Microsaic Systems plc
Annual Report 2015

Bringing mass spectrometry down to size

Microsaic Systems

An evolution in mass detection

Microsaic is a high technology company developing and marketing chip-based mass spectrometry (MS) instruments.

Corporate Information and Advisors

Directors	C J Nicholl Chairman J C Ramage Chief Executive Officer B J Metcalf G D Tracey A S Holmes E M Yeatman
Company Secretary	A S Holmes
Company number	3568010
Company website	www.microsaic.com
Registered office	GMS House Boundary Road Woking Surrey GU21 5BX
Auditors	Saffery Champness Chartered Accountants 71 Queen Victoria Street London EC4V 4BE
Bankers	HSBC Bank plc 95 Gloucester Road London SW7 4SX
Solicitors	Dorsey & Whitney (Europe) LLP 199 Bishopsgate London EC2M 3UT
Nominated adviser and broker	Numis Securities Limited The Stock Exchange Building 10 Paternoster Square London EC4M 7LT
Registrars	Capita Asset Services The Registry 34 Beckenham Road, Beckenham Kent BR3 4TU
Financial PR	Citigate Dewe Rogerson Limited 3 London Wall Buildings London Wall London EC2M 5SY

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Chairman's Statement

I am pleased to present the Company's Annual Report and Financial Statements for the year ended 31 December 2015.

Delivering on our strategic aims

We announced to shareholders in September 2015 a disappointing set of results for the first six months of 2015 in that our product sales through our main Original Equipment Manufacturer (OEM) channel were substantially below expectations. The issues had been identified early in 2015 and referred to in the Annual Report for 2014. New contract terms for this customer have been agreed and the Company is now moving forward on a non-exclusive basis. This had a negative short term impact on the Company's finances in the year and led to the Board asking shareholders for their support in raising funds. This support was forthcoming and the Company raised £3.29m (before expenses) in October 2015.

In December a number of changes to the executive team were announced with Colin Jump, Chief Executive Officer (CEO) and Andrew Darby, Finance Director (FD) resigning from the Board and subsequently leaving the Company. The Company appointed Jim Ramage as CEO (previously a non-executive Director of the Company) and Bevan Metcalf as FD. Both have extensive commercial experience and they will provide strong leadership skills as the Company moves forward. We thank Colin and Andrew for their efforts while with the Company, wish them well in the future, and welcome Jim and Bevan to their new roles. We also announced that Glenn Tracey, Chief Operating Officer (COO), would join the Board in December and Christopher Buckley will join the Board in April 2016. In addition, the Board instigated a series of operational reviews of the Company's strategy. These reviews are summarized in the CEO's report.

Your Board announced in December that product sales had recovered substantially in the second 6 months of the year with 17 units sold, which is in line with the second half of 2014, compared with 6 units in the first six months.

Although product sales recovered in the second half of the year, full year product sales at £622,599 were down a disappointing 38% on 2014. Consumable sales at £146,612 were up 43% on 2014 with the second half performance of 2015 up 59% on the first half and demonstrates the annuity value of this growing revenue stream.

This positive trend in unit sales in the second half of 2015 is continuing into 2016. Unit orders for the 4000 MiD® in 2016 currently stand at 10 units (23 in 2015: 6 in 1H, 17 in 2H), bringing the total numbers of units sold into the global market to over 100. We expect this growth to continue based on new product launches and a new distributor engaged for North America. Consumable sales also continue to grow.

The impact on cash flow of this improved sales trend, together with reductions in overheads and other cash flow improvements is that we believe our cash runway now extends into 2017, without impacting the medium to long term potential of the company. Our expectations for the year ended 31 December 2015 take no account of meaningful sales of triple quad units or sales other than through our four current 'live' sales distribution routes. We shall be focusing on developing these existing customer relationships in 2016 plus identifying and developing new customers to broaden and deepen the sales structure.

We continue to believe that the Company has an exceptional core product with a strong competitive advantage, and excellent prospects for success. There continues to be a growing interest for Microsaic products from potential partners in different parts of the world and we look forward to updating you on progress over the coming year.

Financial results

Microsaic generated revenues of £0.78m in 2015 (2014: £1.14m) down 32% over last year. The loss before tax of £3.88m (2014: loss of £3.16m), is as a result of disappointing first half unit sales numbers and additional research and development (R&D) expenditure, especially on the triple quad. The investment in R&D is a reflection of our ongoing commitment to the future growth of the Company.

Shareholders

The Board is grateful for the support of our shareholders during the year, which allowed the Company to raise further funds of £3.29m (before expenses) in October 2015. These funds will provide the essential working capital required by the Company to finance its continuing growth and evolution.

Staff

On behalf of the Board, I would like to express my gratitude to our staff for their hard work, loyalty and for continuing to innovate, which is vital to the future success of the Company.

Outlook

The Company made progress in developing its sales channels in 2015, and our focus in 2016 will be to maintain the growth in unit sales seen over recent periods and moving towards profitability. The development of existing and new clients and the use of new technologies and new products will continue. The control of costs and tight cash flow management are key objectives in extending the cash runway into 2017.

Your Board looks forward to 2016 as being a year of further change and further progress.

Colin Nicholl
Chairman
15 March 2016

Strategic Report

Chief Executive's review for the year ended 31 December 2015

After nearly six years as a member of the Board, I am excited to have taken on the post of CEO. I believe the Company has an exceptional core product, and excellent prospects for success. In my first weeks as CEO, with the support of the Board, the Company has undertaken a strategic review, focused on:

- The approach to segmenting markets. While the planned segmentation strategy was correct, there was still a potential for too great a dependency on certain OEM's where exclusivity has been or is being granted for specific markets. Hence a review of existing contracts, and those still in negotiation has taken place. This is described further in the post-period review below.
- The Company's cost base. A great deal of development work has been undertaken in 2014 and 2015 and various overheads had increased significantly. As a result of our review, cost savings have now been identified and measures implemented to reduce cash burn from previous levels going forward.
- Product development. The R&D programme has been refocused to ensure it is addressing features to optimize specific market opportunities in a cost-effective way.
- User training and service programmes. Ensuring sales training and user and service educational programmes and support materials were fit for purpose and optimize the potential of the Company's products. The Company serves two types of customer across a range of applications - those familiar with mass spectrometers and those who are not.

Commercial strategy

The main route to market for our products is through OEM partnerships with companies that have established global sales and service channels that can deliver synergistic benefits for end users.

We must recognise that the process of combining our product with that of our OEM partner takes a significant period of time – time to design and prototype the interface; time to develop the software to control the combined scientific instrument; time to pass all quality and regulatory hurdles and finally time to train salesforces and engineers to handle a completely new product into a somewhat unfamiliar market. This is a rigorous process of building competitive advantage for Microsaic that only commences after the R&D work has been done and the application(s) identified. The introduction of OEM products takes time and consumes significant resources - but if done well will builds significant barriers to entry for our competitors. This Microsaic has been doing.

In addition to OEMs the Company has signed distribution agreements for Microsaic stand-alone branded products in key regions. These distribution arrangements have the benefit of no engineering investment to combine our technology with our partners as they sell our product "as is". This means that the product introduction program followed with our OEM partners is drastically reduced for distributors with the focus shifting to training our partners' salesforce and service engineers.

We look forward to building our relationship with our existing and new distributors during 2016.

Our strategy is therefore to combine these two routes to market (OEM plus distributor) to optimise our competitive strength and growth rate. This approach implies that during the introduction phase we will be selling products in smaller volumes to a larger number of OEM customers and distributors, each in different formats. However, this has proved problematic for our production route in 2015. As a result we have agreed an arrangement to bring to an end our current outsourced manufacturing contract for the 4000 MiD® in the summer of 2016 and will engage a new manufacturing partner or partners who have the flexibility to economically accommodate our variability in product type and number. The search for a replacement is underway and a short list has been prepared.

Since the end of the year

- A continuation of the recovery in unit sales seen in the second half of 2015, into the first half of 2016.
- An agreement with a new distributor of the Company's own brand products in North America was completed.
- A review of overhead costs and company cash flow and its management has resulted in our cash runway now extending into 2017, without affecting the potential of the company and without taking into account any meaningful sales of triple quad products or sales other than through our current sales channels.
- Sales training programmes have been undertaken in Q1 with one distributor and one OEM partner.
- A review of our manufacturing requirements and facilities is underway with the objective to develop a more flexible approach. Importantly we shall retain the control of technical information surrounding our core chip technology.
- An OEM partner who took delivery of two proof of concept instruments during the year is currently evaluating these with a number of their trusted customers. Following these evaluations they will decide how best to proceed with the commercial exploitation of our combined product.
- As announced in our trading update on February 24, 2016 we have sought and obtained an agreement to terminate our development contract with our OEM partner for the triple quad product. We aim to finalise the development of our first triple quad prototype in the middle of 2016 and begin preliminary testing with selected partners for defined applications. These actions will enable your Company to pursue a strategy of multiple outlets into each application area and hence reduce our dependency on any one international market participant. We will therefore have greater influence on the Company's destiny.
- A number of innovative application areas are being evaluated for the 4000 single quad and early stage contacts are being made with appropriate companies to be partners for these. As a result further OEM contracts are expected through 2016 and 2017.
- We have completed a review of sales and marketing strategy, training and client literature. The results are in the process of being implemented during the coming months.

R&D

The 4000 MiD® is one of the easiest MS on the market to maintain and with which to produce data. But as we work to reach areas where no other MS has reached we must continue to develop the product hardware and our user and service training capability.

Towards the end of 2015 we have switched our R&D focus from developing new analytical solutions to improving the product's robustness in the hands of a wider range of new users, while at the same time extending the product specification in ways that will enable the extension of the range of applications and some selective price increases. These are essential prerequisites for expanding the market for MS.

Performance Measurement

The ongoing performance of the Company is managed and monitored using a number of key financial performance indicators as detailed below.

The Company's revenues are monitored as follows:

Revenue metrics	**Year to 31 December 2015 £**	Year to 31 December 2014 £	Inc/(Dec) %
Products	**622,599**	1,010,062	(38)
Consumables	**146,612**	102,333	43

Revenues comprise sales of products, consumables and service income associated with delivering the products. The growth in consumable revenue reflects the growing user base.

The Company's profit/(loss) and cash are monitored as follows:

Profit/(Loss) & Cash Metrics	**Year to 31 December 2015 £**	Year to 31 December 2014 £	Inc/(Dec) %
Loss from operations before share based payments, interest & tax	**(3,816,284)**	(3,108,280)	23
Cash used in operating and investing activities	**(4,019,302)**	(2,878,993)	40
Cash and cash equivalents at year end	**3,607,591**	4,548,545	(21)

The Company's profitability is monitored through monthly forecasting, which tracks where the business is and where it is forecast to be at a certain date. The cash position is monitored on a daily basis and forecasts are updated quarterly.

