

MESOBLAST LIMITED

ACN 109 431 870

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY MEMORANDUM

For the Annual General Meeting of the Company to be held at

**11am (Melbourne time)
on 29th November 2010**

**at Middletons Lawyers,
Rialto South Tower
Level 25, 525 Collins Street,
Melbourne, Victoria**

THIS IS AN IMPORTANT DOCUMENT

**If you are in doubt as to what to do with this document please
immediately see your legal adviser, financial adviser or stockbroker.**

Dated: 29th October 2010

Mesoblast Limited

ABN 68 109 431 870

Notice of Annual General Meeting

Notice is given that a general meeting of the shareholders of Mesoblast Limited ABN 68 109 431 870 (**the Company or Mesoblast**) will be held at Middletons Lawyers, Rialto South Tower, Level 25, 525 Collins Street, Melbourne on **29 November 2010 at 11am** (Melbourne time) for the purpose of considering and if thought fit passing the following ordinary resolutions as stated below.

Please note that additional information concerning the proposed resolutions is contained in the Explanatory Memorandum that accompanies and forms part of this Notice of Annual General Meeting.

Agenda

General Business

1. Receipt and Consideration of Financial Statements and Reports

To receive and consider the Financial Statements of the Company for the year ended 30 June 2010, together with the Directors' Report and the Independent Auditor's Report as set out in the Annual Report.

2. Resolution 1 – Remuneration Report (Non-Binding Resolution)

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

"To adopt the Remuneration Report for the year ended 30 June 2010".

**Please note that section 250R(3) of the Corporations Act 2001 (Cth) provides that the vote on this resolution is advisory only and does not bind the Directors or the Company.*

Special Business

3. Resolution 2 – Amend the Constitution (Director's Indemnity)

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

"That pursuant to section 136(2) of the Corporations Act and for all other purposes, the members of the Company approve the amendment of Clause 28 of the Company's Constitution relating to indemnity and insurance as detailed in the Explanatory Notes which accompany this Notice of Annual General Meeting and marked 'Annexure A'."

4. Resolution 3 – Approval of Employee Share Option Plan

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

"That, for the purposes of ASX Listing Rule 7.2 exception 9 and for all other purposes shareholders approve with effect from the close of this Meeting the Company's Employee Share Option Plan (a copy of which accompanies this Notice of Annual General Meeting) and marked 'Annexure B' (ESOP) and the issue of options by the Board in its discretion in accordance with the provisions of that ESOP."

5. **Resolution 4 – Approval of Employee Share Option Plan to facilitate the issue of incentive stock options to residents of the United States of America**

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

“Subject to the prior approval of Resolution 3, that, for the purposes of Section 422 of the US Internal Revenue Code of 1986, and for all other purposes shareholders approve with effect from the close of this Meeting the Company's Employee Share Option Plan to facilitate the issue of incentive stock options to residents of the United States of America (a copy of which accompanies this Notice of Annual General Meeting) and marked 'Annexure B' (ESOP).”

By Order of the Board:



.....
Kevin Hollingsworth
Company Secretary
29 October 2010

NOTES

These notes form part of the notice of the Annual General Meeting.

Annual Report

The annual report (which includes the financial report, the directors' report, the auditor's report and the remuneration report) is available for shareholders to access and download from the investor information page on the Company's website (www.mesoblast.com).

Shareholders who have elected to receive a copy of the annual report will receive it separately in the mail.

Shareholders Entitled to Vote

The directors have determined that, for the purpose of voting at the meeting, shareholders are those persons who are the registered holders of shares at **7pm** Melbourne time on **26 November 2010**.

Appointment of Proxies

If you are entitled to vote at the meeting you have the right to appoint a proxy to attend and vote in your place. To appoint a proxy you should use the attached proxy form. The proxy need not be a shareholder of the Company. If you are entitled to cast 2 or more votes you may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

Proxy forms must be received at Mesoblast Limited, C/-Link Market Services Limited, Locked Bag A14, Sydney South, NSW 1235, Australia or by fax on +61 2 9287 0309 no later than **11am** on **27 November 2010**.

Bodies Corporate

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of the Company's shareholders. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

Mesoblast Corporation Limited

ABN 68 109 431 870

Notice of Annual General Meeting Explanatory Notes

These explanatory notes have been prepared to provide shareholders with sufficient information to assess the merits of the resolutions contained in the accompanying Notice of Annual General Meeting (**AGM**) of the Company (**Notice**) concerning the meeting to be held at Middletons Lawyers, Rialto South Tower, Level 25, 525 Collins Street, Melbourne on **29 November 2010 at 11am** (Melbourne time).

1. Receipt and Consideration of Financial Statements and Reports

This agenda item is self-explanatory. It is intended to provide shareholders with the opportunity to raise questions on the Financial Statements and Reports, and in the performance of the Company generally.

Shareholders should note that the Financial Statements and Reports will be received in the form presented. It is not the purpose and there is no requirement either in the *Corporations Act* or in the Constitution of the Company for shareholders to approve the financial report, the directors' report or the auditor's report of the meeting that the Financial Statements and Reports be accepted, rejected or modified in any way.

