

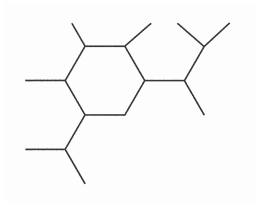
1/35 Waterloo Road, North Ryde Sydney NSW 2113 Australia  
Locked Bag 2073, North Ryde Sydney NSW 1670 Australia  
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[www.proteomesystems.com](http://www.proteomesystems.com)

## **Proteome Systems Limited**

**ABN 56 080 277 998**

# **Notice of Annual General Meeting and Explanatory Memorandum 2007**

For a meeting to be held at 2.30pm on  
**Thursday, 29 November 2007**  
at  
**Unit 1, 35-41 Waterloo Road,  
North Ryde, NSW, Australia**



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This is an important document. Please read it carefully.

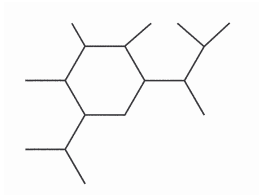
It contains the resolutions which will be voted upon at the Annual General Meeting (AGM) at 2.30pm on Thursday, 29 November 2007 and information in relation to those resolutions for your consideration.

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 Thursday, 29 November 2007 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 9237 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 Tuesday 27 November 2007** 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 Thursday, 29 November 2007**

**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 Tuesday 27 November 2007,**

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

**by fax: +61 2 9237 0309.**

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# 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 Thursday, 29 November 2007**.

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

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## ITEMS OF BUSINESS

### **Item 1: Financial Statements and Reports**

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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 2007.

### **Item 2: Remuneration Report**

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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 2007 be adopted".

### **Item 3: Election of Roger Amos as a Director**

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

"THAT Mr Roger Amos, who having been appointed by the Board since the last annual general meeting retires in accordance with clause 42(b) of the Company's Constitution and ASX Listing Rule 14.4 and being eligible offers himself for election, be elected as a Director of the Company".

### **Item 4: Election of Stephen Porges as a Director**

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

"THAT Mr Stephen Porges, who having been appointed by the Board since the last annual general meeting retires in accordance with clause 42(b) of the Company's Constitution and ASX Listing Rule 14.4 and being eligible offers himself for election, be elected as a Director of the Company".

### **Item 5: Re-election of Phillip Morley as a Director**

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

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

### **Item 6: Directors' Remuneration**

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

"THAT in accordance with ASX Listing Rule 10.17 and clause 46(b) of the Company's Constitution the maximum aggregate remuneration of the non-executive Directors be increased by \$150,000 per annum to \$500,000 per annum".

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

- (a) any Director; and
- (b) an associate of a Director.

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 7: Performance Share Plan**

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

“THAT for all purposes including ASX Listing Rule 7.2 Exception 9(b) and section 260C(H) of the Corporations Act, the Proteome Systems Performance Share Plan, the principal terms of which are summarised in the Explanatory Memorandum and the issue of Shares under that plan, be approved”.

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

- (a) any Director; and
- (b) an associate of a Director .

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 8: Approval of issue of Options under the Employee Share Option Plan**

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

“THAT for all purposes including ASX Listing Rule 7.4, approval be given to the previous issue of 775,000 Options under the Proteome Systems Employee Share Option Plan on the terms set out in the Explanatory Memorandum”.

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

- (a) a person who participated in the issue; 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 9: Approval of issue of Shares to Queensland Investment Corporation**

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

“THAT for all purposes including ASX Listing Rule 7.1 and item 7 of section 611 of the Corporations Act, approval be given to issue up to 7,000,000 Shares to Queensland Investment Corporation and for the acquisition of a relevant interest in such Shares by QIC pursuant to QIC’s underwriting of the Placement”.

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

- (a) Queensland Investment Corporation; and
- (b) an associate of Queensland Investment Corporation.

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 10: Approval of issue of First Tranche Placement Shares**

---

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

“THAT for all purposes including ASX Listing Rule 7.4, approval be given to the previous issue of 14,000,000 Shares (**First Tranche Placement Shares**) pursuant to a private placement to sophisticated and institutional investors on the terms set out in the Explanatory Memorandum to the Notice of this 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 participated in the Placement; 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.

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**Item 11: Approval of issue of Shares to Vendors of Eukarion Inc.**

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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 7.4, approval be given to the previous issue of 1,287,038 Shares to the vendors of Eukarion Inc pursuant to the purchase agreement between the vendors and the Company.”

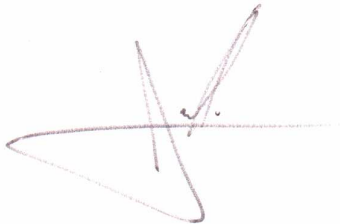
***Voting Exclusion Statement:*** As required by the ASX Listing Rules, the Company will disregard any votes on this resolution by:

- (a) a person who participated in the issue; 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.

By order of the Board.

A handwritten signature in blue ink, appearing to read 'Jaime Pinto', is written over a horizontal line.

***Jaime Pinto***  
Company Secretary  
**26 October 2007**

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# 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.

## **Item 1: Financial Statements and Reports**

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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.

## **Item 2: Remuneration Report**

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The remuneration report is set out on pages 23-36 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 or the Company.

## **Items 3, 4 and 5: Election and re-election of Directors**

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Items 3 and 4 of the Notice of Meeting deal with the election of Directors.

Clause 42(b) of the Company's Constitution allows the Directors at any time to appoint a person, either to fill a casual vacancy or as an addition to the existing Directors. Under Clause 42(b) of the Company's Constitution and Listing Rule 14.4, Directors appointed by the Board since the last annual general meeting hold office until the next annual general meeting and are eligible for re-election at that annual general meeting. Having been appointed by the Directors as an addition to the existing Directors, Mr Roger Amos and Mr Stephen Porges cease to hold office unless re-elected at the annual general meeting. Being eligible, Mr Roger Amos and Mr Stephen Porges offer themselves for re-election.

### **ROGER AMOS FCA, MAICD (Non Executive Deputy Chairman)**

Mr Amos was appointed to the Board in June 2007, and was elected as a member of the Remuneration Committee, Nomination Committee, and Audit Committee. In September 2007 he was appointed Deputy Chairman of the Company.

Mr Amos retired from international accounting firm KPMG in June 2006 after 25 years as a partner in the Assurance and Risk Advisory Services division. In addition to his portfolio of clients, focused on the Information, Communications and Entertainment Industry, he held various roles in the KPMG Global ICE industry groups, including Global Chairman of the Communications Industry Group. Mr Amos is also an independent director of

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realestate.com.au Limited and Espreon Limited and has a non-executive role as Chairman, Asia Pacific for Management Consulting Group PLC. His prior roles include Deputy Chairman and Audit Committee Chairman of the Film Finance Corporation Australia Limited, Director of Australian Quality Council, Chairman of the Documentary Foundation and President of the State Chamber of Commerce NSW.

***Recommendation***

*The Board, other than the candidate himself, unanimously supports the election of Mr Roger Amos.*

**STEPHEN PORGES BSc(Agr) MBA (Non Executive Director)**

Mr Porges was appointed to the Board in June 2007, having been CEO of the Company from April 2005 to May 2007, and is currently CEO of mutual retail financial service provider Newcastle Permanent. He has over 20 years' experience in international and investment banking working in all significant global capital markets, and also has considerable experience in developing strategies to reposition and grow companies. Mr Porges is a director of listed digital services company Hyro Limited, having been Chairman between May 2002 and April 2007, and is a director of corporate advisory business Cabonne Partners.