Progress of the Company's R&D programmes is reviewed on a monthly basis by the senior management team with progress communicated to the Board.

Financial Results

2015 has been a difficult year for Microsaic. Sales did not grow as expected in our main OEM channel, principally due to differences in contract renewal expectations.

Revenue	**Year to 31 December 2015 £**	Year to 31 December 2014 £	Inc/(Dec) %
Products	**622,599**	1,010,062	(38)
Consumables	**146,612**	102,333	43
Services	**13,602**	30,818	(56)
	782,813	1,143,213	(32)

Revenues decreased by 32% to £0.78m (2014: £1.14m). Product sales decreased by 38%, while consumables increased by 43%, reflecting a growing user base. The number of units sold during the year amounted to 23 with 17 being sold in the second half year.

The gross profit for 2015 amounted to £0.30m and was 31% down on 2014 due to lower volumes. The percentage gross profit for 2015 at 39% is in line with 2014 (39%). The Company is focussed on improving the gross profit through measured price increases and manufacturing cost reduction programmes.

Other operating income included the final grant income in relation to the ROSFEN European Union sponsored project and development income from a partner, both for the triple quad. Total other operating income in 2015 amounted to £0.22m, 35% above last year.

Operating expenses were £4.34m in 2015 (2014: £3.71m). The increase in operating expenses was due to the Company's investment in R&D (£0.75m higher than 2014), and additional lease charges (£0.06m higher than 2014) due to the new training and demonstration facility at Milton Park, Abingdon.

Therefore, the loss for the year, before share-based payments, tax and interest, was £3.82m (2014: Loss £3.11m).

The current tax credit for the year is estimated at £0.36m which is made up of a prior year adjustment of £0.09m and an estimated £0.27m from the current year R&D tax credit claim.

The total comprehensive loss for the year amounted to £3.52m (2014: Loss £3.00m). The basic loss per share of 5.39p compares with a loss per share of 5.47p in 2014.

Total assets at £5.20m are £0.45m below last year. The main reasons for the fall in total assets were lower cash balances at £3.61m (down £0.94m on last year); partly off-set by higher inventories at £0.6m (up £0.36m above last year) due to a lower level of sales.

Total liabilities at £0.75m were £0.09m below 2014 due to lower trade and other payables.

Equity at £4.45m was £0.36m below last year, with the increase in share capital and share premium of £2.95m off-set by the comprehensive loss for the year of £3.52m. The increase in share capital and share premium was principally due to the placing made by the Company in October 2015, of 9,979,770 ordinary shares to new and existing shareholders. This represented a 15.7% increase in the Company's issued share capital. The gross proceeds raised from the share issue amounted to £3.29m. The share based payments reserve increased by £7k: with share options granted in the year of £0.08m; share warrants over ordinary shares of 1,467,303 granted to Numis Securities Ltd, of £0.13m; and lapsed and exercised share options totalling £0.21m transferred to retained earnings.

As with previous years, the going concern basis has continued to be adopted in preparing the financial statements. Following the progress made by the Company to date and the progress anticipated in the near term, the Directors have a reasonable expectation that the Company will have access to adequate funds to continue operations for at least 12 months. Further details are provided in note 3.

Outlook

Sales began to recover in the second half of 2015. With the market launch of the product developed for an OEM partner in 2015 and the signing of a new distribution contract in Q1 2016 with a distributor for North America we expect further sales growth in 2016.

In addition we will be looking for ways to improve the gross profit of our products, ensure that new OEM partners pay a larger share of the pre-launch costs and so reduce the loss from operations.

During 2016 we will look to maximise sales to existing customers and continue to look for additional applications and appropriate OEM channels where the key features of our product – compactness, simple deployability and serviceability – will create real competitive advantage.

Risk Management

The Company manages risk and opportunity from an operational perspective, where it assesses and weighs up the financial effect of risk and opportunity on the goals of the Company. The Company has set a risk tolerance level of £50,000 and reviews on a quarterly basis those risks above this level.

The Company's top five risks/opportunities at 31 December 2015 were:

Risks

Description	Risk	Risk rating pre-mitigation	Mitigating action	Risk rating post-mitigation
Failing to deliver on customer expectations	The risk is that Microsaic would lose an important customer	HIGH	Investment in R&D to improve product features and support teams to ensure customer expectations are met	MEDIUM

Description	Risk	Risk rating pre-mitigation	Mitigating action	Risk rating post-mitigation
Unable to raise sufficient funds	The risk is that Microsaic would be unable to raise sufficient funding to continue to invest in R&D and commercialisation	HIGH	Work closely with our broker to identify new investors. Communicate effectively with existing investors. Ensure expenditure controls are in place and forecasting is accurate	HIGH

Description	Risk	Risk rating pre-mitigation	Mitigating action	Risk rating post-mitigation
Losing competitive advantage	The risk that a new entrant to the market might capture market share	HIGH	Investment in strong commercial presence through OEMs and continue to invest in R&D	MEDIUM

Description	Risk	Risk rating pre-mitigation	Mitigating action	Risk rating post-mitigation
The theft of intellectual property (IP)	The loss of IP could lead to a competitor developing competing products	MEDIUM	Ensure security on servers and networks is installed, monitored and maintained. Ensure contracts are robust in protecting the Company's IP	LOW

Description	Risk	Risk rating pre-mitigation	Mitigating action	Risk rating post-mitigation
A new OEM opportunity is missed	The risk that the Company does not identify a valuable new OEM opportunity	HIGH	Investment in marketing, promotion of brand, attendance at trade shows, executives' knowledge of the market	MEDIUM/LOW

The Strategic Report was approved by the Board of Directors on 15 March 2016 and signed on its behalf by:

Jim Ramage
Chief Executive Officer
15 March 2016


MiDas
4000 MiD

Strategic Report

Company overview and business model

Microsaic Systems plc develops microengineered analytical instruments that are based on the scientific technique of mass spectrometry (MS). MS is widely accepted as one of the most reliable methods for identifying the chemical make-up of substances, and Microsaic is the first and only company to have commercialised and patented chip-based MS technology using silicon microengineering.

History of the Company

Microsaic Systems was established in 2001 from the highly regarded Optical and Semiconductor Devices Group at Imperial College London. It has been based at headquarters in Woking, UK since September 2004 and was admitted to AIM, a market of the London Stock Exchange, in April 2011 (ticker: MSYS). In 2015, the Company opened a demonstration and training facility in Milton Park, Abingdon, UK.

The analysis method of choice

MS is an established analytical technique used in many laboratories to accurately identify and quantify trace levels of chemical or biological compounds based on their unique molecular weight. Today, MS is the standard means of measuring the composition of samples during pharmaceutical development, and is also widely used in other industries including healthcare, environmental safety, food and drink, security, petrochemicals and mining. By miniaturising MS to desk-top size, Microsaic has made it practical for a wider range of users and applications within these fields and opens up new opportunities to capture value from the growing MS market.

A step change in laboratory capability

The Company's first product, the Microsaic 3500 MiD®, was launched in January 2011 and became the world's smallest MS system. Users are impressed by the self-contained nature of Microsaic systems – no other MS for liquid analysis has eliminated external pumps and computers – and this gives the MiD® a revolutionary advantage in deployability, ease of use and cost of ownership.

Continuing evolution

The successor to the 3500 MiD®, the 4000 MiD® was launched in March 2013 and features an even smaller footprint than the 3500 MiD® allowing it to fit even more comfortably into a standard laboratory fume hood. Its 'plug & play' components enable users to maintain the system themselves, resulting in less down-time and greater flexibility within the laboratory.

To further expand the marketplace for the 4000 MiD®, the Company launched the MiDas™ compact interface module in 2014 to extend the use of MS in the laboratory from specialist analytical chemists to the wider research community. The MiDas™ connects to the 4000 MiD® and offers automated sample preparation and handling for direct MS analysis in real time at the lab bench or in the fume hood.

The Company has an on-going R&D programme building on the achievements already made and focused on increasing the reach of its core Ionchip® technology, which underpins the MiD®. The product pipeline includes more sophisticated MS systems, including triple quad systems, which will allow the Company to address additional market needs with different requirements.

Tapping into established sales channels through value-added partnerships

The Company's strategy is to generate revenue streams by introducing its compact, deployable MS products, based on its patented chip technologies, into a series of markets and applications by selling through partnerships with existing OEM's and distributors. Typically these sales channels will be international suppliers of complementary equipment.

Board of Directors

Colin Nicholl - Non-executive Chairman

Colin Nicholl joined the Board of the Company in 2005 and has served as Chairman since July 2013. He sits on the Board's Finance and Audit Committee and Remuneration Committee. Colin brings a wealth of business, financial and city experience to the Company as a former partner of Cazenove & Co. and Chief Investment Officer of Cazenove Asset Management. He is a non-executive Director of IM Asset Management and was, until its takeover, Chairman of Membrane Extraction Technology Limited. Colin has a degree in mathematics from the University of York, and has actuarial and company secretarial professional qualifications.

Andrew Holmes - Non-executive Director

Andrew Holmes is Professor of Micro-Electro-Mechanical Systems at Imperial College London and a co-founder of the Company. Andrew was educated at Cambridge University and Imperial College London, and specialises in research into microfabrication and micropower technologies. He has been Company Secretary since 2004 is chair of the Finance and Audit Committee and sits on the Board's Remuneration Committee.

James Ramage - Chief Executive Officer

James (Jim) Ramage was appointed a Director of the Company in April 2010 and became CEO on 1 December 2015. Jim is also non-executive Chairman of Tesla Engineering, a manufacturer of high value magnetic components for MRI scanners and other products. He is a Fellow of the Royal Academy of Engineering and the Institute of Physics. He has extensive experience of the analytical instrumentation industry and served as a Director and Divisional Managing Director of VG Instruments plc and Fisons plc respectively prior to becoming executive Chairman of Tesla in 1995.

Eric Yeatman - Non-executive Director

Eric Yeatman is Professor of Micro-Engineering at Imperial College London and was appointed Head of the Department of Electrical and Electronic Engineering in September 2015. Eric is a co-founder of the Company and was Chairman of the Board from 2004 to June 2013. He chairs the Remuneration Committee and sits on the Board's Finance and Audit Committee. Eric was educated at Dalhousie University (Halifax, Canada) and Imperial College London. He specialises in micro-systems research and has acted as an advisor to two venture capital funds.

Glenn Tracey - Chief Operating Officer

Glenn Tracey has more than 15 years' experience leading product marketing and R&D for small and large companies in sensing and detection, across applications in human and environmental health. For the majority of this time, Glenn was at global life sciences company PerkinElmer, where he progressed through multiple senior roles advancing PerkinElmer's environmental health technologies from high-end laboratory detection to field-based sensing across a number of markets such as food, air, water and pharmaceuticals. Glenn joined the Company in March 2015 and was appointed to the Board on 1 December 2015.

