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Proteome Systems Limited
ABN 56 080 277 998

Notice of Annual General Meeting
and Explanatory Memorandum
2006

For a meeting to be held at 2.30pm on
Friday 17, November 2006
at
Unit 1, 35-41 Waterloo Road,
North Ryde, NSW, Australia

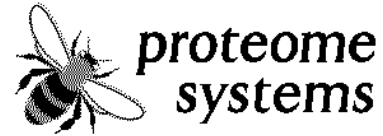
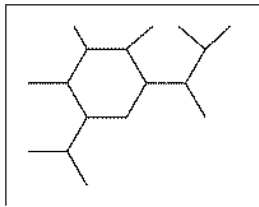


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This is an important document. Please read it carefully.

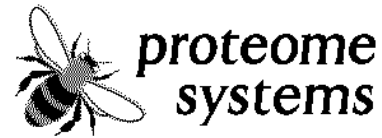
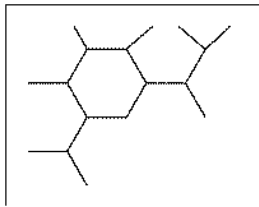
It contains the resolutions which will be voted upon at the Annual General Meeting (AGM) at 2.30pm on Friday, 17 November 2006 and information in relation to those resolutions for your consideration.

If you are unable to vote in person at the AGM, please complete the enclosed proxy form and return it no later than 48 hours before the commencement of the meeting at 2.30pm on Friday, 17 November 2006 in accordance with the instructions on the proxy form.

Documents can be sent to the Company's Share Registry, Link Market Services Limited:

by mail: Locked Bag A14, Sydney South NSW, 1235, Australia

by fax: +61 2 9287 0309



HOW TO VOTE

Voting entitlement

For the purposes of the Annual General Meeting, **only those persons holding fully paid ordinary shares in the Company (Shares) at 7.00pm on Wednesday 15 November 2006** will be treated as Shareholders. This means that if you are not the registered holder of a relevant Share at that time you will not be entitled to vote in respect of that Share.

On a show of hands each Shareholder has one vote. On a poll each Shareholder has one vote for each Share they hold.

How to Vote

You may vote by attending the meeting in person or by proxy.

Voting In Person

You may vote in person by attending the meeting. The meeting details are:

Time: 2.30pm on Friday, 17 November 2006

Place: Unit 1, 35-41 Waterloo Road, North Ryde, New South Wales

Voting By Proxy

A Shareholder who is entitled to attend and vote at the meeting may appoint a person or body corporate, who need not be a Shareholder of the Company, as the Shareholder's proxy to attend and speak and vote on behalf of the Shareholder.

A Shareholder entitled to attend and cast 2 or more votes at the meeting is entitled to appoint **not more than 2 proxies**, who need not be Shareholders of the Company, to attend and speak and vote on behalf of the Shareholder.

Where 2 proxies are appointed, each proxy must be appointed to represent a specified proportion of the Shareholder's voting rights. If 2 proxies are appointed, insert the relevant number of Shares in respect of which the appointment is made. If the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half the votes.

Any person who is a joint holder of Shares may appoint a proxy by completing the form of Proxy attached to this Notice. If more than one joint holder appoints a proxy or seeks to vote personally at the meeting, then the person whose name stands first on the register shall alone be entitled to vote.

If the appointment is signed by an attorney, the power of attorney or a certified copy of it must be sent with the proxy form.

Should you wish to vote by proxy, please complete the proxy form, included with this Notice, and return it to the Share Registry, Link Market Services Limited, **so that it is received by no later than 2.30pm on Wednesday 15 November 2006.**

by mail: Locked Bag A14, Sydney South NSW, 1235, Australia

by fax: +61 2 9287 0309

PROTEOME SYSTEMS LIMITED
(ABN 56 080 277 998)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that an Annual General Meeting of Shareholders of Proteome Systems Limited (the *Company*) will be held at **Unit 1, 35-41 Waterloo Road, North Ryde, New South Wales** at **2.30pm on Friday, 17 November 2006**.

Please note that the resolutions should be read in conjunction with the Explanatory Memorandum.

ITEMS OF BUSINESS

Item 1: Financial Statements and Reports

To receive and consider the Company's Financial Report and the reports of the Directors and the Auditor in respect of the year ended 30 June 2006.

