therapeutics, Inc. (until 1 November 2018)	Dormant

Going concern

The Group and parent company are 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 revenue from 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.

On 11 March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of these Financial Statements, the Group's operations have been significantly curtailed temporarily due to restrictions imposed by governments.

The Group cannot reasonably estimate the length or severity of this pandemic and related restrictions. Some factors from the COVID-19 outbreak that the Company believe will adversely affect current and planned drug development activities include:

- the diversion of healthcare resources away from the conduct of clinical trial matters to focus on pandemic concerns, including the attention of physicians serving as our clinical trial investigators, hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;
- limitations on travel that interrupt key trial activities, such as clinical trial site initiations and monitoring;
- interruption in global shipping affecting the transport of clinical trial materials, such as investigational drug product used in our trials; and
- employee absences that delay necessary interactions with local regulators, ethics committees and other important agencies and contractors.

The Group and Company has experienced net losses and significant cash outflows from cash used in operating activities over the past years as it develops its portfolio. For the year ended 31 December 2019, the Group incurred a consolidated loss from operations of £10.1m and negative cash flows from operations of £6.5m. As of 31 December 2019, the Group had an accumulated deficit of £99.8m.

The Group's consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As at 31 December 2019, the Group had cash and cash equivalents of £10.93m. In May 2020, the Group completed an equity offering, raising £3.7m net of costs. The Directors forecast that the Group currently has enough cash to fund its planned operations into the second quarter of 2021.

1 Accounting policies continued

The Group's future viability is dependent on its ability to generate cash from operating activities, to raise additional capital to finance its operations and to successfully obtain regulatory approval to allow marketing of its 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. For example, due to the Group's current and forecasted cash position, on 31 March 2020, the Directors made the decision to cease certain of the Group's research and development programs, close its Spanish operations and make certain terminations within its UK operations. In connection with the strategic review announced on the same date, the Directors are in the process of seeking to license or assign one or more of the Group's technologies to a partner or, alternatively, to seek a buyer for the Company. Any or all of these transactions may be on unfavourable terms.

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next five years including the period twelve months from the date of approval of the consolidated financial statements. These forecasts show that further financing will be required before the second quarter of 2021 assuming, inter alia, that certain development programs and other operating activities continue as currently planned. This requirement for additional financing in the short term represents a material uncertainty that may cast significant doubt upon the Group and parent company's ability to continue as a going concern.

In addition, the global spread of the pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions placed and being placed on the movement of people will likely cause delays to some of the Group's plans. The scale of the impact of COVID-19 is evolving and it is difficult to assess to what extent, and for how long, it will cause delays to the Group's operations. The Directors have established a COVID-19 task force internally to monitor the impact of COVID-19 on the business and prioritize activities to minimize its effect.

In addition to utilizing the existing cash reserves, as part of the Group's ongoing strategic review, the Directors and its advisors are evaluating a number of near-term funding options potentially available to the Group, including fundraising, the partnering of assets and technologies or the sale of the Company. After considering the uncertainties, the Directors consider it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

Revenue

Revenue is accounted for in line with principles of IFRS 15 "Revenue from contracts with customers"

Revenue from licensing agreements

The Group entered into a Licence Agreement during 2019. The licence consists of two distinct performance conditions, which is the grant of the license to use of its intellectual property ("IP") and the supply of Product. After the Company has granted the license, and the Product is granted applicable marketing authorizations in the EU, the US, or the UK, France, Germany or Switzerland and China, there are no further obligations to participate in, or provide additional services to its customer. The transaction price for the grant of the license to use the Company's IP comprises of fixed and variable payment streams and the grant of the license is considered to be a right to use IP. Upfront fees earned, are recognised as revenue at a point in time, upon transfer of control over the license to the licensee and the grant of the applicable marketing authorisation by the relevant statutory authority. Revenue from variable consideration, which is contingent on achievements of future milestones is recognised as revenue when it is highly probable the revenue will not reverse, that is when the underlying contingencies have been resolved. For future royalty payments associated with a license, the Company applies the IFRS 15 exception for sales-based royalties and recognises the revenue only when the subsequent sale occurs.

Supply of Goods

Revenue from sales of goods to customer are recognised when all performance obligations are met. These criteria are considered to be met when the goods are delivered to the customer. Revenue 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.

Supply of Services

Revenue from the supply of services is subject to specific agreement. This is recognised over the contract term, proportionate to the progress in overall satisfaction of the performance obligations (the services performed by the Group), measured by cost incurred to date out of total estimate of costs.

Government grants and government loans

Milestones

The Group's revenue also include milestone income from research and development contracts. 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.

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.

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 IFRS 9. 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 grant income or 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; and
- the fair value of the net identifiable assets acquired and assumed liabilities.

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

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

Externally acquired intangible assets other than goodwill are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives where they are in use. The amortisation expense is included within the distribution costs, sales and marketing 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).

1 Accounting policies continued

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.

The product and marketing rights recognised in 2017 related to various licenses, the Group held via its US subsidiary. These rights were disposed of with the sale of the subsidiary.

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 12 years

The useful economic life of IPRD will be determined when the in-process research projects are completed. Amortisation of product and marketing rights ceased in June 2018 when the US entity was classified as held for sale.

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 £1.5m was recognised in 2017 against the IPRD of the Midatech Pharma (Wales) Ltd cash generating unit within continuing operations. Please refer to note 33 Post Balance Sheet Events, for potential impairment charges during 2020.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). After the disposal of the US operation on 1 November 2018, the Group at 31 December 2019 had only one cash generating unit (2018: one, 2017: two), as set out in note 13. 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; or
- 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 results and assets and liabilities of joint ventures are incorporated in the financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in a joint venture is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Foreign currency

Transactions entered into by subsidiary 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 presentational currency of the Group 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.

1 Accounting policies continued

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

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

Financial assets and liabilities

Assets at amortised cost

The Group does not have any financial assets which it would classify as fair value through profit or loss. Therefore, all financial assets are classed as assets at amortised cost as defined below.

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.

For impairment provisions, the Group applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss provision for trade receivables to measure expected credit losses on a collective basis. Trade receivables are grouped based on a similar credit risk and ageing. Based on the scale of this area, our historic treatment is not materially different to the simplified approach under IFRS 9.

The expected loss rates are based on the Group's historic credit losses experienced over the three-year period prior to the period end. The historic loss rates are then adjusted for current and forward-looking information on macroeconomic factors.

The Group's assets at amortised costs 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 has outstanding warrants in the ordinary share capital of the Company. The number of ordinary shares to be issued when exercised is fixed, however the exercise price is denominated in US Dollars being different to the functional currency of the parent company. Therefore, the warrants are classified as equity settled derivative financial liabilities recognised at fair value through the profit and loss account.

The financial liability is valued using the either the Monte Carlo model or 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 incorporates any interest paid on the financial liability and is included in the "finance income" or "finance expense" lines 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 or grant income 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 share in existence:

- ordinary shares of £0.00005 each are classified as equity instruments; and
- deferred shares of £1 each are classified as equity instruments.

On 2 March 2020 a resolution was passed at a general meeting of shareholders of the Company to consolidate it's ordinary shares on a one for 20 basis into new ordinary shares of £0.001 each in the capital of the Company.

Numbers of shares in these Accounts are shown prior to the impact of the share consolidation with the exception of note 9, Loss per share, where the denominator used has been adjusted to reflect the share consolidation.

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.

1 Accounting policies continued

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.

Leases

The majority of the Group's accounting policies for leases are set out in note 11.

Identifying Leases

The Group accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

(a) there is an identified asset;

(b) the Group obtains substantially all the economic benefits from use of the asset; and

(c) the Group has the right to direct use of the asset.

The Group considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease.

In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise use of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Group considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRSs rather than IFRS 16.

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	– the shorter of 10% per annum straight line or over the lease term
Computer equipment	– 25% per annum straight line
Laboratory equipment	– 15% – 25% per annum straight line
Right of use asset	– Economic life of contractual relationship

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.

Inventory is valued at the lower of cost or market value using the FIFO method. Inventory is charged to the income statement as cost of sales as it is sold.

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 its 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 estimates:

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, including for revenues and development costs, 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 goodwill was £2.3m and intangibles not yet ready for use was £10.1m as at 31 December 2019 (note 12).

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 of the goodwill in the years ended 31 December 2019, 2018 or 2017, and there was no impairment charge against the IPRD of the Midatech Pharma (Wales) Ltd cash generating unit (2018: £Nil; 2017: £1.5m). See note 12 and 13. Please refer to note 33 Post Balance Sheet Events, for potential impairment charges during 2020.

2 Critical accounting estimates and judgements continued

Share-based payments

The Group accounts for share-based payment transactions for employees in accordance with IFRS 2 Share-based Payment, which requires the measurement of 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 27 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.

The following are considered to be critical accounting judgments:

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 2019, there were approximately £49.6m of gross unutilised tax losses carried forward (2018: £40.7m, 2017: £38.4m). No deferred tax asset has been provided in respect of these losses as there was insufficient evidence to support their recoverability in future periods.

Research and development costs

Research and development costs are charged to expense as incurred and are typically made up of salaries and benefits, clinical and preclinical activities, drug development and manufacturing costs, and third-party service fees, including for clinical research organizations and investigative sites. Costs for certain development activities, such as clinical trials, are periodically recognised as intangible assets 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.

Leases

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. This will take into account the length of time remaining before the option is exercisable, current trading, future trading forecasts as to the ongoing profitability of the organisation and the level and type of planned future capital investment. The judgement is reassessed at each reporting period. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

The discount rate used in the calculation of the lease liability involves estimation. The discount rate used is the incremental borrowing rate. This rates represents the rate the Group would have had to pay to borrow, over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

During 2019 Management considered the appropriate life of a new property lease entered into in Spain. The lease is for an initial period of five years, however the lease allows the Group to break the lease at any-time with one-month notice, provided it returns the property to its original condition. At 31 December 2019, Management assessed it was reasonably certain the expected life of the lease would be five years.

Discontinued Operations

Under the terms of the Sale Agreement the Group agreed to indemnify the Purchaser against, inter alia, any liability related to any prescription drug user fee amounts owed to the United States Food and Drug Administration ("FDA") under the Prescription Drug Fee User Act ("PDUFA") by MPUS for the United States government's fiscal year ended 30 September 2018.