Bevan Metcalf - Finance Director

Bevan Metcalf has 35 years' of financial management experience with international companies primarily in the mining and pharmaceuticals sectors, including Beowulf Mining (2014-present), Afferro Mining (2008-2013), African Eagle Resources (2004-2011), Orion Corporation (1995-2003) and GlaxoSmithKline (1984-1995). In the past ten years, he has been involved with companies listed on the AIM market of the London Stock Exchange and on the Toronto stock exchange as Finance Director, Chief Financial Officer and in a non-executive director capacity. Bevan is a Member of the Chartered Accountants – Australia and New Zealand, and he has a degree in Management Studies from the University of Waikato, New Zealand. Bevan was appointed to the Board of the Company on 18 December 2015.

Directors' Report

The Directors present their report for the year ended 31 December 2015.

Principal activity, business review and business risks

The principal activity of the Company continued to be the research, development and commercialisation of scientific instruments. A review of the business, its prospects and its research and development activities is contained within the Strategic Report.

Results and dividends

The results for the Company are given in the statement of comprehensive income set out on page 32. The Directors do not recommend the payment of a dividend (2014: nil).

Directors

Since 1 January 2015 the following Directors have held office:

C J Nicholl

C R Jump (Resigned 1 December 2015)

A H Darby (Resigned 18 December 2015)

A S Holmes

J C Ramage

E M Yeatman

G D Tracey (Appointed 1 December 2015)

B J Metcalf (Appointed 18 December 2015)

At the forthcoming Annual General Meeting J C Ramage and E M Yeatman will retire by rotation and be proposed for re-appointment. In addition B J Metcalf and G D Tracey will be re-appointed as Directors of the Company.

Directors' interests

The Directors' interests in the shares of the Company at 31 December 2015 were:

	Ordinary shares of 0.25p each at 31 Dec 2015		Ordinary shares of 0.25p each at 31 Dec 2014	
	Number	%	Number	%
A S Holmes	2,882,111	3.93	2,836,656	4.48
C J Nicholl	3,803,559	5.18	3,268,711	5.17
B J Metcalf	-	-	-	-
J C Ramage	298,579	0.41	284,990	0.45
G D Tracey	-	-	-	-
E M Yeatman	3,396,632	4.63	3,287,723	5.20
	10,380,881	14.15	9,678,080	15.30

Significant shareholdings

Shareholders, excluding Directors, having a beneficial interest of 3% or more of the Company's shares as at 14 March 2016:

	Ordinary shares of 0.25p each at 14 March 2016	
Shareholder	Number	%
Nigel Wray	8,207,122	11.19
Fidelity International	7,304,696	9.96
Herald Investment Management	7,058,657	9.62
Octopus Investments	6,302,577	8.59
Aviva Investors	4,363,501	5.95
R Syms	3,635,200	4.95
BlackRock	3,113,159	4.24
LGT Bank	2,862,430	3.90
Hargreave Hale	2,537,000	3.46
Henderson Global	2,339,322	3.19
Parkwalk Advisors	2,240,838	3.05

Employees

The Company regards the expertise and contributions of its employees as critical to the future success of the business. The Company engages with its employees to understand all aspects of the business and seeks to remunerate its employees fairly. The Company gives full and fair consideration to applications for employment received regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs or sexual orientation. The Board takes account of employees' interests when making decisions and suggestions from employees aimed at improving the Company's performance are encouraged.

Company share ownership plans

The Company operates two Employee Share Option Schemes (ESOS) for the benefit of its employees and executives Directors.

The ESOS was formed in 2006 to enable the incentivisation of key employees to be aligned to the performance of the Company. Under the ESOS the Company grants employees options to acquire the Company's ordinary shares subject to:

- vesting periods (normally 3 years for new grants)
- a total exercise period of 10 years from the date of grant
- the exercise price normally being the market price of the ordinary shares at the close of business the day before the date of grant
- performance conditions, as appropriate

Options are granted up to the maximum amount allowed under the limits of the Enterprise Management Incentive (EMI) Scheme - these options are called 'Approved Options'. The EMI scheme is subject to the provisions of Schedule 5 of the Income Tax (Earnings and Pensions) Act 2003 and have tax advantages for the employee and employer. Any options granted above EMI limits are 'Unapproved Options' and carry no tax benefits.

The Company received approval at its 2011 AGM to issue equity securities to employees and Directors on conversion of their options up to a maximum of 10% of the Company's issued share capital over a rolling ten year period. At 31 December 2015 73,365,146 shares were in issue, and so the maximum option pool is 7,336,514. Unexercised options outstanding at 31 December 2015 were 2,804,391. Of these, 1,030,000 have not yet vested. During the last 10 years 2,090,900 equity securities have been issued in respect of converted options. Thus the remaining option pool is 2,481,223.

Management of risk

The management of operational risk is covered in the Risk Management Report. Financial risk is managed as follows:

Liquidity risk

The Company finances its operations from equity funding provided by shareholders and revenues generated by the business. The Company seeks to manage liquidity risk to ensure sufficient funds are available to meet requirements.

The Company invests its cash reserves in bank and money market deposits as a liquid resource to fund its operations. The Company's strategy for managing cash is to maximise interest income at low risk whilst ensuring availability to match the profile of the Company's cash flows.

Interest rate risk

The Company does not face any significant interest rate risk as it has no borrowings.

Surplus funds are invested to maintain a balance between accessibility of funds and competitive rates of return whilst investing funds safely.

Credit risk

The Company manages its credit risk in cash and cash equivalents by spreading surplus funds between creditworthy financial institutions.

The Company is also exposed to credit risk attributable to trade and other receivables. The maximum credit risk in respect of the financial assets at each year end is represented by the balance outstanding on trade and other receivables. The Company has limited exposure to credit risk, as the majority of its trade and other receivables are due from major international corporations and institutions.

Foreign currency risk

The majority of the Company's transactions are denominated in pounds sterling.

The Company has no long term commitments to purchase goods or services in foreign currencies. Purchases denominated in foreign currency are expensed at the exchange rate prevailing at the date of the transaction, and comprise an immaterial proportion of the Company's total expenditure.

The only assets and liabilities denominated in foreign currencies relate to trade receivables and trade payables with overseas counterparties together with small balances of US dollar and Euro currencies to settle these liabilities. The risks and sums involved are considered to be immaterial.

Health and safety and the environment

The Company is committed to providing a safe environment for its staff and other parties for whom it has a responsibility. It has set up systems and processes to ensure compliance with health and safety legislation and the Board considers health and safety matters at its regular monthly meetings.

The Company is also mindful of its corporate responsibilities concerning the impact of its activities on the environment and seeks to minimise this impact wherever possible.

Quality Management System (QMS)

Our mission is to supply, design and deliver mass spectrometry products that provide innovative compact analysis with high quality and reliability.

Our quality policy applies to the development, manufacture, marketing and support of our products. In all of our activities we are strongly focused on commitment to the requirements of our customers including:

- Management of risks in order to prevent operational and product problems that may adversely impact customer satisfaction and the interests of other parties.
- Managing any externally provided products and services to ensure that they meet specified requirements including changing needs.

To help management achieve its policy the business management system has been developed using a process approach including a Plan-Do-Check cycle, risk based thinking, and a fundamental commitment to the continual improvement of the system and its effectiveness and integration into company activities.

A series of specific objectives have been established to:

- Support and align with our policy commitments
- Define the substance of each objective
- Identify improvement targets

Objectives:

- Customer satisfaction and responsiveness
- To continuously improve our operational effectiveness
- To improve our organisational capability and efficiency

Implementation

The Company's QMS is designed to comply with the requirements of ISO 9001:2008, with the goal of continually improving our products and processes. The effectiveness of this system in achieving the objectives of the business is measured and monitored via the measures defined as part of the QMS. It is the responsibility of each individual working for and on behalf of the Company to understand and implement this policy. This policy is communicated openly to internal and external parties to promote awareness of the Company's commitment to high quality. This policy is reviewed annually to ensure its continued suitability and effectiveness. Progress against targets is monitored on a regular basis to identify strengths and areas for improvement.

Directors' indemnity and insurance

The Company has granted an indemnity to its Directors under which the Company will indemnify them, subject to the terms of the deed of indemnity, against all costs, charges, losses, damages and liabilities incurred by them in the performance of their duties.

The Company also maintains insurance for its Directors and Officers against the consequences of actions brought against them in relation to their duties for the Company.

Related party transactions

The interests of the Directors are shown above and their remuneration is detailed in the Directors' Remuneration Report on page 22. There were no other related party transactions involving the Directors.

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 prepared the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 Company and the profit or loss of the Company for that period.

In preparing the 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; and
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure to auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Additionally the Directors have taken all the steps that they should have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Saffery Champness has expressed their willingness to remain in office as auditors of the Company, and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

This Directors' Report was approved by the Board of Directors on 15 March 2016 and signed on its behalf.

Jim Ramage
Director
Company number 3568010

Directors' Remuneration Report

This report on the Directors' remuneration sets out the Company's policy on the remuneration of executive and non-executive Directors, together with details of Directors' remuneration packages and service contracts.

Remuneration policy

The remuneration policy for executive Directors, determination of their individual remuneration packages and their performance appraisals have been delegated to the Board's Remuneration Committee comprising three non-executive Directors.

Remuneration of the executive Directors

In setting remuneration for executive Directors, the Remuneration Committee considers a number of factors including:

- the basic salaries and benefits available to executive Directors of comparable companies;
- the need to pay executive Directors a competitive salary in line with the nature and complexity of their work;
- the need to attract and retain executive Directors of an appropriate calibre;
- the need to ensure executive Directors' commitment to the continued success of the Company by means of incentive schemes; and
- the need for the remuneration awarded to reflect performance.

Remuneration of the non-executive Directors

The remuneration of the non-executive Directors is agreed by the Board following recommendation by the Remuneration Committee, having a view to rates paid in comparable organisations. The non-executive Directors do not receive any pension, bonus or other benefits from the Company. Since becoming a public limited company, no share options have been issued to non-executive Directors and they are not entitled to participate in any Company share option schemes.

The remuneration of the non-executive Directors was changed on 1 December 2015. As part of the Board's commitment to preserve cash in the business, the Remuneration Committee has reviewed the remuneration packages of the non-executive Directors. As a result the non- executive

Directors have agreed to a reduced fixed annual amount relating to their attendance and work directly related to Board and subcommittee meetings, with an additional daily payment should they be required to commit further time on Company business. As a result the Chairman will receive a fixed annual fee of £35,000, previously £45,000, and the other non-executive Directors will receive an annual fee of £20,000, previously £28,000. Additional days worked must be approved by the Chairman, or the Chairman of the Remuneration Committee.

Remuneration of the executive Directors

The Remuneration of the executive Directors consists of a basic salary, share options, a contributory personal pension, life assurance and a discretionary bonus based on performance against individual and business objectives.

Share options

It is the normal practice of the Company to award share options to executive Directors on joining the Company. The award of additional options to executive Directors, as well as to other employees, is reviewed annually by the Remuneration Committee.

