Proteome Sciences plc

Registered number: 02879724

Report and Financial Statements

for the year ended 31 December 2016

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CHIEF EXECUTIVE OFFICER'S STATEMENT

In my first annual statement as Chief Executive for the Company I am very pleased to report a strong 12 months ending 31 December 2016, with revenue increased 46% to £2.74m including a 57% increase in sales of TMT® reagents, and results in line with expectations. This was achieved in the context of a turbulent financial environment, challenging market conditions across the bioscience sector, and a significant transition taking place within the Group itself.

A change in leadership in June prompted a revision of strategy: our ambition is to become a premium contract, service-based proteomics business, with sufficient capacity to meet Thermo Scientific's demand for Tandem Mass Tag (TMT) reagents, and underpinned by a properly resourced bioinformatics unit to take advantage of the value to be derived from data analyses and interpretation. These three operational pillars, coupled with a plan to drive the Group beyond cash-flow break even in the next two financial years, enabled a successful fundraise in the fourth quarter during which we raised £3.3m and broadened our shareholder register with additional institutions. Investment was sought specifically to ensure regulatory compliance across our sites, strengthen our commercialisation capability, and consolidate our footprint appropriately for an organisation of our size.

Fewer service contracts generated greater revenues than in 2015 demonstrating an important increase in the average value of our project portfolio. In addition, due diligence was initiated on our casein kinase 1 delta (CK1D) inhibitors by a European biopharmaceutical company and our partner, Randox Laboratories, optimised a new class of antibodies for use in the forthcoming stroke diagnostic. Cost containment has been a priority, although administrative expenses during the period remained flat as deliberate reductions in our intellectual property (IP) portfolio were balanced by higher depreciation charges in relation to a new Fusion mass spectrometer and recruitment in the first half of the year. Success also requires that we simplify our message and communicate more directly: in support of this we have significantly revised our website content and are adopting a faster financial reporting cycle to ensure that customers, investors and partners are all better appraised of our progress.

Despite major fluctuations in foreign exchange since the Brexit vote in June, compounded by an unpredictable political landscape, the Group has been relatively unaffected with increases in our foreign denominated revenues largely balanced by the costs associated with our Frankfurt based facility. More impactful has been the general malaise in biopharmaceuticals, predicated on an understandable but overwhelming focus on value and price which threatens to suppress innovation and promote risk aversion in the sector. Market indices struggled to regain the ground lost early in the year, and while this may bode ill for the provision of healthcare in the longer term, it does afford opportunity for companies such as ours: the importance of -omic technologies in the development of targeted therapeutics and the justification of precision medicine is irresistible, as is the trend of large companies to de-risk their portfolios by outsourcing core technologies to specialist service providers, reducing internal investment in discovery, and promoting strategic collaborations and acquisitions.

I would like to thank all the staff at Proteome Sciences for their unstinting support during 2016, and our many shareholders who continue to believe in the mission of the Company.

Services

Our services business performed well during 2016 reflecting a 57% increase, with new inquiries significantly directed towards the use of TMTcalibrator™ as clients search for specific biomarkers to support their drug development programs. SysQuant® continues to perform well as the advent of precision medicine fuels the need to understand changes in protein expression and activity. However, conversion of client interest into formal contract work, and particularly repeat business, has been less reliable than anticipated for our service platforms and must now become a greater focus of attention. Moreover, some

CHIEF EXECUTIVE OFFICER'S STATEMENT

established service contracts have been slower to reach agreed milestones than expected, delaying some revenues into 2017. Managing the progress and delivery of these core projects remains fundamental to the performance of our business.

The increasing adoption of proteomics as a critical enabling technology is inevitably attracting new entrants to this service market which requires us to be more competitive with our offering and more efficient in the use of our resources. The appointment of a Chief Compliance Officer to oversee our Good Clinical Laboratory Practice (GCLP) accreditation and the decision to consolidate our laboratory capabilities on a single site are both actions directly inspired by this competition.

Licences

Our exclusive license to provide Thermo Scientific with isobaric tagging reagents (TMT®) continues to be mutually beneficial. Robust sales and associated royalty payments remain fundamental to our revenue growth and likely reflect an increasing recognition of the benefits of multiplexing samples. However, such tags are being used in only a small part of the total proteomics market and scope remains for considerable further growth as adoption by key opinion leaders spreads to the wider research community. Work continues to develop new 'higher plexing' reagents, enabling even more efficient sample analyses, and we are working very closely with our partners at Thermo Scientific to introduce such improvements as soon as possible. Progress has been somewhat slower than originally envisaged, but it remains a high priority for both companies.

Launch of a CE (Conformité Européene) marked stroke diagnostic is now scheduled for the second half of 2017, allowing for the incorporation of a new class of antibodies against our patented stroke biomarkers. These antibodies were generated early in the year by our partner Randox Laboratories and have improved the overall performance of the panel. Trials to create registration data will be performed after assembly of the final array and a Research Use Only product is still anticipated ahead of the CE marked assay. Given the global incidence of stroke, and the therapeutic liability associated with inaccurate clinical diagnosis, the market opportunity for such a diagnostic is considerable.

Bioinformatics

We understand the importance of simplifying data outputs from our principal service platforms, and have completed the production and testing of a suite of new bioinformatics tools which can extract the most pertinent knowledge from high-complexity proteomics studies with minimal user interaction. We are now able to reduce the data processing and analysis times of internal research programs by more than 50% while improving the quality of information generated. We anticipate that these new bioinformatics products will enhance the value of SysQuant® and TMTcalibrator™, and open up new commercial opportunities for the analysis of third-party data sets. These advances, coupled with the realisation that ultimately insight and interpretation is significantly more valuable than data generation (however complex that might be), form the basis of our strategy to resource a dedicated bioinformatics business unit capable of accommodating data from sources other than just our own laboratories.

Research

Our intention to focus on service provision in the near term will inevitably limit the extent of our research activities as we seek to rebalance our finite resources, but we remain indisputably a science-based company with a commitment to research through partnership and collaboration. Primary areas of interest, neurodegeneration and oncology, are chosen specifically to generate evidence validating the utility of proteomics in the development of targeted therapeutics.

Increasing public and private investment in Alzheimer's disease (AD) research over recent years has led to some optimism about the potential for disease-modifying agents, and to a spate of publications about the critical importance of identifying blood-borne predictors of early disease

CHIEF EXECUTIVE OFFICER'S STATEMENT

progression. An example is the protein clusterin, about which we retain valuable IP within our broader biomarker portfolio, and we continue to develop a general diagnostic test for AD on behalf of the Genting TauRx Diagnostic Centre.

While the high-profile failure of molecules directed at the amyloid hypothesis, most notably solanezumab, once again illustrates the difficulty associated with interdicting AD, such failures also serve to divert investment to other drug targets, such as tau, in which we have a long-standing interest. Unfortunately, the widely anticipated Phase 3 trial results, released in July for the potential AD drug, LMTX, proved equivocal. generating media enthusiasm despite the failure to meet co-primary endpoints. The consequence of this outcome for deeper biopharmaceutical interest in the tau pathway is still unclear, but it now seems certain that a multi-targeted approach to this disease will be required. CK1D inhibition remains a mechanism favoured by some, and our molecules have entered a due diligence review with an EU-based biopharmaceutical company; however, their treatment potential of these inhibitors has yet to be assessed and is not something we are equipped to undertake ourselves.

Outlook

The shift towards personalised healthcare is undeniable. Despite challenges in diagnostic regulatory policy, reimbursement and clinical adoption, over 25% of new medicines approved by the FDA in 2016 were 'personalised' – their labels including reference to specific biomarkers. Proteomics is becoming routinely employed as a tool critical to the provision of such medicines and the prediction of treatment response, and we anticipate that the number and scale of our service contracts will increase as more companies embed this philosophy at the heart of their research and development activities. To achieve this there is a fundamental need for us to broaden our customer base in an increasingly competitive sector, to initiate durable contracts with established pharmaceutical and diagnostic companies, and to attract more repeat business.

Following the £3.3m fundraise in October the Company has put itself on a stronger financial footing but remains in a transition phase. While we are satisfied with progress in 2016, there is much yet to do if we want to realise the full value of our proteomic technologies. The forthcoming consolidation of all laboratory capabilities at our existing facility in Frankfurt will enable efficiencies in resource allocation and quicker adherence to the GCLP accreditation necessary for future business.

When I joined the Company last June I remarked that the challenge of developing targeted therapeutics for patient populations with increasing expectations created a highly receptive environment for enabling technologies such as ours, and afforded us a tremendous opportunity should we be able to seize it. I maintain this view and, despite the rather unpredictable operating environment, am confident that we now have appropriate skills in the right locations pursuing a viable strategy for success. I look forward to further progress and substantial revenue growth in 2017.

Jeremy Haigh
Chief Executive Officer

27 March 2017

STRATEGIC REPORT

The directors present their Strategic Report on Proteome Sciences plc (the "Company") and its subsidiary undertakings (together the "Group") for the year ended 31 December 2016.

Review of the Business

Proteome Sciences is a leading provider of contract research services for the identification, validation and application of protein biomarkers. Our clients are predominantly pharmaceutical companies but we also perform services for other sectors including academic research. During 2016 we added several new customers but generation of repeat business from existing clients was slower than expected after a promising start in the first quarter. We deliver our services through dedicated research laboratories in Frankfurt (Germany) and London (UK), although we will be consolidating these into a single site in Frankfurt during 2017. While the nature of our services is complex, requiring highly qualified staff and sophisticated equipment, it is also scalable allowing a substantial increase in revenue-generating projects with only minor increases in operating costs.

This year we initiated a program of work, due for completion in mid-2017, to make our Frankfurt laboratory compliant with GCLP regulations. This is an important initiative for the Group as we start to transition our services into the clinical research domain where project sizes and values are generally much larger than for pre-clinical studies.

In the last quarter of 2015 we invested in a second Orbitrap Fusion mass spectrometer to meet the expected demand for our SysQuant® and TMTcalibrator™ services. The revenue growth reported in 2016 reflects the impact of this increased capacity and the growing demand for proteomics within our client base. However, machine utilisation during the second half of the year was not as high as expected due to delays in closing orders, but we anticipate the opportunity for further revenue growth as these orders are concluded in the coming months.

We are not aware of any significant technological developments that would be disruptive to our business and continue to see solid interest in our SysQuant® and TMTcalibrator™ services. We have also observed a move towards higher value projects having completed 25% fewer service contracts generating 57% more revenues than in 2015.

Progress During 2016

Biomarker Services

Revenues from Biomarker services increased by £0.46m to £1.25m during 2016.

In 2016 we completed the discovery phase of the diagnostic panel for a multi-stage project with Genting TauRx Diagnostics Centre which was originally signed in 2014; the first assay validation phase was also initiated. Completion of each phase triggers milestone payments and we expect to complete the three validation phases for this assay in 2017. We also hope to undertake the companion diagnostic discovery project in the second half of 2017, with milestone payments due on initiation and completion.

SysQuant® and TMTcalibrator™ were our two main service products in terms of numbers of projects and overall value during 2016. In February, we announced repeat business from two clients for SysQuant® and TMTcalibrator™ projects that were collectively worth more than £500,000. We have successfully completed the bulk of the SysQuant® project with only a small bioinformatics work package to be finished in 2017. We also completed the TMTcalibrator™ project and were able to detect a very low abundance fluid biomarker for our client. Based on customer feedback we have also enhanced our data analysis, both simplifying and strengthening project outputs to deliver a better experience for clients. These improvements have been well received and offer further differentiation of our products and services.

A number of significant projects which were under negotiation in the second half of 2016 could not be closed before the year end, but we have since closed two of these, will shortly close a third, and have received inquiries about a broad portfolio of new projects. The arrival of our new Chief Commercial Officer in 2017 should stimulate further

interest and improve conversion into committed work orders during the remainder of the year and beyond.

We have seen the first examples of our work being communicated by clients at international conferences. Two companies presented results from SysQuant® studies that had helped progress their drug candidates through pre-clinical development, while a third company showed pre-clinical data from a TMTcalibrator™ analysis of tau in cerebrospinal fluid (CSF). These are important endorsements of the value which our Biomarker Services can provide to clients and we anticipate follow-up studies with all three of them in 2017.