***Recommendation***

*The Board, other than the candidate himself, unanimously supports the election of Mr Stephen Porges.*

Item 5 of the Notice of Meeting deals with the re-election of a Director.

Mr Morley has served as a Director for longer than 3 years without submitting for re-election and in accordance with Clause 45(a) of the Company's Constitution and ASX Listing Rule 14.1, offers himself for re-election.

Accordingly, Mr Phillip Morley will retire from office at the AGM and, being eligible, offers himself for re-election.

**PHILLIP MORLEY BEc MBA ACA (Non-Executive Director)**

Mr Morley was appointed to the Board in May 2004. He is chairman of the Audit Committee. Mr Morley is also a chartered accountant and senior financial executive with over 25 years experience in multinational companies in finance, corporate, divisional and operational roles. He is the former chief financial officer of James Hardie Industries, where he served for more than 20 years. Previously, Mr Morley had financial roles with Burns Philp and Pfizer.

***Recommendation***

*The Board, other than the candidate himself, unanimously supports the re-election of Mr Phillip Morley.*

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## **Item 6: Directors' Remuneration**

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In accordance with ASX Listing Rule 10.17 and clause 46(b) of the Company's Constitution any proposed increase in the total amount of fees payable to the non-executive Directors of the Company must be approved by ordinary resolution of the shareholders in general meeting.

The non-executive Directors of the Company are Mr Graham Bradley, Mr Roger Amos, Mr John Martin, Mr Phillip Morley and Mr Stephen Porges.

The current maximum aggregate amount which may be paid to non-executive Directors per annum is \$350,000. This amount has been fixed since 2004, soon after the Company listed on ASX.

Shareholder approval is sought to approve an increase in the total amount of remuneration which may be paid to non-executive Directors by \$150,000 per annum to a maximum aggregate of \$500,000 per annum. It is not intended to distribute all of the \$500,000 per annum, if approved, in the current year.

The proposed maximum amount will provide flexibility to allow for payment of appropriate fees over time and will accommodate any increase in the number of Directors in the future. It will also ensure that the fees are sufficiently competitive to attract and retain Directors of the necessary qualifications and calibre, having regard to the additional responsibilities of Directors (as a result of the increased focus on corporate governance), the increased role of the Board and the increased time commitment expected from Directors.

In determining the proposed increase in aggregate fees payable to non-executive Directors, the Board also considers the following issues to be relevant:

- (a) there has not been a fee increase for the past 3 years;
- (b) the number of non-executive Directors of the Company has increased by 1 since 2004; and
- (c) the level of non-executive directors fees of similar sized companies.

### ***Recommendation***

*The Directors and their associates are excluded from voting on Item 6. Accordingly, the Directors make no recommendation in relation to Item 6.*

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## **Item 7: Performance Share Plan**

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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. ASX Listing Rule 7.2 Exception 9(b) provides that securities issued under an employee incentive scheme are excluded from this restriction if, within 3 years from the date of issue, shareholders have approved the issue of securities under the scheme as an exception.

The directors sought and obtained shareholder approval to the issue of securities under the Performance Share Plan for this purpose at the 2004 annual general meeting.

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Shareholder approval of the Performance Share Plan is also sought for the purposes of section 260C(4) of the Corporations Act. The Company may arrange for Shares to be granted under the Plan to be purchased for the benefit of participants. This may amount to the provision of financial assistance for the acquisition of the Shares by the Company.

Under section 260A(1) of the Corporations Act, a company may not financially assist a person to acquire shares in the company unless certain exceptions apply. Relevantly, section 260C(4) provides that financial assistance will be exempted if it is given under an employee share scheme that has been approved by a resolution passed at a general meeting of the company. Shareholder approval of the Plan is therefore sought for the purposes of section 260C(4).

A summary of the terms of the Performance Share Plan is set out Schedule 1, as well as the number of securities issued under the Performance Share Plan since the date of last shareholder approval.

***Recommendation***

*The Directors and their associates are excluded from voting on item 7 and make no recommendation.*

**Item 8: Approval of issue of Options under the Employee Share Option Plan**

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The Company has an existing Employee Share Option Plan (**ESOP**), which was adopted in June 2001. It has been the practice of the Board to use the Performance Share Plan rather than the ESOP, unless special circumstances have existed which led to the Directors to consider the grant of Options under the ESOP to be more appropriate.

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.

ASX Listing Rule 7.4 provides that an issue of securities 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.

If Shareholder approval is obtained the issue of the Options under the ESOP will be exempt from the 15% limit under ASX Listing Rule 7.1. This will provide the Company with flexibility during the next 12 month period to issue further equity securities.

775,000 Options were issued under the ESOP for nil consideration to the following employees of the Company during the previous 12 months – Bernard Malfroy-Camine, Timothy Fisher, Karl Huffman, Myra Robinson and Kelly Fitzgerald.

The key terms of the Options are summarised in Schedule 2.

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No funds were raised from the issue of the Options. If the Options are exercised, the funds raised will be used for working capital purposes.

***Recommendation***

*The Board recommends that shareholders vote in favour of item 8.*

**Item 9: Approval of issue of Shares to Queensland Investment Corporation**

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The Company entered into an Underwriting Agreement with QIC under which QIC agreed to partially underwrite the Placement. Under the terms of the Underwriting Agreement, QIC subscribed for the shortfall from the Placement, being 18,000,000 Shares at \$0.25 per Share. QIC has already been issued with 11,000,000 of these Shares, increasing QIC's voting power in the Company to 19.77%.

Section 606 of the Corporations Act prohibits, subject to various specified exceptions, a person acquiring a relevant interest in issued voting shares in a company if, as a result of the acquisition, that person's or someone else's voting power in the company increases:

- (a) from less than 20% to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

The voting power of a person in a company is determined under section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to securities; or
- (c) have the power to dispose of, or control the exercise of a power to dispose of, the securities.

Section 611 item 7 provides an exception to the prohibition in section 606, in circumstances where the shareholders of the company approve an acquisition of shares by virtue of any allotment or acquisition at a meeting at which no votes are cast by parties involved in the proposed acquisition, including their associates.

Shareholder approval is sought pursuant to ASX Listing Rule 7.1 and section 611 item 7 of the Corporations Act for the issue of 7,000,000 Shares to QIC, which will increase QIC's maximum voting power in the Company by 3.11% (assuming no other Shares are issued between the date of this Notice and the date of issue of the QIC Shares). As at the date of this Notice, QIC has a relevant interest in 34,279,881 Shares and voting power in the Company of 19.77%, which will increase to a relevant interest in 41,279,881 Shares and a maximum voting power of 22.89% upon issue of the QIC Shares.

QIC has informed the Company that:

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- (a) It is not intended that any person associated with QIC will become a Director as a consequence of shareholders approving Item 9.
  - (b) QIC has no present intention:
    - a. of making any changes to the business of the Company;
    - b. of injecting any further capital into the Company;
    - c. to affect or change the continued or future employment of the current employees of the Company;
    - d. to redeploy any material assets of the Company;
    - e. to change significantly the financial or dividend policies of the Company; and
    - f. of negotiating any proposal whereby any property will be transferred between the Company or QIC or any person associated with either of them.