MPUS had successfully obtained waivers for user fees for all prior fiscal periods in which it was liable under PDUFA and entered into the Sale Agreement with the Purchaser confident that a further waiver would be obtained. However, during 2019 MPUS sought approval from the FDA for a filing relating to one of its commercial products and was informed by the FDA that the approval would not be forthcoming whilst the PDUFA fee remained unpaid. Consequently, MPUS paid the PDUFA fee of £0.95m and then, in accordance with the terms of the SPA, Midatech deposited the same amount with MPUS, pending completion of the waiver application process.

At 30 June 2019 Management considered the amount recoverable from MPUS, this was based on the waiver application process being on-going and the historical success MPUS have had in obtaining the waiver.

At 31 December 2019 Management reconsidered the recoverability of the sum paid under the warranty, and although the waiver process is still on-going, Management concluded, based on third party advice, that the probability of successfully achieving the waiver had diminished and therefore have taken the decision to expense the cost of the warranty claim in the second half of 2019.

Going Concern

The Group and Company has experienced net losses and significant cash outflows from cash used in operating activities over the past years as it develops its portfolio. For the year ended 31 December 2019, the Group incurred a consolidated loss from operations of £10.1m and negative cash flows from operations of £6.5m. As of 31 December 2019, the Group had an accumulated deficit of £99.8m.

The Group's consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As at 31 December 2019, the Group had cash and cash equivalents of £10.93m. In May 2020, the Group completed an equity offering, raising £3.7m net of costs. The Directors forecast that the Group currently has enough cash to fund its planned operations into the second quarter of 2021.

The Group's future viability is dependent on its ability to generate cash from operating activities, to raise additional capital to finance its operations and to successfully obtain regulatory approval to allow marketing of its 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. For example, due to the Group's current and forecasted cash position, on 31 March 2020, the Directors made the decision to cease certain of the Group's research and development programs, close its Spanish operations and make certain terminations within its UK operations. In connection with the strategic review announced on the same date, the Directors are in the process of seeking to license or assign one or more of the Group's technologies to a partner or, alternatively, to seek a buyer for the Company. Any or all of these transactions may be on unfavourable terms.

2 Critical accounting estimates and judgements continued

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next five years including the period twelve months from the date of approval of the consolidated financial statements. These forecasts show that further financing will be required before the second quarter of 2021 assuming, inter alia, that certain development programs and other operating activities continue as currently planned. This requirement for additional financing in the short term represents a material uncertainty that may cast significant doubt upon the Group and parent company's ability to continue as a going concern.

In addition, the global spread of the pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions placed and being placed on the movement of people will likely cause delays to some of the Group's plans. The scale of the impact of COVID-19 is evolving and it is difficult to assess to what extent, and for how long, it will cause delays to the Group's operations. The Directors have established a COVID-19 task force internally to monitor the impact of COVID-19 on the business and prioritize activities to minimize its effect.

In addition to utilizing the existing cash reserves, as part of the Group's ongoing strategic review, the Directors and its advisors are evaluating a number of near-term funding options potentially available to the Group, including fundraising, the partnering of assets and technologies or the sale of the Company. After considering the uncertainties, the Directors consider it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

3 Segment Information

Revenue from contracts with customers

Geographical analysis of revenue by destination of customer

	2019 £'000	2018 £'000	2017 £'000
Revenue from continuing operations:			
United Kingdom	197	149	79
Rest of Europe	55	–	70
Rest of the World	60	–	–
	312	**149**	**149**
Revenue from discontinued operations			
United States	–	3,882	6,609

In 2019, all revenue from continuing operations came from four customers (2018: one customer; 2017: three customers). Within revenue from discontinued operations for 2018, reported in the consolidated statement of comprehensive income under loss from discontinued operations, four customers each accounted for at least 10% of revenue from discontinued operations (2017: three customers):

	2019 £'000	2018 £'000	2017 £'000
Customer A	63%	100%	55%
Customer B	19%	–	–
Customer C	18%	–	–

Following the disposal of the US commercial business, the Group contains one reportable operating segment, Pipeline Research and Development ("Pipeline R&D"). This segment seeks to develop products using the Group's nanomedicine and sustained release technology platforms.

The accounting policies of the reportable segments are consistent with the Group's accounting policies described in note 1. Segment results represent 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 was engaged in the sale and marketing of cancer supportive care products and was reported historically under the Commercial segment.

In the following segmented results tables, depreciation and amortisation allocated to research and development costs, and administrative costs in the consolidated statements of comprehensive income, are presented separately.

Segmented results for the year ended 31 December 2019

	Pipeline R&D £'000	Commercial (discontinued) £'000	Consolidated (including discontinued operations) £'000
Revenue	312	–	312
Grant revenue	362	–	362
Total revenue	674	–	674
Other income	15	–	15
Cost of sales	–	–	–
Research and development costs	(6,624)	–	(6,624)
Distribution costs, sales and marketing	(323)	–	(323)
Administrative costs	(3,775)	–	(3,775)
Loss from disposal of discontinued, net of tax	–	(947)	(947)
Depreciation	(1,282)	–	(1,282)
Amortisation	(3)	–	(3)
Loss from operations	(11,318)	(947)	(12,265)
Finance income	492	–	492
Finance expense	(97)	–	(97)
Loss before tax	(10,923)	(947)	(11,870)
Taxation	1,785	–	1,785
Loss for the year	(9,138)	(947)	(10,085)
Loss from continuing operations			(9,138)
Loss from discontinued operations			(947)

3 Segment Information continued

Segmented results for the year ended 31 December 2018

	Pipeline R&D £'000	Commercial (discontinued) £'000	Consolidated (including discontinued operations) £'000
Revenue	149	3,882	4,031
Grant revenue	1,789	–	1,789
Total revenue	1,938	3,882	5,820
Cost of sales	–	(1,286)	(1,286)
Research and development costs	(8,555)	(283)	(8,838)
Distribution costs, sales and marketing	–	(4,357)	(4,357)
Administrative costs	(4,087)	(872)	(4,959)
Loss on disposal of discontinued operations	–	(1,407)	(1,407)
Depreciation	(1,011)	(5)	(1,016)
Amortisation	(100)	(334)	(434)
Loss from operations	(11,815)	(4,662)	(16,477)
Finance income	2	–	2
Finance expense	(587)	–	(587)
Loss before tax	(12,400)	(4,662)	(17,062)
Taxation	2,032	–	2,032
Loss for the year	(10,368)	(4,662)	(15,030)
Loss from continuing operations			(10,368)
Loss from discontinued operations			(4,662)

Segmented results for the year ended 31 December 2017

	Pipeline R&D £'000	Commercial (discontinued) £'000	Consolidated (including discontinued operations) £'000
Revenue	149	6,609	6,758
Grant revenue	840	–	840
Total revenue	989	6,609	7,598
Cost of sales	–	(926)	(926)
Research and development costs	(7,355)	(356)	(7,711)
Distribution costs, sales and marketing	(170)	(7,477)	(7,647)
Administrative costs	(4,266)	(566)	(4,832)
Depreciation	(974)	(9)	(983)
Amortisation	–	(1,577)	(1,577)
Impairment of intangible assets	(1,500)	–	(1,500)
Loss from operations	(13,276)	(4,302)	(17,578)
Finance income	415	–	415
Finance expense	(109)	(57)	(166)
Loss before tax	(12,970)	(4,359)	(17,329)
Taxation	1,265	–	1,265
Loss for the year	(11,705)	(4,359)	(16,064)
Loss from continuing operations			(11,705)
Loss from discontinued operations			(4,359)

Non-current assets by location of assets

	2019 £'000	2018 £'000	2017 £'000
Spain	4,383	1,860	2,154
United Kingdom	12,775	12,966	15,331
United States	–	–	13,156
	17,158	14,826	30,641

All material additions to non-current assets in 2019, 2018 and 2017 were in the Pipeline R&D segment.

4 Discontinued operations

During 2018 the Group made the decision to sell its Commercial business based in the US. The sale completed on 1 November 2018 to Barings LLC, a member of the MassMutual Financial Group, for total consideration of up to $19m. This included $6m of consideration contingent payable on the achievement of various net revenue milestones for the MPUS business for the financial years 2018 and 2019. MPUS did not achieve the net revenue milestones in either 2018 or 2019, as a result no contingent consideration was received during 2019.

During 2019 a claim was made by MPUS under the warranties provided by Midatech under the disposal agreement, see note 2. The statement of cash flows includes the following amounts relating to discontinued operations:

	2019 £'000	2018 £'000
Cash consideration received	–	9,350
Other consideration received	–	–
Total consideration received	–	9,350
Cash disposed of	–	(91)
Net cash inflow on disposal of discontinued operation	–	9,259
Net assets disposed (other than cash):	–	3
Property, plant and equipment	–	15,662
Intangibles	–	948
Inventory	–	629
Trade and other payables	–	(2,734)
Total net assets disposed of (other than cash)	–	(14,508)
Loss on disposal of discontinued operation before and after tax	–	(5,249)
Foreign exchange gain realised on disposal	–	3,842
Loss on disposal	–	(1,407)

The post-tax loss on disposal of discontinued operations was determined as follows:

Result of discontinued operations	2019 £'000	2018 £'000	2017 £'000
Revenue	–	3,882	6,609
Expenses other than finance costs	(947)	(7,137)	(10,911)
Finance costs	–	–	(57)
Impairment	–	–	–
Loss from discontinued operations before tax	(947)	(3,255)	(4,359)
Taxation	–	–	–
Loss on disposal of discontinued operations	–	(1,407)	–
Loss for the year from discontinued operations after tax	(947)	(4,662)	(4,359)

4 Discontinued operations continued

Statement of cash flows	2019 £'000	2018 £'000	2017 £'000
The statement of cash flows includes the following amounts relating to discontinued operations:			
Operating activities	–	(5,368)	(1,654)
Investing activities	(947)	–	–
Financing activities	–	(7)	(34)
Net cash flow from discontinued operations	(947)	(5,375)	(1,688)

5 Loss from operations

	2019 £'000	2018 £'000	2017 £'000
Loss from operations is stated after charging/(crediting):			
Changes in inventories of finished goods and work in progress	–	(976)	202
Depreciation of property, plant and equipment			
– From continuing operations	979	1,011	974
– From discontinued operations	–	5	9
Depreciation of right of use asset			
– From continuing operations	303	–	–
– From discontinued operations	–	–	–
Amortisation of intangible assets – product and marketing rights			
– From continuing operations	3	100	193
– From discontinued operations	–	334	1,384
Impairment of intangible assets	–	–	1,500
Fees payable to the Company's auditor for the audit of the parent Company	110	111	110
Fees payable to the Company's subsidiary auditors for the audits of the subsidiary accounts	48	143	140
Fees payable to the Company's auditor for:			
– Other services	66	83	100
Operating lease expense:			
– Property	–	386	277
– Plant and machinery	–	–	–
Arrangement/penalty fees for loan facility	–	469	57
Foreign exchange(gain)/loss	131	212	(39)
Loss on disposal of property, plant and equipment	–	165	27
Equity settled share–based payment	(34)	(36)	520

Amortisation of product and marketing rights are included with distribution costs, sales and marketing expenses. Amortisation ceased when the assets were reclassified as held for sale on 30 June 2018 and were sold on 1 November 2018.