Directors' emoluments

	Salaries & fees	Other payments	Termination Payment	Non Cash Payments	Pension Contributions	Year to 31 December 2015	Year to 31 December 2014
	£	£	£	£	£	**£**	£
C J Nicholl	45,550	-	-	-	-	**45,550**	35,750
C R Jump (1)	180,953	8,479	-	947	11,336	**201,715**	211,186
AS Holmes	28,067	-	-	-	-	**28,067**	25,150
J C Ramage (2)	38,300	-	-	-	-	**38,300**	25,150
E M Yeatman	28,067	-	-	-	-	**28,067**	25,150
G D Tracey (3)	7,167	597	-	17	108	**7,889**	-
A H Darby (4)	132,056	1,346	65,100	547	13,388	**212,437**	118,728
B J Metcalf (5)	2,750	-	-	-	-	**2,750**	-
Total	462,910	10,422	65,100	1,511	24,832	**564,775**	441,114

(1) resigned 1 December 2015
(2) appointed CEO effective 1 December 2015. Previously a non-executive Director.
(3) appointed 1 December 2015
(4) resigned 18 December 2015
(5) appointed 18 December 2015

Other payments comprise bonus amounts paid and payable to Directors. Non cash payments represent life assurance premiums.

Share Incentive Plan

M R Bateman and Jim Ramage participated in the Company SIP in 2013 and were each awarded 1,562 matching shares under the terms of the scheme. Mr Bateman's matching shares lapsed when he left the Company in 2014. The Company incorrectly included Jim Ramage in the SIP in 2013. Discussions have taken place with HMRC and in 2015 the Company paid to HMRC £918 for outstanding liabilities. The trustees of the SIP will arrange for the transfer of 3,125 partnership shares from the SIP to Jim Ramage in early 2016, bringing this matter to a close. At the year end the SIP held 11,977 shares in the Company.

Directors' share options

Share options over the Company's ordinary shares held by the Directors at the year end were as follows:

	At 1 January 2015 Number	Granted in the year Number	Lapsed in the year Number	Exercised in the year Number	At 31 December 2015 Number	Exercise price Pence	Exercise period
C J Nicholl	116,000	-	(116,000)	-	**-**	43.10p	24 May 2008 - 24 May 2015
	116,000	-	-	-	**116,000**	43.10p	24 May 2009 - 24 May 2016
G D Tracey	-	100,000	-	-	**100,000**	47.75p	17 April 2018 - 17 April 2025
	232,000	100,000	(116,000)	-	**216,000**		

The above share options are subject to service and/or performance conditions.

The share price on 1 January 2015 was 46p and on 31 December 2015 was 24.5p, with a high and low over the year of 49.5p and 24p respectively.

The share based payment charge for the Directors during the year was nil (2014: £45,414). Share options were issued to Mr Tracey during the year but before he became a Director of the Company.

In January 2016, share options were awarded to Directors as set out in Note 29.

Directors' notice periods

Details of each Director's notice period as per their service contract are as follows:

	Contract date	Term	Notice period
C J Nicholl	24-Apr-06	Indefinite	3 months
G D Tracey	01-Dec-15	Indefinite	6 months
B J Metcalf	18-Dec-15	Indefinite	3 months
A S Holmes	01-Apr-06	Indefinite	3 months
J C Ramage	21-Jun-10	Indefinite	6 months
E M Yeatman	01-Apr-06	Indefinite	3 months


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Corporate Governance Report

As an AIM-listed company, Microsaic Systems plc is not required to comply with the UK Corporate Governance Code (2014), a set of recommended corporate governance principles for UK public companies issued by the Financial Reporting Council. However, the Directors support high standards of corporate governance and have established a set of corporate governance principles based on the QCA (Quoted Companies Alliance) Guidelines which they regard as appropriate for the size, nature and stage of development of the Company.

The Board

The Board currently comprises six Directors consisting of the non-executive Chairman, three executive Directors (the CEO, COO and FD), and two non-executive Directors. Directors appointed by the Board are subject to re-election by shareholders at the following Annual General Meeting and thereafter Directors are subject to re-election at least every three years.

Independence of the non-executive Directors

The Board believes that its non-executive Chairman and Directors are independent. While three of these Directors have significant shareholdings in the Company, the Board believe that the advice and behaviour of its non-executive Directors is independent and at all times in the best interest of all shareholders. In addition, the skills and business judgement which they possess and exercise contribute to the efficient and effective management of the Company.

The Board keeps under review the relevance and appropriateness of the non-executives' skills in light of the continuing evolution of the marketplace, technology and the Company's strategy.

Role of the Board

The Board is responsible for ensuring that the Company is managed in an efficient, effective and professional manner. These responsibilities include oversight of and approval of the corporate strategy, financial budgets, Company performance, approval of major capital expenditure, executive performance and the framework of internal controls.

Role of the Management Team

The Management team is composed of the executive Directors and a number of senior managers and is headed up by the CEO. This team is responsible for the day to day operations and execution of the strategy.

Within agreed authority limits they run the operations of the business and work towards defined goals and key performance indicators that are embedded within the Company's strategy, budget and performance goals.

Engagement with staff

The Executive team holds a quarterly meeting with staff, to communicate progress of the business and to receive feedback.

Board processes

The Board has an established Finance and Audit Committee and a Remuneration Committee with formally delegated responsibilities to assist with the execution of its responsibilities.

The Board holds regular meetings on a monthly basis and additional meetings at any other times as may be necessary to deal with any urgent matters. The agenda for Board meetings is prepared by the executive Directors (following an established framework) and agreed with the Chairman. All submissions are circulated in advance to allow due consideration of matters therein.

The executive Directors prepare regular reports which allow the Board to assess the Company's activities and review its performance and the Board has clearly specified the levels of authority delegated to management. Members of the Company's management team are involved in Board discussions, as required, and non-executive Directors are able to have discussions with other employees where they feel it is appropriate. Non-executive Directors also have the authority to seek external independent advice as they think fit at the expense of the Company.

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. This includes financial, operational and compliance controls and risk-management systems. Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. The internal control systems are designed to minimise rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

Conflicts of interest

Directors must keep the Board advised of any interest that could potentially conflict with those of the Company. At the start of each Board meeting the Chairman asks the Directors if a material conflict exists. Where a material conflict exists, the Director concerned must not participate in discussions or vote on the subject matter.

Directors' attendance record

The following table shows the attendance at the meetings of the Board of Directors during 2015:

	Meetings held Number	Meetings attended Number
C J Nicholl	12	12
A S Holmes	12	11
J C Ramage	12	10
E M Yeatman	12	12
B J Metcalf	1	1
G D Tracey	1	1

Finance and Audit Committee

The remit of the Finance and Audit Committee is documented in its terms of reference which were adopted by the Board of Directors.

The purpose of the Committee is to assist the Board in the effective discharge of its responsibilities for corporate governance, financial reporting, corporate control and risk management. The Committee normally meets at least twice a year and, amongst other things, reviews the annual report and accounts and interim statements with the external auditors. The Committee also approves external auditors' fees and ensures auditors' independence as well as focusing on compliance with legal requirements and accounting standards. The ultimate responsibility for reviewing and approving the annual financial statements and interim financial statements remains with the Board.

The members of the Finance and Audit Committee are: A S Holmes, C J Nicholl, and E M Yeatman. Prof. A S Holmes is the Chairman. The external auditors, the Chief Executive Officer, Finance Director and other executives may be invited to Committee meetings at the discretion of the Committee.

Remuneration Committee

The remit of the Remuneration Committee is documented in its terms of reference which were adopted by the Board of Directors.

The Remuneration Committee meets as required and at least once a year. Its responsibilities include reviewing the performance of the executive Directors, setting their remuneration levels, determining the payment of bonuses and other benefits and considering the grant of options under the Company share option schemes (see Remuneration Report above).

The members of the Remuneration Committee are A S Holmes, E M Yeatman and C J Nicholl. The Chairman is Prof. E Yeatman.

Board nominations

The appointment of replacement or additional Directors is the responsibility of the Board as a whole.

At this stage, it is not considered appropriate for the Company to have a formally constituted Nominations Committee, however this will be kept under review.

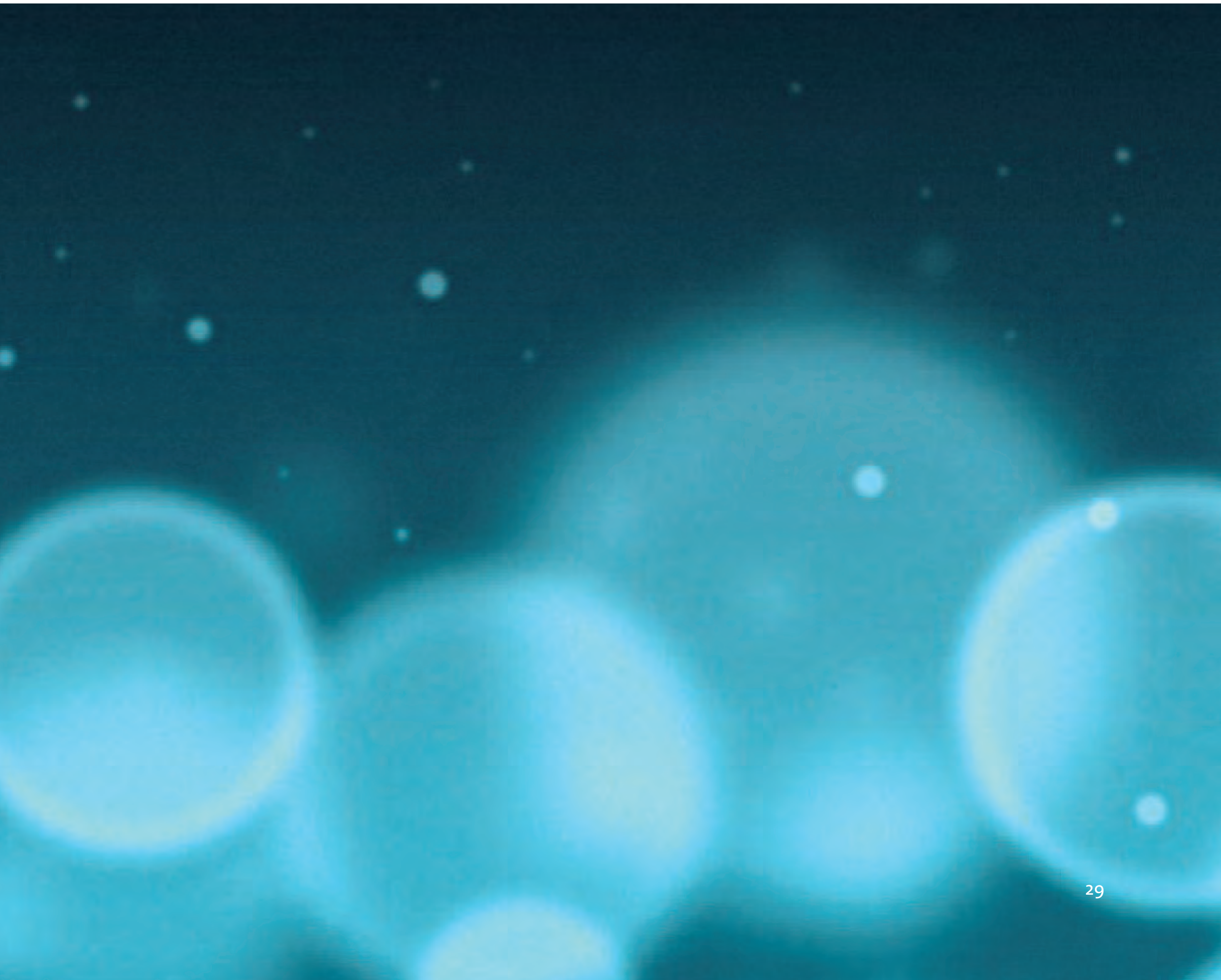
Communications with shareholders

The Board aims to keep shareholders informed of all major developments concerning the Company. Information is communicated through the following channels:

- The release of announcements, trading updates and interim financial statements through the Regulatory News Service of the London Stock Exchange and on the Company's website;
- The annual report including the financial statements are sent to all registered shareholders; and
- Face to face meetings with major shareholders following the release of interim and preliminary results.

