midatech pharma

Improving the bio-delivery and biodistribution of medicines

Annual Report 2020

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

The Company has developed three in-house technology platforms, each with its own unique mechanism to improve delivery of medications to sites of disease.

All of the Company's technologies have successfully entered human use in the clinic, providing important validation of the potential for each platform:

Q-Sphera™ platform: a disruptive micro-technology used for sustained release to prolong and control the release of therapeutics over an extended period of time (from weeks to months).

See page 4 for more information

MidaSolve™ platform: an innovative nanotechnology used to dissolve insoluble drugs so that they can be administered in liquid form directly and locally into tumours.

See page 6 for more information

MidaCore™ platform: a leading-edge nanotechnology used for targeting medications to sites of disease.

See page 7 for more information

Strategic Report

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Our Business Model and Strategy

Realigned strategy

Headquartered in Cardiff, UK, and quoted on the AIM market of the London Stock Exchange and on NASDAQ in the US, Midatech is an R&D biotechnology company focused on improving the bio-delivery and biodistribution of medicines using its three proprietary drug delivery technologies.

Since the announcement of a Strategic Review in March 2020 and the termination of further in-house development of MTD201, we have sought to broaden our R&D pipeline through technology collaborations with third party pharmaceutical companies, initiating new internal programmes and adding new indications to MTX110.

Our realigned strategy is to advance our development programmes to proof of concept stage before seeking licensee partners to fund further development, manufacturing scale up and commercialisation.

36

patent families

Development

Our intention is to build a balanced portfolio of Q-Sphera programmes employing a bi-fold strategy to create an:

- internal pipeline of long-acting injectable products by re-formulating existing, approved therapies; and
- external pipeline by entering into research collaborations with partners to formulate their proprietary products into long-acting injectable products.

We have applied our MidaSolve technology to panobinostat to create our proprietary product MTX110. Our development strategy for MTX110 is to demonstrate its utility in a range of intractable brain cancers with a series of pilot proof of concept studies before seeking licensee partners.

Once a licensing partner has been secured, Midatech would expect any future development costs to be reimbursed by that partner and for Midatech to receive milestone payments and, ultimately royalties on sales of the product.

Manufacturing

To establish proof of concept in pre-clinical studies for potential licensees, Midatech is able to manufacture non-GMP Q-Sphera products at pilot scale at its Cardiff facility. Our intention is to technology transfer GMP manufacture of clinical trial supplies and ultimately full GMP commercial manufacture to a third party Contract Manufacturing Organisation ("CMO").

Midatech would expect a licensee to assume the cost of manufacturing GMP product and commercial scale up pursuant to a technology transfer agreement.

MTX110 is currently being manufactured to GMP standards at a CMO.

Commercialisation

Once proof of concept has been established, Midatech intends to seek to license its products to a partner who would complete the clinical 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.

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Proprietary technologies designed to improve the targeting and delivery of drugs

Multiple shots on goal

Time and cost to partnerability

In 2020 Midatech pivoted from a largely singular focus on the clinical development and manufacturing scale up of MTD201 to a strategy based on a broader, but earlier stage, pipeline. The two strategic drivers behind Midatech's development pipeline, multiple shots on goal and time and cost to partnerability, are designed to provide optimal opportunities for partnering success while focusing the Company's resources on those projects that will deliver near term data that could attract a development partner.

Midatech's development pipeline includes 10 projects of which three are partnered with the European affiliate of a global healthcare company:

ID	API	Therapeutic Area	Administration	Formulation	Pre-clinical	Phase I	Phase II	Partnering Status
Q-Sphera								
MTD211	Brexpiprazole	CNS	Long acting Injectable					
MTD219	Tacrolimus	Anti-rejection	Long acting Injectable					
MTD201	Octreotide	Carcinoid cancer and acromegaly	Long acting Injectable	In-house development terminated				
MTX213	Undisclosed	Undisclosed	Undisclosed					Partnered
MTX214	Undisclosed	Undisclosed	Undisclosed					Partnered
MTX216	Undisclosed	Undisclosed	Undisclosed					Partnered
MidaSolve								
MTX110	Panobinostat	Brain cancer in children (DIPG)	Direct to tumour via CED					
MTX110	Panobinostat	Medulloblastoma	Direct to tumour					
MTX110	Panobinostat	Glioblastoma	Direct to tumour via CED					
MidaCore								
MTX114	Methotrexate	Psoriasis Immuno-rx	Topical					

2020 Performance summary

Operational

- In January 2020, a study of subcutaneous administration of MTD201 compared with intramuscular administration in healthy volunteers showed similar pharmacokinetics and bioavailability, offering the potential for a differentiated, more patient-friendly product profile for Q-Sphera products.
- In March 2020, the Company announced a Strategic Review including termination of MTD201, closure of the Company's Bilbao operations and a realignment of the Board. The Strategic Review was subsequently updated to include a 'formal sale process' under the Takeover Code.
- In June 2020, Midatech entered into its first research collaboration to apply Q-Sphera drug delivery technology to molecules nominated by Dr Reddy's Laboratories Ltd ("Dr Reddy's").
- In June 2020, the Company received a letter sent on behalf of Secura Bio, Inc. purporting to terminate an agreement to license certain patents of panobinostat, the active pharmaceutical ingredient of MTX110.
- In July 2020, Midatech added to its Q-Sphera business model with the announcement of a multi-product collaboration with a European affiliate of a global healthcare company.
- In October 2020, headline results of a Phase I study of MTX110 in DIPG were announced, including encouraging patient survival data.
- In November 2020, posters were presented at a meeting of the Society of Neuro-oncology (SNO) on MTX110 (1) Phase I results in DIPG and (2) pre-clinical data in adult glioblastoma.
- In December 2020, posters were presented at a meeting of the International Symposium on Pediatric Neuro-oncologists (ISPNO) on MTX110 (1) in a Phase I study using an alternative Convection Enhanced Delivery (CED) system, (2) administration via the fourth ventricle of the brain in a pre-clinical model, and (3) Phase I results in DIPG.

Financial

- Total gross revenue[1] for the year of £0.3m (2019: £0.7m, 2018: £1.9m).
- Statutory revenue[2] for 2020 of £0.2m (2019: £0.3m, 2018: £0.1m).
- Combined Placing in the UK and Registered Direct Offering in the US in May 2020 raised £3.7m, net of expenses.
- UK Placing in July 2020 raised £5.3m, net of expenses.
- Cash and deposits at 31 December 2020 of £7.5m (2019: £10.9m, 2018: £2.3m).
- Net loss from continuing operations of £22.2m (2019: £9.1m loss, 2018: £10.4m loss) with net cash outflow in the year of £3.6m (2019: £8.4m inflow, 2018: £10.9m outflow).
- Tax credit receivable of £1.2m (2019: £1.8m, 2018: £1.9m).

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

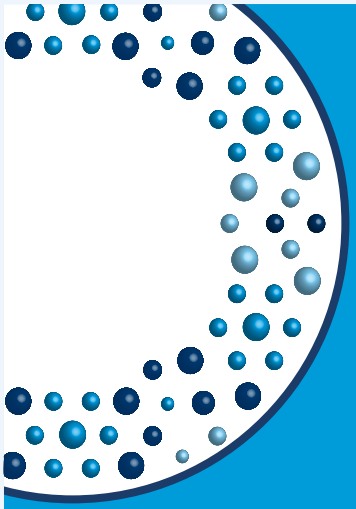
Post period end

- In January 2021, the Company announced a business update including expansion of the collaboration with the European affiliate of a global healthcare company from one to three active pharmaceutical ingredients ("APIs"), mutual termination of the Dr Reddy's collaboration, expansion of the MTX110 development programme to include GBM, confirmation that the Company would not qualify for the GlioKIDS grant and termination of the Strategic Review.
- In March 2021, the Company announced non-binding Heads of Terms had been agreed with a third party in connection with the potential co-development of MTX110.
- In April 2021, the Group signed an agreement for lease on new premises in Cardiff to house our corporate offices and laboratories. The new premises comprise 8,118 square feet and the lease is for a five year term.

£7.5m

Cash and deposits at 31 December 2020

Next Generation Microsphere Technology



Q-Sphera Technology

Our Q-Sphera technology employs 3-D printing techniques to encapsulate medicines in polymer-based bioresorbable microspheres. The microspheres may be injected to form depots in the body which release drug over predictable, sustained periods from one week up to several months. The features and benefits of Q-Sphera technology offer numerous potential advantages to patients and payors compared with immediate release products and other polymer-based technologies:

FEATURES

Biocompatible, biodegradeable	Small footprint, scalable manufacturing	Low viscosity, small gauge needles	Tuneable, predictable	Homogenous, monodisperse	Localised delivery
Increased dosage intervals	Low cost, environment friendly	Improved injectability	Targeted to therapeutic window	Low inter patient variability	Targeted site of action, lower sytemic toxicity

BENEFITS

- Sub cutaneous
- Intra muscular
- Intra tumoral
- Intra articular
- Intra ocular
- Transdermal

Q-Sphera products offer localised delivery to the site of injury including intra tumoral, intra articular, intra ocular and transdermal applications, in each case reducing the potential for systemic toxicity.

120,000

Mono dispersed microspheres per second

> **A tunable, flexible technology that can target and deliver drugs for periods from a week to six months."**

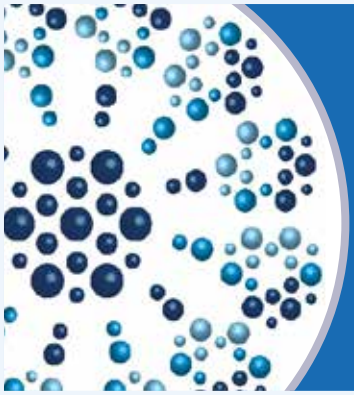
Pipeline

We have an internal Q-Sphera pipeline comprising MTD211 and MTD219 for central nervous system and transplant anti-rejection indications, respectively. The APIs included in MTD211 and MTD219 are already marketed as immediate release products and both are currently undergoing pre-clinical in vivo studies to demonstrate proof of concept. If successful, MTD211 and MTD219 will be made available for licensing to partners for clinical development.

MTD201

Following the announcement of a Strategic Review, we ceased further in-house development of MTD201, our Q-Sphera formulation of octreotide for acromegaly and neuroendocrine tumours. Further discussion of the Strategic Review is included in the Chief Executive's Review.

Solubilising Insoluble Drugs



MidaSolve Technology

Our MidaSolve technology increases the aqueous solubility of certain classes of anti-cancer drugs using complexes that solubilise these agents in water, thereby enabling them to be injected in liquid form directly into tumours.

The complexed molecules comprise a hydrophobic inner surface and a hydrophilic outer surface, and as a result are capable of forming host-guest complexes with normally water-insoluble molecules. The hydrophobic, poorly water-soluble drug associates with the inner, more hydrophobic surface of the MidaSolve host, while the hydrophilic outer surface allows the complex to dissolve at biological pH.

MTX110

Using our MidaSolve technology in combination with panobinostat, an otherwise insoluble drug, MTX110 is designed for direct-to-tumour treatment of intractable brain cancers. Panobinostat is currently marketed under the brand Farydak® which is used orally in combination therapy for the treatment of multiple myeloma. We are currently researching the utility of MTX110 to proof of concept stage in three indications:

Diffuse Intrinsic Pontine Glioma (DIPG):
DIPG tumours are located in the pons (middle) of the brain stem and are diffusely infiltrating. Occurring mostly in children, approximately 1,000 patients[(1)] are diagnosed with DIPG per annum and median survival is approximately 10 months[(2)].

There is no effective treatment since surgical resection is not possible. The standard of care is radiotherapy, which transiently improves symptoms and survival. Chemotherapy does not improve survival and one likely reason is that many anti-cancer drugs cannot cross the blood-brain barrier to access the tumour.

In October 2020, we reported the first-in-human study by the University of California, San Francisco ("UCSF") of MTX110 in DIPG using a convection enhanced delivery ("CED") system. The Phase I study established a recommended dose range for Phase II, a good safety and tolerability profile but also encouraging survival data in the seven patients treated. We are in the process of planning for a Phase II study to confirm the safety and efficacy of MTX110 in DIPG.

Medulloblastoma:
Medulloblastomas are malignant embryonal tumours that start in the cerebellum. They are invasive and, unlike most brain tumours, spread through the cerebrospinal fluid ("CSF") and frequently metastasise to different locations in the brain and spinal cord. Treatments include resection, radiation and chemotherapy. Approximately 350 patients[(3)] are diagnosed with medulloblastoma per annum and 3,800 people are living with the disease in the US. The cumulative survival rate is approximately 60%, 52%, and 47% at 5 years, 10 years, and 20 years, respectively[(4)]; however, recurrence is nearly always fatal with no established standard of care (SOC).

The University of Texas is undertaking a Phase I exploratory study in recurrent medulloblastoma patients using direct administration of MTX110 into the fourth ventricle, enabling it to circulate throughout the CSF.

Glioblastoma Multiforme (GBM):
GBM is the most common and aggressive form of brain cancer in adults, usually occurring in the white matter of the cerebrum. Treatments include radiation, surgical resection and chemotherapy although, in almost all cases, tumours recur. There are approximately 2-3/100,000[(5)] diagnoses of GBM per annum. Survival with SOC treatment ranges from approximately 13 months in unmethylated MGMT patients to approximately 30 months in highly methylated MGMT patients[(6)].

We are in the process of planning for a Phase I exploratory study to assess the utility of MTX110 in GBM.

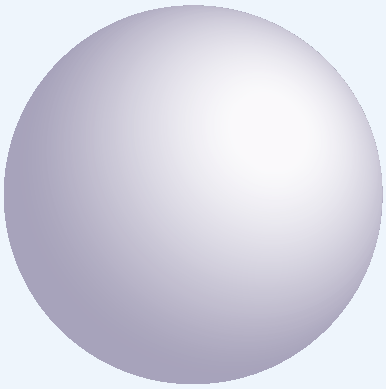
(1) Louis DN, Ellison DW, et al. The 2016 World Health Organisation Classification of Tumors of the Central Nervous System: a summary. Acta Neuropathol 2016; 131:803–820
(2) Jansen et al, 2015. Neuro-Oncology 17(1):160-166
(3) Aboian et al (2018). Neuro-Oncology Practice, Volume 5, Issue 4, December 2018
(4) Smoll NR (March 2012). "Relative survival of childhood and adult medulloblastomas and primitive neuroectodermal tumors (PNETs)". Cancer. 118 (5): 1313–22
(5) American Association of Neurosurgeons
(6) Radke et al (2019). Predictive MGMT status in a homogeneous cohort of IDH wildtype glioblastoma patients. Acta Neuropathologica Communications 7:89 Online: https://doi.org/10.1186/s40478-019-0745-z

Working at the Nanoscale

MidaCore Technology

The MidaCore technology platform is based on ultra-small gold nanoparticle (GNP) drug conjugates, which at 2-4nm are among the smallest particles in biomedical use. They are composed of a core of gold atoms decorated with a permutation of therapeutic and/or targeting molecules. The small size and multi-functional arrangement around the gold core underpin the ability to improve biodistribution and target tumour and/or immune sites.