6 Staff costs

Staff costs (including Directors), for continuing and discontinued operations, comprise:

	2019 £'000	2018 £'000	2017 £'000
Staff costs (including Directors) comprise:			
Wages and salaries	2,762	5,393	5,278
Defined contribution pension cost (note 26)	90	149	158
Social security contributions and similar taxes	565	639	643
Share-based payment	(34)	(36)	520
	3,383	6,145	6,599
Continuing operations	3,383	4,352	4,578
Discontinued operations	–	1,793	2,021
	3,383	6,145	6,599

Employee numbers

The average number of staff employed by the Group during the financial year, for continuing and discontinued operations, amounted to:

	2019	2018	2017
Research and development	52	63	62
General and administration	13	16	17
Sales and marketing	–	6	6
	65	85	85

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 38, including the Chief Operating Officer.

	2019 £'000	2018 £'000	2017 £'000
Wages and salaries	656	900	811
Defined contribution pension cost	42	39	68
Payments made to third parties	82	142	142
Social security contributions and similar taxes	72	77	97
Benefits in kind	2	3	3
Share-based payment	(58)	(92)	388
	796	1,069	1,509

Emoluments disclosed above include the following amounts in respect of the highest paid Director. Directors' emoluments are disclosed on pages 35 and 36.

	2019 £'000	2018 £'000	2017 £'000
Salary	266	110	299
Total pension and other post-employment benefit costs	22	4	10
Benefits in kind	1	1	1
Termination benefits	–	99	–
	289	214	310

None of the Directors have exercised share options during the year (2018: nil, 2017: nil).

During the year three Directors (2018: three, 2017: two) participated in a defined contribution pension scheme.

7 Finance income and expense

	2019 £'000	2018 £'000	2017 £'000
Finance income			
Interest received on bank deposits	8	2	15
Gain on equity settled derivative financial liability	484	–	400
Total finance income	**492**	**2**	**415**

The gain on the equity settled derivative financial liability in 2019 arose as a result of the reduction in share price. The gain in 2017 arose due to the reduction in the share price and the lapsing of associated warrants and options as set out in note 21.

	2019 £'000	2018 £'000	2017 £'000
Finance expense			
Bank loans	6	587	18
Other loans	91	–	91
Total finance expense	**97**	**587**	**109**

8 Taxation

	2019 £'000	2018 £'000	2017 £'000
Current tax credit			
Current tax credited to the income statement	1,782	1,952	1,253
Taxation payable in respect of foreign subsidiary	–	(67)	–
Adjustment in respect of prior year	3	128	–
	1,785	2,013	1,253
Deferred tax credit			
Reversal of temporary differences	–	19	12
Total tax credit	**1,785**	**2,032**	**1,265**

There was no tax charge relating to discontinued operations for 2018 and 2017.

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:

	2019 £'000	2018 £'000	2017 £'000
Loss for the year, continuing and discontinued operations	(10,085)	(15,030)	(16,064)
Income tax credit – continuing operations	(1,785)	(2,032)	(1,265)
Loss before tax	(11,870)	(17,062)	(17,329)
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2018: 19%, 2017: 19.25%)	(2,255)	(3,241)	(3,336)
Expenses not deductible for tax purposes	1,087	2,492	412
Unrelieved tax losses and other deductions	(114)	–	–
Adjustment in respect of prior period	(3)	(129)	–
Surrender of tax losses for R&D tax refund	(1,810)	(1,955)	(1,196)
Unrelieved tax losses and other deductions arising in the period	–	(220)	(156)
Foreign exchange differences	1	(26)	(84)
Deferred tax not recognised	1,309	1,047	3,095
Total tax credited to the income statement	**(1,785)**	**(2,032)**	**(1,265)**

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

9 Loss per share

	2019 £'000	2018 £'000	2017 £'000
Numerator			
Loss used in basic EPS and diluted EPS:			
Continuing operations	(9,138)	(10,368)	(11,705)
Discontinued operations	(947)	(4,662)	(4,359)
Denominator			
Weighted average number of ordinary shares used in basic EPS:	18,330,588	3,056,303	2,565,866
Basic and diluted loss per share:			
Continuing operations – pence	(50)p	(339)p	(456)p
Discontinued operations – pence	(5)p	(153)p	(170)p

On 2 March 2020 a resolution was passed at a general meeting of shareholders of the Company to consolidate its ordinary shares on a one for 20 basis into new ordinary shares of 0.1p each in the capital of the Company. The denominator has been calculated to reflect the share consolidation.

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 presented on the same basis for all periods shown.

10 Property, plant and equipment

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment £'000	Laboratory equipment £'000	Right of use asset £'000	Total £'000
Cost						
At 1 January 2017	228	1,999	281	3,050	–	5,558
Additions	18	41	57	591	–	707
Disposal	–	–	–	(41)	–	(41)
Exchange differences	6	72	4	69	–	151
At 31 December 2017	**252**	**2,112**	**342**	**3,669**	**–**	**6,375**
Additions	4	106	40	353	–	503
Disposal	(5)	(229)	–	(401)	–	(635)
Exchange differences	2	24	1	30	–	57
At 31 December 2018	**253**	**2,013**	**383**	**3,651**	**–**	**6,300**
Adoption of IFRS 16 Leases	–	–	–	–	395	395
Additions	4	137	23	223	822	1,209
Effect of modification to lease terms	–	–	–	–	(82)	(82)
Exchange differences	(9)	(112)	(3)	(136)	(11)	(271)
At 31 December 2019	**248**	**2,038**	**403**	**3,738**	**1,124**	**7,551**

10 Property, plant and equipment continued

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment £'000	Laboratory equipment £'000	Right of use asset £'000	Total £'000
Accumulated depreciation						
At 1 January 2017	**149**	**872**	**122**	**1,649**	**–**	**2,792**
Charge for the year	43	330	68	542	–	983
Disposals	–	–	–	(14)	–	(14)
Exchange differences	4	36	2	43	–	85
At 31 December 2017	**196**	**1,238**	**192**	**2,220**	**–**	**3,846**
Charge for the year	43	403	72	499	–	1,016
Disposals	–	(175)	(3)	(421)	–	(599)
Exchange differences	2	19	4	28	–	53
At 31 December 2018	**241**	**1,485**	**265**	**2,326**	**–**	**4,317**
Charge for the year	2	400	70	507	303	1,282
Exchange differences	(8)	(91)	(3)	(93)	(7)	(202)
At 31 December 2019	**235**	**1,794**	**332**	**2,740**	**296**	**5,397**
Net book value						
At 31 December 2019	**13**	**244**	**71**	**998**	**828**	**2,154**
At 31 December 2018	12	528	118	1,325	–	1,983
At 31 December 2017	56	874	150	1,449	–	2,529

11 Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see note 32. The following policies apply subsequent to the date of initial application, 1 January 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the Group's incremental borrowing rate on commencement of the lease is used.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

The Group had previously entered into a sublease agreement to mitigate the impact of an otherwise onerous lease on the closure of its Abingdon site. This has been recognised as a lease receivable as the Group determined that the sublease meets the definition of a finance lease under the transitional provisions of IFRS16 and therefore, no right-of-use asset is recognised.

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation or and in others to be reset periodically to market rental rates.

	Land and buildings £'000
Right of Use Asset	
At 1 January 2019	395
Additions	822
Effect of modification to lease terms	(82)
Depreciation	(303)
Exchange differences	(4)
At 31 December 2019	**828**

	Land and buildings £'000
Lease Liabilities	
At 1 January 2019	546
Additions	822
Effect of modification to lease terms	(82)
Interest expenses	24
Lease payments	(391)
Exchange differences	(12)
At 31 December 2019	**907**

The Group had commitments under non-cancellable operating leases as set out below, from 1 January 2019, the Group has recognised right-of-use assets for these leases, exception for low value leases, see note 32 for further information.

	Land and buildings £'000	Other £'000
2019		
Expiring In one year or less	–	–
Expiring between one and five years	–	–
	–	–
2018		
Expiring In one year or less	383	1
Expiring between one and five years	189	4
	572	5
2017		
Expiring In one year or less	449	8
Expiring between one and five years	359	32
	808	40

12 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 2017	**12,600**	**21,481**	**14,488**	**26**	**48,595**
Additions	778	–	–	–	778
Foreign exchange	–	(1,625)	(1,044)	1	(2,668)
At 31 December 2017	**13,378**	**19,856**	**13,444**	**27**	**46,705**
Disposals	–	(21,022)	(11,808)	–	(32,830)
Foreign exchange	–	1,166	655	1	1,822
At 31 December 2018	**13,378**	**–**	**2,291**	**28**	**15,697**
Additions	–	–	–	9	9
Foreign exchange	–	–	–	(2)	(2)
At 31 December 2019	**13,378**	**–**	**2,291**	**35**	**15,704**

	In-process research and development £'000	Product and marketing rights £'000	Goodwill £'000	IT/Website Costs £'000	Total £'000
Accumulated amortisation					
At 1 January 2017	**1,800**	**15,608**	**–**	**15**	**17,423**
Amortisation charge for the year	–	1,574	–	3	1,577
Impairment	1,500	–	–	–	1,500
Foreign exchange	–	(1,443)	–	1	(1,442)
At 31 December 2017	**3,300**	**15,739**	**–**	**19**	**19,058**
Amortisation charge for the year	–	431	–	3	434
Disposals	–	(17,103)	–	–	(17,103)
Foreign exchange	–	933	–	1	934
At 31 December 2018	**3,300**	**–**	**–**	**23**	**3,323**
Amortisation charge for the year	–	–	–	3	3
Foreign exchange	–	–	–	(1)	(1)
At 31 December 2019	**3,300**	**–**	**–**	**25**	**3,325**
Net book value					
At 31 December 2019	**10,078**	**–**	**2,291**	**10**	**12,379**
At 31 December 2018	10,078	–	2,291	5	12,374
At 31 December 2017	10,078	4,117	13,444	8	27,647

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

	Carrying amount			Remaining amortisation period		
	2019 £'000	2018 £'000	2017 £'000	2019 (years)	2018 (years)	2017 (years)
Midatech Pharma (Wales) Limited acquired IPRD	9,300	9,300	9,300	n/a in process	n/a in process	n/a in process
Midatech Pharma US, Inc., product and marketing rights	–	–	1,995	n/a	n/a	Between 1 and 3
Zuplenz® product and marketing rights	–	–	2,122	n/a	n/a	11
MTX110 acquired IPRD	778	778	778	n/a in process	n/a in process	n/a in process
	10,078	10,078	14,195			

13 Impairment testing

Midatech Pharma (Wales) Ltd

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

	Indefinite lived						
	IPRD carrying amount			Goodwill carrying amount			
Name	2019 £'000	2018 £'000	2017 £'000	2019 £'000	2018 £'000	2017 £'000	Valuation basis
CGU – Midatech Pharma (Wales) Ltd	9,300	9,300	9,300	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 2019, 2018 and 2017 and were found to support the IPRD and goodwill carrying amounts set out above. The IPRD was valued using 12–13 year (2018: 12–13 year; 2017: 13–14 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 Nil was used.