If the resolution in Item 9 is passed, the Shares issued will be exempt from the 15% limit under ASX Listing Rule 7.1. The QIC Shares are to be issued at \$0.25 per Share immediately following approval by shareholders and not later than 3 months after the date of Shareholder approval.

The funds raised from the issue of the QIC Shares will enable the Company to maintain momentum on the Company's core programs. Funds will be used to continue proof-of-concept for the Company's highly specific diagnostic for prostate cancer and to progress the feasibility studies for a point-of-care diagnostic test for active TB in conjunction with the Company's commercial partner, Becton Dickinson.

If the resolution in Item 9 is not passed the Company will need to consider alternative funding sources in order to continue to pursue its current objectives.

No Director has an interest in the outcome of the proposed resolutions, other than as a Shareholder.

All of the Directors voted in favour of convening a meeting of shareholders to consider item 9.

The Board recommends that shareholders vote in favour of item 9.

The QIC Shares will be issued on the same terms and rank equally with existing issued Shares, and will be quoted by the ASX.

An Independent Expert's Report has been prepared by Innovation Dynamics Pty Limited and accompanies and forms part of this Explanatory Memorandum (see Schedule 3). The Independent Expert's Report comments on whether the transaction which is the subject of item 9 is fair and reasonable to the non-associated shareholders (i.e. all shareholders other than QIC and its associates).

***Recommendation***

*The Board recommends that shareholders vote in favour of item 9.*

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## **Item 10: Approval of Issue of First Tranche Placement Shares**

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As indicated above, the Company has raised \$3,500,000 through a placement of 14,000,000 Shares at \$0.25 per share. Of the 14,000,000 Shares placed, 11,000,000 Shares were issued to QIC (as underwriter to the Placement) and 3,000,000 Shares to sophisticated and institutional investors in Australia. The effect of Shareholders passing this resolution will be to ratify the issue of the First Tranche Placement Shares for the purposes of ASX Listing Rule 7.4.

Shareholder approval is not required for the issue of the First Tranche 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 (which are discussed above).

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.

If shareholder approval is obtained the issue of the First Tranche Placement Shares will be exempt from the 15% limit under ASX Listing Rule 7.1. This will provide the Company with flexibility during the next 12 month period to issue further equity securities.

ASX Listing Rule 7.5 requires the Notice of Meeting to include the following specified information in relation to the First Tranche Placement Shares in addition to the information already provided above:

The First Tranche Placement Shares were issued on the same terms and rank equally with existing issued Shares, and are quoted by the ASX.

The funds raised by the issue of the First Tranche Placement Shares will be used by the Company to continue proof-of-concept for Proteome Systems' highly specific diagnostic for prostate cancer and to progress the feasibility studies for a point-of-care diagnostic test for active TB in conjunction with our commercial partner, Becton Dickinson.

### ***Recommendation***

*The Board recommends that shareholders vote in favour of item 10.*

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## **Item 11: Approval of issue of Shares to Vendors of Eukarion Inc.**

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In April 2005, the Company acquired Eukarion Inc, a US-based bio-pharmaceutical company which develops small molecule drugs for the treatment of degenerative and age-related disorders. The consideration for the acquisition involved a modest cash payment and an initial equity issue of 1,716,051 Shares, with the majority of the consideration payable by way of the issue of Shares if milestones in clinical development, licensing revenues and drug product sales involving the Eukarion compounds were met. Of the initial equity consideration for the acquisition, 1,287,038 Shares were withheld (**Holdback Shares**) subject to any claims being made against Eukarion Inc. These conditions were satisfied in April 2007, and the Holdback Shares were issued to the previous shareholders of Eukarion Inc.

Shareholder approval is sought for the purposes of ASX Listing Rule 7.4 so that the issue of 1,287,038 Shares to the vendors will be treated as having been made with approval for the

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purposes of ASX Listing Rule 7.1. If shareholder approval is obtained the issue of the Shares to the vendors will be exempt from the 15% limit under ASX Listing Rule 7.1. This will provide the Company with flexibility during the next 12 month period to issue further equity securities.

The Shares were issued on the same terms and rank equally with existing issued Shares, and are quoted by the ASX.

No funds were raised by the issue of Shares.

***Recommendation***

*The Board recommends that shareholders vote in favour of item 11.*

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## 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 Thursday, 29 November 2007;

**ASX** means ASX Limited;

**ASX Listing Rules** means the listing rules of the ASX;

**Board** means the board of Directors;

**Company** means Proteome Systems Limited ABN 56 080 277 998;

**Corporations Act** means the *Corporations Act 2001* (Cth);

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

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

**First Tranche Placement Shares** means 14,000,000 Shares issued through the Placement;

**Notice** means this Notice of AGM;

**Options** means options to subscribe for Shares;

**Placement** means the private placement of 21,000,000 Shares by the Company to sophisticated and institutional investors in Australia;

**QIC** means Queensland Investment Corporation;

**QIC Shares** mean 7,000,000 Shares to be issued subject to the passing of the resolution in item 9;

**Shares** means fully paid ordinary shares in the capital of the Company; and

**Shareholder** means a holder of the Shares.

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## Schedule 1

### Summary of the Terms of the Performance Share Plan

**Structure:** Under the Plan, participants are offered an award of rights to acquire ordinary shares in the Company (referred to here as 'performance rights'). Under the Plan, both short term and long term incentive awards of performance rights can be made. The offer of performance rights under the Plan takes the form of a conditional entitlement to be issued or transferred the Company's shares for nil consideration at the end of the applicable vesting period (in the case of short term incentive awards) or at the end of the applicable performance period subject to the satisfaction of performance conditions (in the case of long term incentive awards). Unless the Board otherwise determines, where a participant is entitled to be issued shares under the Plan, the Company will issue those shares or cause them to be acquired and transferred to the participant.

**Eligibility:** All employees and executive directors of the Company or its associated bodies corporate are eligible to participate in the Plan. Non-executive directors are not eligible to participate in the Plan.

**Awards:** The Plan is administered by the Board. Each year the Board may decide to award performance rights to eligible employees. The Board, after consultation with the Remuneration Committee, will determine the number of performance rights to be offered to a participant, which may include short term incentive awards and long term incentive awards.

*Short Term Incentive Awards:* Participants' performance is assessed against key performance indicators at the end of each financial year and a participant may be entitled to a bonus amount calculated on the basis of performance achieved. Payment of bonuses in respect of any financial year is at the discretion of the Board and bonuses may be paid in cash or performance rights or a combination of both. Where a bonus is paid by an award of performance rights, these performance rights will vest over a time period set by the Board during which the participant will generally be required to remain an employee of the Company or its associated bodies corporate.

*Long Term Incentive Awards:* The Board may grant an eligible participant an award of performance rights which vest over a defined period of time (referred to as the 'performance period') and are subject to the satisfaction of performance conditions. The value of long term incentive awards of performance rights granted to a participant are calculated by reference to the participant's total fixed remuneration.

The value of the award of performance rights in any one year must not exceed two times the participant's total fixed remuneration, unless the Board approves an additional award in exceptional circumstances.

*Valuation:* The number of shares subject to short and long term incentive awards is calculated on the basis of the average of the daily volume weighted average price (VWAP) of the Company's shares over the 10 days prior to the award of the performance rights or the commencement of the performance period as elected by the Board.