MidaCore design and synthesis GNP technology enables the production of nano-medications, which we believe are five-to-tenfold smaller than any other delivery vehicle in medical use. MidaCore's therapeutics are comprised of a core of gold atoms (approximately 100 gold atoms per GNP) surrounded by an organic layer of carbohydrates that stabilise the metallic core and make the particle water-soluble and biocompatible.



MTX114

Using MidaCore technology, we have developed a re-engineered version of methotrexate, an immuno-suppressant for topical application in psoriasis. If successful, MTX114 would be a first topical formulation of methotrexate, thus avoiding the need for potentially toxic systemic administration. Pre-clinical data have shown that MTX114 normalises skin thickness in psoriatic skin models.

100m

People worldwide suffer from psoriasis

Last year was one of significant transition for Midatech

Stephen Stamp
Chief Executive Officer

Introduction

Last year was one of significant transition for Midatech. The precipitous fall in global capital markets in the first quarter of 2020 and the reduced prospects for raising capital and partnering of assets, triggered a Strategic Review of operations.

As a direct consequence of the Strategic Review, we restructured and realigned our development and commercial strategy as discussed below. The resultant halving of the cash burn rate also allowed the Company to re-finance, extend its cash runway, expand its R&D pipeline and increase opportunities for partnering success.

> **Our realigned strategy is focused on exploiting our technologies to develop multiple products to proof of concept stage before seeking partners."**

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Products in development pipeline

3

Products in collaboration with partners

Realignment of Strategy

The Strategic Review was a catalyst for a re-evaluation of our priorities in the context of available resources. We quickly pivoted away from a largely single focus on MTD201 towards a more broadly-based collaborative strategy. Our realigned strategy is focused on exploiting our technologies to develop multiple products to proof of concept stage before seeking partners to fund pivotal studies and take those products through to market. Our financial returns will come from development and sales milestone payments and, ultimately, royalties.

Our intention is to maintain a balanced portfolio of internal and external Q-Sphera projects. Internal projects are based on already marketed APIs. External projects may be proposed by partners and based on their proprietary APIs. We work with partner APIs under R&D collaboration agreements until proof of concept is established. Our Q-Sphera pipeline is significantly expanded to 5 active projects, providing more opportunities for partnering success. Three of our current Q-Sphera projects are partnered. Similarly, our re alignment of the MTX110 clinical programme to include GBM, an opportunity 30-50 times the size of DIPG, significantly enhances the potential for that product.

We retain the capability to manufacture Q-Sphera products to non-GMP pilot scale in our laboratory in Cardiff. Following the closure of our Bilbao operations, we intend that all clinical trial supplies and commercial products will be manufactured at a GMP facility by a CMO.

The clarity of our realigned strategy and the simplification of the investment case enabled us to attract new investment in two separate fundraises in the middle of the year which, in turn, allowed us to begin executing on our new strategy.

Commercial Update

Our commercial strategy is gaining traction. In June, we announced a collaboration with Dr Reddy's Laboratories Ltd and in July we announced a second collaboration with the European affiliate of a global healthcare company, in each case to explore the feasibility of applying our Q-Sphera technology to the partners' chosen APIs. At their option, the collaboration with the second partner has expanded to three APIs. The collaboration agreement with Dr Reddy's has been terminated by mutual consent for reasons of technical feasibility.

The Q-Sphera collaborations are encouraging early validation of our technology platform and, if we are successful in developing proof of concept formulations, we would expect to enter into licensing and technology transfer agreements with partners including milestone payments and royalties with the medium term goal of becoming a self-sustaining, profitable business.

R&D Update

With termination of further in-house development of MTD201 and a change in strategic emphasis towards collaborating and partnering at proof of concept stage, the Company's R&D portfolio is significantly more diversified as follows:

Q-Sphera

We have developed two formulations for our internal Q-Sphera pipeline: one in CNS (MTD211) and one in transplant anti-rejection (MTD219). Each of the APIs was identified after a comprehensive evaluation of potential candidates. Both MTD211 and MTD219 address large markets and, as first in class long-acting injectables, have the potential to offer significant clinical benefits compared with current therapies and, importantly for reimbursement, savings to the healthcare system. Both formulations are currently undergoing IND-enabling in vivo studies. Once completed, we will seek licensing and technology transfer agreements with partners for further development, manufacturing and, ultimately marketing.

We are collaborating with a partner on three APIs. While the APIs under development and their respective indications remain confidential, our aim is to enter into licences and technology transfer agreements with our partners once proof of concept has been established.

MTD201, a long-acting Q-Sphera formulation of octreotide for the treatment of acromegaly and neuroendocrine tumours, reported a second Phase I study (Study 102) in 28 healthy volunteers comparing subcutaneous versus intramuscular routes of administration. The results showed similar pharmacokinetics and bioavailability for the two routes of administration.

Although inhouse development of MTD201 has been terminated, the pre-clinical and two Phase I studies have demonstrated Q-Sphera proof of concept as a long-acting injectable formulation technology with several potential advantages compared with other polymer-based technologies including; predictable kinetics, minimal burst release, improved injectability, simpler reconstitution and now, subcutaneous administration.

Insofar as the Company is aware, there are no approved long-acting injectable formulations of biologic products such as monoclonal antibodies or other forms of high molecular weight proteins. Although there remain significant technical challenges, we are investigating the feasibility of encapsulating a monoclonal antibody using a model protein, representative of closely related therapeutics, to demonstrate proof of concept. If successful, we plan to apply the know-how to commercial opportunities.

MidaSolve/MTX110

The Company's MidaSolve project, MTX110, is being developed initially for the treatment of DIPG, the ultra-rare, highly aggressive and inoperable form of childhood brain cancer. We are also evaluating the utility of MTX110 in medulloblastoma in a pilot study at the University of Texas and we are planning to initiate a pilot, signal finding study in GBM in the second half of 2021. GBM, in particular, is potentially a very significant opportunity with annual diagnoses of 2-3/100,000(5) population and market potential of $3-5Bn.

In October 2020, we announced headline results from a Phase I study at UCSF in seven DIPG patients. MTX110 was administered directly into the DIPG tumour via a micro-catheter using CED with gadolinium-enhanced intra-operative MRI to guide and track drug distribution to the tumour. The UCSF study met its primary endpoint, supporting a dose of between 60μM and 90μM of MTX110, depending upon patient tolerance in Phase II. At the interim cut-off date of 30 September 2020, median overall survival based on Kaplan Meier analysis was 26.06 months and overall survival at 12 months (OS12) was 71.4% (five of seven patients alive). This compares with a median survival rate of 10.0 months and an OS12 of 35% in a cohort of 316 reported cases[1]. Although survival was not an endpoint of the UCSF study nor was the study powered for statistical significance, the survival data nevertheless provide significant encouragement for further research of MTX110 in DIPG. An additional Phase I exploratory study of MTX110 in DIPG is ongoing at Columbia University using an alternative CED system. We are planning a Phase II study in the US to start in the second half of 2021 with an expected endpoint of patient survival after 12 months.

As announced in June 2020, the Company received a letter from counsel to Secura Bio Inc. (Secura Bio), the licensor of panobinostat and API component of MTX110, purporting to terminate the Company's licence to panobinostat. Secura Bio has twice declined an invitation to withdraw its termination of the license. The Company continues to enjoy freedom to use panobinostat for research purposes and believes the relevant Secura Bio patents may marginally delay a launch of MTX110 for DIPG but not MTX110 for GBM.

MidaCore
In MTX114 we have deployed our GNP technology to engineer a formulation of methotrexate for the topical treatment of psoriasis. If successful, MTX114 would be a first topical formulation of methotrexate, thus avoiding the need for potentially toxic systemic administration. Pre-clinical data have shown that MTX114 normalises skin thickness in mouse psoriatic skin models. There are estimated to be over 100 million[2] people who suffer from psoriasis worldwide.

Certain other indications using gold nanoparticle technology have been licensed to Emergex Vaccines.

(1) Jansen et al, 2015. Neuro-Oncology 17(1):160-166
(2) Psoriasis.org

Strategic Review and Restructuring

On 31 March 2020 we announced that the Board had initiated a formal Strategic Review of the Company's operations. The Board had concluded that, in the context of its cash runway at the time, the Company was unlikely to consummate a license transaction or raise sufficient funds to continue the required remaining investment in MTD201. We therefore decided to immediately terminate further in-house development of the MTD201 programme and close the Company's MTD201 dedicated manufacturing facilities in Bilbao, Spain. These decisions also resulted in the redundancy of 48 dedicated staff members. I should like to thank them all for the grace with which they accepted a difficult situation.

Alongside the announcement of the Strategic Review, Craig Cook resigned as Chief Executive Officer. In addition, recognising the narrowed focus of the Company, Huaizheng Peng and Frédéric Duchesne graciously offered their resignations which were also accepted by the Board.

Financing

The termination of MTD201, closure of Bilbao operations and re alignment of strategy towards collaborations and partnerships all helped reduce the average monthly cash outflow by around half. These fundamental changes, although painful at the time, allowed us to re-position the Company and execute a concurrent US/UK fundraise in May 2020 followed by a UK Placing in July 2020, raising a total of £9.0 million before expenses. Significantly, the July fundraise was oversubscribed and also brought new institutional investors onto the shareholder register. The Company currently has funding into the fourth quarter of 2021.

COVID-19

In response to the pandemic and government imposed restrictions on movement, we established a COVID-19 Task Force in mid-March 2020 with the dual objectives of safeguarding the health and wellbeing of our staff members and monitoring the impact of COVID-19 on our vendors and collaborators. We have reorganised, as far as possible, the layout of our offices and laboratories in Cardiff to conform to social distancing policies and allow employees to return to the workplace. Notwithstanding these actions, there has been disruption to internal workplans and delays in the recruitment of ongoing clinical trials.

Outlook

Following the Strategic Review we are seeing signs of our re aligned strategy of collaborating and earlier partnering of our technologies beginning to gain traction. The expansion of our development programme to include GBM could add significant value to MTX110. We have reasons to view the future with excitement and confidence.

"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

Following the announcement of a Strategic Review on 31 March 2020, the Company restructured its operations including the termination of further in-house development of MTD201, closure of its Bilbao operations and redundancy of 48 personnel. The financial impact of the Strategic Review on the Company's financial results 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

	2020	2019	Change
Total gross revenue[1]	**£0.34m**	£0.67m	(49)%
Statutory revenue	**£0.18m**	£0.31m	(42)%
R&D expenditure	**£6.07m**	£7.84m	(23)%
R&D as % of operating costs	**56%**	65%	n/a
Loss from continuing operations	**£(22.19)m**	£(9.14)m	143%
Net cash (outflow)/inflow for the year	**£(3.64)m**	£8.44m	n/m
Average headcount	**40**	65	(38)%

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

In the year ended 31 December 2020, Midatech generated consolidated total gross revenue of £0.34m (2019: £0.67m), a decrease of 49% on the prior year. Statutory revenue for the year was £0.18m (2019: £0.31m), the difference between gross and statutory revenue being grant revenue of £0.16m (2019: £0.36m). Statutory revenue was derived from the Company's collaboration agreements.

Impact of Midatech Pharma España SL (MPE)

	2020			2019
	Midatech consolidated £000	**MPE (Note 32) £000**	**Excluding MPE £000**	Midatech consolidated £000
Gross revenue	**343**	**163**	**180**	674
R&D expenditure	**(6,068)**	**(2,820)**	**(3,248)**	(7,843)
Administrative expenses	**(4,952)**	**(1,146)**	**(3,806)**	(3,841)
Loss from operations (before impairment of intangible assets	**(10,671)**	**(3,803)**	**(6,868)**	(11,318)

Research and development expenditure

Research and development costs decreased by £1.77m, or 23% to £6.07m (2019: £7.84m) in the year primarily due to lower aggregate clinical development costs of £3.38m, including reduced expenditure on MTD201 of £2.33m. Lower clinical development expenses were offset by £0.89m of redundancy costs and £0.85m of accelerated depreciation in connection with the closure of the Company's operations in Bilbao, Spain.

Distribution costs, sales and marketing

Distribution costs, sales and marketing costs in 2020 were £6,000 (2019: £0.32m) representing a reduction in market and payor research expenses associated with our pipeline R&D products.

Administrative costs

Administrative costs in the year increased by £1.11m, or 29% to £4.95m (2019: £3.84m) and included increases in professional fees and insurance of £0.48m and £0.36m, respectively offset by a reduction in personnel costs of £0.40m. In addition, administrative costs in 2020 included £0.72m in connection with the closure of the Company's operations in Bilbao, Spain of which £0.55m related to interest on repaid Spanish soft loans and £0.17m related to the settlement of a lawsuit.

Loss from discontinued operations

Loss from discontinued operations relates to the sale of Midatech Pharma US (MPUS) in November 2018. The loss of £0.95m 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.

Impairment of intangible assets

In connection with our decision to terminate further in-house development of MTD201, we recognised an impairment loss for in-process research and development of £9.30m. In addition, because no other Q-Sphera products were advanced beyond the formulation stage as of 31 December, 2020, we recognised an impairment of goodwill arising from our acquisition of Q Chip Limited in December 2014 of £2.29m. In connection with the purported termination of our license to panobinostat by Secura Bio in June 2020, we recognised an impairment of an intangible asset of £0.78m as of 31 December, 2020.

Staff costs

During the year, the average number of staff decreased to 40 (2019: 65), reflecting the closure of Bilbao operations and the redundancy of five UK-based employees following the Strategic Review. Total staff cost for continued operations fell by 17% to £2.79m (2019: £3.38m).

Capital expenditure

The total cash expenditure on property plant and equipment in 2020 was £0.21m (2019: £0.31m), largely in respect of investment in our laboratory and pilot-scale manufacturing facility in Cardiff.

Other comprehensive income

Other comprehensive income in 2020 comprised a foreign exchange gain of £0.51m (2019: loss of £0.21m) arising on retranslation of Midatech's non-UK operations.

Cash flow

Net cash outflow from operating activities in 2020 was £9.30m (2019: outflow £6.49m) driven by a net loss of £22.19m (2019: loss £10.08m) and after negative movements in working capital of £1.56m (2019: positive £1.80m), taxes received of £1.95m (2019: £1.92m), non-cash impairment of intangible assets of £12.37m (£2019: nil) and other net positive adjustments for non-cash items totalling £0.12m (2019: negative £0.13m).

Investing activities inflow in 2020 of £2.57m (2019: outflow of £3.81m) included purchases of property, plant and equipment of £0.21m (2019: £0.31m) offset in 2020 by proceeds from the disposal of assets of £0.14m. In addition, a guarantee deposit of £2.64m in respect of a Spanish government loan repaid during the year was released (2019: £2.55m outflow). The remaining investing activities outflow of £0.95m in 2019 related to the disposal of MPUS.