In 2017 an impairment charge of £1.5m was recorded in the MPW CGU as a result of the impairment of the Opsisporin IPRD, primarily due to a strategic review concluding that the product is outside of Midatech's strategic focus and as a result the decision was made not to continue with the programme at this point. At the same time the carrying value of a component of IPRD was reduced from £1.5m to nil. The resulting charge was shown separately within the consolidated statement of income.

The key assumptions used in the valuation model examining the MPW Ltd cash generating unit include the following:

Assumptions	2019	2018	2017
Pre-tax discount rate	18.4%	17.7%	17.9%
Cumulative probability of success of projects	81%	81%	81%

The discount rate is an estimated market-based weighted average cost of capital for the MPW business, determined at the date of acquisition. Cumulative probability of success of projects is the product of the probability of success of each remaining major phase of development for each individual IPRD component. These phase probabilities were determined by management with reference to the risks associated with each remaining development stage.

13 Impairment testing continued

Sensitivity analysis

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

Assumptions	2019	2018	2017
Pre-tax discount rate for all projects	increase to 21%	increase to 29.8%	increase to 21.0%
Cumulative probability of success of project	59%	34%	57%

Refer to note 33 for post balance sheet event

14 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	Oddfellows House, 19 Newport Road, Cardiff, CF24 0AA	Trading company	
Midatech Pharma (España) 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 PTY	c/o Griffith Hack Consulting, 300 Queen Street, Brisbane, QLD 4000, Australia	Trading company	(c)

Notes:

(a) Wholly owned subsidiary of Midatech Limited.

(b) PharMida AG became dormant in January 2016.

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

15 Trade and other receivables

	2019 £'000	2018 £'000	2017 £'000
Trade receivables	22	89	2,232
Prepayments	151	139	627
Other receivables	3,444	1,564	848
Total trade and other receivables	3,617	1,792	3,707
Less: non-current portion (rental deposit and on bond)	(2,625)	(469)	(465)
Current portion	992	1,323	3,242

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 2019, 2018 and 2017.

During 2019 a cash-backed guarantee was provided to the Spanish Government in relation to a loan provided to the Group under its Reindustrialisation programme, see note 19. The value of the guarantee will be reduced over the life of the loan once the value outstanding on the loan is equal to or less than the guarantee. The reductions will be in line with the repayments made.

16 Cash and cash equivalents and cash flow supporting notes

Cash and cash equivalents for purposes of the consolidated statement of cash flows comprises:

	2019 £'000	2018 £'000	2017 £'000
Cash at bank available on demand	10,928	2,343	13,204

During 2019 and 2017, cash inflows arose from equity financing transactions, included within financing activities on the face of the cash flow statement. As part of the equity transaction in October 2019 warrants to the value of £1.1m were issued as disclosed in note 21.

	2019 £'000	2018 £'000	2017 £'000
Gross proceeds	15,767	–	6,157
Transaction costs	(1,659)	–	(429)
	14,108	–	5,728

The following changes in loans and borrowings arose as a result of financing activities during the year:

	Non-current liabilities, bank loans £'000	Current liabilities, bank loans £'000	Total £'000
At 1 January 2019	884	368	1,252
Cash flows	5,575	(1,027)	4,548
Non-cashflows:			
Foreign Exchange	(42)	(29)	(71)
Fair value changes	(1,139)	–	(1,139)
Adoption of IFRS16 leases	163	383	546
Effect of modification to lease term – IFRS 16	–	(82)	(82)
New leases	805	95	900
Loans and borrowings classified as non-current 31 December 2018 becoming current in 2019	(685)	685	–
Transfer to grant income	–	(14)	(14)
Interest accruing in period	108	34	142
At 31 December 2019	**5,670**	**412**	**6,082**

16 Cash and cash equivalents and cash flow supporting notes continued

	Non-current liabilities, bank loans £'000	Current liabilities, bank loans £'000	Total £'000
At 1 January 2018	6,185	361	6,546
Cash flows	(5,580)	(305)	(5,885)
Non-cashflows:			
Foreign Exchange	296	4	300
New leases	168	76	244
Loans and borrowings classified as non-current 31 December 2018 becoming current in 2019	(232)	232	–
Interest accruing in period	47	–	47
At 31 December 2018	**884**	**368**	**1,252**

17 Inventories

	2019 £'000	2018 £'000	2017 £'000
Finished goods	–	–	941
Total inventories	–	–	941

There was no stock held at 31 December 2019. In 2017 a reserve was maintained against inventory that was not expected to be sold before its sell by date. The resulting charge to the discontinued element of the comprehensive statement of income in 2017 was £151k.

18 Trade and other payables

Current	2019 £'000	2018 £'000	2017 £'000
Trade payables	725	286	2,271
Other payables	13	–	1,141
Accruals	1,765	1,025	3,090
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**2,503**	**1,311**	**6,502**
Tax and social security	86	347	359
Deferred revenue and government grants	1,905	445	1,141
Total trade and other payables	**4,494**	**2,103**	**8,002**

Book values approximate to fair value at 31 December 2019, 2018 and 2017.

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 participated in this programme, along with seven other entities, through two Group companies, Midatech Pharma España SL ("MPE"), which acted as project coordinator, and Midatech Limited ("MTL"). The project commenced in February 2015 and completed in January 2019. £124k (2018: £1,610k, 2017: £840k) of revenue has been recognised during the year in relation to this project and £nil (2018:£124k, 2017: £1.11m) of the deferred revenue balance relates to funds received but not yet recognised.

19 Borrowings

	2019 £'000	2018 £'000	2017 £'000
Current			
Bank loans	–	4	11
Lease liabilities	233	80	39
Government and research loans	179	284	311
Total	412	368	361
Non-current			
Bank loans	–	–	5,207
Lease liabilities	912	170	29
Government and research loans	4,758	714	949
Total	5,670	884	6,185

Book values approximate to fair value at 31 December 2019, 2018 and 2017.

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

Government loans in Spain

In September 2019, Midatech Pharma España SL received €6.6m of funding awarded under the Spanish Government Reindustrialisation programme, following it providing a €2.9m cash-backed guarantee. The funds are to be used to support Midatech's manufacturing scale-up facilities construction. The loan is a term loan which carries an interest rate below the market rate and is repayable over periods through to 2029. The loan carries a default interest rate in the event of scheduled repayments not being met. On initial recognition, the loan is 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.

There are three other outstanding government loans which have been received by Midatech Pharma España 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 2024. 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 deferred revenue element of the government loans is designated within note 18 as deferred revenue and Government grants, the gross contractual repayment of the loans is disclosed in note 22.

Midcap Loan Facility

In December 2017, Midatech Pharma entered into a secured loan agreement with Midcap Financial Trust (MidCap). The total facility was for $15m to be drawn down in three separate tranches. Interest was charged on the outstanding balance of the loan at an annual rate of LIBOR plus 7.5% subject to a LIBOR floor of 1.25%. MidCap was granted 247,881 warrants to purchase shares which was equal to 2% of the amount funded divided by the Exercise Price of £0.42. The Exercise Price was calculated as the average closing price for the 30-day period prior to the date of grant. The loan was secured against the assets of the Group.

The first tranche of $7m was drawn down on 28 December 2017 and is disclosed under bank loans. This loan was repaid on 31 October 2018.

20 Provisions

	2019 £'000	2018 £'000	2017 £'000
Opening provision at 1 January	165	–	–
Provision (released)/recognised in the year	(68)	165	–
At 31 December	97	165	–
Less: non-current portion (rental deposit and bond)	–	(165)	–
Current portion	97	165	–

The provision relates to the "making good" clause on the Abingdon office which was vacated in December 2018. The office has been sub-let for the remaining period of the lease, which terminated in February 2020.

21 Derivative financial liability – current

	2019 £'000	2018 £'000	2017 £'000
Equity settled derivative financial liability	–	–	–
At 1 January/on acquisition – 5 December 2015	–	–	400
Warrants issued 2019	1,148	–	–
Gain recognised in finance income within the consolidated statement of comprehensive income	(484)	–	(400)
At 31 December	664	–	–

Equity settled derivative financial liability is a liability that is not to be settled for cash.

In October 2019 the Group issued 63,000,000 warrants in the ordinary share capital of the Company as part of a Registered Direct Offering. The number of ordinary shares to be issued when exercised is fixed, however the exercise price is denominated in US Dollars being different to the functional currency of the parent company. Therefore, the warrants are classified as equity settled derivative financial liabilities recognised at fair value through the profit and loss account ("FVTPL"). The financial liability is valued using the Monte Carlo 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 incorporates any interest paid on the financial liability and is included in the "finance income" or "finance expense" lines item in the income statement. Fair value is determined in the manner described in note 22. A key input in the valuation of the instrument is the Company share price.

At 31 December 2019 63,000,000 warrants were outstanding.

The Group also assumed fully vested warrants and share options on the acquisition of DARA Biosciences, Inc. (which took place in 2015). The number of ordinary shares to be issued when exercised is fixed, however the exercise prices are denominated in US Dollars. The warrants are classified equity settled derivative financial liabilities and accounted for in the same way as those issued in October 2019. The financial liability is valued using the Black-Scholes option pricing model.