*Performance Conditions for Long Term Incentive Awards:* The number of shares to which a participant is entitled to be issued pursuant to performance rights is determined at the end of

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the relevant performance period subject to satisfaction of the applicable performance conditions. The performance conditions for long term incentive awards of performance rights will be determined by the Board in its absolute discretion. The performance conditions may include total shareholder return (TSR) and growth in earnings per shares (EPS) as measured against a comparable group of ASX listed companies or other performance conditions as determined by the Board from time to time having regard to the Company's circumstances. [In particular, at this early stage of the Company's development the Board may decide to impose performance conditions which relate directly to the Company's financial performance.] Performance conditions may also include individual key performance indicators specific to the participant provided that those hurdles are unambiguous and capable of objective measurement.

**Overall Cap:** No award of performance rights shall be made under the Plan if it would cause the number of shares in the Company which may be issued under that award and any other award or option granted under the Plan, ESOP or any other employee share scheme to exceed 15% of the issued shares in the Company at the time the award is made under the Plan.

**Restrictions on Disposal of Performance Shares:** The Board may impose restrictions on the disposal of shares issued pursuant to performance rights such that the participant cannot dispose of or create a security interest over the shares for a period of up to ten years from the date of the award of the performance right. Any such restrictions will be determined by the Board at the time the participant is awarded the performance rights and may be released on application to the Board in certain circumstances.

**Cessation of Employment:** Where a participant ceases employment with the Company (or its related bodies corporate) then an award of performance rights will normally lapse. However, where the participant's employment ceases because of a "qualifying reason" which includes retirement, death, illness or other hardship or circumstances considered by the Board to be extraordinary, then any short term incentive performance rights will vest in full and any long term incentive performance rights will continue in effect until the end of the applicable performance period and will vest to the extent that the performance condition was satisfied. The number of shares in respect of which long term incentive performance rights will vest will be reduced to reflect the portion of the performance period during which the participant was employed.

**Other Terms:** While participants are employees or directors of the Company they must comply with the Company's Share Trading Policy. Participants have no interest in and will not receive any dividends on shares subject to performance rights until the shares are issued to the participant. Shares issued to satisfy performance rights will rank equally with other ordinary shares of the Company. No performance rights may be offered under the Plan if to do so would contravene the Corporations Act, ASX Listing Rules or the Company's Constitution.

**Number of securities issued under the Plan since the date of last shareholder approval**

The Company has granted 24,490,872 performance rights under the Plan, and issued 9,259,962 Shares in satisfaction of vested performance rights granted under the Plan, since the date of last shareholder approval at the 2004 annual general meeting.

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## Schedule 2

### Terms and Conditions of Options issued under ESOP

The terms of the Options issued to employees under the ESOP are summarised below:

- upon exercise of an Option, the Option holder will be issued one Share;
- the Options were issued for nil consideration;
- the exercise price of 275,000 Options is \$0.31 and the exercise price of 500,000 Options is \$0.24;
- 275,000 Options have an expiry date of 20 October 2011 and 500,000 Options have an expiry date of 4 December 2011;
- 125,000 Options have vested prior to the date of this Notice;
- 125,000 Options vest if continuous service is maintained until 30 June 2008;
- 250,000 Options vest if continuous service is maintained until 4 December 2007;
- 250,000 Options vest if continuous service is maintained until 4 December 2008;
- each Option shall become exercisable upon the earlier occurrence of any one of the following events:
  - the death of the Option Holder;
  - a change of control of the Company occurs; or
  - there is a merger proposal which is publicly announced or otherwise agreed to by the Board (whether by takeover bid, scheme of arrangement or otherwise) which the Board unanimously supports and which will, on implementation, lead to a change in control and the Board declares the Option to be exercisable,

except that if one of the last 2 events referred to above applies and the person who takes or is to take control irrevocably agrees to issue options to each Option holder on terms no less favourable to the Option holder than any Options then on issue, then the Options will not become exercisable;

- if prior to the expiry of any Option there is a pro rata issue (except a bonus issue) to the Company's shareholders, the exercise price of the Options will be changed if necessary to maintain the exercise value of the Options including by taking into account any discount or premium that the subscription price under the rights issue bears to the market price of the Shares;
- if prior to the expiry of any Option, Shares are issued pro rata to the Company's shareholders generally by way of bonus issue involving capitalisation of reserves or distributable profits, the Option holder shall be entitled, upon exercise of the Options, to receive in addition to the Shares in respect of which the Options are exercised and without the payment of any further consideration an allotment of so many additional Shares as would have been issued to a Shareholder who, on the date for determining entitlements under the bonus issue, held Shares equal in number to the Shares in respect of which the Options are exercised;

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- if prior to the expiry of any Option, the Company makes a return of capital to its Shareholders generally, the exercise price applicable per Share shall be reduced by the amount of capital returned per Share;
  - if prior to the expiry of any Option there occurs any reconstruction of the capital of the Company affecting issued Shares, the Share comprised in the Option and the exercise price applicable to each such Share shall be reconstructed (as appropriate) in a manner which will not result in any benefits being conferred on the Option holder which are not conferred on holders of issued Shares, and (subject to the provisions of that reconstruction with respect to rounding of entitlements as sanctioned by the meeting of Shareholders approving the reconstruction of capital) in all other respects the terms of the Options shall remain unchanged; and
  - The Option holder cannot participate in new issues without first exercising their Option.

Schedule 3

**Independent Expert's Report**

22<sup>nd</sup> October 2007

Mr Graham Bradley

Chairman

PROTEOME SYSTEMS LIMITED

1/35-41 Waterloo Road

North Ryde NSW 2113

Dear Mr Bradley,

As requested, we have prepared this independent expert's report to assist the shareholders of Proteome Systems Limited ("**Proteome**") in their consideration of resolutions to be put to a General Meeting of Shareholders on 29 November 2007. This report is to accompany a Notice of Meeting and Explanatory Memorandum to be provided to Proteome's shareholders prior to that General Meeting.

Proteome has recently conducted capital raising activities through a share placement ("placement") to sophisticated and professional investors, and a share purchase plan ("SPP"), both priced at AU\$0.25 per share. The placement was underwritten by the Queensland Investment Corporation (QIC), and as a result of a shortfall in participation in the placement by other investors QIC is required to make an additional investment in Proteome which will take their holding to more than 20% of the Company's issued capital. Proteome has already issued an initial tranche of shares to QIC and other investors under the placement, and has also issued shares to investors under the SPP. After these issues, QIC's shareholding in Proteome has increased to 19.77% of the Company's issued capital.

This report provides our opinion on the transaction and whether it is fair and reasonable in all the circumstances to the non-associated shareholders of Proteome according to ASIC Policy Statement 74. A transaction is regarded as "fair" if the assessed value of the shares acquired is less or equal to the consideration given. The transaction is considered "reasonable" if the potential advantages of entering the agreement outweigh the disadvantages to Proteome shareholders.

In arriving at our fair and reasonable opinion we have examined the likely advantages and disadvantages of the transaction to Proteome shareholders and determined a value range of Proteome based on its assets and technologies.

In conclusion, having regard to our estimate of the fair value of Proteome and the advantages and disadvantages, we believe the transaction to be fair and reasonable to the non-associated Proteome shareholders.

The proposed transaction

Proteome is an Australian-based biotechnology company listed on the Australian Stock Exchange Limited (ASX) and focusing on the development of rapid diagnostic tests and small molecule therapeutics. The Company was founded in 1999 with core competencies in proteomics and has developed a diagnostic platform and certain biomarkers related to changes in biological status, for example in disease. The Company's current diagnostic

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products have potential applications in human tuberculosis and prostate cancer and the testing of wheat quality.