Financing activities inflow in 2020 of £3.08m (2019: inflow of £18.73m) was driven by receipts from share issues, including exercise of warrants, of £9.74m (2019: £14.11m) offset by the repayment of Spanish government loans of £6.18m (2019: £5.57m inflow). Spanish government grants of £0.23m were repaid in 2020 (2019: £nil). The other principal outflow in 2019 was the repayment of borrowings of £0.58m.

As a result of the foregoing, net cash outflow for the year were £3.64m (2019: inflow of £8.44m).

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. Midatech's capital structure on a post-consolidation basis as of 31 December 2020 was as follows:

	Post-consolidation Ordinary Shares of 0.1 pence
Ordinary Shares	63,073,852
Warrants 2022 exercisable at £10.00 per Ordinary Share	15,692,276
Warrants exercisable at $6.25 per American Depositary Share	3,150,000
Warrants 2022 exercisable at £0.34 per Ordinary Share	6,999,999
Warrants exercisable at $2.05 per American Depositary Share	6,590,910
Warrants exercisable at $2.0625 per American Depositary Share	454,546
Options over Ordinary Shares with a weighted average exercise price of £0.83	1,482,978
Warrants assumed in connection with DARA acquisition with a weighted average exercise price of $110.51	4,624
Options assumed in connection with DARA acquisition with a weighted average exercise price of $95.17	2,835

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 42,839,961 (2019 restated: 18,330,588).

Restructuring

In March 2020, the Company announced a wide ranging Strategic Review of its operations. The Board decided to terminate further in-house development of MTD201, close the Company's MTD201 dedicated facilities in Bilbao and make redundant all 43 Bilbao based employees and five UK employees. The cash and non-cash impact of the restructuring on the financial statements during 2020 may be summarised as follows:

	Profit and loss		Balance sheet	
	Cash £000	Non-cash £000	Cash £000	Non-cash £000
Staff redundancy	959	–	–	–
Repayment of loans, net of deposit returned (incl. penalties)	324	–	3,543	–
Settlement of leases (incl. penalties)	122	–	122	–
Repayment of grant funding (incl. penalties)	229	–	229	–
Impairment of acquired IPRD	–	9,300	–	9,300
Impairment of goodwill	–	2,291	–	2,291
Write down of tangible assets	–	778	–	778
Write back of right of use asset – IFRS16	–	(110)	–	110
Legal, advisory fees	157	–	–	–
Share based payments	–	(520)	–	–
	1,791	11,739	3,894	12,479

As of 31 December 2020, all loans, grants and subsidies other than one Spanish government loan of £0.1m had been repaid. The remaining loan was repaid in February 2021.

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, 2020, the Group incurred a consolidated loss from operations of £22.2m and negative cash flows from operations of £9.3m. As of 31 December, 2020, the Group had an accumulated deficit of £122.4m.

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.

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

As at 31 December 2020, the Group had cash and cash equivalents of £7.5m. The Directors forecast that the Group currently has enough cash to fund its planned operations into the fourth quarter of 2021.

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next three 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 fourth 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 pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions being placed on the movement of people will likely cause delays to some of the Group's plans. It is difficult to assess to what extent, and for how long, COVID-19 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 prioritise activities to minimise its effect.

The Directors are evaluating a number of near-term funding options potentially available to the Group, including fundraising and the partnering of assets and technologies 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 exited from the European Union ("EU") on 31 January 2020 and the transition period concluded on 31 December, 2020. A new trade agreement with the EU was negotiated and became effective on 1 January 2021. The impact of the new trade agreement on the general and economic conditions in the United Kingdom remain uncertain. There may, for example be additional costs in materials and equipment sourced from the EU and/or delays to delivery timelines due to additional administration.

Environmental matters, community, human rights issues and employees

With 21 employees, of whom 17 are routinely based at its offices in Cardiff, the Company believes it has a relatively modest environmental impact. All materials imported into the Company's laboratories are assessed for safety purposes and appropriate handling and storage safeguards imposed as necessary. Any small quantities of hazardous materials are removed by licensed waste management contractors. A number of policies and procedures governing expectations of ethical standards and the treatment of employees and other stakeholders are set out in the Company's Employee Handbook. The Company has also established an anti-slavery policy pursuant to the Modern Slavery Act 2015.

The Company strives to be an equal opportunity employer, irrespective of race or gender. At 31 December 2020; the number of male/female employees was 44%/56%, the number of male/female senior managers was 50%/50% and the number of male/female Directors was 100%/0%.

Working with our stakeholders

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.

s.172 of the Companies Act 2006 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 s.172 of the Companies Act 2006. Under s.172, 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.

Our stakeholders	Material topics
Collaboration partners We are engaged in R&D collaborations with our commercial partners to develop proof of concept formulations using our Q-Sphera technology.	• Project management • Effective communication • Setting and management of expectations • Financial stability
Employees We are privileged to have a committed team of skilled employees based at our facilities in Cardiff. We seek to maintain an environment which fosters innovation and allows our employees to thrive.	• Opportunities for career development • Freedom to experiment and innovate • Ownership of projects • Rewards and incentives • Company financial performance
Shareholders Listed on two exchanges, we recognise the importance of our shareholders as providers of capital and feedback on strategy and governance.	• Operational and financial performance • Business strategy and model • Market conditions • Allocation of resources • Working capital
Regulators We work in a highly regulated industry. Interactions with regulators on compliance and guidance on our clinical programmes is key to our success.	• Compliance with regulations • Transparency • Quality Assurance processes and procedures • Integrity of data • Advice on clinical development

How we engage

Our strategy of collaborating with partners is relatively new. We are careful to align our deliverables with the expectations of collaboration partners through discreet work packages with well-defined deliverables. We schedule regular meetings with our partners to appraise them of progress and resolve issues.

Alongside intellectual property, our employees are the Company's key asset. We engage with our employees through regular project team meetings. We also hold plenary "all hands" meetings for employees on an ad hoc basis. We have a formal annual appraisal process which facilitates two-way feedback for our employees and their line managers.

We strive to keep our shareholders informed through regulated contact. We offer conference calls and one-on-one meetings (virtual in 2020 due to COVID-19) twice yearly to coincide with interim and year end results. We report important events through press releases, RNS and 6-Ks, some of which are supplemented with conference calls. One-on-one meetings provide opportunities for shareholders to share their views.

We maintain a Quality Management System including a comprehensive suite of Standard Operating Procedures designed to ensure compliance with Good Laboratory Practice and Good Clinical Practice. We seek the advice of UK/European and US regulators in the design and of clinical trials before their initiation. We supplement in-house expertise with consultants, Key Opinion Leaders and Contract Research Organisations, as appropriate.

Principle decisions in 2020

Significant decision

On 31 March 2020 the Board decided to conduct a Strategic Review of the Company's operations and immediately terminated further in-house development of MTD201. This entailed the closure of the Company's operations in Bilbao and the redundancy of 48 employees.

Reasons for the decision

The Board had concluded that, in the context of its cash runway at the time, 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.

Stakeholders impacted and engagement

Collaboration partners: our first collaboration partnership was secured after the Strategic Review decision.
Employees: the redundancy of our Bilbao employees was conducted under a process under Spanish law called *Expediente de Regulación de Empleo* which entailed extensive consultation with a Worker's Council.
Shareholders: the Strategic Review was announced via RNS and a 6-K. There followed a series of one-on-one virtual meetings with shareholders. Shareholders were updated with subsequent announcements, conference calls and meetings.
Regulators: we notified regulators of the closure of Bilbao operations and suspended our manufacturing licence.

Anticipated effects

Our realigned strategy opened up opportunities to engage with potential partners to collaborate on the development of products using our technologies. Employees who lost their jobs were offered redundancy payments to assist while they sought alternative employment. Qualifying individuals were also offered outplacement services. Roles and responsibilities for continuing employees were realigned, in many cases presenting opportunities for career development. The closure of Bilbao operations was managed within regulatory guidelines including retention of records and long term storage of materials used in completed clinical studies.

Progress

The Bilbao operations have been closed and, with the exception of one small Spanish government loan, all liabilities have been settled. It is expected the Spanish subsidiary will be liquidated shortly.

Managing risks and uncertainties

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 statutes and regulations require the expenditure of substantial time and financial resources.

Following the announcement on 31 March 2020 that the Company had terminated further inhouse development of MTD201, the Company also closed its facilities in Bilbao which were largely dedicated to the manufacture of MTD201. The Company's strategy is to deploy its drug delivery technologies to develop new formulations to proof of concept stage and then seek a licensing partner to undertake further development and commercial manufacturing.

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 ("GCP") and current Good Manufacturing Practice ("GMP").

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. Although competing sustained release technologies are well established in the market, the Q-Sphera platform has the potential for improved drug delivery kinetics and manufacturing efficiency.

The Group's MidaSolve technology increases 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 insoluble agents.

The Group's MidaCore drug GNP 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 an 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 medicinal science is always evolving and new competition and alternatives are always a possibility. 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 offer 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 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, February 2019, October 2019 and most recently in May 2020 and July 2020, 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 ("EU") (commonly referred to as "Brexit"). On 31 January 2020, the UK formally completed its exit from the EU and the transition period extended through 31 December 2020. A new trade agreement with the EU was negotiated and became effective on 1 January 2021. The impact of the new trade agreement on the general and economic conditions in the United Kingdom remain uncertain. There may, for example be additional costs in materials and equipment sourced from the EU and/or delays to delivery timelines due to additional administration.

From a regulatory perspective, a basic requirement of EU law relating to the grant of a marketing authorisation for a medicinal product in the EU is that the applicant is established in the EU. The scope of a marketing authorisation for a medicinal product granted by the European Commission pursuant to the centralised procedure might not, in the future, include the UK. In these circumstances, an authorisation granted by competent UK authorities would be required to place medicinal products on the UK market.

COVID-19
In response to the pandemic and government imposed restrictions on movement, the Company established a COVID-19 Task Force in mid-March 2020 with the dual objectives of safeguarding the health and wellbeing of staff members and monitoring the impact of COVID-19 on vendors and collaborators. The Group has reorganised, as far as possible, the layout of its offices and laboratories in Cardiff to conform to social distancing policies and allow employees to return to the workplace. Notwithstanding these actions, there has been disruption to internal workplans and delays in the recruitment of ongoing clinical trials.

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 inhouse pipeline for licensing should provide additional cash flow to support operations • Securing license and technology transfer agreements with third parties should result in the payment of upfront and success-based milestones to the Company • Dual AIM and NASDAQ listings may provide access to additional funding sources	<> No change
Competition/ technological progress	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	<> No change
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	<> No change
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	<> No change

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	^ Increased
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	^ Increased
Brexit	The UK formally withdrew from the EU on 31 December 2020. The EU-UK Trade and Cooperation Agreement governs the UK's trading arrangements with the EU and the long term macro- and micro- economic effects of the new arrangements remain uncertain.	• Identify EU-based collaborators and suppliers • Verify any additional duties or taxes payable by the Company or deductible by collaborators • Identify alternative, non-EU suppliers as necessary	**New**

This Strategic Report was approved by the Board on 30 April 2021 and signed on its behalf.

Stephen Stamp
Chief Executive Officer
Chief Financial Officer

The Board of Directors

As at 31 December 2020 the Board consisted of one Executive Director and three 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, who joined the Company as Chief Financial Officer and was appointed to the Board in September 2019, was also appointed Chief Executive Officer with effect from 31 March 2020.

Biographies of the current Directors are set out below.

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.

Executive

Stephen Stamp

Chief Executive Officer, Chief Financial Officer (59)

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.

Non-executive

Rolf Stahel

Non-Executive Chairman (age 77)

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.

Non-executive

Sijmen de Vries

Non-Executive Director (61)

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).

Non-executive

Simon Turton

Senior Independent Non-Executive Director (54)

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.

Our leadership team

As a small company, Midatech is able to operate a relatively flat organisational structure with short lines of communication for rapid problem solving and execution. The multi-disciplinary leadership team is drawn from diverse backgrounds and diversity of thought is encouraged and rewarded.

Stephen Stamp

Chief Executive Officer, Chief Financial Officer (59)

Steve Damment Ph.D

EVP Research & Development

Dr Damment is an experienced leader in drug development with a 30-year track record of advancing drug candidates through key development milestones to successful product registration. He has held a number of senior pharmaceutical research and development positions including roles with Glaxo-Wellcome (now GSK) and Shire Pharmaceuticals where he was Senior Vice President of Biosciences.

Paul Seaman Ph.D

VP Pharmaceutical & Technology Development

Dr Paul Seaman has a PhD in pharmaceutical microbiology and over 15 years of experience working in the pharmaceutical industry, including GlaxoSmithKline and Q Chip Ltd prior to Midatech Pharma. Paul specialises in development of novel drug delivery technologies, with particular focus on parenteral delivery and having worked with approved and novel drug candidates across both small molecules and biologics. Paul has led the development of Midatech Pharma's Q Sphera platform from the lab bench to clinical trials and is responsible for Pharmaceutical Development across all Midatech Pharma drug delivery platforms.

Fiona Sharp

Group Financial Controller

Fiona is a qualified accountant and has held senior finance positions within the PR and advertising industry, including Group Finance Director of Chime Communications Group. Fiona is a member of Council and Chair of Resources and Performance Committee at Aberystwyth University. Fiona is a Fellow of the Chartered Association of Certified Accountants.

Sam Barker Ph.D

Director of Business Development

Sam joined Midatech Pharma in January 2020 as Director of Business Development and has responsibility for all commercial activities. He is an experienced biotechnology professional with over 5 years experience in drug discovery and emerging technologies.

Prior to Midatech Pharma, Sam served as Senior Business Development & Alliance Manager at PhoreMost Ltd, a Cambridge, UK based biopharmaceutical company dedicated to drugging 'undruggable' disease targets. Sam holds a BSc in Biology from the University of Exeter and a PhD in drug discovery from the University of Exeter where he worked in collaboration with DSTL, Porton Down and the Drug Discovery Unit (DDU) at the University of Dundee.

Kelly Conlon Ph.D

VP Translational Medicine

Dr Kelly Conlon is a non clinical development specialist with more than 20 years experience leading projects from early discovery through to clinical transition. Kelly has a PhD in Physiology and is a Fellow of the Royal Society of Biology. Prior to joining Midatech in 2017, Kelly held senior positions at Astra Zeneca, Shire Pharmaceuticals and Pfizer. In addition to leading a number of Midatech's early discovery projects, Kelly provides translational medicine support across the Midatech portfolio.

Nitu Sharma

Senior Project Manager

Nitu is a Scrum Master and a PMP with over 12years experience of working with Agile methodologies.

She completed her Masters in Molecular Biology from the university of Hertfordshire. Being a scientist at heart and having worked for market leaders like Pfizer and Thermofisher she decided to keep serving science even after gaining project management certification. She believes in integrity, transparency, commitment and focus to achieve PMO goals while valuing servant leadership.