Notices of meetings of shareholders are sent to all registered shareholders.

Colin Nicholl
Chairman



Independent Auditors' Report

We have audited the financial statements of Microsaic Systems plc for the year ended 31 December 2015 on pages 32 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 20, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Company as at 31 December 2015 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, we have considered the adequacy of the disclosures made in Note 3 to the financial statements concerning the Company's ability to continue as a going concern. The Company is reliant on its ability to successfully raise further financing to fund future working capital and development projects.

Although the Directors are confident of being able to obtain further funding, this is not guaranteed and therefore indicates the existence of uncertainty. In view of this uncertainty we consider that it should be drawn to the members' attention. Our opinion is not qualified in respect of this matter.

Matters on which we are required to report by exception

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

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

Lucy Brennan
Senior Statutory Auditor
For and on behalf of Saffery Champness
Chartered Accountants and Statutory Auditors
71 Queen Victoria Street
London
EC4V 4BE

15 March 2016

Statement Of Comprehensive Income

	Notes	Year to 31 December 2015 £	Year to 31 December 2014 £
Revenue	5	**782,813**	1,143,213
Cost of sales		**(478,270)**	(700,180)
Gross profit		**304,543**	443,033
Other operating income	6	**218,782**	162,568
Other operating expenses		**(4,339,609)**	(3,713,881)
Loss from operations before share based payments	7	**(3,816,284)**	(3,108,280)
Share based payments		**(82,636)**	(55,850)
Loss from operations after share based payments		**(3,898,920)**	(3,164,130)
Finance income	8	**14,654**	5,596
Loss before tax		**(3,884,266)**	(3,158,534)
Tax on loss on ordinary activities	9	**359,421**	154,414
Total comprehensive loss for the year		**(3,524,845)**	(3,004,120)

Loss per share attributable to the equity holders of the Company

Basic and diluted loss per ordinary share	10	**(5.39)p**	(5.47)p

The notes on pages 36 to 57 form part of these financial statements.

Statement Of Financial Position

	Notes	31 December 2015 £	31 December 2014 £
ASSETS			
Non-current assets			
Intangible assets	11	**102,304**	116,565
Property, plant and equipment	12	**175,242**	128,272
Total non-current assets		**277,546**	244,837
Current assets			
Inventories	13	**600,268**	241,175
Trade and other receivables	14	**445,745**	515,396
Corporation tax receivable		**267,374**	100,000
Cash and cash equivalents		**3,607,591**	4,548,545
Total current assets		**4,920,978**	5,405,116
TOTAL ASSETS		**5,198,524**	5,649,953
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**183,413**	158,133
Share premium	19	**15,714,258**	12,790,887
Share based payment reserve		**445,258**	438,662
Retained earnings		**(11,897,647)**	(8,578,539)
Total Equity		**4,445,282**	4,809,143
Current liabilities			
Trade and other payables	15	**607,985**	774,143
Non-Current liabilities			
Provisions	16	**145,257**	66,667
Total liabilities		**753,242**	840,810
TOTAL EQUITY AND LIABILITIES		**5,198,524**	5,649,953

The financial statements were approved for issue by the Board of Directors on 15 March 2016 and signed on its behalf by:

Jim Ramage
Chief Executive Officer
Company number 3568010

The notes on pages 36 to 57 form part of these financial statements.

Statement Of Changes In Equity

	Notes	Share capital £	Share premium £	Share payment reserve £	Retained earnings £	**Total equity £**
At 1 January 2014		131,271	8,629,494	382,812	(5,574,419)	**3,569,158**
Shares issued		26,862	4,446,495	-	-	**4,473,357**
Share issue costs		-	(285,102)	-	-	**(285,102)**
Transfer in respect of lapsed share options			-	-	-	-
Total comprehensive loss for the year		-	-	-	(3,004,120)	**(3,004,120)**
Share based payments-share options		-	-	55,850	-	**55,850**
At 31 December 2014		158,133	12,790,887	438,662	(8,578,539)	**4,809,143**
Shares issued	18	25,280	3,302,180	-	-	**3,327,460**
Share issue costs		-	(378,809)	129,697	-	**(249,112)**
Transfer in respect of lapsed and exercised share options		-	-	(205,737)	205,737	**-**
Total comprehensive loss for the year		-	-	-	(3,524,845)	**(3,524,845)**
Share based payments-share options		-	-	82,636	-	**82,636**
At 31 December 2015		**183,413**	**15,714,258**	**445,258**	**(11,897,647)**	4,445,282

The notes on pages 36 to 57 form part of these financial statements.

Statement Of Cash Flows

	Notes	**Year to 31 December 2015**	Year to 31 December 2014
		£	£
Total comprehensive loss for the year		**(3,524,845)**	(3,004,120)
Amortisation of intangible assets	11	**48,349**	49,256
Depreciation of property, plant and equipment	12	**126,581**	121,820
Loss on disposal of property, plant and equipment		**-**	7,977
Provision for leasehold dilapidations		**9,000**	-
Provision for bad and doubtful debts		**1,989**	-
Share based payments		**82,636**	55,850
General inventory provision		**(8,226)**	-
Tax on loss on ordinary activities		**(359,421)**	(154,414)
Interest received		**(14,654)**	(5,596)
Increase in inventories		**(350,867)**	(36,334)
Decrease/(Increase) in trade and other receivables		**71,111**	(100,176)
(Decrease)/Increase in trade and other payables		**(96,568)**	128,247
Cash used in operations		**(4,014,915)**	(2,937,490)
Taxation received		**192,047**	134,414
Net cash used in operating activities		**(3,822,868)**	(2,803,076)
Cash flows from investing activities			
Purchases of intangible assets	11	**(34,088)**	(33,990)
Purchases of property, plant and equipment	12	**(173,551)**	(47,523)
Interest received		**11,205**	5,596
Net cash used in investing activities		**(196,434)**	(75,917)
Cash flows from financing activities			
Proceeds from share issues	18	**3,327,460**	4,473,357
Share issue costs		**(249,112)**	(285,102)
Net cash from financing activities		**3,078,348**	4,188,255
Net (decrease)/increase in cash and cash equivalents		**(940,954)**	1,309,262
Cash and cash equivalents at beginning of the year		**4,548,545**	3,239,283
Cash and cash equivalents at the end of the year		**3,607,591**	4,548,545

The notes on pages 36 to 57 form part of these financial statements.

Notes to the financial statements

The principal activity of the Company continued to be the research, development and commercialisation of scientific instruments. The Company is incorporated in England and its registered address is GMS House, Boundary Road, Woking, Surrey, GU21 5BX.

1. Accounting policies

The following principal accounting policies have been used consistently in the preparation of these financial statements.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements have been prepared under the historical cost basis except where financial instruments are required to be carried at fair value under IFRS.

Revenue recognition

Revenue represents amounts receivable from the sale of goods and services, net of value added tax, trade discounts and commissions. Revenue from the sale of goods is recognised when the risks and rewards of ownership of the goods passes to the customer, which is normally upon delivery. Revenue from services is recognised in the period in which the service is provided.

Other operating income includes EU grant income and income from development contracts. The Company's management assesses the contracts at each balance sheet date, including the costs to completion, which are subject to estimation uncertainty.

Change in accounting policy for non-product income

In line with the Company's transition from grant-generated revenues to product sales, an accounting policy change was made in 2014 to make the financial information more relevant. This made it easier for users to understand the financial statements. Accordingly, non-product sales are presented under 'Other operating income' and cost of sales includes only the raw materials cost of products sold. Operating expenses represents the cost base of the business including R&D expenditure. The Directors have identified grant income of £60,423 recognised as revenue in 2014 that should have been classified as other operating income and have therefore adjusted the comparative results accordingly.

Segmental reporting

The Company currently has one business segment, being the research, development and commercialisation of scientific instruments. This is undertaken wholly within the United Kingdom. Revenue by geographical market is analysed between the UK and non-UK.

Intangible assets

Trademarks and patents are stated at historic cost of registration less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to operating expenses and calculated to write off the cost in equal annual instalments over 5 years, which is considered to be a prudent estimate of their useful economic lives.

Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition or production costs less accumulated depreciation and impairment losses.

Depreciation is charged to the statement of comprehensive income on a straight-line basis to write-off the carrying value of each asset to residual value over its estimated useful economic life as follows:

Plant and equipment	- 33.3% on a straight line basis
Fixtures and fittings	- 33.3% to 40% on a straight line basis

Pensions

The Company established an Auto-enrolment pension scheme for employees during the year. Contributions are charged to the statement of comprehensive income in the period they are payable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them into their present locations and condition. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

Provisions

Provisions are established where the Directors have identified an obligation which is probable and where the amount can be estimated reliably.

Taxation

Current taxes are based on the results of the Company and are calculated according to local tax rules, using the tax rates that have been enacted by the balance sheet date.

The Company recognises research and development tax credits receivable in cash as a current asset under the heading corporation tax receivable. Any difference with amounts actually received are dealt with as adjustments to prior period tax.

Notes to the financial statements

Deferred tax is provided in full using the balance sheet liability method for all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured using currently enacted or substantially enacted tax rates.

Deferred tax assets are recognised to the extent the temporary difference will reverse in the foreseeable future and that it is probable that future taxable profit will be available against which the asset can be utilised.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of transaction, or forward contract rate, if applicable. All differences are taken to the statement of comprehensive income.

Financial instruments

The Company has adopted both IAS 32 and IAS 39.