In addition, Proteome has a portfolio of small molecule drugs, acquired through the purchase in 2005 of US-based Eukarion, Inc. These molecules and products target conditions resulting from oxidative stress and they have products in the market as cosmetics and dermatological preparations. The Company maintains a presence in Woburn in Boston, USA, as part of the therapeutics business unit. Proteome's major activities are centred in North Ryde, Sydney.

Proteome has recently raised funds via a share purchase plan (1,974,000 shares at AU\$0.25) and partially completed a two part share placement to QIC (which will finally total 18,000,000 shares at AU\$0.25) and other investors (which has totalled 3,000,000 shares at AU\$0.25). If shareholders approve the completion of the placement to QIC, the effect on QIC's shareholding in Proteome will be as follows:

	Pre raising	Post raising
Total Issued Share:	157,402,154	180,376,154
QIC shareholding	23,279,881	41,279,881
Non-QIC sharehold	134,122,273	139,096,273
QIC shareholding %	14.80	22.9
Market capitalisatio	39,350,539	45,094,039

\*calculated at AU\$0.25

The funds will be used as working capital to develop the existing product lines.

The Proteome share price has fluctuated considerably over the past year from AU\$0.22 to AU\$0.50 and is currently AU\$0.25. The weighted average share price over the previous 18 months is AU\$0.33 and over 6 months is AU\$0.34.

The Company listed in September 2004 as a Proteomics Technology development company, but in the last two years has been restructured considerably to focus on its diagnostic business, and has recently made a number of announcements to the market which, amongst other things, may have influenced the share price. For example, in April 2007 the Company sold its proteomic instrument technologies Chemical Inkjet Printer and Xcise; in May 2007 it announced the proposed out-license and commercialisation agreement of the Eukarion dermatological technologies to Minerva; and in July 2007 it announced the agreement with Becton Dickinson to co-develop the tuberculosis diagnostic.

It is our view that the price may rise from its current low historical level with further positive announcements related to further focus on the development of a number of products by the Company.

#### The Proteome Systems technologies

Proteome has operated as a leading company in the area of proteomics and has been at the forefront of protein analysis and biomarker identification. Over the past three years Proteome has moved away from contract proteomic research and instrument development toward diagnostic and therapeutic product development. The Company has expertise in proteins and in *in vitro* diagnostics and, through the acquisition of Eukarion, in therapeutics.

In our assessment of the proposal being fair we have considered whether the post raising market capitalisation of Proteome of AU\$45 million is exceeded by the assessed value of the acquired technology and IP held in Proteome. Several methods may be used to estimate the likely current value of Proteome, including the comparison of its assets with other like companies and transactions, or projected discounted cash flow calculation of net present value. We have considered each of the main product and technology areas in the Company, using one or both of these methods, to form an aggregate valuation. We have also assessed the recent share trading history of the Company.

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## Diagnostics and proteomics

### Diagnostic technology platform

Proteome has developed a rapid, antigen-based diagnostic test platform called DiagnostIQ™ having broad potential applications. The diagnostic utilises an antibody printed membrane, unique pre-filter device and an incubation chamber in a vertical flow-through format to create a sensitive and quantitative, rapid, multi-analyte test. The patented technology allows point-of-care testing that is simple and quick to use, provides rapid and accurate results, and can use crude samples such as whole blood, sputa, saliva or crushed plant materials.

The rapid diagnostic test format is simple to manufacture and a hand-held digital reader allows quantitative test results. Both the test and the reader are suitable for use in a range of conditions in the field and at point-of-care. The test format has been validated with the commercial release of the Wheatrite™ test, described below.

DiagnostIQ™ can be used as an *in vitro* diagnostic (IVD) platform for any analyte for which antibodies are available. The global market for IVDs is very large and the discovery of new disease biomarkers, in part from proteomic analysis, is expected to fuel further growth.

### Valuation

The valuation of the DiagnostIQ™ platform has been based on comparables, including the following:

As a comparator to Proteome, for example, MedMira Inc. is a Canadian diagnostics company with about eight *in vitro* diagnostic products on the market using rapid flow-through membrane technology for HIV and HCV. MedMira is currently developing its small, handheld, point-of-care platform for the diagnosis of HIV and HCV in the same, single test. MedMira is listed on the Toronto Stock Exchange with a market capitalisation of CAN\$7.9 million on October 16<sup>th</sup> 2007.

In November 2004 Gen-Probe, Inc. acquired an exclusive option to develop a point-of-care nucleic acid testing instrument based on Qualigen, Inc.'s FDA-approved FastPack® immunoassay system. Terms of the deal included an 18-month, US\$1 million option to exclusively license the platform technology, and up to US\$3 million in licence fees based on development milestones should the option be exercised. Gen-Probe would also purchase shares in Qualigen for US\$5.9 – 7 million, depending on the timing of the option exercise.

### Wheat quality diagnostic, Wheatrite™

Proteome partnered with Bayer CropScience's Australian subsidiary C-Qentec Diagnostics Pty Ltd to develop the Wheatrite™ agricultural diagnostic. Wheatrite™ is a rapid quality assurance test that measures levels of the starch degrading enzyme, alpha-amylase, in wheat to determine weather damage. The Wheatrite™ test is available as a rapid visual test that can be interpreted without instrumentation, or used in conjunction with the Company's ReadRite scanner to provide a more definitive semi-quantitative result.

The test is designed to replace the present 'falling numbers' (FN) test which is commonly used as an indicator of wheat quality and determines whether a particular harvest can be used for human food production. Amylase screening using the falling numbers test is an indicator of increased starch degradation due to rain damage, and hence decreased grain quality. This has an impact on the price that the harvested wheat can attract. Grading must be conducted by trading authorities prior to sale and/or export, but may be performed at other points in the chain to monitor and confirm grain quality. Currently, little testing is performed by farmers themselves on site.

### Valuation

The world's five major exporters of wheat are the US, EU, Canada, Australia and Argentina, together accounting for approximately 75% of the wheat supply traded internationally.<sup>1</sup> Australia's export

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<sup>1</sup> Australian Wheat Board. Industry Overview: Australian Grain Industry. <http://www.awb.com.au>

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market accounts for 24.5 million tonnes (3.9% of total world production) and the US exports 57.3 million tonnes (9.2%).<sup>2</sup> Australia and Canada are the only two wheat producers that export via an explicit single desk marketer (the Australian Wheat Board and the Canadian Wheat Board respectively). All other countries export through traders, and the EU and US are both subject to significant intervention from government price support policies.<sup>3</sup> Better monitoring of wheat quality on farm would lead to improved quality control due to more efficient segregation of differing wheat grades, and increased farmer negotiating power. The availability of a simple, on-site test such as Wheatrite™ will create a significant on-farm market. Bayer expects Wheatrite™ to enter the Canadian market in 2008 and the US market soon after. In our opinion Wheatrite™ represents the company's major short term income earner and provides practical validation of the DiagnostIQ™ test system.

We have analysed the projected future cash flows expected to come to Proteome from royalties on the sale of Wheatrite™ in the international market. We have determined a Net Present Value (NPV) of AU\$12 – 16 million for this product from projected cash flows over ten years. This assumes sales in the major wheat producing countries with significant penetration into each, starting in Canada in 2008.