In her spare time she loves meditating. She is also associated with a local hospice for managing their projects on voluntary basis to help them raise funds.

Chairman's introduction to corporate governance

I am pleased to present the Company's Corporate Governance Report for the year ended 31 December 2020.

This last year has been a year of significant transition for Midatech. There have been changes at Board level, changes to our corporate structure and changes to our strategic focus. The principal decisions arose from the Strategic Review referenced in the Stakeholder Report section of the Strategic Report. Corporate governance has always been a priority for Midatech and in 2020, the Board had a number of critical decisions to make, requiring much analysis and debate over the course of 22 Board meetings.

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 and the executives by 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 CEO and senior management team.

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 order for companies to deliver growth in long term 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.

Strategic Review and realignment of strategy

On 31 March 2020, the Company announced that the Board had concluded, in the context of its then 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 continues 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 make redundant all 43 employees. In addition, a further five UK-based employees in clinical research and administrative roles were made redundant.

Following these changes, Midatech's remaining 20 employees and operations are now concentrated in Cardiff. The Company's near-term goal is to deploy its proprietary Q-Sphera 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. Similarly, the Company's strategy is develop MTX110 for rare cancers of the brain to proof of concept and then seek partners for continued development and commercialisation. The Board believes the realigned strategy will allow the Group to expand its R&D portfolio, albeit with earlier stage products, to increase the opportunities for partnering success.

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 CEO and senior management team.

As at 31 December 2020 the Board comprised four Directors, three of whom were Non-executive Directors and the CEO, the only Executive Director.

The Group regards all the Non-executive Directors as independent.

No remuneration is paid to any Non-executive Directors in the form of shares. Sijmen de Vries holds 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 one-for-20 consolidation of the Company's ordinary shares of 0.001p each with effect from 3 March 2020, the exchange ratio of ADRs for Ordinary Shares was also changed from one for 20 to one for five. 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.

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. During 2020, the Audit Committee met six times.

The Report of the Audit Committee for the year ended 31 December 2020 can be found on pages 29 and 30.

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. During 2020, the Remuneration Committee met four times.

The report of the Remuneration Committee for the year ended 31 December 2020 can be found on pages 31 to 34.

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 not formally convened during 2020.

Going concern

As disclosed in the Directors' Report on pages 35 and 36 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 three 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.

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 three Directors that resigned following the announcement of the Strategic Review on 31 March 2020. Craig Cook, then CEO, resigned after six years' service to the Midatech Group. Non-executive directors Huaizheng Peng and Frédéric Duchesne also stepped down from the Board.

Lastly, I would like to add my thanks to all stakeholders including you our shareholders, fellow Directors, employees and partners for their support during 2020.

Rolf Stahel
Chairman
30 April 2021

Audit committee report

On behalf of the Board, I am pleased to present the report of the Audit Committee Report for the year ended 31 December 2020. The Committee monitors and reviews all aspects of the Group's financial reporting, risk management procedures and internal controls on behalf of the Board.

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 and going concern. The Committee also reviewed the principal risk and mitigation disclosures which are set out on pages 18 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. 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 are also attended (by invitation) by the Chief Financial Officer, Group Financial Controller and senior representatives of the external auditor.

Change of External Auditor

The Committee determined that it would be in the Company's interests to invite two firms to tender for the role of the Company's External Auditor. Following the tender process, the Committee made a recommendation to the Board and the Board appointed Mazars LLP as External Auditor for the 2020 year end audit. The Committee oversees the relationship with the External Auditor and is responsible for developing and monitoring the Group's policy on external audit and for monitoring the External Auditor's independence. The External Auditor 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. The Committee is satisfied that Mazars remains independent and objective and that the Group is receiving a robust audit.

Non-audit services

During the year there were £7,000 in respect of non-audit services provided by Mazars prior to their appointment. These services included a review of the Company's interim statement for the six months ended 30 June 2020 and the accounting for the closure of the Company's operations in Spain.

The total fees charged by Mazars 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 recently closed 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 September 26, 2018, or Purchase Agreement, by and among the Company, Midatech Pharma US, Inc and Kanwa Holdings, LP, an affiliate of Barings LLC, we sold our subsidiary, Midatech Pharma US, Inc to Kanwa Holdings, LP. During the fiscal year ended 31 December, 2019, following a request by Midatech Pharma US, Inc, 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 previous independent auditor identified the following material weaknesses in our internal control environment during the course of their procedures in respect of the 2019 audit:

- 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.

During 2020 we have taken a number of corrective measures to address the material weaknesses identified by our previous firm of external auditors. The measures introduced were as follows:

- Regarding IT general controls environment, we introduced a new vendor approval process, carried out reorganisation of administration access accounts and introduced regular user access reviews;
- Regarding previous deficiencies identified in the consolidation and financial reporting close process, robust processes and greater oversight have been introduced to provide greater assurance. External technical accounting advice has also been sought during the year where necessary; and
- Regarding the revenue recognition process, we carried out a review and introduced additional steps within the process to ensure revenue is recognised appropriately.

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
30 April 2021

Directors' remuneration report

On behalf of the Board, I am pleased to present the report of the Remuneration Report for the year ended 31 December 2020, which sets out the remuneration policy for the Directors and the amounts earned during the year.

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 the Executive Director.

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.

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 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. 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 closure and sale, respectively of those businesses. 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 closing mid-market price on the London Stock Exchange on the trading day immediately before 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 the Executive Director. 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 2020, used to determine bonus payments, included the following:

- Fund raising and liquidity measures;
- Orderly and efficient closure of the Company's Bilbao operations business; and
- Collaborations with partners and licensing of the Company's technologies.

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 155% 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 the Executive Director 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

This last year has been a year of significant transition for Midatech. There have been changes to the corporate structure including the closure of operations in Bilbao and changes to the Group's strategic focus. These are detailed in the Chief Executive's review on pages 8 to 13 of this Annual Report. Based on a set of objectives agreed by it, the Remuneration Committee determined that 74% of these objectives, weighted by importance, have been achieved and therefore bonuses of 74% were generally payable to the senior management in accordance with their individual bonus entitlements. The bonus for the CEO for 2020 was deferred pending further evaluation of Company performance.

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 *(Former 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 resigned as a Director and Chief Executive Officer with effect from 31 March 2020.

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

Mr Stamp entered into a service agreement with the Company to act as Chief Financial Officer on 9 September 2019. He was also appointed Chief Executive Officer with effect from 31 March 2020 at which time the Committee recommended that his salary be increased from £160,000 to £180,000 pa to reflect his increased responsibilities. 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:

	2020 £'000	2019 £'000	2018 £'000
Remuneration	**2,795**	3,383	6,145

No dividends to shareholders have yet been paid.

Chief Executive Officer remuneration

The total remuneration paid to Stephen Stamp, since his appointment as Chief Executive Officer and to Dr Craig Cook and to Dr Jim Phillips, the previous Chief Executive Officers, is as follows:

	2020 £'000	2019 £'000	2018 £'000
Stephen Stamp	**135**	–	–
Craig Cook[1]	**131**	266	146
Jim Phillips[2]	**–**	–	214

(1) Includes an ex gratia payment of £30,000 in 2020 on resignation.
(2) Includes payment of £99,000 in 2018 on termination of employment.

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 Stephen Stamp, taken from the date of his appointment as CEO, is a multiple of 3.9 times (2019: 4.2 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, increased by 53% (2019: decrease of 28%).

No performance related share options vested during the year. Of the 50,000 options granted to Stephen Stamp on 2 October 2019:

- 20,000 vested upon the Company raising $20 million during the 12 months ended 8 September 2020. This condition was not met and, accordingly all 20,000 options lapsed during the year; and
- 7,500 time-based options vested on 9 September 2020.

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.

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.

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.

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

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 £	**2020 total £**	2019 £	2018 £
Non-Executive Directors							
Rolf Stahel[1]	90,000	–	–	–	**90,000**	90,000	95,000
Sijmen de Vries	30,400	–	–	–	**30,400**	30,400	30,400
Frédéric Duchesne[2]	7,600	–	–	–	**7,600**	12,784	–
Huaizheng Peng[3]	7,600	–	–	–	**7,600**	25,765	–
Simon Turton	30,400	–	–	–	**30,400**	30,400	30,400
John Johnston[4]	–	–	–	–	**–**	7,600	30,400
Michele Luzi[4]	–	–	–	–	**–**	7,600	30,400
Pavlo Protopapa[4]	–	–	–	–	**–**	7,600	30,400
Executive Directors							
Craig Cook[5]	130,530	–	6,773	177	**137,480**	357,521	158,772
Stephen Stamp	175,000	–	17,100	1,069	**193,169**	60,821	–
Nick Robbins-Cherry[6]	–	–	–	–	**–**	151,925	172,600
Jim Phillips[7]	–	–	–	–	**–**		213,282
Directors' remuneration	471,530	–	23,873	1,246	**496,649**	782,416	791,654

(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 resigned as a Director on 31 March 2020.
(3) Dr Peng resigned as a Director on 31 March 2020.
(4) Messrs. Johnston, Luzi and Protopapa resigned as Directors on 26 February 2019.
(5) Dr Cook resigned as a Director on 31 March 2020. Included in salary and fees is an ex gratia payment of £30,000 for loss of office.
(6) Mr Robbins-Cherry resigned as a Director on 9 September 2019.
(7) Dr Phillips resigned as a Director 31 May 2018.

Share based payment credit of £459,415 in respect of Dr Cook and Mr Stamp was released to the income statement during the year (in respect of Dr Cook and Mr Stamp for 2019: £29,014).

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

	31 December 2020		31 December 2019	
Directors' interests in shares	**Beneficial Interests £**	**Non-Beneficial Interests £**	Beneficial Interests £	Non-Beneficial Interests £
Non-Executive Directors				
Rolf Stahel[1]	**58,853**	**–**	58,853	–
Sijmen de Vries	**23,284**	**2,957**	23,284	2,957
Simon Turton	**55,325**	**–**	55,325	–
Executive Director				
Stephen Stamp	**50,000**	**–**	50,000	–

(1) At 31 December 2020, 12,244 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. 6,122 shares become unrestricted when the market capitalisation of the Company achieves £155m
b. 6,122 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 2020 Options Held over Ordinary shares	31 December 2019 Options Held over Ordinary shares
Non-Executive Directors		
Rolf Stahel	**–**	–
Sijmen de Vries	**700**	700
Simon Turton	**–**	–
Executive Director		
Stephen Stamp	**330,000**	50,000

All share options were granted with an exercise price based on the mid-market price at close of business on the previous day. 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	Options Awarded	Options Lapsed	Options outstanding	Exercise Price £	Vesting Criteria	Expiry Date
Non-Executive Director							
Sijmen de Vries	20/04/2012	200	–	–	83.80	Fully vested	20/04/2022
	30/06/2014	500	–	–	1.50	Share price[1]	30/06/2024
Executive Director							
Stephen Stamp	02/10/2019	50,000	(20,000)	30,000	1.05	Time based and performance based[2]	02/10/2029
	17/06/2020	300,000	–	300,000	0.202	Time based[3]	17/01/2030
		350,700	(20,000)	330,000			

(1) For those options noted as vesting based on share price; 50% vest when the share price reaches £106.20 per share, a further 25% vests when the share price reaches £274.40 and the remaining 25% when the share price reaches £377.20.
(2) 40% of the options would have vested if the Company had raised $20 million before 9 September 2020 and have now therefore lapsed, 15% vest on 9 September 2020 and the remainder vest in equal tranches at the end of the subsequent 12 quarters.
(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.

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 2020 Warrants over Ordinary shares	31 December 2019 Warrants over Ordinary shares
Non-executive Directors		
Rolf Stahel	**23,856**	23,856
Sijmen de Vries	**21,344**	21,344
Simon Turton	**41,854**	41,854
Executive Director		
Stephen Stamp	**–**	–

The warrants may be exercised through February 2022 at an exercise price of £10.00 per Ordinary Share.

Sijmen de Vries
Chairman of the Remuneration Committee
30 April 2021

Directors' report

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2020.

Directors
The Directors during the year were:

Rolf Stahel
Craig Cook (resigned 31 March 2020)
Sijmen de Vries
Frédéric Duchesne (resigned 31 March 2020)
Huaizheng Peng (resigned 31 March 2020)
Stephen Stamp
Simon Turton

Research and development
The Group is continuing to develop products to proof of concept stage through deployment of its proprietary drug delivery technologies.

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 February 2021 the Group received a fine of €149,835 from the Spanish Tax Authorities in relation to the late repayment of a Government loan in 2020 as a result of the closure of its operation in Spain. The Group consider the fine is without foundation and are currently appealing the fine. The directors note that in the event of an unfavourable outcome the Group would not be able to recoup the loss from another party. This liability has been recognised in the Statement of Financial Position and the related expenses in Administrative costs in the Income Statement.

On 26 January 2021 the Company announced that it was engaged in tentative discussions with a third party around the potential co-development of MTX110. On 25 March 2021 the Company announced these discussions had now advanced and a non-binding Heads of Terms had been agreed. The Heads of Terms envisage that, if the deal progresses to definitive agreements, the Company would expect to receive a modest upfront payment upon execution, success-based development and sales milestones and royalties typical for a licensing agreement with products in a similar stage of development. R&D expenses would be assumed by the two parties with the apportionment to be agreed based on their respective territories. There can be no assurance on the timing for concluding the discussions nor any assurance that the parties will enter into definitive agreements.

On 23 April 2021 the Group signed an agreement for lease on new premises in Cardiff to house our corporate offices and laboratories. The new premises comprise 8,118 square feet and the lease is for a 5 year term.

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 conformity with the requirements of the Companies Act 2006, and they are prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; 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 is 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
30 April 2021

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 2020 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 Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

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 Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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, in addition to complying with its legal obligation to apply international accounting standards in conformity with the requirements of the Companies Act 2006, the Group 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 2020 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 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 in the financial statements on page 46, which indicates that there is a material uncertainty in relation to the Group and parent company's ability to continue as a going concern. As detailed in note 1 and in the Financial Review on page 15, the Group's and parent company'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. As at 31 December 2020, the Group had cash and cash equivalents of £7.5m. The Directors have prepared cash flow forecasts that indicate that further financing will be required before the fourth quarter of 2021. This requirement for additional financing represents a material uncertainty that may cast significant doubt on the Group's and parent company's ability to continue as a going concern, and consequently over the appropriateness of the going concern basis of preparation of these financial statements, Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the appropriateness of the going concern basis of preparation of these financial statements included, but was not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern;
- Reviewing the directors' formal going concern assessment, including the supporting cash flow projections that included the twelve months from the date of approval of these financial statements;
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusions on going concern; and
- Reviewing the appropriateness of the disclosures made by the Directors in the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£213,000
How we determined it	2% of operating and capital expenditure (excluding exceptional items in relation to the impairment of assets).
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant. The benchmark of expenditure is considered most appropriate for both Group and parent company as a measure of activity in the business.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality was set at £128,000, being 60% of overall materiality.
Reporting threshold	We agreed with the audit committee that we would report to them misstatements identified during our audit above £6,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the Directors made subjective judgements, such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Group and parent company, their environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our Group audit scope included an audit of the Group and the parent company financial statements of Midatech Pharma plc. Based on our risk assessment, Midatech Pharma plc, Midatech Limited and Midatech Pharma (Wales) Limited were subject to full scope audit performed by the Group audit team. In addition, the Group audit team performed specific audit procedures on Midatech Pharma (Espana) SL, which is in liquidation.