Tandem Mass Tags®
Sales of the currently available TMT® continued to show strong growth of 57% in 2016, an increase of £0.51m to £1.39m, driven in part by established users. Perhaps more significantly, a number of key opinion leaders involved in academic proteomics have been adopting TMT® in their research projects leading to higher level uptake in the broader community. However, there remains a large section of the proteomics research market that has yet to switch to TMT® and a major goal for 2017 will be supporting our exclusive licensee, Thermo Scientific, to increase the rate of TMT® adoption.

As a result of increasing sales and strong future projections, we started making an additional batch of the standard TMT® 10-plex reagents in the second half of 2016. This re-stocking will be completed in 2017 and we have sufficient material on hand to meet Thermo Scientific's requirements until then.

Development of higher plexing-rate tags continued in 2016 with an expanded set of prototypes due for external testing early in 2017. The new tag structure is expected to deliver a set of 16-plex reagents. Importantly, this will also include a sub-set of 10-plex reagents that can be used on more basic mass spectrometers which currently cannot use our standard 10-plex reagents.

Stroke Biomarkers
We have been supporting our non-exclusive licensee, Randox Laboratories, to expedite the launch of a research grade stroke biomarker assay in the first half of 2017 followed by a CE-marked clinical test later in the year. Randox has invested significantly to improve the performance of reagents used to detect these stroke biomarkers and is progressing well with formulation of the final assay and initiation of clinical trials.

Alzheimer's Disease
Our focus on AD over the last decade has improved our understanding of the mechanisms underlying this disease as well as suggesting a diverse range of blood and CSF biomarkers. This expertise has attracted various commercial clients developing drugs against AD and other neurodegenerative conditions. During 2016 we were primarily engaged in using SysQuant® to profile changes in cell biology caused by increasing tau pathology in the brains of patients with AD. This work, performed in collaboration with the University of Eastern Finland, has confirmed increased CK1D activity as well as providing links between amyloid, tau, neuroinflammation and the metabolic changes related to mechanisms of cell death.

We also focused on developing our clusterin assay as a blood biomarker for stratification of patients with AD. Analysis of a further 18 patients replicated the original findings and we initiated the final development assay prior to a planned launch in 2017. With the anticipated upgrade to GCLP compliance in Frankfurt we will soon be able to provide this assay to support patient profiling in clinical trials, a major area of unmet need. We will complete development of this clusterin biomarker assay and our analysis of brain SysQuant® data during 2017 and anticipate both activities supporting revenue generation.

Several publications in the scientific literature, including from our collaborators at the Institute of Psychiatry, have further validated a number of our main candidate proteins. In particular, the potential of various complement pathway proteins for the stratification of patients with AD has been

confirmed. These publications add further value to our panel of blood biomarkers and the related IP.

Two landmark papers authored by Proteome Sciences were published in 2016. These are the first to describe the application of TMTcalibrator™ with TMT® 10-plex to the analysis of CSF in AD patients. In the first paper, we demonstrated the ability to detect and quantify 30 phosphorylation sites on CSF tau, the first time many of these sites have been detectable by mass spectrometry. In the second paper, we identified over 50 proteins with different levels in CSF from AD patients compared with non-diseased controls. Many of these proteins had not been detected previously and are correlated with activation of immune cells in the brain, a current hot topic in early AD research.

CK1D Inhibitors
We have been investigating inhibitors of CK1D as potential therapeutic agents for the treatment of AD and other tauopathies. During 2016, further discouraging results from trials of amyloid-targeted therapies in AD patients prompted a steady increase in the attention being paid to strategies targeting tau. We expected this to drive further interest in our CK1D inhibitors and in July announced that we had entered a due diligence process with a European-based biotechnology company focused on neurological disorders. During the second half of the year this company completed their analysis of our documentation and has now initiated laboratory testing. We expect further developments in the second quarter of 2017.

Hepatocellular Carcinoma
After a prolonged delay in gaining appropriate clinical samples from our collaborators at King's College Hospital, we were finally able to apply SysQuant® to the analysis of 13 patients who had undergone surgery and follow-up treatment for hepatocellular carcinoma (HCC). The level of proteome coverage was excellent and we were able to differentiate clearly the tumour samples from the background liver. Using a panel of recently developed bioinformatics tools we have identified a wide range of changes in protein expression relating to HCC, including changes associated with activation of the raf-family of kinases that are the target of sorafenib (a kinase inhibitor approved for the treatment of advanced renal cell carcinoma). We also saw many changes within the whole group of HCC patients, as well as unique patterns within each patient, which have the potential to help clinicians select the most appropriate treatment and avoid those drugs that lack proteomic evidence of target activity. We are now awaiting more detailed clinical information, including the final outcomes of treatment, to enable an assessment of the potential value of SysQuant® in managing HCC patients.

Other Research Programs
In addition to our main research interests in AD and HCC, we have been involved in three projects to develop blood biomarkers for amyotrophic lateral sclerosis (ALS; motor neurone disease). These projects have delivered panels of biomarkers to aid stratification of ALS phenotypes which may ultimately lead to better treatment outcomes. Further validation work is required to test fully the utility of these panels and this work will be completed by our partners at Queen Mary's University, London.

Our collaboration with the Moffitt Cancer Centre in Florida also progressed well in the last year. The SysQuant® study in melanoma drug resistance was submitted for publication (and has subsequently been published in February 2017). A second project, using TMTcalibrator™ for renal carcinoma biomarker discovery in urine, has been initiated and we anticipate the first candidates to be identified in the early part of 2017.

Grants
With greater commercial activity our participation in grant-funded research has decreased over the last two years. In 2016 we completed the Denamic project which has delivered various candidate biomarkers for detection of nerve damage in children following exposure to environmental toxins. Denamic was funded by the European Commission under the Framework 7 Programme and we received over 500,000 € in direct funding.

In November, we joined the PROMETOV consortium which will use multiple -omics approaches to study tumour heterogeneity in ovarian cancer in order to deliver better blood biomarkers for diagnosis and treatment selection. We will perform analysis of blood samples using TMTcalibrator™ and support the analysis of tumour tissue using SysQuant®, work for which we will receive 104,000 € paid over three years.

Patent Applications and Proprietary Rights
Our patent portfolio has undergone continual review resulting in the abandonment of over 10% of the patents with the aim of maximising resources on key disease, application and technology areas. This has justified the creation of an IP group to deal with patent matters in-house, and has brought an estimated saving of at least 20% in patent costs. Notwithstanding this overall reduction, another 23 patents were granted in 2016 with a further 31 applications filed over the period. Securing and developing out IP assets will translate into license fees, milestones and royalties. Our business is built on IP and these assets remain essential for generating future shareholder value.

Board Changes
On 1 June 2016, the company announced that Dr Jeremy Haigh had joined as Chief Executive. Jeremy has worked in the biopharmaceutical sector, with 30 years in clinical and operational research and development, principally at Merck Research Laboratories and Amgen where most recently he was European Chief Operating Officer, R&D. He is currently the Chairman of Cogent Skills Limited and a member of Imperial College Health Partners Advisory Council.

Financial Review
Results and Dividends
The loss after tax for the year was £2.28m (2015: £2.72m). The directors do not recommend the payment of a dividend (2015: Nil). The Group results are stated in the consolidated income statement on page 20 and are reviewed in the Chief Executive's Statement on pages 2 to 4 and the Strategic Report on pages 5 to 10.

Key Performance Indicators (KPI's)
(i) The directors consider that revenue and profit/(loss) before tax are KPI's in measuring group performance, as the profile of the group changes as a result of the licencing agreements that have already been entered into and as future licences and other commercial agreements are concluded. The performance of the group in this latter area is set out in detail in the Chief Executive's Statement on page 3.

(ii) In a small business with a high proportion of well qualified and experienced staff the rate of staff turnover is seen as an important KPI. In FY2016 two members of staff resigned and three retired upon reaching retirement age. The retirees and one resignee were successfully replaced with a proper handover of responsibilities; the other resignee was not replaced as a cost containment measure and the responsibilities of their role were redistributed.

(iii) In addition, the directors believe that a further important KPI is the Group's rate of cash expenditure and its effect on Group cash resources. Net cash outflows from operating activities for FY 2016 were £1.99m (2015: £2.36m). Further details of cash flows in 2016 are set out in the Group's Cash Flow Statement on page 26.

(iv) As we become a more commercially oriented business, the average value of the service contracts in our portfolio and the proportion of repeat business will become KPI's. In 2016 we generated 57% more revenues from 25% fewer contracts than in 2015 indicating a move towards higher value projects. Repeat business with clients constituted 53% of our work by contract (63% by revenue) and is a focus for the future.

Financial Performance
Compared to the previous year our revenues showed strong growth. Revenue for the twelve-month period ended 31 December 2016 increased 46% to £2.74m (2015: £1.88m).

- Sales and Services revenue rose 57% to £2.64m (2015: £1.68m). This is comprised of two revenue streams, TMT® and Biomarker Services. TMT® revenues increased by 57% through a mix of increased sales of TMT® tags and a marked increase in the associated royalty payments due from our exclusive distribution partner Thermo Scientific. Biomarker Services revenue also increased by 57%, driven by strong year on year increases from both SysQuant® and TMTcalibrator™ and the first stage of a significant assay development project. It is worth noting that the average value of service contracts increased year on year.
- Grant services were £0.11m (2015: £0.21m). Grant service income dipped in 2016 due primarily to a postponement in the delivery of samples from one of our collaborators and a slight delay in the start of a new project at the end of the year.
- The loss before tax was £2.94m (2015: £3.33m).

Costs and Available Cash

The Group maintained a positive cash balance in 2016 and continues to seek improved cash flows from commercial income streams. Despite the rise in revenues, our operating costs have been contained.

- Administrative expenses in 2016 were £4.24m (2015: £4.17m). This is an increase of less than 2% despite the adverse effect of the depreciation of sterling against the euro on our Frankfurt Laboratory costs. In real terms costs reduced in a year of material revenue growth. We expect 2017 to be a transitionary year as the UK Laboratory is relocated to Frankfurt and the head office to London. The full benefit of this consolidation will take effect for 2018 onwards.
- Staff costs for the year increased by £0.3m to £2.92m. This was primarily due to foreign exchange in Germany and to the cost of changes in senior management.
- Property costs of £0.3m were in line with previous years.
- Other overheads decreased by £0.23m as a result of cost containment initiatives driven by a review of patent obligations.
- Finance costs arise as a result of interest due to the Non-Executive Chairman, Christopher Pearce, from his loan to the company. Costs of £0.26m are in line with the prior year.
- After the tax credit of £0.66m (2015: £0.61m), the loss after taxation for the period was £2.28m (2015: £2.72m). The net cash outflow from operating activities was £1.99m (2015: £2.36m).

Cash at the year-end was £2.88m (2015: £1.81m). The improved cash position is primarily due to a placing of ordinary shares which was completed in November 2016. The placing raised £3.3m before expenses from a mixture of existing and new shareholders.

Principal activity and business review

The principal activity of the Group is protein biomarker research and development. As a leader in applied proteomics and workflows we use high sensitivity proprietary techniques to detect and characterise differentially expressed proteins in diseases for diagnostic, prognostic and therapeutic applications.

PS Biomarker Services® provides integrated proteomic services for biomarker discovery, validation and assay development for use in clinical trials and in vitro diagnostics. Key features include proprietary isobaric tandem mass tag (TMT®) technology for accurate and reliable biomarker quantification and the ability to rapidly develop highly reproducible quantitative biomarker assays.

The main focus of research is neurodegenerative, cardiovascular and oncological conditions. Blood biomarkers in Alzheimer's disease, stroke, brain damage and solid organ transplant rejection have been discovered.

Details of the Group's performance during the year and expected future developments are contained in the Chief Executive Officer's Statement on pages 2 to 4.

Principal Risks and Uncertainties

Licencing Arrangements and Commercialisation
The Group intends to sub-license its discoveries and products to third parties, but there can be no assurance that such licencing arrangements will be successful. It is also uncertain whether our commercial services will ultimately be successful in the market.

Management of Risk: The Group manages this risk by a thorough investigation of proposed research projects to assess their scientific and commercial feasibility. It has an experienced board and management team to carry out this process and also aims to spread this risk by distributing its resources on multiple projects. Recruitment of a Chief Commercial Officer is intended to strengthen our commercialisation capability.

Competition and Technology
The international biotechnology industry is subject to rapid and substantial technological change. There can be no assurance that developments by others will not render the Group's developments obsolete or uncompetitive. Proteomics is a growth area attracting new companies with competitive offerings.

Management of Risk: The Group employs highly qualified research scientists and senior management who monitor and are aware of developments in technology that might affect its research capability through their access to scientific publications and attendance at conferences.