Item 2: Re-election of John Martin as a Director

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"THAT, John Martin, who retires in accordance with clause 45(a) of the Company's Constitution and in accordance with Listing Rule 14.5, being eligible, offers himself for election, be elected as a Director of the Company".

Item 3: Grant of Performance Rights to Dr Jenny Harry, Deputy CEO and Executive Director

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"THAT, for all purposes including for the purposes of ASX Listing Rule 10.14, approval be given to offer and issue to Dr Jenny Harry, an executive director of the Company, rights to acquire up to a maximum of 4,310,000 Shares under the Proteome Systems Performance Share Plan on the terms set out in the Explanatory Memorandum to this Notice of Meeting and to issue or transfer Shares in the number, at the time, upon the terms and subject to the conditions contained in the offer of performance rights".

Voting Exclusion Statement: As required by the ASX Listing Rules, the Company will disregard any votes cast on this resolution by:

- (a) A Director (except one who is ineligible to participate in any employee incentive scheme in relation to the entity as defined under the ASX Listing Rules); and
- (b) An associate of that person.

However, the Company need not disregard a vote if:

- (c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the Proxy Form; or
- (d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy desires.

Item 4: Approval of issue of Placement Shares

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"THAT, for all purposes including for the purposes of ASX Listing Rules 7.1 and 7.4, approval be given to allot and issue up to 13,333,333 Shares (**Placement Shares**) pursuant to a private

placement to sophisticated and institutional investors on the terms set out in the Explanatory Memorandum to this Notice of Meeting.”

Voting Exclusion Statement: As required by the ASX Listing Rules, the Company will disregard any votes on this resolution by:

- (a) a person who may participate in the proposed issue or a person who participated in the issue (as the case may be) and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and
- (b) an associate of that person.

However, the Company need not disregard a vote if:

- (c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the Proxy Form; or
- (d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy desires.

Item 5: Remuneration Report

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

“THAT, the remuneration report that forms part of the Director’s Report of the Company for the financial year ended 30 June 2006 be adopted”.

By order of the Board.



Lisa Jones
Company Secretary
10 October 2006

EXPLANATORY MEMORANDUM

This explanatory memorandum, which is included in and forms part of this Notice of Meeting, is to provide Shareholders with an explanation of the business of the AGM and of the Resolutions to be proposed and considered at the AGM. The information provided is intended to assist Shareholders in understanding the reasons and effect of the Resolutions if passed.

Financial Statements and Reports

The Chairman will allow a reasonable opportunity for the shareholders as a whole to ask questions or make comments on the management of the Company and to ask the representative of the auditor questions relevant to the conduct of the audit and the preparation and content of the auditor's report. There is no requirement for a formal resolution on this matter.

Election of Directors

Item 2 of the Notice of Meeting deals with the retirement and re-election of a director.

Under ASX Listing Rule 14.5 the Company must hold an election of directors each year. If no Director would otherwise be required to submit for re-election, the Company's Constitution provides that the Director to retire at the annual general meeting is the Director who has been longest in office since their last election, but, as between persons who became Directors on the same day, the one to retire is (unless they otherwise agree among themselves) determined by lot.

Accordingly, John Martin will retire from office at the AGM and, being eligible, offers himself for re-election.

John was a founding shareholder of Proteome Systems and has been a director since 2000. Between 2001 and 2004 he served as an executive director in the role of Deputy CEO. John is currently the managing director of the ASX listed retirement and aged care developer and operator, Primelife Corporation. John spent 15 years as a corporate lawyer in Sydney and New York with Allen Allen & Hemsley, and is a former executive partner of their corporate group.

Recommendation

The Board, other than the candidate himself, unanimously supports the re-election of John Martin.

Approval of Securities to be Issued to Dr Jenny Harry, Deputy CEO and Executive Director, under the Proteome Systems Performance Share Plan

The Company seeks shareholder approval for Performance Rights to be issued as incentive awards to Dr Harry. The Performance Rights are subject to performance conditions and to Dr Harry's continued employment in good standing as at the end of the relevant performance period. Each Performance Right provides the right to acquire one Share for nil consideration, subject to satisfaction of the applicable performance conditions. The applicable performance periods run over a three year period from 22 June 2006 to 22 June 2009. Dr Harry's remuneration for the financial

year ended 30 June 2006 is set out in the Remuneration Report on pages 23-35 of the Company's Annual Report.