At the parent company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

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 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 set out on page 35, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group and the parent company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the UK tax legislation, pensions legislation, employment regulation and health and safety regulation, anti-bribery, corruption and fraud, money laundering, non-compliance with implementation of government support schemes relating to COVID-19, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006.

We evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- Discussing with the Directors and management their policies and procedures regarding compliance with laws and regulations;
- Communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the Group and the parent company which were contrary to the applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under Key audit matters within this report.

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 the audit 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.

William Neale Bussey (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
London
E1W 1DD

30 April 2021

Consolidated statements of comprehensive income
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000	2018 £'000
Revenue	3	**180**	312	149
Grant revenue		**163**	362	1,789
Total revenue		**343**	674	1,938
Other income		**12**	15	–
Research and development costs		**(6,068)**	(7,843)	(9,359)
Distribution costs, sales and marketing		**(6)**	(323)	–
Administrative costs		**(4,952)**	(3,841)	(4,394)
Impairment of intangible assets	12,13	**(12,369)**	-	–
Loss from operations	5	**(23,040)**	(11,318)	(11,815)
Finance income	7	**1**	492	2
Finance expense	7	**(431)**	(97)	(587)
Loss before tax		**(23,470)**	(10,923)	(12,400)
Taxation	8	**1,281**	1,785	2,032
Loss from continuing operations		**(22,189)**	(9,138)	(10,368)
Loss from discontinued operations net of tax	4	**–**	(947)	(4,662)
Loss for the year attributable to the owners of the parent		**(22,189)**	(10,085)	(15,030)
Other comprehensive income:				
Items that will or may be reclassified subsequently to profit or loss:				
Exchange (losses)/gains arising on translation of foreign operations		**508**	(207)	1,156
Exchange losses realised on disposal of subsidiaries	4	**–**	–	(3,842)
Total other comprehensive income/(loss) net of tax		**508**	(207)	(2,686)
Total comprehensive loss attributable to the owners of the parent		**(21,681)**	(10,292)	(17,716)
Loss per share				
Continuing operations				
Basic and diluted loss per ordinary share – pence	9	**(52)p**	(50)p	(339)p
Discontinued operations				
Basic and diluted loss per ordinary share – pence	9	**–**	(5)p	(153)p

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

Consolidated statement of financial position
As at 31 December 2020

Company number 09216368	Note	2020 £'000	2019 £'000	2018 £'000
Assets				
Non-current assets				
Property, plant and equipment	10	**542**	2,154	1,983
Intangible assets	12	**–**	12,379	12,374
Other receivables due in greater than one year	15	**–**	2,625	469
		542	17,158	14,826
Current assets				
Inventories	17	**–**	–	–
Trade and other receivables	15	**572**	992	1,323
Taxation	8	**1,157**	1,817	1,952
Cash and cash equivalents	16	**7,546**	10,928	2,343
		9,275	13,737	5,618
Total assets		**9,817**	30,895	20,444
Liabilities				
Non-current liabilities				
Borrowings	19	**60**	5,670	884
Provisions	20	**50**	–	165
		110	5,670	1,049
Current liabilities				
Trade and other payables	18	**1,230**	4,494	2,103
Borrowings	19	**200**	412	368
Provisions	20	**–**	97	–
Derivative financial liability	21	**1,559**	664	–
		2,989	5,667	2,471
Total liabilities		**3,099**	11,337	3,520
Issued capital and reserves attributable to owners of the parent				
Share capital	24	**1,063**	1,023	1,003
Share premium	25	**74,364**	65,879	52,939
Merger reserve	25	**53,003**	53,003	53,003
Warrant reserve	25	**720**	–	–
Foreign exchange reserve	25	**–**	(508)	(301)
Accumulated deficit	25	**(122,432)**	(99,839)	(89,720)
Total equity		**6,718**	19,558	16,924
Total equity and liabilities		**9,817**	30,895	20,444

The financial statements were approved and authorised for issue by the Board of Directors on 30 April 2021 and were signed on its behalf by:

Stephen Stamp
Chief Executive Officer, 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 2020

	Note	2020 £'000	2019 £'000	2018 £'000
Cash flows from operating activities				
Loss for the year		**(22,189)**	(10,085)	(15,030)
Adjustments for:				
Depreciation of property, plant and equipment	10	**1,089**	979	1,016
Depreciation of right of use asset	10	**118**	303	–
Amortisation of intangible fixed assets	12	**10**	3	434
(Profit)/Loss on disposal of fixed assets		**(226)**	–	165
Impairment of intangible assets	12,13	**12,369**	-	–
Finance income	7	**(1)**	(492)	(2)
Finance expense	7	**431**	97	587
Share-based payment credit	5	**(404)**	(34)	(36)
Taxation	8	**(1,281)**	(1,785)	(2,032)
Loss on sale of subsidiary	4	**–**	–	1,407
Loss from discontinued operations, net of tax	4	**–**	947	–
Foreign exchange (gains)/losses		**387**	(140)	130
Cash flows from operating activities before changes in working capital		**(9,697)**	(10,207)	(13,361)
Decrease in inventories		**–**	–	347
Decrease in trade and other receivables		**493**	725	1,030
(Decrease)/Increase in trade and other payables		**(2,004)**	1,141	(2,995)
(Decrease)/Increase in provisions		**(47)**	(68)	165
Cash used in operations		**(11,255)**	(8,409)	(14,814)
Taxes received		**1,954**	1,920	1,364
Net cash used in operating activities		**(9,301)**	(6,489)	(13,450)
Investing activities				
Purchases of property, plant and equipment	10	**(209)**	(310)	(244)
Proceeds from disposal of fixed assets		**143**	–	25
Purchase of intangibles	12	**–**	(9)	–
Long term deposit for guarantee for Government loan		**2,639**	(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		**1**	8	2
Net cash generated/(used in) from investing activities		**2,574**	(3,807)	9,042
Financing activities				
Interest paid		**(34)**	(30)	(587)
Receipts from sub-lessors		**45**	107	-
Amounts paid on lease liabilities (2018: Amounts paid on finance leases)		**(258)**	(450)	(64)
Repayment of Government grants		**(229)**	–	–
Repayment of borrowings		**–**	(577)	(5,821)
Proceeds from bank borrowings		**–**	–	–
(Repayment)/Proceeds from Government loan	19	**(6,182)**	4,436	-
Proceeds from Government subsidy		**–**	1,139	-
Share issues including warrants, net of costs	16	**9,742**	14,108	–
Net cash generated from/(used in) financing activities		**3,084**	18,733	(6,472)
Net (decrease)/increase in cash and cash equivalents		**(3,643)**	8,437	(10,880)
Cash and cash equivalents at beginning of year		**10,928**	2,343	13,204
Exchange gains/(losses) on cash and cash equivalents		**261**	148	19
Cash and cash equivalents at end of year	16	**7,546**	10,928	2,343

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

Consolidated statements of changes in equity
For the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Foreign exchange reserve £'000	Accumulated deficit £'000	Total equity £'000
At 1 January 2020	**1,023**	**65,879**	**53,003**	**–**	**(508)**	**(99,839)**	**19,558**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(22,189)**	**(22,189)**
Foreign exchange translation	**–**	**–**	**–**	**–**	**508**	**–**	**508**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(508)**	**(22,189)**	**(21,681)**
Transactions with owners							
Shares issued on 18 May 2020 – note 16	**16**	**2,527**	**–**	**720**	**–**	**–**	**3,263**
Costs associated with share issue on 18 May 2020 – note 16		**(544)**	**–**	**–**	**–**	**–**	**(544)**
Shares issued on 27 July 2020 – note 16	**21**	**5,729**	**–**	**–**	**–**	**–**	**5,750**
Costs associated with share issue on 27 July 2020 – note 16		**(489)**	**–**	**–**	**–**	**–**	**(489)**
Shares issued on 19 August 2020 – note 16	**3**	**1,278**	**–**	**–**	**–**	**–**	**1,281**
Costs associated with share issue on 19 August 2020 – note 16		**(16)**	**–**	**–**	**–**	**–**	**(16)**
Share-based payment credit	**–**	**–**	**–**	**–**	**–**	**(404)**	**(404)**
Total contribution by and distributions to owners	**40**	**8,485**	**–**	**720**	**–**	**(404)**	**8,841**
At 31 December 2020	**1,063**	**74,364**	**53,003**	**720**	**–**	**(122,432)**	**6,718**
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	–	–	–	–	(207)	(10,085)	(10,292)
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 credit	–	–	–	–	–	(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
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 credit	–	–	–	–	–	(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

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

Notes forming part of the financial statements
For the years ended 31 December 2020, 2019 and 2018

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 of equivalent shares in the Company which took place on 13 November 2014.

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and they are prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 changed from one ADR representing 20 Existing Ordinary Shares to one ADR representing five new ordinary shares. Comparative numbers of shares and share options/warrants and related exercise/issue prices and earnings per share reflect the impact of the March 2020 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 2020
New standards adopted by the Group in the annual financial statements for the year ended 31 December 2020 are:

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16).

The adoption of the above new standards has not had a material impact on the financial statements during the year ended 31 December 2020.

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 2022:

- Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

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 were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

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

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

1 Accounting policies continued

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.('MPUS'), 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 (Espana) SL (formerly Midatech Biogune SL)	In liquidation
PharMida AG	Dormant
Midatech Pharma (Wales) Limited (formerly Q Chip Limited)	Trading company
Midatech Pharma Pty	Dissolved – 2020
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 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 2020, the Group incurred a consolidated loss from operations of £22.2m and negative cash flows from operations of £9.3m. As of 31 December 2020, the Group had an accumulated deficit of £122.4m.

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.

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

As at 31 December 2020, the Group had cash and cash equivalents of £7.5m. The Directors forecast that the Group currently has enough cash to fund its planned operations into the fourth quarter of 2021.

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next three 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 during the fourth 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 pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions being placed on the movement of people will likely cause delays to some of the Group's plans. It is difficult to assess to what extent, and for how long, COVID-19 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 prioritise activities to minimise its effect.

The Directors are evaluating a number of near-term funding options potentially available to the Group, including fundraising and the partnering of assets and technologies 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 authorisations 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 a customer is 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.

Milestones
The Group's revenue also includes 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.

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

The Group receives government loans that have a below-market rate of interest. These loans are recognised and measured in accordance with 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;
- 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.

1 Accounting policies continued

Business combinations and externally acquired intangible assets continued

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).

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 licences 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 £12.4m has been recognised in 2020 within continuing operations. This charge is split £9.3m against the IPRD and £2.3m of goodwill, both of these relate to Midatech Pharma (Wales) Ltd cash generating unit and £0.8m against acquired IRPD on MTX110.

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 2020 had only one cash generating unit (2019: one, 2018: one), 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 functional currency is also Pounds Sterling. Foreign subsidiaries use the local currencies of the country where the operate. On consolidation, the results of overseas operations are translated into Pounds Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

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

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

1 Accounting policies continued

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.

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 £0.001 each are classified as equity instruments;
- 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 its ordinary shares on a one for 20 basis into new ordinary shares of £0.001 each in the capital of the Company.

Comparative figures in these financial statements reflect the impact of 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.

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
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 from the 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.

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.

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.

1 Accounting policies continued

Leases continued

Identifying Leases continued

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.

In 2018 the Group 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. During 2020 the lease and sub-lease ended.

Nature of leasing activities (in the capacity as lessee)

The Group leased 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. As at 31 December 2020 the Group had one property lease in place in the UK.

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 £Nil (2019: £2.3m; 2018: £2.3m) and intangibles not yet ready for use was £Nil (2019: £10.1m; 2018: £10.1m) as at 31 December 2020 (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.

As a result of the Strategic Review undertaken by the Group in March 2020 as set out in the Chief Executives Review on page 11 an impairment charge of £2.3m has been recognised against goodwill in the year ended 31 December 2020 (2019: £Nil; 2018: £Nil) and an impairment charge against the IPRD of the Midatech Pharma (Wales) Ltd cash generating unit of £9.3m (2019: £Nil; 2018: £Nil). As a result of the purported termination of our license to panobinostat by Secura Bio in June 2020 there is an impairment charge of £0.8m against the acquired IPRD in relation to MTX110. See note 12 and 13.

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.

2 Critical accounting estimates and judgements continued

Financial liabilities

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.

The following are considered to be critical accounting judgments:

Revenue

Supply of services

There are significant management judgements and estimates involved in the recognition of revenue from the supply of services. Revenue on services 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.

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 2020, there were approximately £63.2m of gross unutilised tax losses carried forward (2019: £49.6m; 2018: £40.7m). 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 organisations 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.

During 2020 following the closure of Midatech Pharma (Espana) SL and the termination of a property lease occupied by the Company a profit on disposal has been recognised in the financial statements of £109,000.

During 2019 Management considered the appropriate life of a new property lease entered into in Spain. The lease was for an initial period of 5 years, however the lease allowed the Group to break the lease at any-time with one-month notice, provided it returned the property to its original condition. At 31 December 2019, Management assessed it was reasonably certain the expected life of the lease would be 5 years.

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.

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 was still on-going, Management concluded, based on third party advice, that the probability of successfully achieving the waiver had diminished and therefore took the decision to expense the cost of the warranty claim in the second half of 2019.

During 2020 Fortovia Theraputics Inc (formerly MPUS) filed for bankruptcy.

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 2020, the Group incurred a consolidated loss from operations of £22.2m and negative cash flows from operations of £9.3m. As of 31 December 2020, the Group had an accumulated deficit of £122.4m.

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.

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

As at 31 December 2020, the Group had cash and cash equivalents of £7.5m. The Directors forecast that the Group currently has enough cash to fund its planned operations into the fourth quarter of 2021.

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next three years including the period 12 months from the date of approval of the consolidated financial statements. These forecasts show that further financing will be required during the fourth 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 pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions being placed on the movement of people will likely cause delays to some of the Group's plans. It is difficult to assess to what extent, and for how long, COVID-19 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 prioritise activities to minimise its effect.

The Directors are evaluating a number of near-term funding options potentially available to the Group, including fundraising and the partnering of assets and technologies 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

	2020 £'000	2019 £'000	2018 £'000
Revenue from continuing operations:			
United Kingdom	**4**	197	149
Rest of Europe	**114**	55	–
Rest of the World	**62**	60	–
	180	312	149
Revenue from discontinued operations			
United States	**–**	–	3,882

All revenue from continuing operations came from the sale of services in 2020, 2019 and 2018.