Dependence on Key Personnel
The Group depends on its ability to attract and retain qualified management and scientific personnel. Competition for such personnel is intense. Whilst the Group has entered into employment arrangements with its key personnel with the aim of securing their services for minimum terms, the retention of their services cannot be guaranteed.

Management of Risk: The Group has a policy of organising its research so that its projects are not dependent on any one individual. It also seeks to retain staff by the grant of share options and through annual reviews of remuneration packages.

Patent Applications and Proprietary Rights
The Group seeks patent protection for identified protein biomarkers which may be of diagnostic, prognostic or therapeutic value and for its chemical mass tags. Successful commercialisation of such biomarkers and chemical mass tags may depend on the establishment of such patent protection. The Group also seeks patent protection for its proprietary technology.

There is no assurance that the Group's pending applications will result in the grant of patents, or that the scope of protection offered by any patents will be as planned, or whether any such patents ultimately will be upheld as valid by a court of competent jurisdiction in the event of a legal challenge. If the Group fails to obtain patents for its technology and is required to rely on unpatented proprietary technology, no assurance can be given that the Group can meaningfully protect its rights in such unpatented proprietary products and techniques.

Management of Risk: The Group has an experienced patent department which has established controls to avoid the release of patentable material before it has filed patent applications.

By Order of the Board
Coveham House,
Downside Bridge Road,
Cobham
Surrey KT11 3EP

G. Ellis
Company Secretary

27 March 2017

BOARD OF DIRECTORS

For the year ended 31st December 2016

Dr. Jeremy Haigh

Chief Executive Officer

Jeremy Haigh has spent 30 years in the bioscience sector in a variety of clinical research, development, operational and leadership roles, experiencing both traditional pharmaceutical and biotechnology environments at Merck Research Laboratories and at Amgen where most recently he was the European Chief Operating Officer for Research & Development. He retains a particular interest in precision medicine and in neurological diseases reflecting his basic training in neuropharmacology. He has been a strong advocate for the biopharmaceutical industry over many years, with significant involvement in healthcare policy and government affairs in both the UK and Europe. He is currently Chairman of Cogent SSC Ltd and a member of the Advisory Council for Imperial College Health Partners.

Geoff Ellis

Finance Director

Geoff Ellis is a Chartered Accountant with over 30 years' experience in a range of senior financial, general management and sales and business development roles. He spent almost 15 years at Walt Disney where his roles included Chief Financial Officer of Disney Channels in Europe, the Middle East and Africa, a $500m turnover business.

Dr. Ian Pike

Chief Scientific Officer

Ian Pike has over 20 years' experience working in the diagnostics and biotechnology sectors. Having gained a PhD in Medical Microbiology, he joined Wellcome Diagnostics as a research group leader and spent eight years working on new diagnostic assays, particularly for hepatitis. In December 1999, he joined the Technology Transfer Office of the UK Medical Research Council with responsibility for patents and commercialisation of a wide portfolio of technologies related to the biomedical sector. Most recently, Ian worked for Cancer Research Ventures managing intellectual property and performing business development activities in Europe and the US.

Non-executive Directors:

Christopher Pearce

Non-executive Chairman

Christopher Pearce has built the Group since inception and has been responsible for the formulation and implementation of strategy, collaborative and licensing agreements, and intellectual property. He was co-founder and Executive Chairman of Fitness First plc.

Professor William Dawson

Non-executive Director (i) (ii) (iii)

Professor William Dawson retired from Eli Lilly and Company in August 1996 after 27 years' service, 14 as Research Director in the UK and latterly as Director of Technology Acquisition, Europe. He is a Director of Bionet Limited and is a Fellow of the Royal Pharmaceutical Society and of the Royal Society of Chemistry.

Roger McDowell

Non-executive Director (i) (ii)

Roger McDowell has a highly successful career as a businessman and entrepreneur. He was Managing Director of Oliver Ashworth for eighteen years before its sale to St. Gobain. He is currently the Chairman or a non-executive director of seven listed companies, namely Avingtrans plc, Servelec Group plc, Renovo plc, Alkane Energy plc, Swallowfield plc, IS Solutions plc and Augean plc. He brings considerable commercial experience with him and is a keen exponent of growing shareholder value.

Martin Diggle

Non-executive Director (i) (ii)

Martin Diggle has worked in finance for over 30 years. He was a director and partner of UBS/Brunswick in Russia until 2003, after which he joined Vulpes Investment Management, where he is currently a director and partner. He is an experienced specialist investor in life sciences and manages the Vulpes Life Sciences Fund, the registered holder of 18.33% of Proteome Sciences' ordinary share capital.

(i) Member of Audit Committee
(ii) Member of Remuneration Committee
(iii) Member of Nomination Committee

DIRECTORS' REPORT

for the year ended 31 December 2016

The directors present their annual report on the affairs of the Group, together with the consolidated financial statements and independent auditor's report, for the year ended 31 December 2016.

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 the law the directors have elected to prepare the group and 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 group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

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

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 requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

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

Financial instruments and liquidity risks

Information about the use of financial instruments by the Company and its subsidiaries and the Group's financial risk management policies are given in note 24 of the financial statements.

DIRECTORS' REPORT

for the year ended 31 December 2016

Directors and their interests
The Directors who served during the year are as shown below:

C.D.J. Pearce	Non-Executive Chairman (From 1 June 2016; CEO from 1 January to 31 May 2016)
Dr. J.R.M. Haigh (appointed 1 June, 2016)	Chief Executive Officer
G. Ellis	Finance Director
Dr. I.H. Pike	Chief Scientific Officer
Professor W. Dawson	Non-Executive
R. McDowell	Non-Executive
M. Diggle	Non-Executive

In accordance with the Company's articles R. McDowell and G. Ellis retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors at 31st December 2016 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

Name of Director	**31 December 2016 Number of Ordinary Shares of 1p each**	31 December 2015 Number of Ordinary Shares of 1p each
C.D.J. Pearce	**36,915,059**	36,915,059
Dr. J.R.M. Haigh (appointed 1st June, 2016)	**400,000**	–
G. Ellis	**–**	–
Dr. I.H. Pike	**–**	–
Professor W. Dawson	**20,372**	20,372
R. McDowell	**2,500,000**	500,000
M. Diggle	**–**	–

Note
M. Diggle is a director and partner in Vulpes Investment Management and manages the Vulpes Life Sciences Fund which is the registered holder of 18.33% of Proteome Sciences' ordinary share capital.

No changes took place in the beneficial interests of the Directors between 31st December 2016 and 27 March 2017.

b) Directors' interests in the Long-Term Incentive Plan ("LTIP"):

The maximum number of shares to be allocated to the Directors under the 2004 and 2011 LTIP schemes, in each case for an aggregate consideration of £1, are as follows:

		Number at 31 December 2016	Number at 31 December 2015
(i) C.D.J. Pearce	(a)	**277,704**	277,704
(ii) G. Ellis	(a)	**300,000**	300,000
(iii) Dr. I.H. Pike	(a)	**165,583**	165,583

Awards made have no performance retesting facility.

The numbers shown in (i)(a), and(iii)(a) at 31 December 2016 relate to awards that have vested but have not yet been exercised.

The market price at the date of grant of the above awards numbered (i)(a) and (iii) (a) was 49.75p, and for the award numbered (ii)(a) was 35.75p.

c) As set out in note 18(b) (i) to (iii) in these financial statements, C.D.J. Pearce has made a loan facility available to the Company which can be converted, at Mr. Pearce's option, into Ordinary Shares of the Company at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since 29th June 2006 (the date on which details of the original loan agreement were disclosed).

d) The market price of the Ordinary Shares at 31 December 2016 was 5.6p and the range during the year was 5.6p to 22.3p.

Substantial shareholdings

As at 27 March 2017, the Company had received notification of the following significant interests in the ordinary share capital of the Company:

Name of Holder	**Number of Ordinary Shares**	Percentage of issued Ordinary Share Capital
C.D.J. Pearce	**36,915,059**	12.54
Vulpes Life Science Fund	**53,943,715**	18.33
M. Staveley	**9,820,829**	3.34
Helium Special Situations Fund	**19,212,273**	6.53
Henderson Global Investors Ltd	**20,000,000**	6.80

Corporate governance

The Company has formalised the following matters by Board resolution:

– a formal schedule of Board responsibilities;

– the procedure for Directors to take independent professional advice if necessary, at the Company's expense;

– the procedure for the nomination and appointment of non-executive Directors, for specified periods and without automatic re-appointment; and

– establishment of and written terms of reference for an audit, nominations and remuneration committees.

Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide its members with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of accurate financial information and the safeguarding of assets.

The key features of the internal control system that operated throughout the year are described under the following headings:

- Control environment: particularly the definition of the organisation structure and the appropriate delegation of responsibility to operational management.
- Identification and evaluation of business risks and control objectives: particularly through a formal process of consideration and documentation of risks and controls which is periodically undertaken by the Board.
- Main control procedures: which include the setting of annual and longer term budgets and the monthly reporting of performance against them, agreed treasury management and physical security procedures, formal capital expenditure and investment appraisal approval procedures and the definition of authorisation limits (both financial and otherwise).
- Monitoring: particularly through the regular review of performance against budgets and the progress of research activities undertaken by the Board.

The Board reviews the operation and effectiveness of this framework on a regular basis. The directors consider that there have been no weaknesses in internal controls that have resulted in any losses, contingencies or uncertainties requiring disclosures in the financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the CEO's Statement on page 2 to 4 and Strategic Report on pages 5 to 10 and the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the financial statements, in particular in the consolidated cash flow statement on page 26 and in notes 18 (b) (Financial liabilities) and 24 (Financial instruments).

The Group's financial statements have been prepared on the going concern basis which remains reliant on the group achieving an adequate level of sales in order to maintain sufficient working capital to support its activities. The directors have reviewed the Group's going concern position taking account of its equity raise in October 2016, current business activities, budgeted performance and the factors likely to affect its future development, are set out in the Annual report, and include the Group's objectives, policies and processes for managing its working capital, its financial risk management objectives and its exposure to credit and liquidity risks.

The directors have prepared cash-flow forecasts covering a period of at least 12 months from the date of approval of the financial statements, which foresees that the Group will be able to operate within its existing working capital facilities, however the timeline required to close sales contracts and the order value of individual sales continues to vary considerably, which constrain the ability to accurately predict revenue performance. Furthermore, the Group's products are still in the research and development phase and as such the directors consider that costs could exceed income in the short term. The directors intend that the Group will continue to pursue its sales strategy and focus its operational plans on the importance of achieving sustained positive cash-flow generation.

The Group is also dependent on the unsecured loan facility provided by the Chairman of the Group, which under the terms of the facility, is repayable

on demand. Further details of this facility are set out in note 18(b) to the financial statements. The directors have received confirmation from the Chairman that he has no intention of seeking its repayment, with the facility continuing to be made available to the Group, on the existing terms, for at least 12 months from the date of approval of these financial statements.

Overall, the directors are of the view that the Group has adequate financing to be able to meet its financial obligations for a period of at least 12 months from the date of approval of the annual report and financial statements.

Events after the balance sheet date
There have been no significant events which have occurred subsequent to the reporting date.

Research and development
Details of the group's activities on research and development during the year are set out in the Strategic Report and CEO's Statement.

Remuneration committee report
The Remuneration Committee is made up of three non-executive Directors, Professor W. Dawson, M. Diggle and R. McDowell. The role of the Committee is to make recommendations to the Board, within its agreed terms of reference, on the Company's framework of executive remuneration and its cost and to determine specific remuneration packages for each of the executive Directors. The remuneration of non-executive Directors is fixed by the Board as a whole.

The remuneration policy for Executive Directors and senior employees is to ensure that they are rewarded competitively and in line with their individual performance. Full details of the remuneration packages of individual Directors and information on share options and long-term incentive schemes are set out in note 10 to the financial statements and in the Directors' Report.

The release of shares in respect of the awards still outstanding to participants will depend upon the growth of Proteome Sciences' Total Shareholder Return ("TSR") over a three year performance period relative to the AIM Healthcare Index. No shares will be released unless the Company's TSR performance exceeds that of the Index, in which case 30% of the award will vest. The full award will vest only if the Company's TSR performance exceeds that of the Index by 10%, with a pro-rata award between 30% to 100% for each percentage point of out-performance up to 10%.

Before awards vest the Remuneration Committee will satisfy itself that the TSR performance is a genuine reflection of the Company's underlying performance over the three-year performance period.