The Board, other than Dr Harry, recommends the issue of Performance Rights to Dr Harry as set out in the two tables below:

“Retention Performance Rights”

Performance Period	Performance Rights	Performance Condition
22/06/06 – 22/06/07	660,000	20% increase in share price on a fully diluted basis above the starting share price of \$0.30 to \$0.36
22/06/07 – 22/06/08	770,000	40% increase in share price on a fully diluted basis above the starting share price of \$0.30 to \$0.42
22/06/08 – 22/06/09	880,000	60% increase in share price on a fully diluted basis above the starting share price of \$0.30 to \$0.48

Share Price Valuation

Share prices are calculated using the 30 trading day volume weighted average price of the Company's shares.

Carry Forward

In the event that the Performance Condition for any tranche of Retention Performance Rights is not satisfied in respect of a relevant Performance Period, that tranche will be carried forward to the next period and retested according to the Performance Condition applicable to that next Performance Period.

Change in Control

If there is a change in control during the Performance Period for any tranche of Retention Performance Rights, then the Retention Performance Rights for that Performance Period will vest regardless of whether the Performance Condition has been met and any restrictions on disposal will be lifted.

“Long Term Incentive Bonus Rights”

In addition to the Retention Performance Rights above, Dr Harry will be issued with rights to acquire Shares as a special bonus to reward exceptional performance of the Company as follows:

Performance Period	Number of Shares	Performance Condition
22/06/06 – 22/06/09	1,500,000	60% increase in share price on a fully diluted basis from the starting share price of \$0.30 to \$0.48
22/06/06 – 22/06/09	2,000,000 (less any shares issued in relation to the Performance Period 22/06/06 – 22/06/09)	100% increase in share price on a fully diluted basis from the starting share price of \$0.30 to \$0.60

Expiry of Performance Rights

If the Performance Condition in respect of a bonus tranche above has not been met by 22 June 2009 then the Long Term Incentive Bonus Rights relating to that tranche will lapse.

Change of Control

In the event of a change of control event during the Performance Period, then the Long Term Incentive Bonus Rights will vest on a pro-rata basis according to the share price at the date of the change of control.

Other Terms – Retention Performance Rights and Long Term Incentive Bonus Rights

- (a) Shares issued to satisfy Performance Rights will rank equally with other ordinary shares of the Company.
- (b) Dr Harry will not receive any dividends on Shares subject to the Performance Rights until the Shares are issued to her.
- (c) Shares issued under the Performance Rights are subject to restrictions on disposal for up to 10 years without the consent of the Plan administrator appointed by the Board. Consent to sell will not be provided within the first 12 months of the issue of Shares.
- (d) In the event of any re-organisation of the issued ordinary capital of the Company, the number of Shares to be issued under the Performance Rights will be reconstructed to the extent necessary to comply with the ASX Listing Rules.
- (e) If the Company makes a bonus issue to shareholders, the number of Shares to be allocated to Dr Harry upon vesting of the Performance Rights will include the number of bonus Shares that would have been allotted to her if the Shares to be issued under the Performance Rights had been allocated to Dr Harry before the record date of the bonus issue.

Under ASX Listing Rule 10.14, an issue of securities under the Plan to directors is required to be approved by shareholders.

ASX Listing Rule 10.15A requires the Notice of Meeting to include the following specified information in relation to the performance rights to be awarded to Dr Harry under the Plan in addition to the information already provided above:

- (a) The maximum number of securities which may be issued to Dr Harry is 4,310,000 Shares.
- (b) The securities will be issued to Dr Harry for nil consideration.
- (c) Dr Harry received 1,790,343 performance rights under the Plan in November 2005. Shareholder approval for the granting of these performance rights was obtained at the Company's 2005 Annual General Meeting. Since November 2005, Dr Harry has been issued 1,193,562 Shares pursuant to these performance rights. The securities were issued to Dr Harry for nil consideration.
- (d) Non-executive Directors are not entitled to participate in the Plan. The only executive Director who is currently entitled to participate in the Plan is Dr Jenny Harry.
- (e) Any persons referred to in Listing Rule 10.14 (including directors and their associates) who are entitled to participate in the Plan will not be permitted by the Company to

acquire Shares under the Plan until Shareholder approval is obtained in accordance with the ASX Listing Rules.

- (f) There is no loan scheme in relation to the Plan.
- (g) The date by which the securities will be issued will be no later than 3 years after the date of this AGM.

Details of any securities issued under the Plan will be published in each annual report of the Company relating to a period in which securities have been issued, and that approval for the issue of securities was obtained under ASX Listing Rule 10.14.