At 31 December 2017 a further 166,058 options and 489,318 warrants had lapsed and the share price had fallen to £0.36 which results in a gain of £0.40m on re-measurement which was credited to finance income during 2017.

At 31 December 2018 a further 176,935 options and 776,889 warrants had lapsed and the share price had fallen to £0.06. As the liability had already been reduced to zero there was no movement on re-measurement.

At 31 December 2019 a further 66,640 options and 2,231,644 warrants had lapsed and the share price had fallen to £0.028. As the liability had already been reduced to zero there was no movement on re-measurement.

22 Financial instruments – risk management

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

- Credit risk
- Foreign exchange risk
- Liquidity risk

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

Principal financial instruments

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

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

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

Financial assets – amortised cost

	2019 £'000	2018 £'000	2017 £'000
Cash and cash equivalents	10,928	2,343	13,204
Trade receivables	22	89	2,232
Other receivables	2,625	469	465
Total financial assets	13,575	2,901	15,901

Financial liabilities – amortised cost

	2019 £'000	2018 £'000	2017 £'000
Trade payables	725	286	2,271
Other payables	13	–	1,141
Accruals	1,765	1,025	3,090
Borrowings	6,082	1,252	6,546
Total financial liabilities – amortised cost	8,585	2,563	13,048

Financial liabilities – fair value through profit and loss – current

	2019 £'000	2018 £'000	2017 £'000
Equity settled derivative financial liability	664	–	–

22 Financial instruments – risk management continued

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 derivative 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 21:

Financial liabilities	Fair value as at 31/12/2019	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	£664,000	Level 3	Monte Carlo simulation model	Volatility rate of 78.4% 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 5.68 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 0.59% and 1.69 % determined using the expected life assumptions.	The higher the risk-free rate the higher the fair value.
Equity settled financial derivative liability	–	Level 3	Black–Scholes option pricing model	Volatility rate of 78.3% determined using historical volatility of comparable companies.	The higher the volatility the higher the fair value.
				Expected life between a range of 2.0 and 2.9 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 0.26 % determined using the expected life assumptions.	The higher the risk–free rate the higher the fair value.

Financial liabilities	Fair value as at 31/12/2018	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	–	Level 3	Black-Scholes option pricing model	Volatility rate of 42.5% 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.

Financial liabilities	Fair value as at 31/12/2017	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	–	Level 3	Black-Scholes option pricing model	Volatility rate of 42.5% 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.

Changing the unobservable risk free rate input to the valuation model by 10% higher while all other variables were held constant, would not impact the carrying amount of shares (2018: nil, 2017: nil).

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

The financial liability measured at fair value on Level 3 fair value measurement represents consideration relating to warrants issued in October 2019 as part of a Registered Direct offering and also a business combination. In 2018 and 2017 this only related to 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.

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

22 Financial instruments – risk management continued

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate. For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out in note 15. This includes details regarding trade and other receivables, which are neither past due nor impaired.

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

Cash in bank

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

Foreign exchange risk

Foreign exchange risk arises because the Group has a material operation located in Bilbao, Spain, whose functional currency is not the same as the functional currency of the Group. The Group's net assets arising from the overseas operation is 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:

	2019 £'000	2018 £'000	2017 £'000
Cash and cash equivalents:			
Pounds Sterling	3,153	457	6,116
US Dollar	2,021	1,421	5,362
Euro	5,750	459	1,632
Other	4	6	94
Total	10,928	2,343	13,204

The table below shows the foreign currency exposure that gives rise to net currency gains and losses recognised in the consolidated statement of comprehensive income. 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, these exposures were as follows:

	2019 £'000	2018 £'000	2017 £'000
Net Foreign Currency Assets/(Liabilities):			
US Dollar	2,021	1,421	4,459
Euro	1,460	552	(362)
Other	7	8	95
Total	3,488	1,981	4,192

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 2019	US Dollar £'000	Euro £'000	Other £'000
Loss before tax	202	54	–
Total equity	202	31	1

Year ended 31 December 2018	US Dollar £'000	Euro £'000	Other £'000
Loss before tax	–	168	–
Total equity	142	168	–

Year ended 31 December 2017	US Dollar £'000	Euro £'000	Other £'000
Loss before tax	307	(89)	–
Total equity	307	(89)	–

The sale of the Midatech Pharma US, Inc. operation prior to 31 December 2018 resulted in there not being any US Dollar denominated assets or liabilities to report on other than a US Dollar cash balance held by Midatech Pharma plc. In management's opinion, the sensitivity analysis for the year ended 31 December 2018 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 February 2019, the Company completed a Subscription, Placing and Open Offer which raised £13.4m before costs. In October 2019, the Company completed a Registered Direct Offering which raised £2.4m before costs. We have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next five years including the period twelve months from the date of approval of the consolidated financial information. These forecasts show that further financing will be required before the second quarter of 2021 assuming, inter alia, that all development programs and other operating activities continue as currently planned. This requirement for additional financing in the short term represents a material uncertainty that raises substantial doubt about our ability to continue as a going concern. In addition, the global spread of the pandemic COVID-19 virus places increased uncertainty over our forecasts. The restrictions placed and being placed on the movement of people will likely cause delays to some of our plans. The scale of the impact of COVID-19 is evolving and it is difficult to assess to what extent, and for how long, it will cause delays to our operations. We have established a COVID-19 task force internally to monitor the impact of COVID-19 on our business and prioritize activities to minimize its effect.

In addition to utilizing the existing cash reserves, as part of our ongoing strategic review, we and our advisors are evaluating a number of near-term funding options potentially available to us, including fundraising, the partnering of assets and technologies or the sale of the Company. Therefore, after considering the uncertainties, we consider it is appropriate to continue to adopt the going concern basis in preparing the financial information. Our ability to continue as a going concern is dependent upon our ability to obtain additional capital and/or dispose of assets, for which there can be no assurance we will be able to do on a timely basis, on favourable terms or at all.

22 Financial instruments – risk management continued

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

2019	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	2,503	–	–	–	–
Bank loans	–	–	–	–	–
Lease liabilities	79	165	317	735	–
Government research loans	–	272	238	2,851	3,317
Total	2,582	437	555	3,586	3,317

2018	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	1,311	–	–	–	–
Bank loans	3	2	–	–	–
Finance leases	22	65	79	117	–
Government research loans	44	240	406	414	–
Total	1,380	307	485	531	–

2017	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	6,502	–	–	–	–
Bank loans	120	359	2,201	3,926	–
Finance leases	16	25	30	–	–
Government research loans	43	268	467	545	47
Total	6,681	649	2,698	4,471	47

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

- Trade and other payables – note 18
- Borrowings – note 19

As a result of the Strategic Review undertaken in March 2020 as disclosed in note 33 the Group intends to repay the Government Research loans during 2020.

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 focussed 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 previous year.

23 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:

	2019 £'000	2018 £'000	2017 £'000
Liability at 1 January	–	–	–
Arising on business combination	–	–	–
Credited to income on impairment and amortisation of intangibles	–	–	–
Credited to income statement	–	–	–
Foreign exchange gain	–	–	–
Liability at 31 December	–	–	–

The movement on the deferred tax account in 2019 is nil (2018: nil, 2017: nil) as the net credit arising on the amortisation of intangible assets and other timing differences has been matched by a reduction in the deferred tax asset recognised on the losses offsetting the liability remaining.

A deferred tax liability arose due to deferred tax on intangible assets acquired in 2015.

An intangible asset was impaired in the financial statements for the year ended 31 December 2016 by £11.4m 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	Potential deferred tax asset £'000
31 December 2019	**49,565**	**8,426**
31 December 2018	40,741	6,926
31 December 2017	38,377	6,639

With the exception of the £1.6m (2018: £1.7m, 2017: £2.6m) deferred tax asset which qualifies for offset against the deferred tax liability, mainly arising on the acquisitions of Midatech Pharma (Wales) Limited, the remaining potential deferred tax asset of £9.0m (2018 £7.3m, 2017: £9.5m) has not been provided in these accounts due to uncertainty as to whether the asset would be recovered.

23 Deferred tax continued

Details of the deferred tax liability are as follows:

2019	Asset £'000	Liability £'000	Net £'000
Business Combinations	**1,581**	**(1,581)**	**–**

2018	Asset £'000	Liability £'000	Net £'000
Business Combinations	1,690	(1,690)	–

2017	Asset £'000	Liability £'000	Net £'000
Business Combinations	2,599	(2,599)	–

24 Share capital

Authorised, allotted and fully paid – classified as equity	2019 Number	2019 £	2018 Number	2018 £	2017 Number	2017 £
At 31 December						
Ordinary shares of £0.00005 each	469,899,613	23,495	61,184,135	3,059	61,084,135	3,054
Deferred shares of £1 each	1,000,001	1,000,001	1,000,001	1,000,001	1,000,001	1,000,001
Total		1,023,496		1,003,060		1,003,055

On 2 March 2020 a resolution was passed at a general meeting of shareholders of the Company to consolidate it's ordinary shares on a one for 20 basis into new ordinary shares of 0.1p each in the capital of the Company. The above table does not reflect the share consolidation.

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 following the incorporation of Midatech Pharma plc

Shares classified as equity

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

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

(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; and

(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.

		Ordinary Shares number	Deferred Shares number	Share price £	Total consideration £'000
At 1 January 2017		**48,699,456**	**1,000,001**		**63,713**
2017					
19 May 2017	Share issue to SIPP trustee (see note 27)	20,000	–	0.00005	–
16 October 2017	Placing and Open Offer (see note 16)	12,314,679	–	0.5	6,157
7 November 2017	Share issue to SIPP trustee (see note 27)	50,000	–	0.00005	–
At 31 December 2017		**61,084,135**	**1,000,001**		**69,870**
2018					
1 August 2018	Share issue to SIPP trustee (see note 27)	100,000	–	0.00005	–
At 31 December 2018		**61,184,135**	**1,000,001**		**69,870**
2019					
26 February 2019	Subscription, Placing and Open Offer	348,215,478	–	0.0385	13,406
8 October 2019	Share issue to SIPP trustee (see note 27)	500,000	–	0.00005	–
29 October 2019	Registered Direct Offering	60,000,000	–	0.0394	2,362
At 31 December 2019		**469,899,613**	**1,000,001**		**85,638**

25 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.
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.

26 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.

27 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 Limited 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.