Auditor
Each of the persons who are Directors of the Company at the date when this report was approved confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- the Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined in the Companies Act 2006) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The directors will place a resolution before the Annual General Meeting to appoint BDO LLP as auditor for the following year.

DIRECTORS' REPORT

for the year ended 31 December 2016

Liability insurance for Company officers
As permitted by section 233 of the Companies Act 2006, the Company has purchased insurance cover for the directors against liabilities that might arise in relation to the Group.

By Order of the Board
Coveham House,
Downside Bridge Road,
Cobham
Surrey KT11 3EP

G. Ellis
Company Secretary

27 March 2017

INDEPENDENT AUDITORS' REPORT

for the year ended 31 December 2016

To the Members of Proteome Sciences plc

We have audited the financial statements of Proteome Sciences plc for the year ended 31 December 2016 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statement of changes in equity, the Consolidated and Company cash flow statements, and the related notes. 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 and, as regards the parent company financial statements, 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITORS' REPORT

for the year ended 31 December 2016

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Iain Henderson (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

27 March 2017

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

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Revenue	5, 6		
Sales and services		**2,636**	1,675
Grant services		**108**	207
Revenue – Total		**2,744**	1,882
Cost of sales		**(1,196)**	(791)
Gross profit		**1,548**	1,091
Administrative expenses		**(4,235)**	(4,172)
Operating loss		**(2,687)**	(3,081)
Finance income	7(i)	**1**	5
Finance costs	7(ii)	**(257)**	(250)
Loss before taxation		**(2,943)**	(3,326)
Tax	11	**663**	608
Loss for the year		**(2,280)**	(2,718)
Loss per share			
Basic and diluted	12	**(0.96p)**	(1.23p)

The accompanying notes 1 to 26 are an integral part of the financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Loss for the year	**(2,280)**	(2,718)
Other comprehensive income for the year		
Exchange differences on translation of foreign operations	**84**	18
Loss and total comprehensive income for the year	**(2,196)**	(2,700)

The accompanying notes 1 to 26 are an integral part of the financial statements

CONSOLIDATED BALANCE SHEET

as at 31 December 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Goodwill	13	**4,218**	4,218
Property, plant and equipment	14	**592**	857
Equipment on loan	14	**–**	237
		4,810	5,312
Current assets			
Inventories	16	**600**	291
Trade and other receivables	17(a)	**1,406**	1,318
Cash and cash equivalents	17(b)	**2,884**	1,808
		4,890	3,417
Total assets		**9,700**	8,729
Current liabilities			
Trade and other payables	18(a)	**(662)**	(779)
Borrowings	18(b)	**(8,700)**	(8,443)
		(9,362)	(9,222)
Net current liabilities		**(4,472)**	(5,805)
Non-current liabilities			
Hire purchase payables	18(a)	**(166)**	(386)
Provisions	19	**(361)**	(276)
		(527)	(662)
Total liabilities		**(9,889)**	(9,884)
Net liabilities		**(189)**	(1,155)
Equity			
Share capital	20	**2,943**	2,280
Share premium account		**51,451**	48,986
Share-based payment reserve		**3,436**	3,402
Other reserve	22	**10,755**	10,755
Translation reserve		**(104)**	(188)
Retained loss		**(68,670)**	(66,390)
Total equity (deficit)		**(189)**	(1,155)

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 27 March 2017. They were signed on its behalf by:

J.R.M. Haigh Director

G. Ellis Director
27 March 2017

The accompanying notes 1 to 26 are an integral part of the financial statements.

COMPANY BALANCE SHEET

as at 31 December 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Investment in subsidiaries	15	**10,033**	28,404
		10,033	28,404
Current assets			
Cash and cash equivalents	17(b)	**2,152**	1,064
		2,152	1,064
Total assets		**12,185**	29,468
Current liabilities			
Payables from other group entity		**(306)**	(264)
Borrowings	18(b)	**(1,461)**	(1,418)
		(1,767)	(1,682)
Non-current liabilities			
Provisions	19	**(5)**	(15)
Total liabilities		**(1,772)**	(1,697)
Net assets		**10,413**	27,771
Equity			
Share capital	20	**2,943**	2,280
Share premium account		**51,451**	48,986
Merger reserve		**–**	1,082
Share-based payment reserve		**3,436**	3,402
Retained loss		**(47,417)**	(27,979)
Total equity		**10,413**	27,771

The company generated a loss for the year ended 31 December 2016 of £20.52m (2015: £20.724m).

The financial statements of Proteome Sciences plc, registered number 02879724, were approved by the board of directors and authorised for issue on 27 March 2017. They were signed on its behalf by:

J.R.M. Haigh Director

G. Ellis Director
27 March 2017

The accompanying notes 1 to 26 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Share based payment reserve £'000	Translation reserve £'000	Other reserve £'000	Retained loss £'000	Total equity/ (deficit) £'000
At 1 January 2015	2,141	46,737	3,367	(206)	10,755	(63,672)	(878)
Loss for the year	–	–	–	–	–	(2,718)	(2,718)
Exchange differences on translation of foreign operations	–	–	–	18	–	–	18
Loss and total comprehensive income for the year	–	–	–	18	–	(2,718)	(2,700)
Issue of share capital	139	2,258	–	–	–	–	2,397
Share issue expenses	–	(9)	–	–	–	–	(9)
Credit to equity for share-based payment	–	–	35	–	–	–	35
At 31 December 2015	2,280	48,986	3,402	(188)	10,755	(66,390)	(1,155)
At 1 January 2016	2,280	48,986	3,402	(188)	10,755	(66,390)	(1,155)
Loss for the year	–	–	–	–	–	(2,280)	(2,280)
Exchange differences on translation of foreign operations	–	–	–	84	–	–	84
Loss and total comprehensive income for the year				84	–	(2,280)	(2,196)
Issue of share capital	663	2,650	–	–	–	–	3,313
Share issue expenses	–	(185)	–	–	–	–	(185)
Credit to equity for share-based payment	–	–	34	–	–	–	34
At 31 December 2016	**2,943**	**51,451**	**3,436**	**(104)**	**10,755**	**(68,670)**	**(189)**

The accompanying notes 1 to 26 are an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

Company	Share capital £'000	Share premium account £'000	Merger reserve £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015	2,141	46,737	1,082	3,367	(7,255)	46,072
Loss and total comprehensive income for the year	–	–	–	–	(20,724)	(20,724)
Credit to equity for share-based payment	–	–	–	35	–	35
Issue of share capital	139	2,258	–	–	–	2,397
Share issue expenses	–	(9)	–	–	–	(9)
At 31 December 2015	2,280	48,986	1,082	3,402	(27,979)	27,771
At 1 January 2016	2,280	48,986	1,082	3,402	(27,979)	27,771
Loss and total comprehensive income for the year	–	–	–	–	(20,520)	(20,520)
Credit to equity for share-based payment	–	–	–	34	–	34
Transfer during year	–	–	(1,082)	–	1,082	–
Issue of share capital	663	2,650	–	–	–	3,313
Share issue expenses	–	(185)	–	–	–	(185)
At 31 December 2016	**2,943**	**51,451**	**–**	**3,436**	**(47,417)**	**10,413**

The accompanying notes 1 to 26 are an integral part of the financial statements.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

for the year ended 31 December 2016

	Note	Group 2016 £'000	Company 2016 £'000	Group 2015 £'000	Company 2015 £'000
Loss before tax		**(2,943)**	**(20,520)**	(3,326)	(20,724)
Adjustments for:					
Net finance costs		**257**	**44**	245	41
Depreciation of property, plant and equipment		**553**	**–**	395	–
Impairment of investments in subsidiaries		**–**	**20,340**	–	20,600
Share-based payment expense		**34**	**–**	35	–
Operating cash flows before movements in working capital		**(2,099)**	**(136)**	(2,651)	(83)
(Increase)/decrease in inventories		**(309)**	**–**	54	–
(Increase) in receivables		**(183)**	**–**	(233)	–
(Decrease)/increase in payables		**(144)**	**–**	258	–
Increase/(decrease) in provisions		**85**	**(11)**	(349)	(11)
Cash used in operations		**(2,650)**	**(147)**	(2,921)	(94)
Tax refunded		**656**	**–**	563	–
Net cash outflow from operating activities		**(1,994)**	**(147)**	(2,358)	(94)
Cash flows from investing activities					
Purchases of property, plant and equipment		**(33)**	**–**	(52)	–
Loans advanced to subsidiary undertakings		**–**	**(1,894)**	–	(2,742)
Interest received		**1**	**1**	5	–
Net cash outflow from investing activities		**(32)**	**(1,893)**	(47)	(2,742)
Financing activities					
Proceeds on issue of shares		**3,313**	**3,313**	2,388	2,388
Share issue costs		**(185)**	**(185)**	–	–
Repayment of HP creditors		**(220)**	**–**	(55)	–
Net cash inflow from financing activities		**2,908**	**3,128**	2,333	2,388
Net increase/(decrease) in cash and cash equivalents		**882**	**1,088**	(72)	(448)
Cash and cash equivalents at beginning of year		**1,808**	**1,064**	1,869	1,512
Effect of foreign exchange rate changes		**194**	**–**	11	–
Cash and cash equivalents at end of year	17b	**2,884**	**2,152**	1,808	1,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

1 GENERAL INFORMATION

Proteome Sciences plc is a company incorporated in the United Kingdom. These financial statements are the consolidated financial statements of Proteome Sciences plc and its subsidiaries ("the Group") and the company financial statements for Proteome Sciences plc ("the Company"). The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

2 ADOPTION OF NEW AND REVISED STANDARDS

New standards and amendments to existing standards that have been published and are mandatory for the first time for the financial year beginning 1 January 2016 have been adopted but had no significant impact on the Group and Company. New standards, amendments to standards and interpretations which have been issued but are not yet effective (and in some cases had not been adopted by the EU) for the financial year beginning 1 January 2016 have not been early adopted in preparing these financial statements. The implications of these new accounting standards on the Group and Company has not yet been fully evaluated. The main accounting standards which may be relevant to the Group are set out below:

IFRS 9 "Financial Instruments"– (effective for 2019 financial report)

IFRS 9 is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and de-recognition requirements for financial instruments. Key changes to accounting requirements under IFRS 9 which may be relevant to Proteome Sciences Plc include the requirement to apply a new impairment model based on expected loss in recognising impairment of financial assets including current receivables and loans to related parties. This may result in the recognition of additional impairment losses against the carrying values of these financial assets, at a point in time which is earlier than under the current accounting policies.

IFRS 15 "Revenue from Contracts with Customers"– (effective for 2018 financial report)

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

In applying IFRS 15, the company's initial views on the key changes to accounting requirements under IFRS 15 which may be relevant to Proteome Sciences Plc include:

(a) Sale of goods

Contracts with customers in which sale of TMT goods are the only performance obligation are not expected to result in changes for the Group. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Biomarker services

Contracts with customers in which biomarker services are provided over a period of time may result in revenue being recognised later than the current treatment under the current accounting policy. Revenue recognition could change to a point in time at which the customer has received final deliverables rather than over time.

2 ADOPTION OF NEW AND REVISED STANDARDS continued

IFRS 16 "Leases" – (effective for 2019 financial report)

IFRS 16 will require the Group to recognise the lease on its UK and Frankfurt (Germany) premises as both an asset and a rental commitment in its consolidated statement of financial position, but is not expected to have material effect on the Group's results.

The implications of these accounting standards on Proteome Sciences are expected to be evaluated in more detail during the financial year 2017.

3 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis of preparation – going concern

These financial statements have been prepared on the going concern basis. The directors have reviewed the Company's and the Group's going concern position taking account of its equity raise in October 2016, its current business activities, budgeted performance and the factors likely to affect its future development, set out in the Annual report, and include the Group's objectives, policies and processes for managing its working capital, its financial risk management objectives and its exposure to credit and liquidity risks.

As at 31 December 2016, the Group had cash resources of £2.9 m (2015: £1.8m), realised a loss for the year of £2.2m (2015: a loss of £2.7m, a reduction of 18%), had net cash outflows from operating activities of £1.99m (2015: net cash outflow of £2.4m) and had net current liabilities of £4.5m (2015: £5.8m).