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

The fair value of cash and cash equivalents is considered to be their carrying amount due to their short term maturity.

Trade receivables

Trade receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Company are recorded at the value of the proceeds received net of direct issue costs including the fair value of any warrants issued in lieu of issue costs.

Leases

Assets obtained under hire purchase contracts and finance leases are capitalised and depreciated over their useful lives. Obligations under such agreements are included in liabilities net of the finance charges allocated to future periods.

All other leases are considered operating leases, the costs of which are expensed on a straight line basis over the lease term. Rent free periods and other incentives are spread on a straight line basis over the lease term.

Research and development

Expenditure on research 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 intangible asset is technically feasible so that it will be available for use or sale
- the Company intends to complete the intangible asset and use or sell it
- the Company has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably

Costs incurred which do not meet the above criteria are expensed as incurred. No development costs have been capitalised to date.

Share based payments

In accordance with IFRS 2 "Share-based payments", the Company reflects the economic cost of awarding shares and share options to Directors, employees and advisors by recording an expense in the statement of comprehensive income equal to the fair value of the benefit awarded, fair value being determined by reference to option pricing models. The expense is recognised in the statement of comprehensive income over the vesting period of the award.

Notes to the financial statements

The fair value of warrants issued to advisors as remuneration for their services in a fundraising will be charged to share premium over the vesting period of the award.

2. Application of new EU endorsed accounting standards, amendments to existing EU endorsed standards and interpretations

New and amended standards and interpretations becoming effective during the year

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

IFRS 2 Share-based Payments (Annual Improvements 2010-2012 Cycle) (effective for accounting periods beginning on or after 1 July 2014)

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Company has identified any performance and service conditions which are vesting conditions in previous periods. Thus, these amendments did not impact the Company's financial statements or accounting policies.

The Directors identified no other standards becoming effective in the year that were relevant to the Company's financial reporting.

New standards, amendments and interpretations not yet effective

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Directors have identified the following relevant standards, amendments or interpretations that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers (effective for accounting period beginning on or after 1 January 2017)

IFRS 15 specifies how and when the Company will recognise revenue as well as requiring the Company to provide the users with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2018)

This replaces IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

IFRS 16 Leases (effective for accounting period beginning on or after 1 January 2019)

IFRS 16 specifies how the Company will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Directors have not identified any further relevant future standards. The Directors have not yet assessed the full impact of the above standards on the Company's financial reporting though the impact is not expected to be material.

3. Going concern

The Company is engaged in the research, development and the commercialisation of scientific instruments. In common with other research based companies Microsaic raises finance in discrete tranches to fund its working capital and research and development activities. Although the Company is focussed on increasing revenue from its product sales it may have to raise funds in 2016. Based on current discussions the Directors have a reasonable expectation that the required new funds will be secured from existing and new investors. On this basis the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, whilst the Directors are confident that they are taking all the necessary steps to ensure the required funding will be available, there can be no certainty that this will be the case. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that may be necessary should the Company be unsuccessful in raising the required finance.

4. Critical accounting estimates and judgements

Accounting estimates and judgements are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates could, by definition, differ from the actual outcome.

Notes to the financial statements

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below:

Going concern

The financial statements have been prepared on a going concern basis, as highlighted in note 3 above.

Recognition of other operating income

Other operating income includes EU grant income and income from development contracts. The Company's management assesses the contracts at each balance sheet date, including the costs to completion, which are subject to estimation uncertainty.

Amortisation of trademarks and patents

Capitalised costs relating to trademarks and patents are amortised over their estimated useful lives. As the product development programme is still ongoing and the lifetime of the Company's intellectual property is difficult to determine, the Directors have applied a prudent estimate of 5 years. This assumption is reviewed at each balance sheet date and amended if required.

Share based payments

The calculation of the share based payments expense utilises assumptions and estimates (for example volatility, future exercise rates) which may differ from actual results. Details of the assumptions are set out in notes 24 and 25.

Provision for dilapidations

The Company occupies leasehold premises. The Directors have assessed the level of provision for dilapidations after consultation with their advisors and made a provision accordingly.

Provision for warranties

The Company provides customers with a 15 month warranty on MS product sales. The Directors have assessed the level of provision for warranties by estimating the costs that may have to be incurred over the warranty period.

Research and development tax credits

The Company recognises research and development tax credits receivable in cash as a current asset under the heading corporation tax receivable. These credits are subject to acceptance by HM Revenue & Customs and the resulting cash receipt may be greater or less than this amount.

5. Revenue

Throughout 2015 the Company operated in one business segment, that of research, development and commercialisation of scientific instruments. The geographical analysis of revenue was as follows:

	Year to 31 December 2015 £	Year to 31 December 2014 £
UK	**158,515**	145,465
Non-UK	**624,298**	997,748
	782,813	1,143,213

Further attribution of the non-UK revenue is not possible due to the nature of the sales via OEM agreements which are then distributed globally. One customer represented 52% of total revenue (2014: 78%).

6. Other operating income

The Company's other operating income for the year ended 31 December 2015 is £218,782 (2014: £162,568) and includes income from a European grant funded project and a development contract.

7. Expenses by nature

	Year to 31 December 2015 £	Year to 31 December 2014 £
Loss from operations is stated after charging/(crediting)		
Amortisation of intangible assets	**48,349**	49,256
Provision for bad and doubtful debts	**1,989**	-
Movement in general inventory provision	**(8,226)**	-
Depreciation of property, plant and equipment	**126,581**	121,820
Loss on disposal of fixed assets	**-**	7,977
Provision for dilapidations on leased buildings	**9,000**	66,667
Pension costs	**116,977**	82,417
Share based payments - equity settled	**82,636**	55,850
Operating lease rentals - land and buildings	**153,297**	97,400
Exchange (gain)/loss	**(9,357)**	157
Research and development expenditure (before pensions)	**1,386,542**	636,989
Directors' emoluments	**564,774**	600,857

Notes to the financial statements

	Year to 31 December 2015 £	Year to 31 December 2014 £
Services provided by the Company's auditors		
Fees payable to the Company's auditors for the audit of the financial statements	16,750	16,000
Fees payable to the Company's auditors for other services		
- Tax compliance	5,000	5,000
- Other	4,449	1,800
	26,199	22,800

8. Finance income

	Year to 31 December 2015 £	Year to 31 December 2014 £
Bank interest	14,654	5,596

9. Tax on loss on ordinary activities

	Year to 31 December 2015 £	Year to 31 December 2014 £
Domestic current period tax		
UK corporation tax	(267,374)	(100,000)
Adjustment for prior periods	(92,047)	(54,414)
Current tax credit	(359,421)	(154,414)
Tax on loss on ordinary activities	(359,421)	(154,414)

Factors affecting the current tax credit for the period

	Year to 31 December 2015 £	Year to 31 December 2014 £
Loss before tax	**(3,884,266)**	(3,158,534)
Loss before tax multiplied by standard rate of UK corporation tax of 20% (2014: 20%)	**(776,853)**	(631,707)
Effects of:		
Non deductible expenses	**20,289**	30,772
Depreciation	**25,316**	25,959
Capital allowances	**(34,969)**	(13,882)
Research and development expenditure	**(110,948)**	20,134
Tax losses carried forward	**609,791**	468,724
Previous period research and development adjustment	**(92,047)**	(54,414)
Current tax credit	**(359,421)**	(154,414)

The Company has estimated tax losses of £13,136,687 (2014: £10,087,734) available for carry forward against future trading profits.

10. Basic and diluted loss per ordinary share

	Year to 31 December 2015	Year to 31 December 2014
Loss after tax attributable to equity shareholders	**(3,524,845)**	(3,004,120)
Weighted average number of ordinary 0.25p shares for the purpose of basic and diluted loss per share	**65,378,437**	54,968,708
Basic and diluted loss per ordinary share	**(5.39)p**	(5.47)p

Potential ordinary shares are not treated as dilutive as the Company is loss making, therefore the weighted average number of ordinary shares for the purposes of the basic and diluted loss per share are the same.

Notes to the financial statements

11. Intangible assets

Intangible assets comprise patents and trademarks owned by the Company. The cost is amortised on a straight line basis over a five year period as this has been judged as their estimated useful life.

Year ended 31 December 2015:

	£
Cost	
At 1 January 2015	406,893
Additions	34,088
Disposals	-
At 31 December 2015	**440,981**
Amortisation	
At 1 January 2015	290,328
Charge for the year	48,349
Disposals	-
At 31 December 2015	**338,677**
Net book value	
At 31 December 2015	**102,304**
At 31 December 2014	116,565

The gross carrying amount of fully amortised assets still in use at 31 December 2015 is £233,834.

Year ended 31 December 2014:

	£
Cost	
At 1 January 2014	372,903
Additions	33,990
Disposals	-
At 31 December 2014	**406,893**
Amortisation	
At 1 January 2014	241,072
Charge for the year	49,256
Disposals	-
At 31 December 2014	**290,328**
Net book value	
At 31 December 2014	**116,565**

12. Property, plant and equipment

Year ended 31 December 2015:

	Plant and equipment	Fixtures and fittings	Total
	£	£	£
Cost			
At 1 January 2015	673,707	224,900	898,607
Additions	94,808	78,743	173,551
At 31 December 2015	**768,515**	**303,643**	**1,072,158**
Depreciation			
At 1 January 2015	603,239	167,096	770,335
Charge for the year	65,334	61,247	126,581
At 31 December 2015	**668,573**	**228,343**	**896,916**
Net book value			
At 31 December 2015	**99,942**	**75,300**	**175,242**
At 31 December 2014	70,468	57,804	128,272

The cost of fully depreciated assets still in use at 31 December 2015 was £706,858.

Year ended 31 December 2014:

	Plant and equipment	Fixtures and fittings	Total
	£	£	£
Cost			
At 1 January 2014	644,223	222,815	867,038
Additions	45,438	2,085	47,523
Disposals	(15,954)	-	(15,954)
At 31 December 2014	**673,707**	**224,900**	**898,607**
Depreciation			
At 1 January 2014	457,932	198,560	656,492
Charge for the year	84,008	37,812	121,820
Reclassification	69,276	(69,276)	-
Disposals	(7,977)	-	(7,977)
At 31 December 2014	**603,239**	**167,096**	**770,335**
Net book value			
At 31 December 2014	**70,468**	**57,804**	**128,272**

Notes to the financial statements

13. Inventories

	Year to 31 December 2015 £	Year to 31 December 2014 £
Raw materials	273,521	221,080
Work in progress	277,464	27,523
Finished goods	74,283	25,798
Subtotal	625,268	274,401
General provision*	(25,000)	(33,226)
Total	600,268	241,175

* During the year charges against last year's provision amounted to £22,841. The provision was increased by £14,615 at year end to give a total provision of £25,000 which relates to materials that may not be used in production. Stock at the 31 December 2014 was used in the cost of production during 2015.