27 Share-based payments continued

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

Date of grant	At 1 January 2019	Granted in 2019	Exercised in 2019	Forfeited in 2019	At 31 December 2019	Exercise Price
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	31,796	–	–	–	31,796	£4.19
9 May 2014	200,000	–	–	–	200,000	£0.075
30 June 2014	430,000	–	–	(60,000)	370,000	£0.075
11 July 2014	2,000	–	–	–	2,000	£0.075
31 October 2016	50,000	–	–	(50,000)	–	£1.710
31 October 2016	468,225	–	–	(142,800)	325,425	£2.680
14 December 2016	8,000	–	–	–	8,000	£1.550
14 December 2016	10,000	–	–	–	10,000	£1.700
14 December 2016	40,000	–	–	–	40,000	£1.870
14 December 2016	32,500	–	–	–	32,500	£1.880
15 December 2016	92,000	–	–	–	92,000	£1.210
19 December 2016	717,375	–	–	(269,500)	447,875	£1.210
15 December 2017	917,750	–	–	(326,500)	591,250	£0.46
2 April 2018	20,000	–	–	–	20,000	£0.83
2 April 2018	90,000	–	–	–	90,000	£1.21
24 April 2019	–	4,380,000	–	(990,000)	3,390,000	£0.073
2 October 2019	–	1,000,000	–	–	1,000,000	£0.0525
	3,179,522	**5,380,000**	**–**	**(1,838,800)**	**6,720,722**	

Options exercisable at 31 December 2019	2,621,894
Weighted average exercise price of outstanding options at 31 December 2019	£0.424
Weighted average exercise price of options exercised in 2019	n/a
Weighted average exercise price of options forfeited in 2019	£0.663
Weighted average exercise price of options granted in 2019	£0.069
Weighted average remaining contractual life of outstanding options at 31 December 2019	7.9 years

On 2 March 2020 a resolution was passed at a general meeting of shareholders of the Company to consolidate it ordinary shares on a one for 20 basis into new ordinary shares of 0.1p each in the capital of the Company. The above table does not reflect the share consolidation.

Date of grant	At 1 January 2018	Granted in 2018	Exercised in 2018	Forfeited in 2018	At 31 December 2018	Exercise Price
31 December 2008	26,122	–	–	26,122	–	£1.425
31 December 2008	3,000	–	–	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	–	–	4,000	31,796	£4.19
9 May 2014	200,000	–	–	–	200,000	£0.075
30 June 2014	880,000	–	–	450,000	430,000	£0.075
11 July 2014	2,000	–	–	–	2,000	£0.075
31 October 2016	50,000	–	–	–	50,000	£1.710
31 October 2016	607,600	–	–	139,375	468,225	£2.680
14 December 2016	8,000	–	–	–	8,000	£1.550
14 December 2016	10,000	–	–	–	10,000	£1.700
14 December 2016	40,000	–	–	–	40,000	£1.870
14 December 2016	40,000	–	–	7,500	32,500	£1.880
15 December 2016	102,000	–	–	10,000	92,000	£1.210
19 December 2016	1,104,250	–	–	386,875	717,375	£1.210
15 December 2017	1,351,250	–	–	433,500	917,750	£0.46
2 April 2018	–	20,000	–	–	20,000	£0.83
2 April 2018	–	90,000	–	–	90,000	£1.21
	4,529,894	**110,000**	**–**	**(1,460,372)**	**3,179,522**	

Options exercisable at 31 December 2018	2,247,869
Weighted average exercise price of outstanding options at 31 December 2018	£1.101
Weighted average exercise price of options exercised in 2018	n/a
Weighted average exercise price of options forfeited in 2018	£0.799
Weighted average exercise price of options granted in 2018	£0.830
Weighted average remaining contractual life of outstanding options at 31 December 2018	5.7 years

27 Share-based payments continued

Date of grant	At 1 January 2017	Granted in 2017	Exercised in 2017	Forfeited in 2017	At 31 December 2017	Exercise Price
31 December 2008	26,122	–	–	–	26,122	£1.425
31 December 2008	3,000	–	–	–	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	3,000	–	–	1,000	2,000	£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	–	–	95,000	102,000	£1.210
19 December 2016	1,110,000	–	–	5,750	1,104,250	£1.210
15 December 2017	–	1,351,250	–	–	1,351,250	£0.46
	3,289,394	**1,351,250**	**–**	**(110,750)**	**4,529,894**	

Options exercisable at 31 December 2017	1,000,469
Weighted average exercise price of outstanding options at 31 December 2017	£1.003
Weighted average exercise price of options exercised in 2017	n/a
Weighted average exercise price of options forfeited in 2017	£1.242
Weighted average exercise price of options granted in 2017	£0.46
Weighted average remaining contractual life of outstanding options at 31 December 2017	8.3 years

The following information is relevant in the determination of the fair value of options granted during the year 2019 under the equity share based remuneration schemes operated by the Group.

	April 2019	October 2019
Number of options	4,380,000	1,000,000
Option pricing models used	Black-Scholes	Black-Scholes
Share price	£0.115*	£0.0563*
Exercise price of options issued in year	£0.073	£0.525
Contractual life	10 years	10 years
Expected life	5 years	5 years
Volatility	75.3%**	78.3%**
Expected dividend yield	0%	0%
Risk free rate	0.85%	0.26%

* The share price used in the determination of the fair value of the options granted in 2019 was the share price 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 following information is relevant in the determination of the fair value of options granted during the year 2018 under the equity share based remuneration schemes operated by the Group.

	2018
Number of options	110,000
Option pricing models used	Monte-Carlo
Share price	£0.27*
Exercise price of options issued in year	£0.83-£1.21
Contractual life	10 years
Expected life	5 years
Volatility	45.2%**
Expected dividend yield	0%
Risk free rate	1.03%

* The share price used in the determination of the fair value of the options granted in 2018 was the share price 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 following information is relevant in the determination of the fair value of options granted during the year 2017 under the equity share based remuneration schemes operated by the Group.

	2017
Number of options	1,351,250
Option pricing models used	Monte-Carlo
Share price	£0.41*
Exercise price of options issued in year	£0.46
Contractual life	10 years
Expected life	5 years
Volatility	42.5%**
Expected dividend yield	0%
Risk free rate	0.73%

* The share price used in the determination of the fair value of the options granted in 2017 was the share price 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.

All other share options relate to the Midatech Limited 2008 unapproved share option scheme.

27 Share-based payments continued

Share Incentive Plan

In April 2017 the Group set up the Midatech Pharma Share Incentive Plan (MPSIP). Under the MPSIP, Group employees and Directors can acquire ordinary shares in the Company via a salary sacrifice arrangement. Midatech grants matching shares for every share bought. In order to retain these shares, scheme participants must remain employed by the Group for three years from the date of acquisition. All shares purchased by the MPSIP are held by an Employee Benefit Trust that is not under the control of Midatech. Shares must be left in the plan for five years to qualify for full income tax and NIC relief.

28 Capital commitments

The Group had no capital commitments at 31 December 2019, 31 December 2018 and 31 December 2017.

29 Related party transactions

Details of Directors' remuneration are given in the Directors Remuneration Report on page 31 and in note 6.

Transactions with BioConnection BV

The Directors consider BioConnection BV ("BioConnection") to be a related party by virtue of the fact that there is a common Director with the Company. 2019 is the first year where this relationship existed.

During the year, BioConnection invoiced the Company €17,800. As at 31 December 2019 €8,400 was due to BioConnection.

Transactions with Preci-Health

The Directors previously considered Preci-Health SA ("Preci-Health) to be a related party up to 31 May 2018 by virtue of the fact that there was a common Director with the Company up to that point in time. Preci-Health ceased to be considered a related party on 31 May 2018 after the Director left the Company.

During the 2018 there were no transactions with Preci-Health. During 2017, £44k was invoiced to Preci-Health for research services and credited to revenue.

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 2018 or 2017 regarding related party transactions.

30 Contingent liabilities

The Group are currently party to a claim by the estate of a former employee for unfair dismissal. The claim comprises various elements totalling up to €258,000. The case has already been dismissed by an Employment Court in Spain and has been re-filed by the state in a Civil Court in Spain. The Group consider the claim is without foundation and intend to vigorously defend the claim. It is anticipated the case will be concluded by the end of 2020. The Directors note that in the event of an unfavourable judgement the Group would not be able to recoup the loss from another party.

The Group had no contingent liabilities at 31 December 2018 and 31 December 2017.

31 Ultimate controlling party

In February 2019, China Medical Systems Holdings Limited and A&B (HK) Company Ltd (collectively, "CMS") invested a total of £8m in return for 207,792,206 new ordinary shares, which following admission on 26 February 2019, represented 51% of the issued share capital of the Company. As a result of this transaction CMS was able to exert control over Midatech during part of 2019. However subsequent to the Registered Direct Offering on 29 October 2019 CMS were no longer able to exert control as their shareholding was diluted, from this date the Group does not consider there to be a controlling party .

32 Effects of changes in accounting policies

The Group adopted IFRS 16 and IFRIC 23 with a transition date of 1 January 2019. The Group has chosen not to restate comparatives on adoption of both standards, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2019) and recognised in the opening equity balances. Details of the impact these two standards have had are given below. Other new and amended standards and Interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

IFRS 16 Leases

Effective 1 January 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilised

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures, to all contracts in existence on or after 1 January 2019, except for leases of low value based on the value of the underlying asset when new or for short term leases with a lease term of 12 months or less.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short term leases with a lease term of 12 months or less.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases of property, which had previously been classified as operating leases.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities as follows:

Classification Under IAS17	Right-of-use assets	Lease liabilities
All other operating leases	Property leases: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.	Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 3%.
Finance leases	Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted).	

32 Effects of changes in accounting policies continued

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 January 2019:

	Adjustments	31 December 2018 as originally presented £'000	IFRS 16 £'000	1 January 2019 £'000
Assets				
Right-of-use asset	(a)	–	395	395
Other receivables	(b)	1,564	152	1,716
Liabilities				
Lease liabilities	(c)	(250)	(547)	(796)

The adjustments to right-of-use asset is as follows:

	£'000
a) Right-of-use assets	395
b) Lease receivable on sub-let property	152

c) The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 annual financial statements to the amount of lease liabilities recognised on 1 January 2019:

	1 January 2019 £'000
Minimum operating lease commitment as 31 December 2018s	577
Less: low value leases not recognised under IFRS16	(5)
Less: effect of discounting using incremental borrowing rate as at the date of initial application	(25)
Lease liabilities recognised at 1 January 2019	547

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- the Group to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- the Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Group elected to apply IFRIC 23 retrospectively with any cumulative effect to be recorded in retained earnings as at the date of initial application, 1 January 2019. The adoption of IFRIC 23 did not result in a change in corporate tax liabilities or assets.