The financial statements have been prepared on a going concern basis, which remains reliant on the group achieving an adequate level of sales in order to maintain sufficient working capital to support its activities. The directors have prepared cash-flow forecasts covering a period of at least 12 months from the date of approval of the financial statements, which foresee that the Group will be able to operate within its existing facilities, however the timeline required to close sales contracts and the order value of individual sales continues to vary considerably, which constrain the ability to accurately predict revenue performance. Furthermore, the Group's products are still in the research and development phase and as such the directors consider that costs could exceed income in the short term.

The Group is also dependent on the unsecured loan facility provided by the Chairman of the Group, which under the terms of the facility, is repayable on demand. Further details of this facility are set out in note 18(b). The directors have received confirmation from the Chairman that he has no intention of seeking its repayment, with the facility continuing to be made available to the Group, on the existing terms, for at least 12 months from the date of approval of these financial statements.

Overall, the directors are of the view that the Group has adequate financing to be able to meet its financial obligations for a period of at least 12 months from the date of approval of the annual report and financial statements.

3 **SIGNIFICANT ACCOUNTING POLICIES** continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. The company controls an investee if, and only if the company has the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure of rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales and services

Sales of goods including TMT kits are recognised when goods are delivered and title has passed to the customer. Licence income is recognised when the benefit has been transferred to the licensee and the group has satisfied performance requirements under the terms of the relevant agreement.

Grants services revenues and biomarker services revenues are recognised based on an estimate of percentage completion of contracts completed by the reporting date relative to total contract values for individual projects. The estimate is derived by the application of judgement and tracked progress of work performed on each project at the reporting date relative to the total value of each project. Grants released to the income statement are recognised within revenue, taking account of each grant's specific performance terms and conditions.

3 **SIGNIFICANT ACCOUNTING POLICIES** continued

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the same term.

Foreign Currencies

The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

As a result of the acquisition of Proteome Sciences R&D Verwaltungs GmbH and Proteome Sciences R&D GmbH & Co KG during financial year 2002, the Group makes contributions in Germany to a funded defined contribution plan and to a funded defined benefit plan. These plans are operated in their entirety by the Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG (Hoeschst Group), an independent German mutual insurance company which is required to comply with German insurance company regulations.

3 **SIGNIFICANT ACCOUNTING POLICIES** continued

The schemes' assets are held in multi-employer funds, and the other employers who contribute to the schemes are not members of the Group. The Group has not been able to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly it has also been accounted for as a defined contribution scheme. The Group's contributions to the schemes are included within the amount charged to the income statement in respect of pension contributions. Funding contributions paid by the Group are based on annual contributions determined by Hoechst Group, the administrator for the pension plans. The Group does not have any information about any deficit or surplus in the defined benefit plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any for the entity.

The Group also has a direct pension obligation (defined benefit obligation) for its German subsidiary for which it provides in full at the balance sheet date. This scheme has no separable assets. The company uses the projected unit credit method to determine the present value of its unfunded defined benefit obligation.

Taxation

Any tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

The Group is entitled to make claims for UK tax credit income on qualifying R&D expenditure each year under the Corporation and Taxes Act 2009. As an SME qualifying entity, tax credits are claimed at the rate of 230% of the tax effect of tax losses generated from qualifying R&D expenditure. Tax credits income is recognised on an accruals basis through profit or loss within taxation benefit/expense when there is reasonable assurance that the tax credits will be received from the UK Tax Authorities. A corresponding R&D Tax credits receivable is recognised in Receivables until such time as the receivable is settled in cash.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3 **SIGNIFICANT ACCOUNTING POLICIES** continued

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Laboratory equipment, fixtures and fittings	20%

Equipment on loan

In December 2013 the Company was provided with mass spectrometry equipment for a period of at least three years, pursuant to a licence and research collaboration agreement made with Thermo Fisher Scientific during 2013. The directors considered the requirements of IFRS in determining how this equipment should be recognised in the financial statements. The directors took into account the fact that the machine has been provided to the Group with no restrictions on its use, and the fact that the three year period of the loan is considered to represent substantially the entire useful economic life of the asset. The directors concluded that the economic risks and rewards of ownership of the equipment were therefore, transferred to the Group, and recognised the equipment within Property, Plant and Equipment. The value at which the directors recognised the asset is considered to be represented by the fair value of the MS3 licence transferred at the commencement of the agreement less the cash consideration received. The equipment is being depreciated over the three year period of the loan agreement.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditure, where it meets certain criteria (given below), is capitalised and amortised on a straight-line basis over its useful life. Asset lives are subject to regular review and an impairment exercise carried out at least once a year. Where no internally-generated intangible asset can be recognised, development expenditure is written-off in the period in which it is incurred.

An asset is recognised only if all of the following conditions are met:

- the product is technically feasible and marketable;
- the company has adequate resources to complete the development of the product;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

3 **SIGNIFICANT ACCOUNTING POLICIES** continued

The directors do not consider that any Research and Development intangible assets have been created in 2016 or the prior year on the basis that it is uncertain whether the intangible assets will generate future revenue cash flows.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense through profit and loss.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments with an original maturity date of fewer than three months that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

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 Group after deducting all of its liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES continued

Borrowings

Interest-bearing loans are recorded initially at fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate 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 initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Further details of the pension provision policy are set out in the paragraph above headed Retirement benefit costs.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest based on the effect of non-market vesting conditions. Share based payments are recognised as an additional cost of investment in subsidiary undertakings in the company where the company issues share options to executives employed by its subsidiaries.

Fair value is measured by use of the Black Scholes model and for the LTIP awards the Monte Carlo model has been used. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Internally-generated intangible assets – research and development expenditure

The directors do not consider that any Research and Development intangible assets have been created in 2016 or the prior year on the basis that it is uncertain whether the intangible assets will generate future revenue cash flows.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value less costs to sell of the cash-generating units to which goodwill has been allocated. The fair value less costs to sell calculation requires the entity to estimate the future cash flows expected to arise from the

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

cash-generating unit. The carrying amount of goodwill at the balance sheet date was £4.2m. Details of the estimates used in the calculation are set out in note 13.

Investments in subsidiary companies

The carrying cost of the company's investments in subsidiary companies is reviewed at each balance sheet date by reference to the income that is projected to arise therefrom. From a review of these projections the directors have made a provision against their carrying values as shown in note 15 to the financial statements and the directors therefore believe that the investments concerned will generate sufficient economic benefits to justify their revised carrying values, despite the inevitable uncertainties over timing of the receipt of income and the size of the markets from which income is anticipated.

5 REVENUE

An analysis of the Group's revenue is as follows:

	2016	2015
	£'000	£'000
Sales of goods and biomarker services	**2,636**	1,675
Grant services income	**108**	207
	2,744	1,882

6 SEGMENT INFORMATION

The Group's operations are organised into two geographic segments, being the EU (United Kingdom and Germany) and US. Internal reporting on costs and performance is segregated into these segments. The results, assets and liabilities for the US segment for 2016 and 2015 were nominal amounts. The US segment had no revenues in either year and incurred a loss of £1,000 for 2016 (2015: £5,000). All revenues and other results per the Consolidated Income Statement relates to the EU segment.

In identifying the operating segments, management has considered internal reports about components of the Group that are used by the Chief Executive, who is the Chief Operating Decision Maker, to determine allocation of resources and to assess their performance.

Revenues from major products and services

The Group's revenues from its major products and services were as follows:

	2016	2015
	£'000	£'000
TMT® revenues	**1,387**	882
Biomarker services	**1,249**	793
Revenues from sales and services	**2,636**	1,675

6 SEGMENT INFORMATION continued

Geographical Information

The Group's revenue from external customers by their geographical location is derived as follows:

	2016 £'000	2015 £'000
US	**2,123**	1,320
EU	**257**	196
Other	**256**	159
Total	**2,636**	1,675
Grant services income		
EU	**108**	207
Revenues and other income from major products and services	**2,744**	1,882

Included in revenues arising from sales into the US market are revenues of approximately £1.387m (2015: £0.982m) which arose from sales to the Group's largest customer: Thermo Fisher Scientific Inc.

7 (i) FINANCE INCOME

	2016 £'000	2015 £'000
Income arising from bank deposits	1	5

(ii) FINANCE COSTS

	2016 £'000	2015 £'000
Interest on loans (note 18)	257	250

8 OPERATING LOSS

	2016 £'000	2015 £'000
Operating loss is stated after charging/(crediting):		
Depreciation charge		
– owned	**316**	158
– on loan	**237**	237
Research and development costs	**1,075**	1,248
Operating lease rentals		
– other	**319**	290
Auditor's remuneration (see below)	**80**	86
Foreign exchange losses/(gains)	**12**	(15)
(Increase)/decrease in cost of inventories (credited)/charged as an expense	**(309)**	53

8 OPERATING LOSS continued

The analysis of auditor's remuneration is as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**44**	42
Fees payable to the Company's auditor for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	**11**	13
Total audit fees	**55**	55
Tax compliance services	**26**	18
Other tax compliance services – VAT, grants, share schemes, income tax advice	**(1)**	13
Total non-audit fees	**25**	31
Total fees	**80**	86

9 STAFF COSTS

The average monthly number of employees (including executive directors) was:

	2016 Number	2015 Number
Research and development	**28**	28
Administration	**8**	7
	36	35

Their aggregate remuneration (including that of executive directors) comprised:

	2016 £'000	2015 £'000
Wages and salaries	**2,188**	2,005
Social security costs	**320**	316
Other pension costs	**211**	130
	2,719	2,451

Social security costs shown above include a credit of £10,000 (2015: £11,000) from the provision for notional National Insurance contributions payable upon the exercise of vested LTIP options.

10 DIRECTORS' REMUNERATION AND TRANSACTIONS

The directors' emoluments in the year ended 31 December 2016, were:

	Basic salary 2016 £'000	Benefits in kind 2016 £'000	Pension Costs 2016 £'000	Total 2016 £'000	Total 2015 £'000
Executive Directors					
Dr. J.R.M. Haigh (appointed 1 June 2016)	144	2	–	146	–
G. Ellis	161	3	4	168	169
Dr. I. Pike	150	3	15	168	168
Non-Executive Directors					
C.D.J. Pearce	144	5	–	149	287
Prof. W. Dawson	28	–	–	28	28
R. McDowell	25	–	–	25	25
M. Diggle	–	–	–	–	–
					–
	652	13	19	674	677

(i) The remuneration of the executive directors is decided by the Remuneration Committee.

(ii) Aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for Ordinary Shares in the Company granted to or held by the directors.

(iii) No options were exercised by directors during the year (2015: none).

(iv) Details of the options in place and of awards under the Company's Long-Term Incentive Plan are given in note 20.

(v) The number of directors in pension schemes is as follows:

	2016	2015
Defined contribution pension schemes	**2**	3

Pension costs in the year ended 31 December 2016 were as follows:

	2016 £'000	2015 £'000
C.D.J. Pearce	**–**	–
G. Ellis	**4**	15
Dr. I. Pike	**15**	15
Dr. J.R.M. Haigh	**–**	–
	19	30

(a) Professor W. Dawson is a shareholder in Bionet Ltd. which provided consultancy services to the company in 2015 at a cost of £2,000. No services were provided in 2016.

10 DIRECTORS' REMUNERATION AND TRANSACTIONS continued

Directors' transactions

(b) Other than as disclosed in (a) above and in note 18(b), no director had a material interest in any contract of significance with the Company in either year.

(c) C.D.J. Pearce has a consultancy agreement with the company at a rate of £70,000 per annum. The agreement started on the 1 June 2016 and fees of £40,833 were paid for the seven months to the 31 December 2016.

11 TAX CREDIT ON LOSS BEFORE TAXATION ON ORDINARY ACTIVITIES

	2016 £'000	2015 £'000
UK Corporation tax – R&D tax credit	**745**	625
Overseas tax charge	**(62)**	(17)
Group tax credit for the year	**683**	608
Adjustments re previous years	**(20)**	–
	663	608

The UK Corporation tax credit relates to research and development tax credits claimed under the Corporation Taxes Act 2009.

At 31 December 2016 there were tax losses available for carry forward of approximately £42.0m (2015: £42.6m).

The tax credit and trading losses to be carried forward for the year are subject to the agreement of HM Revenue & Customs.