#### Tuberculosis diagnostic

Proteome is applying its proteomic expertise in biomarker discovery and diagnostic test development to develop and patent biomarkers that are specifically expressed during active infection with *M. tuberculosis*. Proteome is developing screening antibodies that will recognise and bind to these biomarkers in sputum and blood from infected people. The project is focusing on patients with active tuberculosis and who also have active HIV infection as this group can be extremely difficult to diagnose and is in urgent need of a rapid, accurate and inexpensive diagnostic test.

Proteome has demonstrated proof of concept for the detection of one of the patented tuberculosis biomarkers in a small cohort of clinical samples and is developing tests for other known biomarkers. In July, 2007, Proteome announced that it had entered into an agreement with Becton Dickinson and Company, USA for the co-development of TB diagnostic products. The first phase of this agreement is a 12 month clinical feasibility study. Following completion of this study, Becton Dickinson has the option to proceed with product development and market the test. Becton Dickinson already has a number of culture based tests for the diagnosis of TB.

Tuberculosis has high mortality in developing countries and is a leading cause of death among people with [HIV/AIDS](#). Approximately one third of the world's population, or 2 billion people, have been exposed to the tuberculosis pathogen causing about 9 million infections and 2 million deaths annually. It is still a disease of developing countries (718 cases per 100,000 people in South Africa) but the incidence in developed countries has risen (13 per 100,000 in the US).

Tuberculosis can be difficult to diagnose and active infection is often assessed by measuring specific immune status against *M. tuberculosis*. Co-infection with HIV is a particular problem both in diagnosis and treatment. New cheaper, faster and more accurate tests are now available and more are being developed, and these will be particularly valuable in developing countries, despite the pricing in these countries being much lower than in the developed world. The market for tuberculosis diagnostic procedures is estimated to be worth almost US\$1 billion, with US\$677 million spent on detection and monitoring, US\$353 million on latent infection detection and US\$4 million on drug susceptibility testing.

Active tuberculosis is currently detected using culture of clinical samples and these tests address the same market as Proteome. Strongest competitors to Proteome are culture tests formatted for rapid development. For example, TREK Diagnostic Systems Inc and Salubris-Medica have culture based tests and Biotec Laboratories Ltd is a UK based company with a phage-based test which it claims leads to much more rapid diagnosis. The success of the Proteome test will depend on its comparative performance and adequate distribution to remote areas. We understand that Proteome's diagnostic test based on the DiagnostIQ™ platform will provide added benefits and this has been recognised by Becton Dickinson.

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<sup>2</sup> United States Department of Agriculture, (2007). World Wheat Production, Consumption, and Stocks. <http://www.usda.gov>

<sup>3</sup> Australian Wheat Board. *op. cit.*

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## Valuation

As comparators for Proteome, several listed Australian diagnostics companies have products in the market and are much more advanced.

PanBio Ltd is a diagnostics company listed on the ASX with a market capitalisation of AU\$38 million on October 16<sup>th</sup> 2007. Panbio's product portfolio includes a number of test formats covering over 58 infectious diseases marketed worldwide. Cellestis Ltd has developed a unique cell based assay to detect cellular immunity to M. tuberculosis and other pathogens, but this is a different market to Proteome. Both of these companies have a well established market presence and products and we believe their value is much greater than Proteome for this test.

A number of companies develop, manufacture and distribute diagnostics for infectious diseases. For example, Meridien Diagnostics was a medical diagnostics company that was acquired by Dianon Systems in 1999. Meridien also acquired Gull Laboratories Inc in a merger transaction with a total value of US\$18 million. Gull Laboratories has infectious disease diagnostic immunoassays.

We have calculated a Net Present Value range for projected cash flows arising from the tuberculosis test marketed into emerging and developed countries. Based on a 10 year cash flows and current testing levels we calculate this test to be valued at AU\$14 – 20 million at this time and this is consistent with the comparable analysis. The work under the agreement with Becton Dickinson will determine the feasibility of them marketing the test.

### Prostate cancer diagnostic

Human Carcinoma Antigen (HCA) is produced by several types of malignant tumours and is patented by the US company Egenix Inc as a novel carbohydrate marker with diagnostic potential. Proteome is collaborating with Egenix to characterise HCA and develop a new diagnostic test. HCA is over-expressed in prostate cancer tissue but is absent or minimally present in normal (and in benign prostatic hyperplasia) prostate tissue. Increased levels of HCA in semen have been shown to be associated with the diagnosis of prostate cancer. HCAs actual utility for the diagnosis of prostate cancer still needs to be confirmed and Proteome is currently sourcing semen, blood and urine samples through clinical urologists in Australia and overseas for trials.

Prostate cancer is the most common male cancer and the second highest cause of cancer mortality among men in developed countries. In 2005 there were 660,000 new cases of prostate cancer diagnosed worldwide<sup>4</sup> and this accounted for 29% of all cancer diagnoses. Prostate cancer is the second leading cause of cancer-related death amongst men in the US. Currently, the prostate specific antigen (PSA) test and the digital rectal examination (DRE) are used to make a preliminary diagnosis followed by needle biopsy. There are no specific screening tests available for prostate cancer and patients normally have these tests included with their annual check-ups.

The PSA test has limitations of specificity and sensitivity and is inadequate and controversial as a diagnostic. Despite this, PSA is increasingly used and is attributed with the rising incidence of prostate cancer detection, but a reducing number of men with late stage disease. It is recommended that all men over the age of 45-50 be tested annually by PSA for prostate cancer in the USA, UK and Australia. There is an urgent need for new markers that can be used in combination with PSA to achieve a greater predictive value.

A number of new diagnostic tools are rapidly approaching market, with one product for urine samples already available in Europe and another recently gaining FDA approval. A small number of large companies dominate the PSA test market currently, with Abbott and Beckman-Coulter current leaders and the rest of the market held largely by Roche, Bayer, and Johnson and Johnson (Ortho Clinical Division).

In our opinion, Proteome's prostate cancer diagnostic is early in development in terms of biomarkers and clinical testing but using the DiagnostIQ™ platform could be rapidly formatted into a test for clinical use. The use of semen sampling could limit the uptake of the test as a screening product but depending on its performance, it could be used for disease staging or confirmatory testing in combination with PSA.

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Other Australian companies developing prostate cancer tests are Minomic Pty Ltd and BioSceptre Pty Ltd, both with biomarkers for the disease. BioSceptre formed a joint venture with Peptech Limited for the development of a test for prostate cancer. Peptech paid AU\$3.5 million for the agreement.

### Valuation

In August 2007 DiagnoCure Inc. acquired Catalyst Oncology, Inc. and its lead prognostic tests for breast, colon and potentially other cancers for an upfront payment of US\$3 million in cash and shares, with additional future milestone payments.

In August 2001 Fujirebio entered into a research and license agreement with DiaDexus, Inc. to exclusively develop and sell cancer diagnostic tests using DiaDexus' proprietary biomarker targets in Japan. Under the terms of the agreement DiaDexus received approximately US\$1.8 million in upfront and licence fees and annual support over three years, plus minimum royalties of 15% of sales. In addition, Fujirebio purchased US\$250,000 in DiaDexus shares.

In January 2005 Gen-Probe Inc. licensed technology from AdnaGen, a private German company focused on the development of tumour diagnostics in the analysis of rare cells. The terms of the agreement included licence fees of US\$1 million, plus US\$750,000 upon patent issuance and three milestone payments potentially totalling an additional US\$2.25 million. Royalties will also be paid to AdnaGen.