33 Post balance sheet events

In January 2020, a study of subcutaneous administration of MTD201 compared with traditional intramuscular administration in healthy volunteers showed similar pharmacokinetics and bioavailability, offering the potential for a differentiated, more patient-friendly product profile.

In March 2020, an exploratory study was initiated by Columbia University in five patients with DIPG using an alternative convection enhanced delivery system.

On 2 March 2020 a resolution was passed at a general meeting of shareholders of the Company to consolidate its ordinary shares on a one for 20 basis into new ordinary shares of 0.1p each in the capital of the Company. At the same meeting a resolution was passed to change the ratio of the Company's American Depositary Receipts ("ADRs"). This will change from one ADR representing 20 Existing Ordinary Shares to one ADR representing five new ordinary shares.

On 11 March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of these Accounts, the Group's operations have been significantly curtailed temporarily due to restrictions imposed by governments.

We cannot reasonably estimate the length or severity of this pandemic and related restrictions. Some factors from the COVID-19 outbreak that we believe will adversely affect our current and planned drug development activities include:

- the diversion of healthcare resources away from the conduct of clinical trial matters to focus on pandemic concerns, including the attention of physicians serving as our clinical trial investigators, hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;
- limitations on travel that interrupt key trial activities, such as clinical trial site initiations and monitoring;
- interruption in global shipping affecting the transport of clinical trial materials, such as investigational drug product used in our trials; and
- employee absences that delay necessary interactions with local regulators, ethics committees and other important agencies and contractors.

On 31 March 2020 the Company announced that the Board had concluded, in the context of its current cash runway, that the Company was unlikely to conclude a license transaction or raise sufficient funds to continue the required remaining investment in MTD201 on a timely basis. The Board therefore decided to terminate further in-house development of the MTD201 programme with immediate effect. The Company will continue to seek licensing partners for this asset.

In line with the decision to terminate MTD201, the Board also took the difficult decision to close the Company's MTD201 dedicated manufacturing facilities in Bilbao and offer redundancy to all 42 employees. In addition, a further five UK-based employees in clinical research and administrative roles are being offered redundancy.

Following these changes, Midatech's remaining 20 employees and operations are concentrated in Cardiff. The Company's near term goal is to deploy its proprietary drug delivery technologies to formulate a compelling portfolio of novel first-in-class sustained release formulations of products with significant commercial potential for licensing to pharmaceutical company partners at proof of concept stage. With the exception of our ongoing commitments with respect to MTX110 clinical trials, the Company has no plans to undertake additional trials in humans unless a license partner or grant funding has been secured.

The Board continues to consider options for extracting value from the Company's technologies including providing formulation services to biopharmaceutical partners and partnering its existing and upcoming proof of concept formulations and/or partnering a technology.

The provisional estimated one-time cash outflows and non-cash costs of these actions are expected to be as follows:

	Estimated cash outflow £'000
Staff redundancy	933
Repayment of loans, net of deposit returned	3,569
Property lease termination costs	–
Settlement of lease liabilities	131
Repayment of grant funding	230
Other	70
	4,933

33 Post balance sheet events continued

	Estimated non-cash costs £'000
Impairment of acquired IPRD	9,300
Impairment of goodwill	2,291
Write down of tangible assets to net realisable value	975
Right of use asset adjustment	(61)
Other	(186)
	12,319

The above table includes 100% impairment of acquired IPRD and goodwill, in a worst case scenario. The final outcome will depend on the Directors progress with the strategic options which commenced in April 2020.

The cash outflows and non-cash costs will be reflected in the Company's financial statements for 2020.

On 20 April 2020, the Company announced an update to the strategic review including the appointment of an adviser and start of a "formal sale process" under the Takeover Code.

On 18 May 2020, the Company announced that it had raised gross proceeds of £4.3m (before expenses) by way of a placing to investors in the UK ("UK Placing") of 6,666,666 Units (each Unit comprising one new ordinary share of 0.1p each ("Placing Share") and one warrant ("UK Warrant")) at an issue price of £0.27 per Unit and by way of a registered direct offering and concurrent private placement in the United States (the "U.S. Registered Direct Offering") for 1,818,182 American Depositary Shares ("ADSs") (each ADS representing five of the Company's Ordinary Shares) and unregistered warrant to purchase ADS's ("ADS Warrants").

The pricing of the UK Placing was aligned to the pricing of the US Registered Direct Offering after adjusting for the one-for-five ratio of ordinary shares to ADS and the GBP: USD exchange rate.

The Placing Shares and the 9,090,910 Ordinary Shares representing the ADS's represent approximately 40%. of the issued share capital of the Company as enlarged by the UK Placing and the US Registered Direct Offering.

On 8 June 2020, the Company received a letter sent on behalf of Secura Bio, Inc. ("Secura Bio"), dated 1 June 2020, purporting to terminate a License Agreement, dated 5 June 2017 (the "Secura License Agreement"), by and between Midatech Limited and Novartis AG, which Novartis AG subsequently transferred to Secura Bio. Pursuant to the Secura License Agreement, Midatech Limited was granted a non-exclusive worldwide, sublicenseable license to certain patents of panobinostat, the active pharmaceutical ingredient of the Company's development product MTX110. Midatech Limited's rights are limited to the treatment of brain cancer in humans, administered by convection-enhanced delivery. The Company plans to continue to pursue development of MTX110 and the strategic review process previously disclosed. The Company is also reviewing with its outside counsel remedies it may have if Secura Bio does not withdraw the notice and otherwise cease to interfere with its ongoing business and strategic review process, which the Company has formally requested. The Company is evaluating available actions to protect its rights under the Secura License Agreement and its assets.

Company balance sheet

At 31 December 2019

Company number 09216368	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets					
Intangible assets	4		–		–
Investments	5		1,001		1,001
Property, Plant & Equipment	6		42		85
			1,043		1,086
Current assets					
Debtors	7	23,945		16,931	
Cash at bank		4,021		1,508	
		27,966		18,439	
Creditors: amounts due falling due within one year	8	(1,505)		(621)	
Net current assets			**26,461**		**17,818**
Total assets less current liabilities			27,504		18,904
Creditors: amounts due falling after one year	9		–		(165)
Net assets			**27,504**		**18,739**
Capital and reserves					
Called up share capital	10		1,023		1,003
Share premium account	14		65,879		52,939
Accumulated deficit	14		(39,398)		(35,203)
Total equity attributable to owners of the parent company			**27,504**		**18,739**

The loss for the financial period, of the Company, as approved by the Board, was £4.09m (2018: £24.99m, 2017: £4.83m).

The financial statements were approved and authorised for issue by the Board of Directors on 15 June 2020 and were signed on its behalf by:

Stephen Stamp

Chief Financial Officer

The notes on pages 99 to 107 form part of these financial statements.

Company statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2019	**1,003**	**52,939**	**(35,203)**	**18,739**
Loss for the year	–	–	(4,087)	(4,087)
Total comprehensive loss	**1,003**	**52,939**	**(39,290)**	**14,652**
Transactions with owners				
Shares issued (net of issue costs of £1.7m)	20	12,940		12,960
Share option credit	–	–	(108)	(108)
Total contribution by and distributions to owners	20	12,940	(108)	12,852
At 31 December 2019	**1,023**	**65,879**	**(39,398)**	**27,504**

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2018	**1,003**	**52,939**	**(9,865)**	**44,077**
Loss for the year	–	–	(24,989)	(24,989)
Total comprehensive loss	**1,003**	**52,939**	**(34,854)**	**19,088**
Transactions with owners				
Share option credit	–	–	(349)	(349)
Total contribution by and distributions to owners	**–**	**–**	**(349)**	**(349)**
At 31 December 2018	**1,003**	**52,939**	**(35,203)**	**18,739**

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").

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 Statement of Comprehensive 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. Goodwill is being amortised to "administrative expenses" over a period of five years.

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 except goodwill 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.

1 Accounting policies continued

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

Product and marketing rights – 13 years

In 2018, product and marketing rights were transferred to MPUS prior to the disposal of the subsidiary, at a value of $5.5m.

Taxation

Current 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 is 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 Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risk Guidance for directors of companies that do not apply the UK Corporate Governance Code (April 2016).

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next five years including the period twelve months from the date of approval of the consolidated financial statements. These forecasts show that further financing will be required before the second quarter of 2021 assuming, inter alia, that certain development programs and other operating activities continue as currently planned. This requirement for additional financing in the short term represents a material uncertainty that may cast significant doubt upon the Group and parent company's ability to continue as a going concern.

In addition, the global spread of the pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions placed and being placed on the movement of people will likely cause delays to some of the Group's plans. The scale of the impact of COVID-19 is evolving and it is difficult to assess to what extent, and for how long, it will cause delays to the Group's operations. The Directors have established a COVID-19 task force internally to monitor the impact of COVID-19 on the business and prioritize activities to minimize its effect.

In addition to utilizing the existing cash reserves, as part of the Group's ongoing strategic review, the Directors and its advisors are evaluating a number of near-term funding options potentially available to the Group, including fundraising, the partnering of assets and technologies or the sale of the Company. After considering the uncertainties, the Directors consider it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

Financial assets and liabilities

Financial assets

Financial assets, other than investments and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (after deducting transaction costs) and subsequently held at amortised cost.

Depreciation

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

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

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

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

2 Staff costs

	2019 £'000	2018 £'000
Staff costs (including Directors) comprise:		
Wages and salaries	635	987
Defined contribution pension cost	38	41
Social security contributions and similar taxes	106	114
Share-based payment	(108)	(349)
	671	793

Employee numbers

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

	2019 £'000	2018 £'000
General and administration	4	4
	4	4

Please also refer to note 6 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 £4.09m (2018: £24.99m, 2017: £4.83m).