14. Trade and other receivables

	Year to 31 December 2015 £	Year to 31 December 2014 £
Amounts falling due within one year		
Trade receivables	119,735	183,529
Other receivables	294,203	307,207
Other taxes and social security	31,807	24,660
	445,745	515,396

The ageing of trade receivables was as follows:

	Year to 31 December 2015 £	Year to 31 December 2014 £
Not past due	55,364	160,187
Up to 30 days past due	64,371	23,342
	119,735	183,529

15. Trade and other payables

	Year to 31 December 2015 £	Year to 31 December 2014 £
Amounts falling due within one year		
Trade payables	**260,218**	315,748
Other taxes and social security	**69,320**	59,097
Other payables	**13,736**	44,849
Accruals and deferred income	**264,711**	354,449
	607,985	774,143

16. Provisions

	Dilapidations £	Warranties £	TOTAL £
Balance at 1 January 2015	66,667	-	66,667
Movement during the year	9,000	69,590	78,590
Balance at 31 December 2015	**75,667**	**69,590**	**145,257**

The provision for anticipated dilapidations is in respect of the Company's leasehold property, whose lease expires in September 2016.

The Company provides customers with a 15 month warranty on MS product sales. The provision above is the anticipated cost of servicing those warranty claims. Warranty claims are serviced by Microsaic's own staff. Therefore, the main charge against the provision will be staff remuneration costs, travel, credit notes to customers and replacement parts.

17. Deferred tax

Deferred taxation provided in the financial statements:

	£
Balance at 1 January and 31 December 2015	**-**

Notes to the financial statements

A deferred tax asset in respect of tax losses has only been recognised to the extent of the deferred tax liability in respect of accelerated capital allowances.

	Year to 31 December 2015 £	Year to 31 December 2014 £
Accelerated capital allowances	**33,870**	21,796
Tax losses carried forward	**(33,870)**	(21,796)
	-	-

18. Share capital

	Number	£
Allotted, called up and fully paid ordinary shares of 0.25p each		
Ordinary shares as at 31 December 2014	63,253,376	158,133
Ordinary shares issued for cash in the year	10,111,770	25,280
Ordinary shares as at 31 December 2015	**73,365,146**	**183,413**

Following adoption of new articles of association in April 2011, the Company does not have a stated authorised share capital. The Company has one class of share, ordinary shares of 0.25p each, with each share carrying one vote and equal rights to discretionary dividends.

The Company issued the following ordinary shares of 0.25p each for cash during the year:

	Shares issued Number	Issue price Pence	Cash consideration £
Exercise of options - January 2015	132,000	25.86	34,135
Placing - October 2015	9,979,770	33.00	3,293,325
	10,111,770		**3,327,460**

19. Reserves

The share premium account represents the excess over the nominal value for shares allotted, less issue costs.

The share option reserve represents accumulated charges made under IFRS 2 in respect of share based payments. Where share options expire, lapse or are exercised, the amounts within the share based payments reserve relating to those options are transferred to retained earnings as shown in the Statement of Changes in Equity.

20. Operating lease commitments

At the year end the Company had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Year to 31 December 2015 £	Year to 31 December 2014 £
Land and buildings		
Within one year	123,103	153,524
Between one and two years	54,433	177,536
	177,536	331,060
Equipment		
Within one year	9,975	-
Between one and two years	9,559	-
	19,534	-

21. Capital commitments

At the balance sheet date the Company had the following capital commitments.

	Year to 31 December 2015 £	Year to 31 December 2014 £
Contracted for but not provided in the financial statements	-	-

22. Directors' emoluments

	Year to 31 December 2015 £	Year to 31 December 2014 £
Salaries and fees	462,910	488,796
Other payments	10,422	81,228
Termination payment	65,100	-
Non cash payments	1,511	-
Pension costs	24,832	30,833
	564,775	600,857

Notes to the financial statements

During the year, one employee was granted 100,000 options prior to becoming a Director (2014: 650,000) and no options were exercised by Directors (2014: 158,000).

In the year to 31 December 2015 three executive Directors that served during the year accrued benefits under Company's Auto-enrolment pension scheme.

There are no key management personnel other than the Directors.

The highest paid Director, Mr A H Darby, received emoluments of £212,437 as disclosed in the Directors' Remuneration Report on page 23. These emoluments included £13,388 of contributions to a pension scheme and no gains on exercise of share options.

23. Employees

	Year to 31 December 2015 Number	Year to 31 December 2014 Number
Directors	**6**	7
Other staff	**31**	32
	37	39
Employment costs (including Directors)		
Wages and salaries	**1,903,929**	1,948,109
Social security costs	**235,120**	198,241
Termination payment	**65,100**	-
Pension costs	**116,977**	82,417
Employment related share based payments	**82,636**	55,850
	2,403,762	2,284,617

24. Share-based payments

Share option schemes

The Company operates approved and unapproved share option schemes as a means of encouraging ownership and aligning interests of staff and shareholders.

	Year to 31 December 2015		Year to 31 December 2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	**3,155,391**	**46.8p**	2,770,991	46.8p
Granted during the year	**100,000**	**47.8p**	930,000	47.1p
Forfeited during the year	**(359,000)**	**91.7p**	(300,600)	53.8p
Exercised during the year	**(132,000)**	**25.86p**	(245,000)	25.86p
Outstanding at 31 December	**2,764,391**	**43.1p**	3,155,391	46.8p
Exercisable at 31 December	**458,200**	**45.7p**	619,200	70.1p

The estimated fair values of the share options were calculated by applying the Black Scholes model. The period of exercise for all options granted is between 1 and 10 years from date of grant and the vesting period is normally 3 years from the date of grant. The expected volatility has been determined by calculating the historical volatility of the share price over the previous year.

The model inputs were:

Date of grant	Share price	Risk free rate	Expected volatility
May 2006	*107.50p	5.25%	35%
February 2008	*129.31p	5.25%	35%
December 2010	*25.86p	1.50%	75%
April 2011	32.00p	0.50%	50%
June 2012	40.00p	0.50%	33%
July 2012	42.00p	0.50%	33%
December 2012	39.00p	1.00%	33%
May 2014	46.80p	2.69%	16%
November 2014	49.50p	2.05%	18%
April 2015	47.75p	1.58%	17%

* the share prices and corresponding option exercise prices for grants made up to 2010 have been adjusted for a bonus issue and share sub-division that took place in April 2011.

Details of options in issue at the year end are:

Date of grant	Exercise price	Latest exercise date	Estimated fair value	**Number of options 31 December 2015**	Number of options 31 December 2014
May 2006	43.10p	May 2015	79.5p	-	116,000
May 2006	43.10p	May 2016	79.5p	**116,000**	116,000
February 2008	129.31p	February 2018	26.6p	**23,200**	226,200
December 2010	25.86p	December 2020	11.0p	**29,000**	161,000
July 2012	42.00p	July 2022	12.1p	**290,000**	330,000
December 2012	39.00p	December 2022	13.6p	**1,276,191**	1,276,191
May 2014	46.80p	May 2024	11.4p	**830,000**	830,000
November 2014	49.50p	November 2024	11.9p	**100,000**	100,000
April 2015	47.75p	May 2025	10.5p	**100,000**	-
				2,764,391	3,155,391

Notes to the financial statements

25. Warrants

On 20 October 2015, the Company granted Warrants to Numis Securities Ltd, the Company's brokers as part of their remuneration for the equity placing which was completed in October 2015, to subscribe for 1,467,303 ordinary shares, being 2% of the issued share capital of the Company on that date. The exercise price of the Warrants was 33p and the Warrants can be exercised for a period of 5 years from the date of grant.

	Year to 31 December 2015	
	Number of warrants	Weighted average exercise price
Outstanding at the beginning of the year	-	-
Granted during the year	**1,467,303**	33.0p
Cancelled during the year	-	-
Exercised during the year	-	-
Outstanding at 31 December	**1,467,303**	33.0p
Exercisable at 31 December	**1,467,303**	33.0p

The estimated fair value of the Warrants was calculated by applying the Black Scholes model. The period of exercise for the Warrants is 5 years from the date of grant and there is no vesting period. The expected volatility has been determined by calculating the historical volatility of the share price over the previous year. The model inputs were:

Date of grant	Share price	Risk free rate	Expected volatility
October 2015	33.0p	1.86%	37%

	Exercise price	Latest exercise date	Estimated fair date	**Number of warrants 31 December 2015**
October 2015	33.0p	Oct 2020	8.84p	**1,467,303**

26. Financial instruments

The Company's financial instruments comprise cash and various trade receivables and trade payables that arise directly from its operations. No trading in financial instruments is undertaken.

The main risks arising from the Company's financial instruments are liquidity, currency and interest rate. The Board oversees the management of these risks, which are summarised below.

Liquidity risk

The Company is financing its operations from equity funding provided by shareholders and revenues generated by the business. The Company seeks to manage liquidity risk to ensure sufficient funds are available to meet requirements.

The Company invests its cash reserves in bank and money market deposits as a liquid resource to fund its operations. The Company's strategy for managing cash is to maximise interest income at low risk whilst ensuring availability to match the profile of the Company's cash flows.

Interest rate risk

The Company does not face any significant interest rate risk as it has no borrowings.

Surplus funds are invested to maintain a balance between accessibility of funds and competitive rates of return whilst investing funds safely.

Credit risk

The Company manages its credit risk in cash and cash equivalents by spreading surplus funds between creditworthy financial institutions.

The Company is also exposed to credit risk attributable to trade and other receivables. The maximum credit risk in respect of the financial assets at each period end is represented by the balance outstanding on trade and other receivables. The Company has limited exposure to credit risk, as the majority of its trade and other receivables are due from major international corporations and institutions.

Foreign currency risk

The Company is based in the United Kingdom and the majority of its transactions are denominated in pounds sterling.

The Company has no long term commitments to purchase goods or services in foreign currencies. Purchases denominated in foreign currency are expensed at the exchange rate prevailing at the date of the transaction, and comprise an immaterial proportion of the Company's total expenditure.

Notes to the financial statements

The only assets and liabilities denominated in foreign currencies relate to trade receivables and trade payables with overseas counterparties together with small balances of US dollar and Euro currencies to settle these liabilities. The risks and sums involved are considered to be immaterial.

Where a significant transaction in a foreign currency is anticipated with a high degree of certainty, the Company takes out a forward exchange contract to mitigate the risk of currency fluctuation. No such instruments were held at 31 December 2015 and 31 December 2014.

Fair values

The Directors consider that there is no material difference between the book value and the fair value of the financial instruments at 31 December 2015 and 31 December 2014.

Capital management

The Company's capital base comprises equity attributable to shareholders. As the Company's focus has been on establishing itself as a successful supplier of scientific instruments, the primary objective in managing cash spend has been to achieve progress on product development and commercialisation in a cost efficient manner and in managing liquidity risk to ensure the Company continues as a going concern.