In 2020, all revenue from continuing operations came from 3 customers (2019: 3 customers; 2018: 1 customer). 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:

	2020 £'000	2019 £'000	2018 £'000
Customer A	**64%**	63%	100%
Customer B	**34%**	19%	–
Customer C	**2%**	18%	–

Following the disposal of the US commercial business in 2018, 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 2020

	Pipeline R&D £'000	Commercial (discontinued) £'000	Consolidated (including discontinued operations) £'000
Revenue	**180**	**–**	**180**
Grant revenue	**163**	**–**	**163**
Total revenue	**343**	**–**	**343**
Other income	**12**	**–**	**12**
Cost of sales	**-**	**–**	**–**
Research and development costs	**(4,886)**	**–**	**(4,886)**
Distribution costs, sales and marketing	**(6)**	**–**	**(6)**
Administrative costs	**(4,917)**	**–**	**(4,917)**
Depreciation	**(1,207)**	**–**	**(1,207)**
Amortisation	**(10)**	**–**	**(10)**
Impairment	**(12,369)**	**–**	**(12,369)**
Loss from operations	**(23,040)**	**–**	**(23,040)**
Finance income	**1**	**–**	**1**
Finance expense	**(431)**	**–**	**(431)**
Loss before tax	**(23,470)**	**–**	**(23,470)**
Taxation	**1,281**	**–**	**1,281**
Loss for the year	**(22,189)**	**–**	**(22,189)**
Loss from continuing operations			**(22,189)**
Loss from discontinued operations			**–**

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 discontinued operations, 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)

All material additions to non-current assets in 2020, 2019 and 2018 were in the Pipeline R&D segment.

Non-current assets by location of assets

	2020 £'000	2019 £'000	2018 £'000
United Kingdom	**542**	12,775	12,966
Spain	**–**	4,383	1,860
	542	17,158	14,826

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:

	2020 £'000	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	**2020 £'000**	2019 £'000	2018 £'000
Revenue	**–**	–	3,882
Expenses other than finance costs	**–**	(947)	(7,137)
Finance costs	**–**	–	–
Impairment	**–**	–	–
Loss from discontinued operations before tax	**–**	(947)	(3,255)
Taxation	**–**	–	–
Loss on disposal of discontinued operations	**–**	–	(1,407)
Loss for the year from discontinued operations after tax	**–**	(947)	(4,662)

Statement of cash flows	**2020 £'000**	2019 £'000	2018 £'000
The statement of cash flows includes the following amounts relating to discontinued operations:			
Operating activities	**–**	–	(5,368)
Investing activities	**–**	(947)	–
Financing activities	**–**	–	(7)
Net cash flow from discontinued operations	**–**	(947)	(5,375)

5 Loss from operations

	2020 £'000	2019 £'000	2018 £'000
Loss from operations is stated after charging/(crediting):			
Changes in inventories of finished goods and work in progress	**–**	–	(976)
Depreciation of property, plant and equipment			
– From continuing operations	**1,089**	979	1,011
– From discontinued operations	**–**	–	5
Depreciation of right of use asset			
– From continuing operations	**118**	303	–
– From discontinued operations	**–**	–	–
Amortisation of intangible assets – product and marketing rights			
– From continuing operations	**10**	3	100
– From discontinued operations	**–**	–	334
Impairment of intangible assets	**12,369**	–	–
Fees payable to the Company's auditor for the audit of the parent Company	**87**	110	111
Fees payable to the Company's subsidiary auditors for the audits of the subsidiary accounts	**43**	48	143
Fees payable to the Company's auditor for:			
– Other services	**7**	66	83
Fees payable to the Company's previous auditor for the audit of the parent Company	**15**	–	–
Fees payable to the Company's previous auditor for:			
– Other services	**171**	–	–
Operating lease expense:			
– Property	**–**	–	386
– Plant and machinery	**–**	–	–
Arrangement/penalty fees for loan facility	**–**	–	469
Foreign exchange(gain)/loss	**96**	131	212
Profit/(Loss) on disposal of property, plant and equipment	**(226)**	–	165
Equity settled share-based payment	**(404)**	(34)	(36)

Amortisation of product and marketing rights are included in 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:

	2020 £'000	2019 £'000	2018 £'000
Wages and salaries	**2,727**	2,762	5,393
Defined contribution pension cost (note 26)	**75**	90	149
Social security contributions and similar taxes	**397**	565	639
Share-based payment	**(404)**	(34)	(36)
	2,795	3,383	6,145
Continuing operations	**2,795**	3,383	4,352
Discontinued operations	**–**	–	1,793
	2,795	3,383	6,145

Employee numbers

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

	2020	2019	2018
Research and development	**31**	52	63
General and administration	**9**	13	16
Sales and marketing	**–**	–	6
	40	65	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 35.

	2020 £'000	2019 £'000	2018 £'000
Wages and salaries	**394**	656	900
Defined contribution pension cost	**24**	42	39
Payments made to third parties	**63**	82	142
Social security contributions and similar taxes	**29**	72	77
Benefits in kind	**16**	2	3
	526	854	1,161
Share-based payment	**(472)**	(58)	(92)
	54	796	1,069

Emoluments disclosed above include the following amounts in respect of the highest paid Director. Directors' emoluments are disclosed on page 33.

	2020 £'000	2019 £'000	2018 £'000
Salary	**175**	266	110
Total pension and other post-employment benefit costs	**17**	22	4
Benefits in kind	**1**	1	1
Termination benefits	**-**	-	99
	193	289	214

None of the Directors have exercised share options during the year (2019: nil, 2018: nil).

During the year 2 Directors (2019:3; 2018: 3) participated in a defined contribution pension scheme.

7 Finance income and expense

	2020 £'000	2019 £'000	2018 £'000
Finance income			
Interest received on bank deposits	**1**	8	2
Gain on equity settled derivative financial liability	**–**	484	–
Total finance income	**1**	492	2

	2020 £'000	2019 £'000	2018 £'000
Finance expense			
Bank loans	**–**	–	582
Interest expense on lease liabilities	**20**	30	5
Other loans	**14**	67	–
Loss on equity settled derivative financial liability	**397**	–	–
Total finance expense	**431**	97	587

The gain/(loss) on the equity settled derivative financial liability in 2020 and 2019 arose as a result of the movement in share price (note 21).

8 Taxation

	2020 £'000	2019 £'000	2018 £'000
Current tax credit			
Current tax credited to the income statement	**1,144**	1,782	1,952
Taxation payable in respect of foreign subsidiary	**(21)**	–	(67)
Adjustment in respect of prior year	**158**	3	128
	1,281	1,785	2,013
Deferred tax credit			
Reversal of temporary differences	**–**	–	19
Total tax credit	**1,281**	1,785	2,032

There was no tax charge relating to discontinued operations for 2020, 2019 and 2018.

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:

	2020 £'000	2019 £'000	2018 £'000
Loss before tax	**(23,470)**	(11,870)	(17,062)
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2019: 19%; 2018: 19%)	**(4,459)**	(2,255)	(3,241)
Expenses not deductible for tax purposes	**596**	1,087	2,492
Income not taxable	**(75)**	–	–
Unrelieved tax losses and other deductions	**–**	(114)	–
Adjustment in respect of prior period	**(158)**	(3)	(129)
Surrender of tax losses for R&D tax refund	**(491)**	(1,810)	(1,955)
Unrelieved tax losses and other deductions arising in the period	**–**	–	(220)
Foreign exchange differences	**–**	1	(26)
Deferred tax not recognised	**3,306**	1,309	1,047
Total tax credited to the income statement	**(1,281)**	(1,785)	(2,032)

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

An adjustment has been recognised in 2020 in respect of the prior period of £158k, this is as a result of a more detailed review of cost classification prior to the submission of tax returns to HMRC in 2020.

9 Loss per share

	2020 £'000	2019 £'000	2018 £'000
Numerator			
Loss used in basic EPS and diluted EPS:			
Continuing operations	**(22,189)**	(9,138)	(10,368)
Discontinued operations	**–**	(947)	(4,662)
Denominator			
Weighted average number of ordinary shares used in basic EPS:	**42,839,961**	18,330,588	3,056,303
Basic and diluted loss per share:			
Continuing operations – pence	**(52)p**	(50)p	(339)p
Discontinued operations – pence	**–**	(5)p	(153)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 comparative 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 2018	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**
Additions	**-**	**58**	**16**	**135**		**209**
Effect of modification to lease terms	**–**	**–**	**–**	**–**	**(678)**	**(678)**
Disposal	**(202)**	**(2,184)**	**(185)**	**(2,323)**	**(316)**	**(5,210)**
Exchange differences	**7**	**92**	**2**	**112**	**58**	**271**
At 31 December 2020	**53**	**4**	**236**	**1,662**	**188**	**2,143**

	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 2018	**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**
Charge for the year	**9**	**310**	**50**	**720**	**118**	**1,207**
Disposals	**(202)**	**(2,183)**	**(185)**	**(2,300)**	**(316)**	**(5,186)**
Exchange differences	**7**	**81**	**2**	**79**	**14**	**183**
At 31 December 2020	**49**	**2**	**199**	**1,239**	**112**	**1,601**
Net book value						
At 31 December 2020	**4**	**2**	**37**	**423**	**76**	**542**
At 31 December 2019	13	244	71	998	828	2,154
At 31 December 2018	12	528	118	1,325	–	1,983

11 Leases

Right of Use Asset	2020 £'000	2019 £'000
At 1 January	**828**	395
Additions	**–**	822
Effect of modification to lease terms	**(678)**	(82)
Depreciation	**(118)**	(303)
Exchange differences	**44**	(4)
At 31 December	**76**	828

Lease Liabilities	2020 £'000	2019 £'000
At 1 January	**907**	546
Additions	**–**	822
Effect of modification to lease terms	**(788)**	(82)
Interest expenses	**15**	24
Lease payments	**(105)**	(391)
Exchange differences	**47**	(12)
At 31 December	**76**	907

During 2020 as a result of the closure of the Group's operations in Spain two property leases were terminated early. This impacted both the right of use asset and the lease liability. Management considered the appropriate life of a lease in the UK in 2020 and 2019 and adjusted the right of use asset and lease liability accordingly.

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.

	Land and buildings £'000	Other £'000
2020		
Expiring In one year or less	**–**	**–**
Expiring over one year	**–**	**–**
	–	**–**
2019		
Expiring In one year or less	–	–
Expiring over one year	–	–
	–	–
2018		
Expiring In one year or less	383	1
Expiring over one year	189	4
	572	5

Low value leases expensed in year:

	2020 £'000	2019 £'000
Low value leases expensed	**10**	29
	10	29

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 2018	**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**
Disposal	**–**	**–**	**–**	**(36)**	**(36)**
Foreign exchange	**–**	**–**	**–**	**1**	**1**
At 31 December 2020	**13,378**	**–**	**2,291**	**–**	**15,669**

	In-process research and development £'000	Product and marketing rights £'000	Goodwill £'000	IT/Website Costs £'000	Total £'000
Accumulated amortisation and impairment					
At 1 January 2018	3,300	15,739	–	19	19,058
Amortisation charge for the year	–	431	–	3	434
Disposal	–	(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**
Amortisation charge for the year	**–**	**–**	**–**	**10**	**10**
Disposal	**–**	**–**	**–**	**(36)**	**(36)**
Impairment	**10,078**	**–**	**2,291**	**–**	**12,369**
Foreign exchange	**–**	**–**	**–**	**1**	**1**
At 31 December 2020	**13,378**	**–**	**2,291**	**–**	**15,669**
Net book value					
At 31 December 2020	**–**	**–**	**–**	**–**	**–**
At 31 December 2019	10,078	–	2,291	10	12,379
At 31 December 2018	10,078	–	2,291	5	12,374

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

	Carrying amount			Remaining amortisation period		
	2020 £'000	2019 £'000	2018 £'000	**2020 (years)**	2019 (years)	2018 (years)
Midatech Pharma (Wales) Limited acquired IPRD	**–**	9,300	9,300	**n/a**	n/a in process	n/a in process
Midatech Pharma US, Inc., product and marketing rights	**–**	–	–	**n/a**	n/a	n/a
Zuplenz® product and marketing rights	**–**	–	–	**n/a**	n/a	n/a
MTX110 acquired IPRD	**–**	778	778	**n/a**	n/a in process	n/a in process
	–	10,078	10,078			

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	**2020 £'000**	2019 £'000	2018 £'000	**2020 £'000**	2019 £'000	2018 £'000	Valuation Basis
CGU – Midatech Pharma (Wales) Ltd	**–**	9,300	9,300	**–**	2,291	2,291	Value in use
MTX110 acquired IPRD	**–**	778	778	**–**	–	–	–

As set out in the Strategic Report on page 13 an impairment charge of £11.6m was recorded in 2021 in the assets of Midatech Pharma (Wales) Ltd ('MPW') CGU as a result of the Board's decision on 31 March 2020 to terminate the MTD201.The impairment charge was £9.3m of IPRD and £2.3m acquired goodwill.

In 2020 an impairment charge of £0.8m was recorded in relation to the acquire IPRD on MTX110. The impairment is as a result of the termination of a License Agreement between the Company and Secura Bio Inc. Pursuant to the License Agreement, Midatech Limited was granted a non-exclusive worldwide, sub-licenseable license to certain patents of Panobinostat, the active pharmaceutical ingredient of the Company's development product MTX110.

The assets of MPW were valued as at 31 December 2019 and 2018 and were found to support the IPRD and goodwill carrying amounts set out above. The IPRD was valued using (2019:12-13 year; 2018: 12–13 year), risk adjusted cash flow forecasts, in line with patent life, that have been approved by the Board. A period longer than 5 years was appropriate on the basis that the investment was long term and the development and commercialisation process is typically in excess of 5 years. Beyond the period from product launch and initial market penetration, a long term growth rate of Nil was used.

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

Assumptions	**2020**	2019	2018
Pre-tax discount rate	**n/a**	18.4%	17.7%
Cumulative probability of success of projects	**n/a**	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.

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	**2020**	2019	2018
		increase to	increase to
Pre-tax discount rate for all projects	**n/a**	21%	29.8%
Cumulative probability of success of project	**n/a**	59%	34%

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	In liquidation	(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		Dissolved – 2020	(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 and dissolved November 2020.

15 Trade and other receivables

	2020 £'000	2019 £'000	2018 £'000
Trade receivables	**95**	22	89
Prepayments	**258**	151	139
Other receivables	**219**	3,444	1,564
Total trade and other receivables	**572**	3,617	1,792
Less: non-current portion (rental deposit and on bond)	**–**	(2,625)	(469)
Current portion	**572**	992	1,323

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 2020, 2019 and 2018.

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. As a result of the closure of Midatech Pharma (España) SL during 2020 the cash-back guarantee was released on the repayment of the loan to the Spanish Government.

16 Cash and cash equivalents and cash flow supporting notes

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

	2020 £'000	2019 £'000	2018 £'000
Cash at bank available on demand	**7,546**	10,928	2,343

During 2020 and 2019, 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 May 2020 warrants to the value of £1.0m (October 2019 : £1.1m) were issued as disclosed in note 21.