4 Intangibles

	Product and marketing rights £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2019	**–**	**–**	**–**
Additions	–	–	–
At 31 December 2019	–	–	–
Amortisation	–	–	–
At 1 January 2019	**–**	**–**	**–**
Charge for year	–	–	–
At 31 December 2019	**–**	**–**	**–**
Net book value			
At 31 December 2019	**–**	**–**	**–**

	Product and marketing rights £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2018	**2,512**	**53**	**2,565**
Transfer to subsidiary company	(2,512)	(53)	(2,565)
At 31 December 2018	–	–	–
Amortisation			
At 1 January 2018	**390**	**22**	**412**
Charge for year	(390)	(22)	(412)
At 31 December 2018	**–**	**–**	**–**
Net book value			
At 31 December 2018	**–**	**–**	**–**

5 Investments

	2019 £'000	2018 £'000
Brought forward 1 January	**1,001**	**7,405**
Disposals	–	(6,404)
Total investments at 31 December	**1,001**	**1,001**

At 31 December 2019, 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	Oddfellows House, 19 Newport Road, Cardiff, CF24 0AA	Trading company	100%	
Midatech Pharma (España) 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) (b)
Midatech Pharma (Wales) Limited	Oddfellows House, 19 Newport Road, Cardiff, CF24 0AA	Trading company	100%	
Midatech Pharma PTY Limited	c/o Griffith Hack Consulting, 300 Queen Street, Brisbane, QLD 4000, Australia	Trading company	100%	
MidaSol Therapeutics GP	Incorporated in the Cayman Islands	Dormant JV	50%	
Syntara LLC	Incorporated in the United States	Dormant JV	50%	

Notes:

(a) Wholly owned subsidiary of Midatech Limited.

(b) PharMida AG became dormant in January 2016.

6 Property, plant and equipment

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment and software £'000	Total £'000
Cost				
At 1 January 2019	–	–	235	235
Disposals	–	–	–	–
Additions	–	–	12	12
At 31 December 2019	**–**	**–**	**247**	**247**
Depreciation				
At 1 January 2019	**–**	**–**	**150**	**150**
Disposals	–	–	–	–
Charge for year	–	–	55	55
At 31 December 2019	**–**	**–**	**205**	**205**
Net book value				
At 31 December 2019	**–**	**–**	**–**	**42**

6 Property, plant and equipment continued

	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment and software £'000	Total £'000
Cost				
At 1 January 2018	5	229	219	453
Disposals	(5)	(229)	–	(234)
Additions	–	–	16	16
At 31 December 2018	**–**	**–**	**235**	**235**
Depreciation				
At 1 January 2018	3	126	94	223
Disposals	(3)	(174)	–	(177)
Charge for year	–	48	56	104
At 31 December 2018	**–**	**–**	**150**	**150**
Net book value				
At 31 December 2018	**–**	**–**	**85**	**85**

7 Debtors

	2019 £'000	2018 £'000
Amounts due from group companies	23,652	16,676
Trade debtors	23	–
Other debtors	163	145
Prepayments	107	110
	23,945	16,931

8 Creditors: amounts due falling due within one year

	2019 £'000	2018 £'000
Trade creditors	197	78
Accruals	484	513
Other creditors	63	30
Provision	97	–
Derivative financial liability	664	–
	1,505	621

Details of the derivative financial liability are provided in note 21 of the consolidated financial statements.

Details of the provision are provided in note 20 of the consolidated financial statements.

9 Creditors: amounts due falling due after one year

	2019 £'000	2018 £'000
Bank Loan	–	–
Provision	–	165
	–	165

10 Share capital

Allotted and fully paid	2019 Number	2019 £'000	2018 Number	2018 £'000
Ordinary shares of 0.00005 each	469,899,613	23	61,184,135	3
Deferred shares of £1 each	1,000,001	1,000	1,000,001	1,000
Total		1,023		1,003

On 2 March 2020 a resolution was passed at a general meeting of shareholders of the Company to consolidate its ordinary shares on a one for 20 basis into new ordinary shares of £0.001 each in the capital of the Company. The above table does not reflect the share consolidation.

Details of shares issued by the Company in the year are given in note 24 of the consolidated financial statements.

11 Capital commitments

The Company had no capital commitments at 31 December 2019 or at 31 December 2018.

12 Contingent liabilities

The Company had no contingent liabilities at 31 December 2019, or at 31 December 2018.

13 Ultimate controlling party

In February 2019, China Medical Systems Holdings Limited and A&B (HK) Company Ltd (collectively, "CMS") invested a total of £8m in return for 207,792,206 new ordinary shares, which following admission on 26 February 2019, represented 51% of the issued share capital of the Company. As a result of this transaction CMS was able to exert control over Midatech during part of 2019. However subsequent to the Registered Direct Offering on 29 October 2019 CMS were no longer able to exert control as their shareholding was diluted, from this date the Group does not consider there to be a controlling party.

14 Reserves

The following describes the nature and purpose of each reserve within the 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.

15 Post balance sheet events

In January 2020, a study of subcutaneous administration of MTD201 compared with traditional intramuscular administration in healthy volunteers showed similar pharmacokinetics and bioavailability, offering the potential for a differentiated, more patient-friendly product profile.

In March 2020, an exploratory study was initiated by Columbia University in five patients with DIPG using an alternative convection enhanced delivery system.

On 2 March 2020 a resolution was passed at a general meeting of shareholders of the Company to consolidate it ordinary shares on a one for 20 basis into new ordinary shares of 0.1p each in the capital of the Company. At the same meeting a resolution was passed to change the ratio of the Company's American Depositary Receipts ("ADRs"). This will change from one ADR representing 20 Existing Ordinary Shares to one ADR representing five new ordinary shares.

On 11 March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of these Accounts, the Group's operations have been significantly curtailed temporarily due to restrictions imposed by governments.

We cannot reasonably estimate the length or severity of this pandemic and related restrictions. Some factors from the COVID-19 outbreak that we believe will adversely affect our current and planned drug development activities include:

- the diversion of healthcare resources away from the conduct of clinical trial matters to focus on pandemic concerns, including the attention of physicians serving as our clinical trial investigators, hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;
- limitations on travel that interrupt key trial activities, such as clinical trial site initiations and monitoring;
- interruption in global shipping affecting the transport of clinical trial materials, such as investigational drug product used in our trials; and
- employee absences that delay necessary interactions with local regulators, ethics committees and other important agencies and contractors.

On 31 March 2020 the Company announced that the Board had concluded, in the context of its current cash runway, that the Company was unlikely to conclude a license transaction or raise sufficient funds to continue the required remaining investment in MTD201 on a timely basis. The Board therefore decided to terminate further in-house development of the MTD201 programme with immediate effect. The Company will continue to seek licensing partners for this asset.

In line with the decision to terminate MTD201, the Board also took the difficult decision to close the Company's MTD201 dedicated manufacturing facilities in Bilbao and offer redundancy to all 42 employees. In addition, a further five UK-based employees in clinical research and administrative roles are being offered redundancy.

Following these changes, Midatech's remaining 20 employees and operations are concentrated in Cardiff. The Company's near term goal is to deploy its proprietary drug delivery technologies to formulate a compelling portfolio of novel first-in-class sustained release formulations of products with significant commercial potential for licensing to pharmaceutical company partners at proof of concept stage. The Company has no plans to undertake additional trials in humans unless a license partner or grant funding has been secured.

The Board continues to consider options for extracting value from the Company's technologies including providing formulation services to biopharmaceutical partners and partnering its existing and upcoming proof of concept formulations and/or partnering a technology.

The estimated one-time cash outflows and non-cash costs of these actions are expected to be as follows:

	Estimated cash outflow £'000
Staff redundancy	102

	Estimated non-cash costs £'000
Provision for impairment of amounts due from subsidiary undertakings	19,504

The above table includes 100% of amounts due from subsidiary undertakings and investments in subsidiary undertakings, in a worst case scenario. The final outcome will depend on the Directors progress with the strategic options which commenced in April 2020.

The cash outflows and non-cash costs will be reflected in the Company's financial statements for the year ending 31 December 2020.

On 20 April 2020, the Company announced an update to the strategic review including the appointment of an adviser and start of a "formal sale process" under the Takeover Code.

On 18 May 2020, the Company announced that it had raised gross proceeds of £4.3m (before expenses) by way of a placing to investors in the UK ("UK Placing") of 6,666,666 Units (each Unit comprising one new ordinary share of 0.1p each ("Placing Share") and one warrant ("UK Warrant")) at an issue price of £0.27 per Unit and by way of a registered direct offering and concurrent private placement in the United States (the "U.S. Registered Direct Offering") for 1,818,182 American Depositary Shares ("ADSs") (each ADS representing five of the Company's Ordinary Shares) and unregistered warrant to purchase ADS's ("ADS Warrants").

The pricing of the UK Placing was aligned to the pricing of the US Registered Direct Offering after adjusting for the one-for-five ratio of ordinary shares to ADS and the GBP: USD exchange rate.

The Placing Shares and the 9,090,910 Ordinary Shares representing the ADS's represent approximately 40%. of the issued share capital of the Company as enlarged by the UK Placing and the US Registered Direct Offering.

On 8 June 2020, the Company received a letter sent on behalf of Secura Bio, Inc. ("Secura Bio"), dated 1 June 2020, purporting to terminate a License Agreement, dated 5 June 2017 (the "Secura License Agreement"), by and between Midatech Limited and Novartis AG, which Novartis AG subsequently transferred to Secura Bio. Pursuant to the Secura License Agreement, Midatech Limited was granted a non-exclusive worldwide, sublicenseable license to certain patents of panobinostat, the active pharmaceutical ingredient of the Company's development product MTX110. Midatech Limited's rights are limited to the treatment of brain cancer in humans, administered by convection-enhanced delivery. The Company plans to continue to pursue development of MTX110 and the strategic review process previously disclosed. The Company is also reviewing with its outside counsel remedies it may have if Secura Bio does not withdraw the notice and otherwise cease to interfere with its ongoing business and strategic review process, which the Company has formally requested. The Company is evaluating available actions to protect its rights under the Secura License Agreement and its assets.

Company information

Directors

Rolf Stahel
Sijmen de Vries
Stephen Stamp
Simon Turton

Secretary

Stephen Stamp

Registered office

Oddfellows House
19 Newport Road
Cardiff, CF24 0AA
United Kingdom

Registered number

09216368

Auditor

BDO LLP
Level 12
Thames Tower
Station Road
Reading, RG1 1LX
United Kingdom

Nominated Adviser

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF
United Kingdom

Registrars

Neville Registrars Limited
Neville House
Steelpark Road
Halesowen B62 8HD
United Kingdom

Depositary

Deutsche Bank Trust Company Americas
60 Wall Street
New York
NY 10005
United States of America

Designed and produced by emperor
Visit us at emperor.works

Registered office

Oddfellows House
19 Newport Road
Cardiff, CF24 0AA
United Kingdom