Proteome Sciences plc
(the "Company" or the "Group")

Preliminary results for the year ended 31 December 2016
Notice of AGM

The Company is pleased to announce its audited results for the year ended 31 December 2016.

Highlights:

- 46% revenue growth to £2.74m, underpinned by 57% increase in sales of TMT® reagents to £1.39m; costs and margins as expected
- Appointment of new Chief Executive Officer in June; creation of Chief Compliance Officer role to oversee Good Clinical Laboratory Practice (GCLP) accreditation
- £3.3m fundraise in October, adding a number of new institutional investors, and a revised strategy based on biomarker services, TMT® reagent synthesis and bioinformatics
- Conversion to a higher value project portfolio, with completion of 25% fewer service contracts generating 57% greater revenues than in 2015
- Validation and optimisation of a new class of antibodies against our patented stroke biomarker proteins by our partner, Randox Laboratories, with assay launches expected in 2017
- Initiation of third party due diligence on our casein kinase 1 delta (CK1D) inhibitor portfolio

Jeremy Haigh, Chief Executive of Proteome Sciences, commented: "While we are satisfied with solid progress during 2016, there is clearly much yet to do if we want to realise the full commercial value of our proteomic technologies. The Company is in a transition phase as we seek to expand our customer base to secure larger and more durable contracts for our services. The recent decision to consolidate our laboratory facilities in Frankfurt was difficult given our UK heritage but we firmly believe it to be in the best interests of the Company and our shareholders. We look forward to healthy progress during 2017, to the imminent arrival of our new Chief Commercial Officer, and to providing further updates through the course of the year."

Report and Accounts and Notice of AGM:

The Report and Accounts and Notice of the Annual General Meeting ("AGM") will be posted to shareholders on March 31st and made available on the Company's website (www.proteomics.com). The AGM will be held at the offices of finnCap, 60 New Broad Street, London EC2M 1JJ on 25 April 2017 at 12.00pm.

This announcement contains inside information for the purpose of Article 7 of EU Regulation 596/2014.

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Notes for Editors:

Proteome Sciences is a leader in applied proteomics offering high sensitivity, proprietary technologies and workflows for mapping cell signalling pathways (SysQuant®, TMTcalibrator™) and for the discovery, validation and assay development of protein biomarkers. The company has its headquarters in Cobham, UK, with laboratory facilities in London, UK and in Frankfurt, Germany from where the PS Biomarker Services™ division provides outsourced proteomics services and proprietary biomarker assays to biopharmaceutical and diagnostics companies, and to academia.

Proteome Sciences has patented a series of novel protein biomarkers for diagnostic and treatment applications in important areas of human therapeutics such as cancer, stroke and Alzheimer's disease, and these are also available for license.

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 revenue 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 on a new Fusion mass spectrometer and recruitment in the first half of the year. Future 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.

<u>Services</u>

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 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 produced early in the year by our partner Randox Laboratories and have improved the overall performance of the panel. Trials to generate 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 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.

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 neuron 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.

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 and reviewed in the Chief Executive Officer's Statement and the Strategic Report.

Key Performance Indicators (KPI's)

(i) The directors consider that revenue and profit/(loss) before tax are KPI's in measuring group performance. 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.

(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),

(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 31st 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 Risks and Uncertainties

Licensing Arrangements and Commercialisation

The Group intends to sub-license its discoveries and products to third parties, but there can be no assurance that such licensing 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.

Consolidated income statement

For the year ended 31st December 2016

	Note	Year ended 31st December 2016 £'000	Year ended 31st December 2015 £'000
Revenue			
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		1	5
Finance costs		(257)	(250)
Loss before taxation		(2,943)	(3,326)
Tax		663	608
Loss for the period attributable to shareholders of the company		(2,280)	(2,718)
Loss per share			
Basic and diluted	3	(0.96p)	(1.23p)

Consolidated statement of comprehensive income

For the year ended 31st December 2016

	Year ended 31st December 2016 £'000	Year ended 31st 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 expense for the year	(2,196)	(2,700)