	2020 £'000	2019 £'000	2018 £'000
Gross proceeds	**10,792**	15,767	–
Transaction costs	**(1,050)**	(1,659)	–
	9,742	14,108	–

16 Cash and cash equivalents and cash flow supporting notes continued

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

	Non-current liabilities £'000	Current liabilities £'000	Total £'000
At 1 January 2020	**5,670**	**412**	**6,082**
Cash flows	**(6,182)**	**(258)**	**(6,440)**
Non-cashflows:			
Foreign Exchange	**252**	**23**	**275**
Fair value changes	**1,176**	**–**	**1,176**
Effect of modification to lease term – IFRS 16	**(877)**	**89**	**(788)**
Loans and borrowings classified as non-current 31 December 2019 becoming current in 2020	**51**	**(51)**	**–**
Interest accruing in period	**(30)**	**(15)**	**(45)**
At 31 December 2020	**60**	**200**	**260**

	Non-current liabilities £'000	Current liabilities £'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**

	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

	2020 £'000	2019 £'000	2018 £'000
Finished goods	**–**	–	–
Total inventories	**–**	–	–

There was no stock held at 31 December 2020.

18 Trade and other payables

Current	2020 £'000	2019 £'000	2018 £'000
Trade payables	**337**	725	286
Other payables	**26**	13	–
Accruals	**768**	1,765	1,025
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**1,131**	2,503	1,311
Tax and social security	**31**	86	347
Deferred revenue and government grants	**68**	1,905	445
Total trade and other payables	**1,230**	4,494	2,103

Book values approximate to fair value at 31 December 2020, 2019 and 2018.

All current trade and other payables are payable within 3 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. During the year £nil (2019: £124k, 2018: £1,610k) revenue was recognised in relation to this project and the deferred revenue balance as at 31 December 2020 was £nil (2019: £nil, 2018: £124k).

19 Borrowings

	2020 £'000	2019 £'000	2018 £'000
Current			
Bank loans	**–**	–	4
Lease liabilities	**93**	233	80
Government and research loans	**107**	179	284
Total	**200**	412	368
Non-current			
Bank loans	**–**	–	–
Lease liabilities	**60**	912	170
Government and research loans	**–**	4,758	714
Total	**60**	5,670	884

During 2020 £4.8m government and research loans were repaid.

Book values approximate to fair value at 31 December 2020, 2019 and 2018.

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. The Spanish Government required the company to provide a €2.9 million cash-backed guarantee as security for the loan. The funds were to be used to support Midatech's manufacturing scale-up facilities construction. As a result of the Group's decision on 31 March 2020 to terminate further in-house development of MTD201 and the subsequent closure of its dedicated manufacturing facilities in Bilbao the Group repaid the loans during 2020. As a result of the early termination of the loan interest was charged at market rates up to the date of satisfaction of the loan.

There remains one outstanding government loan which was received by Midatech Pharma (España) SL for the finance of research, technical innovation and the construction of their laboratory. The loan is a term loan which carries an interest rate below the market rate and is repayable in 2021. The Group made requests to the Spanish Government during 2020 to repay the loan early but were unsuccessful with their request, the loan was repaid in February 2021. During 2020 the Group repaid two government loans.

19 Borrowings continued

Government loans in Spain continued

The loans carried 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. As a result of the repayment of the loans these were fully amortised during 2020.

Midcap loan facility

In December 2017, the Company 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

	2020 £'000	2019 £'000	2018 £'000
Opening provision at 1 January	**97**	165	–
Provision (released)/recognised in the year	**(47)**	(68)	165
At 31 December	**50**	97	165
Less: non-current portion	**(50)**	–	(165)
Current portion	**–**	97	–

The provision as at 31 December 2020 relates to the 'making good' clause on the Cardiff office which is due to be vacated during 2021. The provision in previous years relates to the 'making good' clause on the Abingdon office which was vacated in December 2018. The Abingdon office was sub-let for the remaining period of the lease, which terminated in February 2020.

21 Derivative financial liability – current

	2020 £'000	2019 £'000	2018 £'000
Equity settled derivative financial liability			
At 1 January	**664**	–	–
Warrants issued	**997**	1,148	–
Transfer to share premium on exercise of warrants	**(499)**	–	–
Gain recognised in finance income within the consolidated statement of comprehensive income	**397**	(484)	–
At 31 December	**1,559**	664	–

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

In May 2020 the Group issued 9,545,456 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.

On 19 August 2020 2,500,000 pre-existing warrants were exercised at $0.41. The gross proceeds received by the company was $1,025,000. The fair value of the warrants on the date of exercise was £498,502. At 31 December 2020 7,045,455 warrants were outstanding.

In October 2019 the Group issued 3,150,000 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. The warrants are classified equity settled derivative financial liabilities and accounted for in the same way as those issued in May 2020. The financial liability is valued using the Monte Carlo model. At 31 December 2020 and 31 December 2019, 3,150,000 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 May 2020. The financial liability is valued using the Black-Scholes option pricing model.

At 31 December 2018 a further 8,846 options and 38,844 warrants had lapsed and the share price had fallen to £1.20. As the liability had already been reduced to zero there was no movement on re-measurement.

At 31 December 2019 a further 3,332 options and 111,582 warrants had lapsed and the share price had fallen to £0.56. As the liability had already been reduced to zero there was no movement on re-measurement.

During 2020 no options or warrants lapsed and the share price had fallen to £0.265. 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

	2020 £'000	2019 £'000	2018 £'000
Cash and cash equivalents	**7,546**	10,928	2,343
Trade receivables	**95**	22	89
Other receivables	**–**	2,625	469
Total financial assets	**7,641**	13,575	2,901

Financial liabilities – amortised cost

	2020 £'000	2019 £'000	2018 £'000
Trade payables	**337**	725	286
Other payables	**26**	13	–
Accruals	**768**	1,765	1,025
Borrowings	**260**	6,082	1,252
Total financial liabilities – amortised cost	**1,391**	8,585	2,563

22 Financial instruments – risk management continued

Financial liabilities – fair value through profit and loss – current

	2020 £'000	2019 £'000	2018 £'000
Equity settled derivative financial liability	**1,559**	664	–

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 31/12/2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equity settled financial derivative liability	£1,187,000	Level 3	Monte Carlo simulation model	Volatility rate of 105.0% 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 4.49 years determined using the remaining life of the share options.	The shorter the expected life the lower the fair value.
				Risk-free rate of 0.07% determined using the expected life assumptions.	The higher the risk-free rate the higher the fair value.
Equity settled financial derivative liability	£372,000	Level 3	Monte Carlo simulation model	Volatility rate of 105.0% 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 4.888 years determined using the remaining life of the share options.	The shorter the expected life the lower the fair value.
				Risk-free rate of 0.08% 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 105.0% determined using historical volatility of comparable companies.	The higher the volatility the higher the fair value.
				Expected life between a range of 1.0 and 1.9 years determined using the remaining life of the share options.	The shorter the expected life the lower the fair value.
				Risk-free rate of 0.8% determined using the expected life assumptions.	The higher the risk-free rate the higher the fair value.

Financial liabilities	Fair value as at 31/12/2019	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 7.6 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 (2019: nil, 2018: 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 May 2020 and October 2019 as part of Registered Direct offerings and also a business combination. In 2018 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.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

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 arose because the Group had a material operation located in Bilbao, Spain, until 2020, whose functional currency was not the same as the functional currency of the Group. The Group's net assets arising from the overseas operation were exposed to currency risk resulting in gains or losses on retranslation into sterling. Given the levels of materiality, the Group did not hedge its net investments in overseas operations as the cost of doing so would be 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:

	2020 £'000	2019 £'000	2018 £'000
Cash and cash equivalents:			
Pounds Sterling	**7,247**	3,153	457
US Dollar	**120**	2,021	1,421
Euro	**179**	5,750	459
Other	**–**	4	6
Total	**7,546**	10,928	2,343

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:

	2020 £'000	2019 £'000	2018 £'000
Net Foreign Currency Assets/(Liabilities):			
US Dollar	**120**	2,021	1,421
Euro	**54**	1,460	552
Other	**1**	7	8
Total	**175**	3,488	1,981

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 2020	**US Dollar £'000**	**Euro £'000**	**Other £'000**
Loss before tax	**12**	**(293)**	**(4)**
Total equity	**12**	**(293)**	**(4)**

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	–

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 May 2020, the Company completed a concurrent Registered Direct Offering in the US and a Placing in the UK whereby the Company raised £4.26m before expenses. In July 2020, the Company completed a UK Placing which raised £5.75m before expenses. In August 2020, previously issued warrants were exercised resulting in the Company receiving £0.78m before expenses.

The Directors have prepared cash flow forecasts and considered the cash flow requirement for the Company for the next three 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 during the fourth 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 pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions being placed on the movement of people will likely cause delays to some of the Group's plans. It is difficult to assess to what extent, and for how long, COVID-19 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 prioritise activities to minimise its effect.

The Directors are evaluating a number of near-term funding options potentially available to the Group, including fundraising and the partnering of assets and technologies 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.

22 Financial instruments – risk management continued

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

2020	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	**1,131**	**–**	**–**	**–**	**–**
Bank loans	**–**	**–**	**–**	**–**	**–**
Lease liabilities	**25**	**75**	**61**	**8**	**–**
Government research loans	**107**	**–**	**–**	**–**	**–**
Total	**1,263**	**75**	**61**	**8**	**–**

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	–

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 the Group repaid all but one Government Research loans during 2020. The remaining loan was repaid in 2021.

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 in 2020 is £nil (2019: £nil, 2018: £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.

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 2020	**63,183**	**13,076**
31 December 2019	49,565	8,426
31 December 2018	40,741	6,926

During 2020 the remaining deferred tax asset and liability arising on the business combination of Midatech Pharma (Wales) Ltd (2019: £1.6m) was de-recognised as a result of the impairment of the assets through the Consolidated Statements of Comprehensive Income. The deferred tax asset which qualifies for offset against the deferred tax liability, mainly arising on the acquisitions of Midatech Pharma (Wales) Limited in 2020 is nil (2019: £1.6m, 2018: £1.7m). The remaining potential deferred tax asset of £13.1m (2019 £9.0m, 2018: £7.3m) has not been provided in these accounts due to uncertainty as to whether the asset would be recovered.

Deferred tax asset balances disclosed as at 31 December 2020 have been calculated at 19%. The Finance Bill 2021 enacts an increase in the tax rate to 25% from 1 April 2023. The deferred tax assets balance using a rate of 25% would be £17.2m.

Unrecognised deferred tax asset balances include £0.9m in relation to Midatech Pharma (España) SL, this company was put into liquidation in 2021.

Details of the deferred tax liability are as follows:

2020	**Asset £'000**	**Liability £'000**	**Net £'000**
Business Combinations	**–**	**–**	**–**

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)	–

24 Share capital

Authorised, allotted and fully paid – classified as equity	**2020 Number**	**2020 £**	2019 Number	2019 £	2018 Number	2018 £
At 31 December						
Ordinary shares of £0.001 each	**63,073,852**	**63,074**	23,494,981	23,495	3,059,207	3,059
Deferred shares of £1 each	**1,000,001**	**1,000,001**	1,000,001	1,000,001	1,000,001	1,000,001
Total		**1,063,075**		1,023,496		1,003,060

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 above table reflects the share consolidation in the comparative figures.

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 £0.001 each. Ordinary and deferred shares were recorded as equity.

24 Share capital continued

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 2018		3,054,207	1,000,001		69,870
2018					
1 August 2018	Share issue to SIPP trustee (see note 27)	5,000		0.001	–
At 31 December 2018		**3,059,207**	**1,000,001**		**69,870**
2019					
26 February 2019	Subscription, Placing and Open Offer	17,410,774		0.77	13,406
8 October 2019	Share issue to SIPP trustee (see note 27)	25,000		0.001	–
29 October 2019	Registered Direct Offering	3,000,000		0.7874	2,362
At 31 December 2019		**23,494,981**	**1,000,001**		**85,638**
2020					
18 May 2020	**Placing & Registered Direct Offering**	**15,757,576**		**0.27**	**4,255**
27 July 2020	**Placing**	**21,296,295**		**0.27**	**5,750**
19 August 2020	**Exercise of warrants**	**2,500,000**		**0.3132**	**783**
30 September 2020	**Share issue to SIPP trustee (see note 27)**	**25,000**		**0.001**	**–**
At 31 December 2020		**63,073,852**	**1,000,001**		**96,426**

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.
Warrant reserve	Represents the fair value of warrants denominated in £ at the date of grant
Accumulated deficit	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

On 18 May 2020 6,999,999 warrants were granted as part of the UK placing. Their fair value at the date of grant has been recognised in the Warrant Reserve.

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.

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 following tables reflect the share consolidation in the comparative tables.