We have determined a Net Present Value of a prostate cancer diagnostic from projected future earnings assuming a 5 year development period and sales over eight years with conservative penetration. On the basis of this and comparables we estimate that the value of a cancer diagnostic product at this stage of development would be AU\$5.5 to 6.5 million.

### Therapeutics

#### Background

Proteome acquired Eukarion, Inc. in April 2005 delivering them a range of therapeutic products and intellectual property related to the relief of oxidative stress. Proteome has stated their intention to partner with pharmaceutical and biotechnology companies for the clinical development and commercialisation of these compounds and gain royalties and other licensing revenues.

Reactive oxygen species (ROS) are known to cause oxidation damage in human cells and tissues. Endogenous enzymes, such as superoxide dismutase (SOD) and catalase normally neutralise the ROS molecules but some oxidative damage still occurs and can contribute to a range of pathologies. The administration of endogenous antioxidant enzymes for the reduction of cellular ROS has been shown to be clinically inefficient and limited in success. Synthetic SOD and Catalase mimetics have been developed and exhibit more favourable pharmaceutical properties compared to the native enzymes.

Proteome has three different classes of small molecule drug candidates which act by distinct mechanisms on the mitochondria. Proteome's 100 and 200 series of therapeutics are catalytic scavengers of multiple free radicals and hydrogen peroxide, and preferentially accumulate in the mitochondria. They offer potentially significant efficacy advantages over earlier free radical scavengers which scavenge only superoxide. In addition, several of these products could be formulated as cosmeceuticals for anti-ageing consumer products. The series 100 product EUK-134 is already in market. The 400 series is a porphyrin based molecule for oral use which blocks the MPTP pore in the mitochondria which is involved in apoptosis. These molecular classes are discussed further below.

#### 100 series

Proteome currently has a cosmetic product based on EUK-134 in the market. The company has a licensing agreement with Atrium Biotechnologies, Inc., who wholesale the compound to numerous companies including Estee Lauder, one of the world's largest cosmetics companies and the leader in prestige anti-ageing product markets. Estee Lauder has included EUK-134 in two product lines to date,

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both skin care products for dealing with anti-ageing, and there are plans to expand this into five more product lines. Atrium pays Proteome a royalty on the supply of manufactured product to customers.

Another compound in the 100 series, EUK-189, is currently in Phase 1 clinical trials for the topical treatment of radiation-induced skin damage. The molecule earlier completed proof of concept studies in Germany and development is continuing in a US Government grant funded as part of a consortium that includes the Centre for Medical Countermeasures Against Radiation in the USA.

Skincare is the largest sector of the cosmetic industry and more than half of these products claim some anti-ageing benefit. The US cosmeceuticals market is estimated to be about US\$3 billion and in Europe will reach \$4.4 billion by 2009. The larger cosmetic companies hold a major advantage due to their large marketing budgets. The supply of raw materials that are claimed to have an anti-ageing effect is a significant part of the market.

### **Valuation**

In May 2007, Proteome announced an option agreement to license the Eukarion dermatological series of products to Minerva Healthcare Inc. The option agreement includes a license fee of US\$4 million plus milestones for clinical development, 10% equity in Minerva Healthcare and 12% royalties on sales of products. This represents a fair price for the products for this indication.

Revlon signed a licence agreement with Senetek PLC for the exclusive worldwide rights (excluding Japan) to sell specified Kinetin-based products for a licence fee of US\$3 million paid at signing and royalties based on Revlon's net sales of licensed products. Revlon purchased a million ordinary shares in Senetek at a price of US\$6 per share.

In November 2004, Health Sciences Group, Inc. acquired Apple Peel Technologies, Inc. (a wholly-owned subsidiary of Cornell University's UTEK Corporation) in a tax-free stock-for-stock exchange valued at US\$830,000. APTI's only assets included US\$112,500 in cash and an exclusive worldwide licence to a patented technology known as Apple Peel Powder shown to reduce cellular damage caused by free radicals.

### 200 series

EUK-207 has been optimised for activity as an injectable product and has, thus far, displayed efficacy in a number of animal models relating to neuroprotection and cognitive impairment. Recent preclinical studies in mice have demonstrated efficacy in several models of cognitive impairment in ageing and preventing neuronal damage during reperfusion injury. Proteome Systems aims to out-license EUK-207 for development to prevent the neurological consequences of carotid artery bypass grafts (CABG) and open heart surgeries where there is decreased cognitive function in the majority of patients and there are currently no treatments.

Neuroprotection is required following degeneration due to brain injury or as a result of chronic neurodegenerative diseases, and is one of the world's fastest growing potential therapeutic markets. However, it is poorly serviced by current treatments. The global trend of increasing life expectancies will lead to more age related neurodegenerative diseases and a rising market. The market is dominated by major players like Biogen Idec, Elan, Eli Lilly, Novartis and Pfizer.

### **Valuation**

An emerging player in Asia Pacific is New Zealand-based Neuren Pharmaceuticals Ltd. which is listed on the ASX with a market capitalisation of AU\$34 million on October 16<sup>th</sup> 2007. The company focuses on the neuroprotection and metabolism markets, and their pipeline comprises five families of compounds at various stages of development.

In July 2007, Neuren acquired Hamilton Pharmaceuticals for US\$4.4 million in shares. Hamilton Pharmaceuticals is in Phase II clinical trials with their principle product, Motiva™, being developed to treat the psychological and cognitive disorders resulting from the effects of stroke, traumatic brain injury, Alzheimer's and Parkinson's disease.

### 400 series

The 400 series of compounds have very weak SOD and catalase activities and are orally available. They have potential use in a number of neurological pathologies including the neurodegenerative

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diseases Parkinson's, Alzheimer's and Huntington's diseases. Early studies to date have demonstrated that EUK-418 is very effective in preventing neuronal damage in an *in vitro* model of Parkinson's disease.

#### Aggregate valuation of the Therapeutic products

Proteome's therapeutic products address very large potential markets with unmet clinical needs. Based on our analysis of reasonable comparables we estimate the value of the therapeutic products to be, in aggregate, \$17 – 22 million. We believe this to be a fair valuation considering the size of the market, the clinical need and the cash flow generated by the EUK-134 and EUK-189 products.

#### Overall valuation of Proteome technologies

<b>Product area</b>	<b>Value (AU\$ million)</b>
Diagnostic platform	
Wheatrite™	
Infectious disease diagnostics	
Cancer diagnostics	
Therapeutic products	
<b>Total</b>	
<b>Mid point</b>	

Based on our estimates for the separate areas of technology we estimate that Proteome would be valued in the aggregate at between AU\$53 million to AU\$74 million. Our estimate of the fair mid point market value of the assets of Proteome exceeds the consideration in the proposal to acquire these assets.

#### Assessment of reasonableness

Likely advantages to Proteome's shareholders if the transaction is approved:

- According to the Proteome 2006/2007 Annual Report, at 30<sup>th</sup> June 2007 Proteome had current cash assets of AU\$3.2 million and annual net cash outflow from operations of AU\$6.6 million. The Company therefore requires further funding to maintain the development of products and operations. QIC has underwritten the placement and QIC's investment will be an important contribution to the working capital of the company. QIC is an existing informed shareholder and prior to the placement held the largest number of shares in Proteome (14.79%).
- Proteome has technologies that need development and the investment, followed by increased cash flow from product licensing and royalties, will facilitate this. The investment will allow Proteome to reach a point where it will have advanced several of the products toward market and be closer to becoming self sufficient through recurring revenues.
- Proteome has had a deteriorating share price over the past year and the investment will stimulate further market interest in the company.