Factors affecting the tax credit/ (charge) for the year

The tax credit for the year is lower (2015: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £'000	2015 £'000
Loss before tax	**(2,943)**	(3,326)
Income tax credit calculated at 20% (2015: 20.25%)	**589**	674
Effects of:		
Expenses that are not deductible in determining taxable profit	**(27)**	(14)
Fixed asset timing differences	**(111)**	(78)
Effect of concessions (Research and Development)	**782**	533
Losses surrendered for R&D tax credit	**(1,157)**	(871)
Unrecognised tax losses carried forward	**(27)**	(184)
Effect of overseas tax	**(62)**	(17)
R&D tax credit claimed	**746**	625
Other taxable income	**(50)**	(60)
Group tax credit for the year	**683**	608
Adjustment re prior year	**(20)**	–
	663	608

11 TAX CREDIT ON LOSS BEFORE TAXATION ON ORDINARY ACTIVITIES continued

	2016	2015
Unrecognised deferred tax	**£'000**	£'000
The following deferred tax assets and liability have not been recognised at the balance sheet date:		
Tax losses – revenue	**7,141**	7,348
Depreciation in excess of capital allowances	**(85)**	(78)
Provisions	**6**	3
Total	**7,062**	7,273

The deferred tax assets have not been recognised as the directors are uncertain of their recovery. The assets will be recovered if the Group makes sufficient taxable profits in the future against which losses can be utilised.

Changes to tax legislation

The main rate of UK corporation tax reduced from 21% to 20% from 1 April 2015. This rate will also be effective for the tax year 2016/17. This rate will fall to 19% for the year beginning 1 April 2017, and to 17% for the year beginning 1 April 2020.

12 LOSS PER ORDINARY SHARE

The calculations of basic and diluted loss per ordinary share are based on the following losses and numbers of shares.

	Basic and Diluted	
	2016	2015
	£'000	£'000
Loss for the financial year	**(2,280)**	(2,718)

	2016	2015
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share:	236,451,654	221,036,176

In 2016 and 2015 the loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the exercise of share options that are out of the money would have the effect of reducing the loss per ordinary share and is therefore not dilutive.

13 GOODWILL

	Goodwill
	£'000
Cost and carrying amount	
1 January 2016 and 31 December 2016	**4,218**

13 GOODWILL continued

The goodwill has been allocated to the EU CGU, which comprises the UK and German businesses in the group. For the purpose of testing goodwill, the recoverable value of the CGU is determined from fair value less estimated costs of disposal. In assessing the fair value of the CGU, management and the directors have considered and assessed the following evidence:

(a) As at 31 December 2016, the market capitalisation for the group was £16.5m based on the quoted share price of the company of 5.6p per ordinary share; and

(b) During the year raised new equity finance of £3.313m at 5p per ordinary share;

The directors have concluded that based on the above, recoverable value exceeds the carrying value of the goodwill at 31 December 2016.

14 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise laboratory equipment, fixtures and fittings and motor vehicles held by and equipment on loan to the Group. The movement in the year was as follows:

	Equipment on loan £'000	Laboratory equipment, fixtures and fittings £'000
1 January 2015	710	3,692
Exchange adjustments	–	(127)
Additions during the year	–	713
31 December 2015	710	4,278
Exchange adjustments	–	374
Additions during the year	–	33
31 December 2016	710	4,685
Depreciation		
1 January 2015	236	3,378
Exchange adjustments	–	(115)
Charge for the year	237	158
At 31 December 2015	473	3,421
Exchange adjustments	–	356
Charge for the year	237	316
At 31 December 2016	710	4,093
Carrying amount		
31 December 2015	237	857
31 December 2016	–	592

Included within Property, Plant and Equipment is mass spectrometry equipment with a net book value of £Nil (2015: £0.237m) which was provided to the Group for a period of at least three years, pursuant to the licence and research collaboration agreement made with Thermo Fisher Scientific in 2013. The equipment is being depreciated over the three year period of the loan agreement.

The Company owned no fixed assets during either the current or preceding financial year.

15 INVESTMENT IN SUBSIDIARIES

	Cost of shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Company			
At 1 January 2015	4,376	41,865	46,241
Additional investment in the year	35	2,728	2,763
Provisions for impairment during the year	–	(20,600)	(20,600)
At 31 December 2015	4,411	23,993	28,404
At 1 January 2016	4,411	23,993	28,404
Additional investment in the year	34	1,935	1,969
Provisions for impairment during the year	(1,961)	(18,379)	(20,340)
At 31 December 2016	2,484	7,549	10,033

(i) The increase in the cost of shares in subsidiary undertakings of £34,000 (2015: £35,000 represents a capital contribution between the Company and certain of its subsidiaries, reflecting the provision of equity instruments in the Company to subsidiary company employees.

(ii) The increase in loans to subsidiary companies in 2016 arose from the provision of further funds to the company's trading subsidiary and German subsidiary company.

(iii) A provision for impairment of £20.34m (2015: £20.6 m) has been recognised during 2016 against the carrying value of loans advanced to the UK subsidiary Electrophoretics Limited and the cost of investment in shares for Electrophoretics. The recoverable value of the asset at 31 December 2016, which is based on fair value less costs to sell, has fallen since the prior year consistent with the decrease in the Company's share price during the year.

15 INVESTMENT IN SUBSIDIARIES continued

Principal Group investments

The Company has investments in the following subsidiary undertakings, which contribute to the net assets of the Group:

Principal subsidiary undertakings	Country of incorporation and operation	Principal activity	Description and proportion of shares held by the Company	Group
Proteome Sciences R&D Verwaltungs GmbH	Germany	Administrative Company	100% Share Capital	100% Share Capital
Proteome Sciences R&D GmbH & Co. KG	Germany	Research Company	100% Partnership Interest	100% Partnership Interest
Xzillion GmbH & Co. KG	Germany	Administrative Company	100% Partnership	100% Partnership
Proteome Sciences, Inc.	U.S.A.	Research Company	100% Common Stock	100% Common Stock
Electrophoretics Limited	United Kingdom	Administrative and Research Company	100% Ordinary Shares	100% Ordinary Shares
Veri-Q Inc.	U.S.A.	Research Company	76.9% Common Stock	76.9% Common Stock
Phenomics Limited	United Kingdom	Dormant	100% Ordinary Shares	100% Ordinary Shares

(i) The investments in Proteome Sciences, Inc., Electrophoretics Limited and Phenomics Limited comprise the entire issued share capital of each subsidiary undertaking and carry 100% of the voting rights.

The registered offices of the companies above are;

Proteome Sciences R&D Verwaltungs GmbH, Proteome Sciences R&D GmbH & Co. KG, Xzillion GmbH & Co. KG – Althenhöferallee 3, 60438 Frankfurt am Main, Germany

Electrophoretics Limited and Proteome Sciences plc and Phenomics Limited – Coveham House, Downside Bridge Road, Cobham, Surrey KT11 3EP, UK

Proteome Sciences Inc PO Box 2767 Humble, Texas, 77347. USA Veri-Q Inc 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808-1645, USA.

16 INVENTORIES

	2016 £'000	2015 £'000
Work-in-progress	**140**	129
Finished goods	**460**	162
	600	291

17 OTHER CURRENT ASSETS

a) Trade and other receivables

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Trade debtors	**399**	**–**	364	–
R&D tax credit recoverable	**745**	**–**	659	–
Other debtors	**192**	**–**	243	–
Prepayments	**70**	**–**	52	–
	1,406	**–**	1,318	–

No allowance for doubtful debts was recognised in 2016 or 2015.

b) Cash and cash equivalents

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Cash and cash equivalents	**2,884**	**2,152**	1,808	1,064

The directors consider that the carrying amount of trade receivables and cash and cash equivalents approximates to their fair value.

18 FINANCIAL LIABILITIES

(a) Trade and other payables

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Due within one year				
Trade creditors	**28**	**–**	18	–
Other payables and accruals	**414**	**–**	541	–
Hire purchase payables	**220**	**–**	220	–
	662	**-**	779	–
Due after one year				
Hire purchase payables	**166**	**–**	386	–

Hire purchase payables have the following maturity profile at 31 December 2016

	2016 £'000	2015 £'000
Due within one year	**220**	220
Due in more than one year but not more than 2 years	**166**	220
Due in more than two years but not more than 3 years	**–**	166
	386	606

18 FINANCIAL LIABILITIES continued

Trade creditors and other payables principally comprise amounts outstanding for trade purchases and continuing costs. The average credit period taken for trade purchases is between 30 and 45 days. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The directors consider that the carrying amount of trade payables approximates to their fair value.

(b) Short term borrowings

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Loan from related party (Director)	**8,700**	**1,461**	8,443	1,418

The directors consider that the carrying amount of borrowings approximates to their fair value.

Note:

(i) The loan from related party represents a loan from Mr C D J Pearce, Non-Executive Director and the former the Chief Executive of the Company. The loan is secured by a fixed charge over the Company's patent portfolio and a floating charge over the Company's stock in trade. The loan bears interest at 2.5% above the base rate of Barclays Bank plc. Loan amounts representing £5m may be converted into ordinary share capital at the option of Mr Pearce at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since 29th June 2006. Electrophoretics Ltd, the company's subsidiary has assumed all obligations for the loan. The Company has also guaranteed the subsidiary's payment obligations.

(ii) The loan is repayable on seven days notice, or immediately in the event of:

(a) C.D.J. Pearce ceasing to be an Executive Director of the company.

(b) A general offer to the shareholders of the Company being announced to acquire its issued share capital.

(c) The occurrence of any of the usual events of default attaching to this sort of agreement.

(iii) The amounts shown above as outstanding under short term borrowings include accrued interest.

19 PROVISIONS

Group	**Pensions provisions £'000**	**Other provisions £'000**	**2016 Total £'000**	**2015 Total £'000**
At 1 January	261	15	276	652
Additional provision in the year	95	–	95	–
Reduction of provision	–	(10)	(10)	(376)
At 31 December	356	5	361	276

19 PROVISIONS continued

Company – long term provision

	2016 £'000	2015 £'000
At 1 January	**15**	26
Reduction in provision in the year	**(10)**	(11)
At 31 December	**5**	15

(i) The pension provision relates to pension costs which may become payable in connection with the group's Frankfurt employees, under the pension scheme arrangements set out in note 19 (iii). This provision will be utilised as members of the scheme reach retirement age and draw down their pensions.

(ii) Long term provisions include £5,000 (2015: £15,000) for National Insurance contributions payable upon the exercise of vested LTIP options.

(iii) Pension arrangements

As a result of the acquisition of Proteome Sciences R&D Verwaltungs GmbH and Proteome Sciences R&D GmbH & Co KG from Aventis Research & Technologies GmbH & Co KG, the Group makes contributions in Germany to a funded defined contribution plan and to a funded defined benefit plan. These plans are operated in their entirety by the Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG (Hoechst Group), an independent German mutual insurance company, which is required to comply with German insurance company regulations.

The schemes assets are held in multi-employer funds, and the other employers who contribute to the schemes are not members of the Group. The Group has not been able to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly it has also been accounted for as defined contribution scheme. The Group's contributions to the scheme are included within the amount charged to the income statement in respect of pension contributions.

Funding contributions paid by the Group are based on annual contributions determined by Hoechst Group, the administrator for the pension plans. For the year ending 31 December 2017, funding contributions payable by the Group are based on employee contributions at the rate of 1.5%-2.5% (2016: 1.5%-2.5%) of wages and salaries and employer contributions at the rate of 5 times (2016: 5 times) employee contributions.

The amount charged to the income statement in respect of the contributions to the scheme in 2016 was £115,796 (2015: £49,507).

As at 31 December 2016, an actuarial deficit did not exist for the multi-employer scheme. The Group's contributions to the scheme during 2016 represented 0.01% of total contributions to the scheme by employers and employees (2015: 0.03%). Under the terms of the multi-employer plan, the group's obligations are limited to the original promise/commitment that it has given to its own employees. The group does not have an exposure to liability in relation to other third party employers' obligations. The Group does not have any information about how the actuarial status of the plan may affect the amounts of future contributions to the plan.

The Group also has a direct pension obligation for which it provides in full at the balance sheet date. This scheme has no separable assets. The company uses the projected unit credit method to determine the present value of its unfunded defined benefit obligation. Demographic assumptions

19 PROVISIONS continued

are based on Prof. Klaus Heubeck's mortality table "Richttafeln 2005 G", the standard German actuarial table, with full recognition for fluctuations in mortality rates on account of gender and current age. Pensionable age has been set at 60.

The company has applied a discount rate for the year of 1.5 % (2015: 2%). The company has assumed an income increase of 2.75 % (2015: 2.75%) and German inflation of 2% (2015: 2.25%).