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

Date of grant	At 1 January 2020	Granted in 2020	Exercised in 2020	Forfeited in 2020	At 31 December 2020	Exercise Price
1 April 2010	**1,255**	**–**	**–**	**(1,255)**	**–**	**£80.00**
20 August 2010	**2,088**	**–**	**–**	**(2,088)**	**–**	**£83.80**
13 September 2011	**150**	**–**	**–**	**–**	**150**	**£83.80**
20 April 2012	**1,589**	**–**	**–**	**–**	**1,589**	**£83.80**
9 May 2014	**10,000**	**–**	**–**	**–**	**10,000**	**£1.50**
30 June 2014	**18,500**	**–**	**–**	**(18,000)**	**500**	**£1.50**
11 July 2014	**100**	**–**	**–**	**(100)**	**–**	**£1.50**
31 October 2016	**16,271**	**–**	**–**	**(8,350)**	**7,921**	**£53.60**
14 December 2016	**400**	**–**	**–**	**(400)**	**–**	**£31.00**
14 December 2016	**500**	**–**	**–**	**(500)**	**–**	**£34.00**
14 December 2016	**2,000**	**–**	**–**	**(2,000)**	**–**	**£37.40**
14 December 2016	**1,625**	**–**	**–**	**(1,625)**	**–**	**£37.60**
15 December 2016	**4,600**	**–**	**–**	**(4,600)**	**–**	**£24.20**
19 December 2016	**22,391**	**–**	**–**	**(12,373)**	**10,018**	**£24.20**
15 December 2017	**29,560**	**–**	**–**	**(26,260)**	**3,300**	**£9.20**
2 April 2018	**997**	**–**	**–**	**(997)**	**–**	**£16.60**
2 April 2018	**4,500**	**–**	**–**	**(4,500)**	**–**	**£24.20**
24 April 2019	**169,500**	**–**	**–**	**(124,000)**	**45,500**	**£1.46**
2 October 2019	**50,000**	**–**	**–**	**(20,000)**	**30,000**	**£1.05**
17 April 2020	**–**	**100,000**	**–**	**–**	**100,000**	**£0.24**
17 June 2020	**–**	**1,363,000**	**–**	**(89,000)**	**1,274,000**	**£0.202**
	336,026	**1,463,000**	**–**	**(316,048)**	**1,482,978**	

Options exercisable at 31 December 2020	195,171
Weighted average exercise price of outstanding options at 31 December 2020	£0.835
Weighted average exercise price of options exercised in 2020	n/a
Weighted average exercise price of options forfeited in 2020	£7.192
Weighted average exercise price of options granted in 2020	£0.205
Weighted average remaining contractual life of outstanding options at 31 December 2020	9.2 years

27 Share-based payments continued

Share Options continued

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	1,255	–	–	–	1,255	£80.00
20 August 2010	2,088	–	–	–	2,088	£83.80
13 September 2011	150	–	–	–	150	£83.80
20 April 2012	1,589	–	–	–	1,589	£83.80
9 May 2014	10,000	–	–	–	10,000	£1.50
30 June 2014	21,500	–	–	(3,000)	18,500	£1.50
11 July 2014	100	–	–	–	100	£1.50
31 October 2016	2,500	–	–	(2,500)	–	£34.20
31 October 2016	23,411	–	–	(7,140)	16,271	£53.60
14 December 2016	400	–	–	–	400	£31.00
14 December 2016	500	–	–	–	500	£34.00
14 December 2016	2,000	–	–	–	2,000	£37.40
14 December 2016	1,625	–	–	–	1,625	£37.60
15 December 2016	4,600	–	–	–	4,600	£24.20
19 December 2016	35,866	–	–	(13,475)	22,391	£24.20
15 December 2017	45,885	–	–	(16,325)	29,560	£9.20
2 April 2018	997	–	–	–	997	£16.60
2 April 2018	4,500	–	–	–	4,500	£24.20
24 April 2019	–	219,000	–	(49,500)	169,500	£1.46
2 October 2019	–	50,000	–	–	50,000	£1.05
	158,966	**269,000**	**–**	**(91,940)**	**336,026**	

Options exercisable at 31 December 2019	131,094
Weighted average exercise price of outstanding options at 31 December 2019	£8.48
Weighted average exercise price of options exercised in 2019	n/a
Weighted average exercise price of options forfeited in 2019	£13.26
Weighted average exercise price of options granted in 2019	£1.38
Weighted average remaining contractual life of outstanding options at 31 December 2019	7.9 years

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	1,306	–	–	(1,306)	–	£28.50
31 December 2008	150	–	–	(150)	–	£79.70
1 April 2010	1,255	–	–	–	1,255	£80.00
20 August 2010	2,088	–	–	–	2,088	£83.80
13 September 2011	150	–	–	–	150	£83.80
20 April 2012	1,789	–	–	(200)	1,589	£83.80
9 May 2014	10,000	–	–	–	10,000	£1.50
30 June 2014	44,000	–	–	(22,500)	21,500	£1.50
11 July 2014	100	–	–	–	100	£1.50
31 October 2016	2,500	–	–	–	2,500	£34.20
31 October 2016	30,380	–	–	(6,969)	23,411	£53.60
14 December 2016	400	–	–	–	400	£31.00
14 December 2016	500	–	–	–	500	£34.00
14 December 2016	2,000	–	–	–	2,000	£37.40
14 December 2016	2,000	–	–	(375)	1,625	£37.60
15 December 2016	5,100	–	–	(500)	4,600	£24.20
19 December 2016	55,210	–	–	(19,344)	35,866	£24.20
15 December 2017	67,560	–	–	(21,675)	45,885	£9.20
2 April 2018	–	997	–	–	997	£16.60
2 April 2018	–	4,500	–	–	4,500	£24.20
	226,488	**5,497**	**–**	**(73,019)**	**158,966**	

Options exercisable at 31 December 2018	112,393
Weighted average exercise price of outstanding options at 31 December 2018	£22.02
Weighted average exercise price of options exercised in 2018	n/a
Weighted average exercise price of options forfeited in 2018	£15.98
Weighted average exercise price of options granted in 2018	£16.60
Weighted average remaining contractual life of outstanding options at 31 December 2018	5.7 years

The following information is relevant in the determination of the fair value of options granted during the year 2020 under the equity share based remuneration schemes operated by the Group.

	April 2020	**June 2020**
Number of options	**100,000**	**1,363,000**
Option pricing models used	**Black-Scholes**	**Black-Scholes**
Share price	**£0.24***	**£0.213***
Exercise price of options issued in year	**£0.24**	**£0.202**
Contractual life	**10 years**	**10 years**
Expected life	**5 years**	**5 years**
Volatility	**84.76%****	**92.55%****
Expected dividend yield	**0%**	**0%**
Risk free rate	**0.11%**	**0.10%**

* The share price used in the determination of the fair value of the options granted in 2020 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 2019 under the equity share based remuneration schemes operated by the Group.

	April 2019	June 2019
Number of options	219,000	50,000
Option pricing models used	Black-Scholes	Black-Scholes
Share price	£2.30*	£1.126*
Exercise price of options issued in year	£1.46	£1.05
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	5,500
Option pricing models used	Monte-Carlo
Share price	£5.40*
Exercise price of options issued in year	£16.60–£24.40
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.

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 5 years to qualify for full income tax and NIC relief.

28 Capital commitments

The Group had no capital commitments at 31 December 2020, 31 December 2019 and 31 December 2018.

29 Related party transactions

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

Trading Transactions

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

During the year Group companies entered into the following transactions with related parties who are not members of the Group.

	Purchase of good			Amounts owed by related parties		
	2020 €'000	2019 €'000	2018 €'000	**2020 €'000**	2019 €£'000	2018 €'000
BioConnection BV	**296**	18	–	**–**	8	–

During 2019 Midatech Pharma (Espana) SL entered into a commercial contract with BioConnection BV in connection with the Group's MTD201 program, this contract was subsequently terminated in 2020 as a result of the termination of the program.

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 2020,2019 or 18 regarding related party transactions.

30 Contingent liabilities

As at 31 December 2019 the Group was party to a claim by the estate of a former employee for unfair dismissal. The claim comprised various elements totalling €258,000. During the year the case was settled by the Group for €190,000. This has been recognised in Administrative costs in the Consolidated Statement of Comprehensive Income.

The Group had no contingent liabilities at 31 December 2020 and 31 December 2018.

31 Ultimate controlling party

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

32 Results of Midatech Pharma (España) SL

Included within the Group Consolidated Statements of Comprehensive Income are the results of the Group's Spanish operation that was closed on 3 June 2020. The Group appointed a Liquidator to liquidate the company with documentation being submitted to the Spanish Authorities in February 2021.

Management assessed whether Midatech Pharma (España) SL should be accounted for as a discontinued operation under IFRS 5 and concluded that it did not meet the criteria as it did not meet the definition of a cash generating unit as the activity of the company was the same as the remaining operations of the Group.

The audited results of Midatech Pharma (España) SL for the year to 31 December 2020 are as follows:

	Year ended 31 December 2020 £'000
Grant revenue	**163**
Total revenue	**163**
Research and development costs	**(2,820)**
Administrative costs	**(1,146)**
Loss from operations	**(3,803)**
Finance expense	**(11)**
Loss before tax	**(3,814)**
Taxation	**(21)**
Loss from operations after tax	**(3,835)**

33 Post balance sheet events

On 26 January 2021 the Company announced that it was engaged in tentative discussions with a third party around the potential co-development of MTX110. On 25 March 2021 the Company announced these discussions had now advanced and a non-binding Heads of Terms had been agreed. The Heads of Terms envisage that, if the deal progresses to definitive agreements, the Company would expect to receive a modest upfront payment upon execution, success-based development and sales milestones and royalties typical for a licensing agreement with products in a similar stage of development. R&D expenses would be assumed by the two parties with the apportionment to be agreed based on their respective territories. There can be no assurance on the timing for concluding the discussions nor any assurance that the parties will enter into definitive agreements.

In February 2021 the Group received a fine of €149,835 from the Spanish Tax Authorities in relation to the late repayment of a Government loan in 2020 as a result of the closure of its operation in Spain. The Group consider the fine is without foundation and are currently appealing the fine. The directors note that in the event of an unfavourable outcome the Group would not be able to recoup the loss from another party. This liability has been recognised in the Statement of Financial Position and the related expenses in Administrative costs in the Income Statement.

On 23 April 2021 the Group signed an agreement for lease on new premises in Cardiff to house our corporate offices and laboratories. The new premises comprise 8,118 square feet and the lease is for a five year term.

Company balance sheet
At 31 December 2020

Company number 09216368	Note	2020 £'000	2020 £'000	2019* Restated £'000	2019* Restated £'000
Fixed assets					
Investments	4		**1,200**		1,536
Property, Plant & Equipment	5		**19**		42
			1,219		1,578
Current assets					
Debtors	6	**247**		23,945	
Cash at bank		**5,510**		4,021	
		5,757		27,966	
Creditors: amounts falling due within one year	7	**(1,941)**		(1,505)	
Net current assets			**3,816**		26,461
Total assets less current liabilities			**5,035**		28,039
Creditors: amounts due falling after one year	8		**–**		–
Net assets			**5,035**		28,039
Capital and reserves					
Called up share capital	9		**1,063**		1,023
Share premium account	13		**74,364**		65,879
Warrant reserve			**720**		–
Accumulated deficit	13		**(71,112)**		(38,863)
Total equity attributable to owners of the parent company			**5,035**		28,039

The loss for the financial period, of the Company, as approved by the Board, was £31.85m (2019: £4.09m, 2018: £24.99m).

The financial statements were approved and authorised for issue by the Board of Directors on 30 April 2021 and were signed on its behalf by:

Stephen Stamp
Chief Executive Officer, Chief Financial Officer

The notes on pages 86 to 90 form part of these financial statements.

Company Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Warrant reserve £'000	Accumulated deficit* £'000	Total equity* £'000
At 1 January 2020 (restated)	**1,023**	**65,879**	**–**	**(38,863)**	**28,039**
Loss for the year	**–**	**–**	**–**	**(31,845)**	**(31,845)**
Total comprehensive loss	**–**	**–**	**–**	**(31,845)**	**(31,845)**
Transactions with owners					
Shares issued (net of issue costs of £1.0m)	**40**	**8,485**	**720**	**–**	**9,245**
Share option credit	**–**	**–**	**–**	**(404)**	**(404)**
Total contribution by and distributions to owners	**40**	**8,485**	**720**	**(404)**	**8,841**
At 31 December 2020	**1,063**	**74,364**	**720**	**(71,112)**	**5,035**

	Share capital £'000	Share premium £'000	Accumulated deficit* £'000	Total equity* £'000
At 1 January 2019 (restated)	**1,003**	**52,939**	**(34,742)**	**19,200**
Loss for the year	–	–	(4,087)	(4,087)
Total comprehensive loss	**–**	**–**	**(4,087)**	**(4,087)**
Transactions with owners				
Shares issued (net of issue costs of £1.7m)	20	12,940	–	12,960
Share option credit	–	–	(34)	(34)
Total contribution by and distributions to owners	**20**	**12,940**	**(34)**	**12,926**
At 31 December 2019 (restated)	**1,023**	**65,879**	**(38,863)**	**28,039**

* Restated

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:

Restatement of prior year

During 2020 management reassessed the accounting for share based payments within the Group. As a result of this reassessment management have recognised a capital contribution in the subsidiary equivalent to the cumulative share based payment charge.

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.

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 three years including the period 12 months from the date of approval of the consolidated financial statements. These forecasts show that further financing will be required during the fourth 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 pandemic COVID-19 virus places increased uncertainty over the Directors' forecasts. The restrictions being placed on the movement of people will likely cause delays to some of the Group's plans. It is difficult to assess to what extent, and for how long, COVID-19 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 prioritise activities to minimise its effect.

The Directors are evaluating a number of near-term funding options potentially available to the Group, including fundraising and the partnering of assets and technologies 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:

Computer Equipment and Software – 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

	2020 £'000	2019 £'000
Staff costs (including Directors) comprise:		
Wages and salaries	**592**	635
Defined contribution pension cost	**28**	38
Social security contributions and similar taxes	**80**	106
Share-based credit	**(68)**	(108)
	657	671

Employee numbers

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

	2020 £'000	2019 £'000
General and administration	**3**	4
	3	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 £31.85m (2019: £4.09m, 2018: £24.99m).

4 Investments

	2020 £'000	2019* Restated £'000
Brought forward 1 January	**1,536**	1,462
Capital contribution re Share Based Payments in subsidiaries	**29**	74
Reversal of capital contribution re share based payments in subsidiaries	**(365)**	–
Total investments at 31 December	**1,200**	1,536

A capital (reversal)/contribution was made in the year to the underlying subsidiaries corresponding to the share based payment (credit)/charge recognised in the period.

4 Investments continued

At 31 December 2020, 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	In-liquidation	100%	(a)
PharMida AG	c/o Kellerhals, Hirschgässlein 11, 4051 Basel, Switzerland	Dormant	100%	(a)
Midatech Pharma (Wales) Limited	Oddfellows House, 19 Newport Road, Cardiff, CF24 0AA	Trading company	100%	
Midatech Pharma PTY Limited		Dissolved – 2020	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.

5 Property, plant and equipment

	Computer equipment and software £'000	Total £'000
Cost		
At 1 January 2020	**247**	**247**
Disposals	**(54)**	**(54)**
Additions	**1**	**1**
At 31 December 2020	**194**	**194**
Depreciation		
At 1 January 2020	**205**	**205**
Disposals	**(51)**	**(51)**
Charge for year	**21**	**21**
At 31 December 2020	**175**	**175**
Net book value		
At 31 December 2020	**19**	**19**

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

6 Debtors

	2020 £'000	2019 £'000
Amounts due from Group companies	**–**	23,652
Trade debtors	**–**	23
Other debtors	**61**	163
Prepayments	**186**	107
	247	23,945

During 2020 an impairment provision was made of £28.9m against intercompany balances owed by other Group companies.

7 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	**160**	197
Accruals	**200**	484
Other creditors	**22**	63
Provision	**–**	97
Derivative financial liability	**1,559**	664
	1,941	1,505

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.

8 Creditors: amounts falling due after one year

	2020 £'000	2019 £'000
Bank Loan	**–**	–
Provision	**–**	–
	–	–

9 Share capital

Allotted and fully paid	2020 Number	2020 £'000	2019 Number	2019 £'000
Ordinary shares of £0.001 each	**63,073,852**	**63**	23,494,981	23
Deferred shares of £1 each	**1,000,001**	**1,000**	1,000,001	1,000
Total		**1,063**		1,023

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 reflects the share consolidation in the comparative figures.

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

10 Capital commitments
The Company had no capital commitments at 31 December 2020 or at 31 December 2019.

11 Contingent liabilities
The Company had no contingent liabilities at 31 December 2020, or at 31 December 2019.

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

13 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.

14 Post balance sheet events
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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:	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD 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:	Bank of New York Mellon 240 Greenwich Street New York NY 10286 United States of America

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