Consolidated balance sheet

As at 31st December 2016

	2016 £'000	2015 £'000
Non-current assets		
Goodwill	4,218	4,218
Property, plant and equipment	592	857
Equipment on loan		237
	4,810	5,312
Current assets		
Inventories	600	291
Trade and other receivables	1,406	1,318
Cash and cash equivalents	2,884	1,808
	4,890	3,417
Total assets	9,700	8,729
Current liabilities		
Trade and other payables	(662)	(779)
Short-term borrowings	(8,700)	(8,443)
	(9,362)	(9,222)
Net current liabilities	(4,472)	(5,805)
Non-current liabilities		
Hire purchase payables	(166)	(386)
Long-term provisions	(361)	(276)
	(527)	(662)
Total liabilities	(9.889)	(9,884)
Net liabilities	(189)	(1,155)
Equity		
Share capital	2,943	2,280
Share premium account	51,451	48,986
Share-based payment reserve	3,436	3,402
Other reserve	10,755	10,755
Translation reserve	(104)	(188)
Retained loss	(68,670)	(66,390)
Total equity (deficit)	(189)	(1,155)

Consolidated statement of changes in equity

For the year ended 31st December 2016

	Share capital	Share premium account	Share-based payment reserve	Translation reserve	Other reserve	Retained loss	Total equity/ (deficit)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1st 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
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 31st December 2015	2,280	48,986	3,402	(188)	10,755	(66,390)	(1,155)
At 1st January 2016	2,280	48,985	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
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 31st December 2016	2,943	51,451	3,436	(104)	10,755	(68,670)	(189)

Consolidated cash flow statement

For the year ended 31st December 2016

	Group Year ended 31st December 2016 £'000	Group Year ended 31st December 2015 £'000
Cash flows from operating activities		
Cash used in operations	(2,650)	(2,921)
Tax refunded	656	563
Net cash outflow from operating activities	(1,994)	(2,358)
Cash flows from investing activities		
Purchases of property, plant and equipment	(33)	(52)
Interest received	1	5
Net cash outflow from investing activities	(32)	(47)
Financing activities		
Proceeds on issue of shares	3,313	2,388
Share issue costs	(185)	-
Repayment of HP creditors	(220)	(55)
Net cash inflow from financing activities	2,908	2,333
Net (decrease)/increase in cash and cash equivalents	882	(72)
Cash and cash equivalents at beginning of year	1,808	1,869
Foreign exchange differences	194	11
Cash and cash equivalents at end of year	2,884	1,808

Notes to the Consolidated cash flow statement

	Group 2016 £'000	Group 2015 £'000
Operating loss	(2,943)	(3,326)
Adjustments for:		
Net finance costs	257	245
Depreciation of property, plant and equipment	553	395
Share-based payment expense	34	35
Operating cash flows before movements in working capital	(2,099)	(2,651)
Decrease/(increase) in inventories	(309)	54
(Increase)/Decrease in receivables	(183)	(233)
(Decrease)/Increase in payables	(144)	258
(Increase)/Decrease in provisions	85	(349)
Cash used in operations	(2,650)	(2,921)

Notes to the financial information

1. Basis of Preparation

The financial information for the year ended 31 December 2016 and the year ended 31 December 2015 contained in these preliminary results does not constitute the company's statutory accounts for those years. Statutory accounts for the years ended 31 December 2015 and 31 December 2016 have been reported on by the Independent Auditors. The auditors' report on the accounts for 31 December 2016 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006 (and the year ended 31 December 2015 was unqualified, contained a statement in respect of uncertainly over going concern and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006).

Statutory accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 December 2016 will be delivered to the Registrar of Companies in due course and once delivered, will be available at the Company's registered office: Coveham House, Downside Bridge Road, Cobham, Surrey, KT11 3EP.

The financial information contained in these preliminary results has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The accounting policies adopted in these preliminary results have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the financial statements for the year ended 31 December 2015. New standards, amendments and interpretations to existing standards, which have been adopted by the Group for the year ended 31 December 2016, have not been listed since they have no material impact on the financial information.

2. Liquidity and 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 statement and Strategic Report and the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group's Annual Report.

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. 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. Loss per share from continuing operations

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

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

	2016 Number of shares	2015 Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share:	236,451,654	211,036,176

In 2016 and 2015 the loss attributed 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 under the terms of the International Financial Reporting Standard 33.

4. Cautionary statement on forward-looking statements

Proteome Sciences ('the group') has made forward-looking statements in this preliminary announcement. The Group considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risk and uncertainty that may cause actual results and the financial performance of the Group to differ materially from those contained in any forward-looking statement. These statements are made in good faith based on information available to them and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.