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- The Board of Proteome has considered other capital raising possibilities, including to other major existing shareholders, but these do not appear to have been taken up or have the same potential or quantum as that offered by QIC or on similar terms.

Likely disadvantages to Proteome shareholders if the transaction is approved:

- The issue of shares in the transaction will dilute existing shareholdings and it is possible that the share price might not be maintained post acquisition. At the expected market capitalisation post placement, the Company might not be able to attract further significant investment. The weighted average share over the past eighteen months has been higher than the current price.

Likely disadvantages to Proteome shareholders if the transaction is not approved:

- The Company will face difficulties financing its operations and, in the event of no other investment of similar size will have to reduce activities and possibly implement retrenchments. In the absence of further capital, research and product development in Proteome will have to be curtailed significantly leading to reduced opportunities for capturing benefits from the technology. Loss of staff would lead to loss of momentum and knowledge of products that will be difficult to restore if capital is raised at a later time. In the extreme, the Company could face liquidation or sell off of assets under unfavourable terms.
- Proteome would have to find alternative opportunities to develop the business and direction. Opportunities for obtaining additional finance for developing the Proteome business portfolio may be limited. The transaction will strengthen the capability of Proteome which may be reflected in investor interest.

**Based on our assessment of the potential advantages and disadvantages, we consider that the Proposed Acquisition is reasonable to the non-associated shareholders of Proteome.**

#### Conclusions

The value of Proteome based on our aggregate of the valuation of each of the product areas is AU\$53 million to 74 million. This is higher than the current market capitalisation of Proteome at AU\$45 million based on a share price which we believe is also low in relation to the weighted average share price over 18 months. The investment by QIC will allow further development of the Company's key products and therefore the value of the Company will be maintained in the short term and increased as these come to market. Although the investment by QIC is at a lower historical share price for the Company and will be attractive to them and possibly unattractive to some non-associated shareholders, without this investment the Company will have to make changes to its directions which could reduce the value of the Company. We argue that the investment is therefore fair and reasonable to non-associated Proteome shareholders.

**In our opinion, the proposed investment by Queensland Investment Corporation in Proteome as presented is fair and reasonable to the non-associated Proteome shareholders.**

#### Declarations and disclosures

Innovation Dynamics Pty Ltd prepares technology assessments and valuations of projects and companies in health and biotechnology and holds an Australian Financial Services license from ASIC for the preparation of Expert Reports (License Number 295107). Dr Hopper is Executive Chairman of Innovation Dynamics Pty Ltd and holds a PhD degree from the ANU, BSc from Melbourne University and Certificate of Financial Management from UTS.

Some information was provided by Proteome and we have sourced independent reports and publications, from searches of on-line databases and libraries. All comments, forecasts and recommendations made in

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this report are made in good faith on the basis of information available at the time. Innovation Dynamics does not guarantee that the projections used in this report will actually occur because of possible changes in the markets and general business and other environment, which happen over time and are outside our control to know. We have not considered how the transaction will affect individual shareholders with different financial circumstances. We have not assessed the legal status of any agreements or patents in the companies nor audited any financial forecasts or any other records of Proteome. A draft of this report was issued to Proteome to confirm factual accuracy of the report and some changes were made to reflect Proteome's comments.

This report is provided exclusively for inclusion in the Notice of Meeting and Explanatory Memorandum to Proteome shareholders dated 26 October 2007 and shall not be used for any other purpose. We consent to the issue of this report in this form and context. We have not otherwise been involved in the preparation or the issue of the Notice of Meeting and Explanatory Memorandum and specifically disclaim liability in respect of any statements included elsewhere in it. Innovation Dynamics has acted independently in preparing this report and neither its Directors nor staff has any pecuniary or other interest in Proteome or its associates that could reasonably be regarded as affecting its ability to give an unbiased opinion. Innovation Dynamics will receive normal professional fees for the preparation of this report and, with the exception of these fees, will not receive any other direct or indirect benefits.

Yours faithfully,

INNOVATION DYNAMICS PTY LTD

A handwritten signature in black ink, consisting of a stylized 'K' followed by a long horizontal line.

Kelvin Hopper PhD

EXECUTIVE CHAIRMAN

**APPOINTMENT OF PROXY**

If you would like to attend and vote at the Annual General Meeting, please bring this form with you. This will assist in registering your attendance.

I/We being a member(s) of Proteome Systems Limited and entitled to attend and vote hereby appoint

**A** the **Chairman of the Meeting (mark box)**  **OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following instructions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of the Company to be held at 2:30pm on Thursday, 29 November 2007, at Unit 1, 35-41 Waterloo Road, North Ryde NSW 2113 and at any adjournment of that meeting.

Where more than one proxy is to be appointed or where voting intentions cannot be adequately expressed using this form an additional form of proxy is available on request from the share registry. Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

**B** To direct your proxy how to vote on any resolution please insert  in the appropriate box below.

	For	Against	Abstain*		For	Against	Abstain*
<b>Item 1</b> Financial Statements and Reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Item 7</b> Performance Share Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Item 2</b> Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Item 8</b> Approval of issue of Options under the Employee Share Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Item 3</b> Election of Roger Amos as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Item 9</b> Approval of issue of Shares to Queensland Investment Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Item 4</b> Election of Stephen Porges as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Item 10</b> Approval of issue of First Tranche Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Item 5</b> Re-election of Phillip Morley as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Item 11</b> Approval of issue of Shares to Vendors of Eukarion Inc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Item 6</b> Directors' Remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

**IMPORTANT: FOR ITEMS 6 & 7 ABOVE**

**C**  If the Chairman of the Meeting is appointed as your proxy, or may be appointed by default and you do **not** wish to direct your proxy how to vote as your proxy in respect of Items 6 and 7 above, please place a mark in this box. By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even though he/she has an interest in the outcome of those Items and that votes cast by him/her for those Items, other than as proxyholder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Items 6 and 7 and your votes will not be counted in calculating the required majority if a poll is called on these Items. The Chairman of the Meeting intends to vote undirected proxies in favour of Items 6 and 7.

\* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**D SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED**

Securityholder 1 (Individual) <input style="width: 100%; height: 30px;" type="text"/> Sole Director and Sole Company Secretary	Joint Securityholder 2 (Individual) <input style="width: 100%; height: 30px;" type="text"/> Director/Company Secretary (Delete one)	Joint Securityholder 3 (Individual) <input style="width: 100%; height: 30px;" type="text"/> Director
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This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the securityholder's constitution and the *Corporations Act 2001* (Cwth).



## How to complete this Proxy Form

### 1 Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### 2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in section A. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in section A. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

### 3 Votes on Items of Business

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### 4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

### 5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either securityholder may sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry.

### Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 2:30pm on Tuesday, 27 November 2007, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the reply paid envelope or:

- by posting, delivery or facsimile to Proteome Systems Limited's share registry as follows:  
Proteome Systems Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Facsimile: (02) 9287 0309
- delivering it to Level 12, 680 George Street, Sydney NSW 2000.

Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a securityholder (including your name, address and details of the securities you hold) to be included in the public register of the entity in which you hold securities. Information is collected to administer your securityholding and if some or all of the information is not collected then it might not be possible to administer your securityholding. Your personal information may be disclosed to the entity in which you hold securities. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website ([www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)).