Any additional Directors who become entitled to participate in the Plan after the approval of Resolution 5 may not participate until shareholder approval of their participation is obtained under ASX Listing Rule 10.14.

If the issue of performance rights is approved, the performance rights (and shares issued upon satisfaction of performance conditions) will not count towards the number of equity securities the Company can issue without shareholder approval under ASX Listing Rule 7.1.

Recommendation

The Board, other than Dr Harry, unanimously support the issue of performance rights to Dr Harry.

Approval of Issue of Placement Shares

The Company expects to raise up to \$4,000,000 through a placement of up to 13,333,333 Shares to sophisticated and institutional investors in Australia, the United Kingdom and the United States. As at the date of this Notice of Meeting, the Company has received subscription applications for 13,333,333 Shares. The issue of the Placement Shares may or may not be completed before the date of the meeting. If the Placement Shares are issued after the meeting, the effect of shareholders passing this resolution will be to approve the issue of the Placement Shares for the purposes of ASX Listing Rule 7.1. If the Placement Shares are issued prior to the meeting, the effect of shareholders passing this resolution will be to ratify the issue of the Placement Shares for the purposes of ASX Listing Rule 7.4.

ASX Listing Rule 7.1 provides that an ASX listed company may not issue equity securities comprising more than 15% of its issued shares in any 12 month period without obtaining shareholder approval unless the issue comes within any of the specified exceptions set out in ASX Listing Rule 7.2. Shareholder approval is not required for the issue of the Placement Shares, but is sought for the purposes of ASX Listing Rule 7.1 in order to provide the Company with flexibility during the next 12 month period to issue further equity securities within the limits imposed by ASX Listing Rule 7.1.

ASX Listing Rule 7.4 provides that an issue of shares made without shareholder approval is treated as having been made with approval for the purposes of ASX Listing Rule 7.1 if the issue did not breach the 15% limit and shareholders subsequently approve the issue.

ASX Listing Rules 7.3 and 7.5 require the Notice of Meeting to include the following specified information in relation to the Placement Shares in addition to the information already provided above:

- (f) The maximum number of Placement Shares to be issued is 13,333,333 Shares.

- (g) If the Placement Shares have not been issued at the date of the meeting, the Placement Shares will be issued no later than 3 months after the date of the AGM.
- (h) The issue price of the Placement Shares will be \$0.30.
- (i) The Placement Shares will be issued to sophisticated and institutional investors in Australia, the United Kingdom and the United States.
- (j) The Placement Shares will be issued on the same terms and will rank equally with existing issued Shares, and will be quoted by the ASX, and will rank equally with existing Shares.
- (k) The funds raised by the issue of the Placement Shares will be used by the Company for working capital.

Recommendation

The Board recommends that shareholders vote in favour of item 4.

Remuneration Report

The remuneration report is set out on pages 23-35 of the Company's Annual Report. Under section 250R(2) of the Corporations Act 2001, all listed companies are required to present their remuneration reports for each financial year for adoption at the company's Annual General Meeting. Please note that according to s 250R(3) of the Corporations Act 2001, the vote on this resolution is advisory only and does not bind the board of directors or the Company.

Glossary

In this Notice and Explanatory Memorandum:

AGM or meeting means the Annual General Meeting of the Company to be held at 2.30pm on Friday, 17 November 2006;

ASX Listing Rules means the listing rules of the Australian Stock Exchange Limited;

Board means the board of Directors;

Company means Proteome Systems Limited ABN 56 080 277 998;

Directors means the directors of the Company from time to time;

Explanatory Memorandum means the explanatory memorandum which accompanies, and is incorporated as part of, this Notice;

Long Term Incentive Bonus Rights means the 2,000,000 performance rights proposed to be issued to Dr Harry, the terms of which are summarised under the heading "Long term Incentive Bonus Rights" in the Explanatory Memorandum;

Notice means this Notice of AGM;

Placement Shares means the shares proposed to be issued through a placement to sophisticated and institutional investors in Australia and the United Kingdom;

Performance Rights means the Retention Performance Rights and Long Term Incentive Bonus Rights;

Retention Performance Rights means 2,310,000 performance rights proposed to be issued to Dr Harry, the terms of which are summarised under the heading "Retention Performance Rights" in the Explanatory Memorandum; and

Shares means fully paid ordinary shares in the capital of the Company.