27. Related party transactions

The remuneration paid to the Directors is shown in the Directors' remuneration report. The amount of £14,275 was paid to Mr R Syms who is a consultant to the Company and has a 4.95% interest in Company as at 25 January 2016.

There were no other related party transactions.

28. Control

As at 31 December 2015, no individual shareholder had a controlling interest in the Company.

29. Subsequent events

On 14 January 2016 the Company announced that share options were granted to Directors on 13 January 2016 over 920,000 ordinary shares of 0.25 pence, representing approximately, 1.1% of the share capital of the Company.

The allocation to Directors is as follows:

Director	Position	Options Granted	Total Options Held
Jim Ramage	Chief Executive Officer	500,000	500,000
Glenn Tracey	Chief Operating Officer	200,000	300,000
Bevan Metcalf	Finance Director	120,000	120,000

These share options were granted under the Microsaic Systems Enterprise Management Incentive Scheme with an exercise price of 23.5 pence per ordinary share, being the closing mid-market price of the Company's shares on 12 January 2016. The options granted to Mr. Ramage will vest on 1 January 2017. The options granted to Mr. Tracey and Mr. Metcalf will vest on the third anniversary of the date of grant.

ADDENDUM

POST SIGN OFF OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

Christopher Buckley – Director

Christopher Buckley has more than 30 years of international marketing and general management experience in the global Pharmaceutical industry with a proven track record of translating scientific innovations into competitive customer-focused benefits. Most recently, he was a Global Brand Director at Novartis, where he spent the majority of his career progressing through a variety of local, regional and global roles. He brings Microsaic a wealth of strategic management experience, coupled with the pragmatic and commercial expertise to effectively grow global brands. Mr Buckley holds a B.Sc. Hons in Pharmacology and Physiology from the University of Aston, UK. Christopher was appointed to the Board of the Company on 1 April 2016 as a Non-executive Director.

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of Microsaic Systems plc (the "Company") shall be held at the offices of Citigate, Dewe, Rogerson, 3 London Wall Buildings, London Wall, London EC2M 5SY on 20 June 2016 at 11 a.m. for the purpose of considering and, if thought fit, passing the following resolutions of which resolutions 1 to 8 inclusive shall be proposed as ordinary resolutions and resolution 9 shall be proposed as a special resolution.

Ordinary resolutions

1. THAT the Company's financial statements for the year ended on 31 December 2015, together with the Directors' report and auditors' report thereon, be and are hereby received and adopted;

2. THAT upon the recommendation of the Directors, Saffery Champness be and hereby are reappointed as auditors to the Company, and that the Board be authorised to fix the remuneration of the auditors;

3. THAT Glenn Tracey be and is hereby re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(a) of the Articles;

4. THAT Bevan Metcalf be and is hereby re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(a) of the Articles;

5. THAT Christopher Buckley be and is hereby re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(a) of the Articles;

6. THAT Jim Ramage be and hereby is re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(b) of the Articles;

7. THAT Eric Yeatman be and hereby is re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(c) of the Articles;

8. THAT the Directors be and are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006, to exercise all the powers of the Company to allot equity securities (as defined by section 560 of the Companies Act 2006) up to an aggregate nominal value of £61,137 representing one third of the Company's issued share capital at the date of this document, provided that this authority shall (unless renewed, varied or extended by the Company in general meeting) expire on the date which is 15 months after the date on which this resolution is passed or, if earlier, on the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot such equity securities in pursuance of such offer or agreement as if this authority had not expired, and provided further that this authority shall revoke and replace all unexercised authorities previously granted to the Directors to allot shares but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

Special resolution

9. THAT the Directors be and are hereby empowered, pursuant to section 570 of the Companies Act 2006, to allot equity securities (as defined by section 560 of the Companies Act 2006) for cash as if section 561(1) of the Companies Act 2006 did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities pursuant to an offer or issue by way of rights, open offer or other pre-emptive offer:

(i) to the holders of ordinary shares in the capital of the Company and other persons entitled to participate therein in proportion (as nearly as may be practicable) to their respective holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange;

(b) the allotment (otherwise than pursuant to resolution 9(a) above) of equity securities up to an aggregate nominal amount of £36,682 representing twenty (20) per cent of the Company's issued share capital at the date of this document, and such power shall expire (if it has not previously expired by non-fulfilment of conditions) on the date which is 15 months after the date on which this resolution is passed or, if earlier, the conclusion of the Company's next annual general meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

provided that this authority revokes and replaces all unexercised powers previously granted to the Directors to allot equity securities as if section 561(1) of the Companies Act 2006 did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

By order of the Board

Andrew Holmes
Company Secretary
19 May 2016

Registered Office
GMS House
Boundary Road
Woking
Surrey
GU21 5BX

Explanatory comments on the resolutions proposed at the annual general meeting (the "Meeting") of the Company to be held at the offices of Citigate, Dewe, Rogerson, 3 London Wall Buildings, London Wall, London EC2M 5SY on 20 June 2016 at 11 a.m.

Resolution 1 – The Company is required by its Articles and by the Companies Act 2006 to lay the Directors' and auditors' reports and copies of the annual accounts before the Meeting.

Resolution 2 – This resolution concerns the re-appointment of Saffery Champness, recommended by the Directors, as auditors to the Company. Whilst resolving to reappoint Saffery Champness as auditors to the Company, the resolution also authorises the Board to fix the auditors' remuneration.

Resolutions 3 to 5 – These resolutions concern the re-appointment of Directors who joined the Company after the date of the last annual general meeting of the Company.

Resolutions 6 to 7 – A minimum of one third of the Directors are also required to retire each year and seek re-appointment at the Meeting. Biographies of the Directors are contained in the Company's annual report for the year ended 31 December 2015.

Resolutions 8 and 9 – These resolutions concern the authority of the Directors to allot up to one third of the Company's existing issued share capital (including up to 20 per cent as if the statutory pre-emption rights did not apply, so as to raise funds at short notice).

Please also read the notes below which provide further information in respect of the Meeting.

Notes:

The following notes explain your general rights as a shareholder and your rights to attend and vote at the Meeting or to appoint someone else to vote on your behalf.

Quorum

1. The quorum for the Meeting shall be two shareholders present in person or by proxy. If, within fifteen minutes from the appointed time for the Meeting, a quorum is not present, then the Meeting will stand adjourned to the same day in the next week (or if that day is a public holiday to the next working day thereafter) at the same time and place or to such other day, time or place as the Directors may determine and no notice of such adjournment need be given. At an adjourned Meeting, shareholders present in person or by proxy will form a quorum.

Website address

2. Information regarding the Meeting, including information required by section 311A of the Companies Act 2006, is available from www.microsaic.com

Entitlement to attend and vote

3. Only those holders of ordinary shares of 0.25p each in the capital of the Company ("Shares") registered on the Company's register of members at 6 p.m. on 16 June 2016 shall be entitled to attend and vote at the Meeting.

Appointment of proxies

4. Members entitled to attend, speak and vote at the Meeting (in accordance with Note 3 above) are entitled to appoint one or more proxies to attend, speak and vote in their place. If you wish to appoint a proxy please use the form of proxy enclosed with this document (the "Form of Proxy"). In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding. The completion and return of the Form of Proxy will not stop you attending and voting in person at the Meeting should you wish to do so. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. If you choose to appoint multiple proxies use a separate copy of this form (which you may photocopy) for each proxy, and indicate after the proxy's name the number of shares in relation to which they are authorised to act (which, in aggregate, should not exceed the number of Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.

5. You can appoint the Chairman of the Meeting, or any other person, as your proxy. If you wish to appoint someone other than the Chairman, cross out the words "the Chairman of the Meeting" on the Form of Proxy and insert the full name of your appointee.

6. You can instruct your proxy how to vote on each resolution by ticking the "For" and "Against" boxes as appropriate (or entering the number of shares which you are entitled to vote). If you wish to abstain from voting on any resolution please tick the box which is marked "Vote Withheld". It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.

   If you do not indicate on the Form of Proxy how your proxy should vote, he/she can exercise his/her discretion as to whether, and if so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the Meeting.

   A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 4 to 6 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.

   A company incorporated in England and Wales or Northern Ireland should execute the Form of Proxy under its common seal or otherwise in accordance with Section 44 of the Companies Act 2006 or by signature on its behalf by a duly authorised officer or attorney whose power of attorney or other authority should be enclosed with the Form of Proxy.

Appointment of proxies

7. The Form of Proxy and any power of attorney (or a notarially certified copy or office copy thereof) under which it is executed must be received by Capita Asset Services at PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF, United Kingdom at 11 a.m. on 16 June 2015 in respect of the Meeting. Any Forms of Proxy received before such time will be deemed to have been received at such time. In the case of an adjournment, the Form of Proxy must be received by Capita Asset Services no later than 48 hours before the rescheduled Meeting.

   On completing the Form of Proxy, sign it and return it to Capita Asset Services at the address shown on the reverse of the Form of Proxy. As postage has been prepaid no stamp is required. You may, if you prefer, return the Form of Proxy in a sealed envelope to the following address: FREEPOST CAPITA PXS (this is all that is required on the envelope).

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services at PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF, United Kingdom.

   In the case of a member which is a company incorporated in England and Wales or Northern Ireland, the revocation notice must be executed under its common seal or otherwise in accordance with section 44 of the Companies Act 2006 or by signature on its behalf by an officer or attorney whose power of attorney or other authority should be included with the revocation notice.

   If you attempt to revoke your proxy appointment but the revocation is received after the time of the Meeting or the taking of the vote at which the proxy is used, then, subject to the paragraph directly below, your proxy will remain valid.

   If you submit more than one valid proxy appointment in respect of the same Shares, the appointment received last before the latest time for receipt of proxies will take precedence.

   Completion of a Form of Proxy will not preclude a member from attending and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will be automatically terminated.

Issued shares and total voting rights

9. The total number of Shares in issue in the capital of the Company at the date of this notice is 73,365,146 ordinary shares of 0.25p each.

   On a vote by a show of hands, every holder of Shares who (being an individual) is present in person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Shares who is present in person or by proxy shall have one vote for every complete Share held by him and such proportion of a vote that represents the number of fractions of a Share so held.

Communication

10. Except as provided above, members who have general queries about the Meeting should use the following means of communication (no other methods of communication will be accepted):

- calling Capita Asset Services' shareholder helpline (lines are open from 9.00am to 5.30pm Monday to Friday, excluding public holidays):

    (i) From the UK: 0871 664 0300 (calls cost 12p per minute plus network extras);

    (ii) From outside the UK: +44 (0) 208 639 3399 (calls from outside the UK are charged at applicable international rates); or

- in writing to Capita Asset Services at The Registry, 34 Beckenham Road, Beckenham, BR3 4TU, United Kingdom.

You may not use any electronic address provided either:

- in this Notice of Meeting; or
- any related documents (including the Form of Proxy for this Meeting), to communicate with the Company for any purposes other than those expressly stated.

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