Provisions for future unfunded pension liabilities at 31 December 2016 amounted to £356,575 (2015: £260,241). Amounts recognised through the consolidated income statement for the year to 31 December 2016 included service costs of £94,947 (2015: £11,800), interest costs of £6,506 (2015: £5,644) and an actuarial loss of £33,400 (2015: actuarial gain of £27,374).

(c) Other pension costs in relation to defined contribution schemes for United Kingdom employees amounted to £95,652 (2015: £97,955)

20 SHARE CAPITAL

	2016	2015
	£'000	£'000
i) Authorised		
330,000,200 (2015: 330,000,200) Ordinary Shares of 1p each	**3,300**	3,300
49,998 Redeemable Ordinary Shares of £1 each	**50**	50
1,063,822 5% (gross) Redeemable Preference Shares of £1 each (voting)	**1,064**	1,064
786,178 5% (gross) Redeemable Preference Shares of £1 each (non-voting)	**786**	786
	5,200	5,200

No Redeemable Preference shares of either class had been allotted and called up at the 31 December 2016 and 2015. At the 31 December 2019 any redeemable preference shares then in issue must be redeemed at par by that date. The redeemable preference shares have been classified as equity as the substance and legal form of the arrangement is equity, with no debt component.

ii) Allotted and called-up

	2016	2015
	£'000	£'000
Ordinary Shares of 1p each	**2,943**	2,280

The increase in the number of shares in issue in 2016 arose as follows:

	2016 Number
As at 1 January 2016	227,966,732
Issued on exercise of LTIP award in October 2016	100,000
Issued in share placing in November 2016	66,258,100
At 31 December 2016	**294,324,832**

20 SHARE CAPITAL continued

iii) Options

Options under the schemes noted below may be exercised from the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange.

An option over 150,000 of the company's ordinary shares which was granted under a separate option deed in the year to the 31 December, 2010 and was fully vested by 30 September 2013, lapsed in the year

(iv) 2004 and 2011 Long-Term Incentive Plan ("LTIP")

At 31 December 2016, the maximum number of the Company's Ordinary Shares of 1p each to be potentially allocated or issued under the LTIP was as follows:

Number at 31 December 2015	Awarded in the year	Exercised in the year	Lapsed in the year	Number at 31 December 2016	Vesting Date	Latest Exercise Date
700,965	–	(100,000)	–	600,965	–	2 July 2017
300,000	–	–	–	300,000	2 October 2017	–
1,000,965	–	(100,000)	–	900.965		

At 31 December 2015, the maximum number of the Company's Ordinary Shares of 1p each to be potentially allocated or issued under the LTIP was as follows:

Number at 31 December 2014	Awarded in the year	Exercised in the year	Lapsed in the year	Number at 31 December 2015	Vesting Date	Latest Exercise Date
700,965	–	–	–	700,965	–	2 July 2017
328,105	–	(328,105)	–	–	24 February 2015	–
300,000	–	–	–	300,000	2 October 2017	–
1,329,070	–	–	(328,105)	1,000,965		

20 SHARE CAPITAL continued

(v) 2004 Share Option Plan

At 31 December 2016 options had been granted, had fully vested in prior reporting periods and were still outstanding (exercisable) in respect of the Company's Ordinary Shares of 1p each under the Company's 2004 Share Option Plan as follows:

Number of shares	Amount of Capital (£)	Exercise Price (p)	Dates Exercisable
67,650	676.50	36.77	2.7.10 – 2.7.17
40,590	405.90	36.77	2.7.10 – 2.7.17
8,118	81.18	27.72	10.4.11 – 10.4.18
52,767	527.67	27.72	10.4.11 – 10.4.18
33,825	338.25	15.52	14.7.11 – 14.7.18
202,950	2,029.50		

At 31 December 2015 options had been granted, had fully vested in prior reporting periods and were still outstanding (exercisable) in respect of the Company's Ordinary Shares of 1p each under the Company's 2004 Share Option Plan as follows:

Number of shares	Amount of Capital (£)	Exercise Price (p)	Dates Exercisable
20,295	202.95	31.78	9.6.09 – 9.6.16
67,650	676.50	36.77	2.7.10 – 2.7.17
40,590	405.90	36.77	2.7.10 – 2.7.17
12,177	121.77	27.72	10.4.11 – 10.4.18
56,826	568.26	27.72	10.4.11 – 10.4.18
33,825	338.25	15.52	14.7.11 – 14.7.18
231,363	2,313,63		

(vi) 2011 Share Option Plan

At 31 December 2016 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p each under the Company's 2011 Share Option Plan as follows:

Number of shares	Amount of Capital (£)	Exercise Price (p)	Vesting Date	Dates Exercisable
111,000	1,110	36.50	17.2.15	17.2.15 – 17.2.22
70,000	700	49.87	25.6.16	25.6.16 – 25.6.26
50,000	500	33.75	9.6.17	9.6.17 – 9.6.24
25,000	250	36.25	25.6.17	25.6.17 – 25.6.24
125,000	1,250	15.50	29.2.19	28.2.19 – 28.2.26
63,000	630	16.75	18.3.19	18.3.19 – 18.3.26
444,000	4,440			

20 SHARE CAPITAL continued

At 31 December 2015 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p each under the Company's 2011 Share Option Plan as follows:

Number of shares	Amount of Capital (£)	Exercise Price (p)	Vesting Date	Dates Exercisable
144,000	1,440	36.50	17.2.15	17.2.15 – 17.2.22
85,000	850	49.87	25.6.16	25.6.16 – 25.6.26
50,000	500	33.75	9.6.17	9.6.17 – 9.6.24
25,000	250	36.25	25.6.17	25.6.17 – 25.6.24
304,000	3,040			

21 SHARE BASED PAYMENTS

The Company issues equity-settled share based payments under the 2004 and 2011 Share Option Plans. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are usually forfeited if the employee leaves the Group before the options vest.

In addition, in 2004 the Company entered into a Long Term Incentive Plan for its directors and some of its staff. The plan was accounted for as an equity settled scheme and had potential vesting dates from 2 July 2010 to 31 July 2011 with any award being linked to share performance related targets.

At the 31 December 2016 awards over 600,965 shares (31 December 2015:700,965) had vested and were capable of exercise.

The 2004 LTIP closed during 2009 and no further awards can be made under this scheme. Details of all the remaining awards that have not yet vested are set out in note 20 (iv) above. Awards are usually forfeited if the employee leaves the Group before the vesting date.

A new Long Term Incentive Plan was introduced in 2011 and the maximum award under this scheme is 300,000 shares. A charge to the income statement of £34,000 (2015: £35,000) was recognised during the year in respect of all schemes.

The release of shares in respect of the awards still outstanding to participants will depend upon the growth of Proteome Sciences' total shareholder return ("TSR") over a three year performance period relative to the AIM Healthcare Index. No shares will be released unless the Company's TSR performance exceeds that of the Index, in which case 30% of the award will vest. The full award will vest only if the Company's TSR performance exceeds that of the Index by 10%, with a pro-rata award between 30% to 100% for each percentage point of out-performance up to 10%.

Before awards vest the Remuneration Committee will satisfy itself that the TSR performance is a genuine reflection of the Company's underlying performance over the three-year performance period.

21 SHARE BASED PAYMENTS continued

	2004 Share Option Plan		2004 LTIP	
	Options	Weighted average exercise price (p)	Maximum Number of Shares	Weighted average fair value per share (p)
Outstanding at 1 January, 2015	244,893	32.62	700,965	31.70
Exercised in the year	–	–	–	–
Forfeited in the year	(13,530)	68.37	–	–
Outstanding at 31 December 2015	231,363	30.52	700,965	31.70
Forfeited in 2016	(28,413)	30.62		
Exercised in the year	–	–	(100,000)	31.70
Outstanding and exercisable at 31 December 2016	202,950	30.51	600,965	31.70
Exercisable at 31 December 2015	231,363	30.52	700,965	31.70

	2011 Share Option Plan	
	Options	Weighted average exercise price (p)
Outstanding at 1 January 2015	332,000	39.7
Granted in the year	–	–
Forfeited during the year	(28,000)	38.9
Outstanding at 31 December 2015	304,000	39.8
Granted in the year	188,000	15.9
Forfeited during the year	(48,000)	40.7
Outstanding at 31 December 2016	444,000	29.6
Exercisable at 31 December 2016	181,000	41.7
Exercisable at 31 December 2015	144,000	36.5

	2011 LTIP	
	Maximum Number of Shares	Weighted average fair value per share (p)
Outstanding at 1 January 2015	628,105	23.6
Granted in the year	–	–
Lapsing in the year	(328,105)	25.6
Outstanding at 31 December 2015	300,000	21.7
Granted in the year	–	–
Lapsing in the year	–	–
Outstanding at 31 December 2016	300,000	300,000
Exercisable at 31 December 2016	–	–
Exercisable at 31 December 2015	–	–

21 SHARE BASED PAYMENTS continued

The options outstanding at 31 December 2016 had a weighted average remaining contractual life as follows:

	2016 No. of Months	2015 No of Months
2004 Share Option Plan	**10.7**	21.8
2011 Share Option Plan	**89.6**	85.6
LTIP	**35.0**	44.1

The inputs into the Black-Scholes model were:

	2016	2015
Weighted average share price	**29.6p**	36.6p
Weighted average exercise price	**29.6p**	36.6p
Expected volatility	**60.1% – 56%**	60.1% – 58%
Expected life	**4 years**	4 years
Risk free rate	**1.13% – 0.87%**	1.13% – 0.87%
Expected dividends	**None**	None

Notes

(i) Expected volatility is a measure of the tendency of a security price to fluctuate in a random, unpredictable manner and is determined by calculating the historical volatility of the Company's share price over the previous years.

(ii) The expected life has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

(iii) The company has used the Monte Carlo model to value the LTIP awards, which simulates a wide range of possible future share price scenarios and calculates the average net present value of the option across those scenarios and which captures the effect of the market-based performance conditions applying to such awards.

22 RESERVES DESCRIPTION AND PURPOSE

Share premium

Amount subscribed for share capital in excess of nominal value.

Foreign exchange translation reserve

Gains/losses arising on retranslating the net assets of overseas operations into Sterling.

Retained earnings

All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Other Reserves

The other reserve arose in the year ended 31 December 2002 and represented the premium on the allotment of shares issued for the acquisition of Xzillion Verwaltungs GmbH (now Proteome Sciences R&D Verwaltungs GmbH) and Xzillion Proteomics GmbH & Co KG.

Share based payment Reserve

The amounts transferred to the Equity Reserve are for charges recognised in respect of the requirements of IFRS 2 "Share-based payments".

22 RESERVES DESCRIPTION AND PURPOSE continued

Merger Reserve

The merger reserve arose in the period to the 11 November 1994 and represented the premium on the allotment of new ordinary shares issued in a share exchange agreement entered into by the shareholders of Monoclonetics International Inc, (now Proteome Sciences Inc.). As the carrying value of the investment was fully impaired at 31 December 2016, a transfer has been recognised during the year to the company's Retained loss reserve.

23 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Operating lease arrangements

The Group leases certain land and buildings on short-term operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays insurance, maintenance and repairs of these properties. At 31 December 2016, the Company did not have any operating lease obligations.

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Within 1 year	**228**	**–**	258	61
Within 2–5 years	**311**	**–**	508	–
	539	**–**	766	61

Operating lease payments represent rentals payable by the Group for its laboratory and office properties.

24 FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowing disclosed in note 18b, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity on page 24.

Categories of financial instruments

	Group 2016 £'000	**Company 2016 £'000**	Group 2015 £'000	Company 2015 £'000
Financial assets				
Cash	**2,884**	**2,152**	1,808	1,064
Trade receivables	**399**	**–**	364	–
Financial liabilities				
Other payables and accruals	**(414)**	**–**	(541)	–
Trade and other payables	**(28)**	**–**	(18)	–
Short-term borrowings	**(8,700)**	**(1,461)**	(8,443)	(1,418)
Loan from other Group entity	**–**	**(306)**	–	(264)
Hire purchase payables	**(386)**	**–**	(606)	–

24 FINANCIAL INSTRUMENTS continued

Financial risk management objectives

The Group's operations expose it to a variety of risks including credit risk, interest risk and liquidity risk.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below).

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group's principal exposure is to movement in the Euro exchange rate, but it anticipates that a significant proportion of its future income will be received in this currency, thus helping to reduce its exposure in this area.

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of Germany (the Euro) and to the US dollar currency.

None of the Group's companies have assets or liabilities that are denominated in a currency other than the functional currency in which the companies operate. Hence, there is not a material exposure to foreign exchange risk and therefore a foreign currency sensitivity analysis would not be appropriate.

Credit risk

Group

Electrophoretics Limited, the main trading company in the group, has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as deemed necessary based on the nature of the prospective customer and size of order.

At the reporting date, the largest exposure was represented by the carrying value of trade debtors of £399,000 (2015: £364,000) . No provision for impairment was recognised for FY 2016 or FY 2015 on the basis that the company's customers are typically large companies and there is a long standing relationship and history of payment by customers. The Group does not have significant concentrations of credit risk on its trade receivables.

Company

The company is exposed to credit risk on loans provided to related parties. At the reporting date, the largest exposure was represented by the carrying value of loans to Proteome Sciences R&D Gmbh of £8m. A provision for impairment was recognised in FY 2016 of £18.4m (2015: £20.6m) against the carrying value of loans owed by Electrophoretics Limited. At 31 December 2016, the carrying value of loans owed by Electrophoretics Limited to the company was Nil (2015: £16m).

Interest rate risk management

The Group is exposed to interest rate risk arising from its short-term borrowings, details of which are set out in note 18(b).

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to floating rate liabilities. The analysis is prepared assuming the amount of liability outstanding at balance sheet date was

24 FINANCIAL INSTRUMENTS continued

outstanding for the whole year. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher and all other variables were held constant, the Group's loss for the year ended 31 December 2016 would have increased by £43,000 (2015: increase in loss by £42,000).

The Group's sensitivity to interest rates has increased slightly during the current year due to the rise in the amount of its short term borrowings over the year.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

a) The following tables detail the Group and Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay.

The table includes both interest and principal cash flows.

	Weighted average effective interest Rate %	Less than 1 month Group £'000	Less than 1 month Company £'000	Within one year Group £'000	Within 1-2 years Group £'000	Within 2-3 years Group £'000
2016						
Variable interest rate instruments – Borrowings	3.0	8,700	1,461	–	–	–
Fixed rate instruments – Hire purchase	10.8	–	–	220	166	–
2015						
Variable interest rate instruments – Borrowings	3.00	8,443	1,418	–	–	–
Fixed rate instruments – Hire purchase	10.8	–	–	220	220	166

25 RELATED PARTY TRANSACTIONS

a) Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and were as follows:

1) Loans advanced to subsidiary undertakings:

	Proteome Sciences R&D £'000	Electrophoretics Ltd £'000	Total £'000
At 1 January 2015	8,011	33,854	41,865
Additional investment in the year	–	2,728	2,728
Provision for impairment	–	(20,600)	(20,600)
At 31 December, 2015	8,011	15,982	23,993
At 1 January 2016	8,011	15,982	23,993
Additional investment in the year	–	2.397	2,397
Provision for impairment	–	(18,379)	(18,379)
At 31 December, 2016	8,011	–	8,011

2) Loan from subsidiary undertaking:-

At 1 January, 2015	279
Exchange adjustment	(15)
At 31 December, 2015	264
At 1 January, 2016	264
Exchange adjustment	42
At 31 December, 2016	306

Further details of the Company's shares in and loans to its subsidiary undertakings are set out in note 15.

b) C.D.J. Pearce, a Director of the Company and therefore a related party, has made a loan facility available to the Company full details of which are set out in note 18 on page 45.

c) Details of the remuneration of the directors is set out in note 10, including details of pension contributions made by the Company and information in connection with their long-term benefits is shown in the directors' report under the heading 'Directors and their interests'.

d) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel for the year-ended 31 December 2016 and the comparative period were as follows:

Christopher Pearce (Chairman from 1 June 2016, CEO from 1 January 2016 to 31 May 2016)

Jeremy Haigh (Chief Executive Officer)

Geoff Ellis (Finance Director)

Ian Pike (Chief Scientific Officer)

25 RELATED PARTY TRANSACTIONS continued

Key management personnel remuneration was as follows:

	2016 £'000	2015 £'000
Salary	**599**	576
Other long-term benefits	**19**	30
Defined benefit scheme costs	**–**	–
Share based payment expense	**22**	26
Consultancy fee	**41**	–
	681	632

The amounts charged to the income statement relating to Directors in respect of the share-based payment charge were as follows:

	2016 £'000	2015 £'000
	22	26

26 EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events which have occurred subsequent to the reporting date.

NOTICE OF MEETING

Notice is hereby given that the 23rd Annual General Meeting of Proteome Sciences plc will be held at, finnCap, 60 New Broad Street, London, EC2M 1JJ on 25 April, 2017 at 12.00 midday for the purpose of considering and, if thought fit, passing the following Resolutions of which numbers 1 to 6 will be proposed as ordinary Resolutions and number 7 to 9 will be proposed as special Resolutions.

ORDINARY BUSINESS

1 To receive the financial statements and the reports of the directors and of the auditors for the year ended 31 December 2016.

2 To re-appoint Mr R McDowell as a Director.

3 To re-appoint Mr G Ellis as a Director.

4 To appoint Dr J R M Haigh as a Director

5 To re-appoint BDO LLP as auditors of the Company in accordance with section 489 of the Companies Act 2006 until the conclusion of the next general meeting of the Company at which audited accounts are laid before the members and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

ORDINARY RESOLUTION

6 THAT the directors of the Company be and are hereby authorised generally and unconditionally pursuant to and in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £981,082.77 until the conclusion of the next Annual General Meeting of the Company or 30 June 2018, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would, or might, require shares to be allotted or rights to subscribe for or to convert securities into shares to be granted after such expiry.

SPECIAL RESOLUTION

7 THAT subject to, and upon Resolution 6 above, having been passed and becoming effective, the directors be and are hereby authorised and empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities, as defined in section 560 of the Act, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities in connection with an offer by way of a rights issue, or any other pre-emptive offer, to the holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of ordinary shares on a record date fixed by the directors and to the 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 law of any territory or the requirements of any regulatory body or stock exchange; and

(b) the allotment (otherwise than pursuant to sub- paragraph (a) and (b)) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £588,649.66.

and provided further that the authority and power conferred by this Resolution shall expire at the conclusion of the next Annual General Meeting of the Company or on 30 June 2018, whichever is the earlier, unless such authority is renewed or extended at or prior to such time, save that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted after the expiry of this authority and the directors may then allot equity securities in pursuant of such an offer or agreement as if the authority and power hereby conferred had not expired.

8 THAT, in accordance with paragraph 42(2)(b) of Schedule 2 of the Companies Act 2006 (Commencement No 8, Transitional Provisions and Savings) Order 2008, the restriction on the authorised share capital of the Company set out in clause 6 of the memorandum of association of the Company, which by virtue of section 28 of the Companies Act 2006 is treated as a provision of the Company's articles of association, is hereby revoked and deleted and that the reference to authorised share capital contained in Article 3.1 of the Articles of Association of the company also be deleted.

9 THAT, subject to the passing of the previous resolution the following deletions also be made in the Articles of Association:

(i) The reference to and the definition of Redeemable Shares in Article 2 of the Articles of Association;

(ii) The deletion of Article 3.2 and Articles 4 to 6 inclusive;

(iii) The deletion of Article 7.

By Order of the Board
Coveham House,
Downside Bridge Road,
Cobham
Surrey KT11 3EP

G. Ellis
Company Secretary

27 March 2017

NOTICE OF MEETING

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint more than one proxy, to exercise all or any of his rights to attend, speak and vote in his place on a show of hands or on a poll provided that each proxy is appointed to a different share or shares. Such proxy need not be a member of the Company. In accordance with Article 90, any such appointment is valid only if the instrument of proxy is deposited with the Company's registrars not less than forty eight hours before the time for holding by 12:00 midday on 21 April 2017 or any adjourned meeting. A proxy need not also be a member of the Company. A form of proxy and return envelope are enclosed; completion of an instrument of proxy will not prevent members from attending and voting in person should they wish to do so.

2. Copies of executive directors' service agreements, and copies of the terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours from the date of this notice until the close of the Annual General Meeting (Saturday, Sundays and public holidays excepted) and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company by no later than the close of business two days before the date of the meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Explanatory notes on the resolutions:

Resolution 1

The directors must present to members the accounts and the reports of the directors and auditors in respect of each financial year.

Resolutions 2 and 3

In accordance with Article 118 of the Company's articles of association at each Annual General Meeting one third, or the number nearest to but not exceeding one-third of the directors are to retire by rotation. Mr R McDowell and Mr G Ellis are the directors retiring by rotation at this meeting.

Resolution 4

Dr J R M Haigh was appointed as a director of the Company on 1 June 2016. Article 125 of the Articles of Association requires that any director appointed between Annual General Meetings must retire at the next following Annual General Meeting. Due to the timing of his appointment and the 2016 Annual General Meeting a resolution for his re-appointment was not proposed at the 2016 Annual General Meeting. Accordingly Dr Haigh is standing for re-election at this meeting.

Biographical details of the directors offering themselves for re-election are included on page 11 of the annual report and accounts.

The Board of Directors considers the performance of each of the Directors standing for re-election at the Annual General Meeting to be fully effective and they each demonstrate the commitment and behaviours expected of a director of Proteome Sciences plc. Due to Professor W Dawson's length of tenure he is not considered to be an independent non-executive director by virtue of the provision of the UK Corporate Governance Code.

NOTICE OF MEETING

Resolution 5
BDO LLP are being proposed as the auditors of the Company until the conclusion the next general meeting at which accounts are presented. The directors are to be given authority to fix their remuneration.

Resolution 6
The Company's power to issue additional securities is exercised by the directors. The directors must be authorised by ordinary resolution of the shareholders to exercise that power. The resolution will give the Directors a general authority to allot shares up to an aggregate nominal value of £981,082.77 being the equivalent of one-third of the Company's issued ordinary share capital at the date of this notice.

The Directors are seeking the annual renewal of this authority in accordance with best practice and to ensure the Company has maximum flexibility in managing its capital resources.

Resolution 7
When shares are to be allotted for cash, Section 561 of the Companies Act 2006 provides that existing shareholders have pre-emption rights and that any new shares are offered first to such shareholders in proportion to their existing shareholdings. This resolution is seeking to authorise the Directors to allot shares of up to an aggregate nominal amount of £588,649.66 otherwise than on a pro-rata basis. This represents 20% of the Company's issued share capital at the date of this notice.

The directors are seeking the annual renewal of this authority in line with the authorities granted to dis-apply the pre-emption provisions in previous years and to ensure the Company has maximum flexibility in managing its capital resources.

Resolutions 8 and 9
The Company's current Articles of Association were adopted by a Special Resolution passed on 28 July 2016 and contained references to the authorised share capital of the Company. The Company is proposing amend its Articles of Association to remove the reference to the authorised share capital and remove other provisions relating to the authorised share capital contained in the current Articles of Association.

A copy of the proposed amended Articles will be available for inspection during normal working hours at the Company's registered office (Coveham House, Downside Bridge Road, Cobham, Surrey, KT11 3EP), from the date of this notice up until the AGM. A copy may also be downloaded from the Company's website (www.proteomics.com). A copy will also be available 15 minutes prior to, and during the AGM.

The Memorandum of Association contains, amongst other things, the Company's authorised share capital (ie the maximum number of shares that can be in issue). All provisions that were contained in the Memorandum of Association, including the authorised share capital are deemed by the provisions of section 28 of the Companies Act 2006 ("2006 Act")to be contained in the Current Articles. The Articles of Association at Article 3.1 also contains a statement of the authorised share capital.

The retention of authorised share capital provisions creates a restriction on the number of shares that can be issued and as the Company is approaching the limit imposed on the number of ordinary shares it can issue. The 2006 Act permits a company not to have an authorised share capital and, hence, enabling it to be unrestricted in the number of shares that can be in issue. Like other companies, the Company proposes to take advantage of this and remove the authorised share capital. Special Resolution 8 proposes this removal, but one effect of this removal is that the Articles will also contain superfluous information relating to share classes which no longer exists. Special Resolution 9 (i) and (ii) deals with the removal of these references to share classes, which appear in the Articles of Association.

Whilst under the amended Articles, the Company will no longer have an authorised share capital, the 2006 Act still requires authority to be obtained before the directors may allot any shares, other than in respect of employee share schemes (see Resolution 6 seeking such authority).

Article 7 of the current Articles of Association contains provisions relating to the increase of share capital. As this is linked to the concept of authorised share capital Special Resolution 9(iii) proposes that this provision is deleted.

If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.