2. Resolution 1 – Remuneration Report (Non-binding Resolution)

The Board submits its Remuneration Report to shareholders for consideration and adoption. The *Corporations Act 2001 (Cth)* specifically provides that the vote by shareholders is advisory only and is not binding on the Board or the Company. The Remuneration Report is set out in the Directors Report of the 2010 Annual Report. The Remuneration Report:

- explains the Board's policies in respect of the nature and level of remuneration paid to Directors and senior management of the Company;
- discusses the link between the Board's policies and the Company's performance;
- explains why the performance conditions were chosen and how performance is measured against them;
- sets out the remuneration details for each Director and each member of the Company's senior management team;
- makes clear that the basis for remunerating non-executive Directors is distinct from the basis for remunerating executives and executive Directors.

It is intended that shareholders will be provided an opportunity to discuss the Remuneration Report at the meeting.

The Company's board of Directors (**Board**) unanimously recommends that shareholders vote in favour of Resolution 1.

3. **Resolution 2 – Amend the Constitution (Director's Indemnity)**

Resolution 2 proposes the amendment of the Constitution of the Company by deleting the existing Clause 28 and adopting the replacement Clause 28 (still dealing with Indemnity and Insurance) in the form annexed to this Notice of Annual General Meeting and marked "Annexure A".

Pursuant to section 136(2) of the Corporations Act, the Company may only modify its Constitution by special resolution.

The amendments to Clause 28 of the Constitution of the Company allow the Company to provide indemnity to the extent permitted by the Corporations Act, but not to the extent the liability of the officer is already covered by insurance. However, the new Company indemnity provisions are enforceable without the officer first incurring any expense or making any payment, and also apply to liabilities incurred both before and after the adoption of this amendment to the Constitution.

The Board unanimously recommends that shareholders vote in favour of Resolution 2.

4. **Resolution 3 – Approval of Employee Share Option Plan**

4.1 **Background**

The Company has adopted an employee share option plan (**ESOP**) to foster an ownership culture within the Company and to motivate employees, consultants and directors to achieve performance targets of the Company and/or their respective business units. The ESOP is regarded as an *employee incentive scheme* for the purposes of Listing Rule 7.2.

Approval of the ESOP and any options to be issued pursuant to the ESOP is sought pursuant to Listing Rule 7.2, Exception 9.

Listing Rule 7.1 provides generally that a company may not issue shares or securities convertible into shares equal to more than 15% of the company's issued share capital in any 12 months without prior obtaining shareholder approval unless the issue fits into one of the exceptions contained in Listing Rule 7.2. Listing Rule 7.2 Exception 9 effectively provides that securities issued pursuant to an employee incentive scheme are not included in the calculation of the 15% for Listing Rule 7.1 purposes, provided the employee incentive scheme and the securities to be issued pursuant to the ESOP have been approved by shareholders within the previous 3 years.

Accordingly, shareholder approval is sought pursuant to this Resolution 3 in order for the Company to continue to be able to issue options pursuant the ESOP and have those options qualify under Listing Rule 7.2 Exception 9 for a further 3 years from the date of approval.

4.2 **Information required for Listing Rule 7.2 Exception 9**

Listing Rule 7.2 Exception 9 requires the information detailed below to be provided to members for approval under this resolution:

(a) *Outline of Terms and Conditions of the Company's Employee Share Option Plan*

Selected employee's and consultants of the Company and its subsidiaries (**Group**) and the directors (collectively the **Participants**) are eligible to participate in the ESOP at the absolute discretion of the Company's board of directors (**Board**).

The aggregate number of shares which may be issued upon the exercise of options issued pursuant to the ESOP (Plan Shares), and all other share purchase plans shall not at any time exceed:

- i. In respect of Shares over which US incentive stock options (as described in Resolution 4) may be issued, 10,000,000 (being a nominal value required to be specified by the US Internal Revenue Code) and
- ii. In respect of options issued to Australian residents, that limit imposed under ASIC Class Order [CO 03/184]

Shares allotted and issued under the Plan must rank equally in all respects with other shares from the date of allotment and issue, subject to the satisfaction of any applicable disposal restrictions.

The vesting date, expiry date, exercise price and exercise period in relation to an option issued under the ESOP are determined by the Board in its discretion.

The above is only a summary of the main features of the ESOP. A full copy of the ESOP is attached to these Explanatory Notes and marked "Annexure B".

(b) Options already issued

The Company has since adoption of its ESOP issued 9,761,000 options to acquire fully paid ordinary shares pursuant to this ESOP. Of these, 7,328,000 remain issued and outstanding.

(c) Voting Exclusion

Pursuant to Listing Rules 7.2 Exception 9 the Company will disregard any votes cast on Resolution 3 by:

- the Directors of Mesoblast (other than any director ineligible to participate in any employee incentive scheme); and
- an associate of that person (or those persons).

However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 decides.

4.3 Recommendation for Resolution 3

As the Directors of Mesoblast are excluded from voting pursuant to the Listing Rules, they make no recommendation to the shareholders in respect of the Employee Share Option Plan.

The Chairman in his capacity as proxy holder intends to vote undirected proxies in favour of approving this Resolution 3.

5. Resolution 4 – Adoption of Employee Share Option Plan to facilitate the issue of incentive stock options to residents of the United States of America

Pursuant to Resolution 3 above, the Company has adopted an employee share option plan (**ESOP**) and marked “Annexure B”. A summary of the main features of the ESOP is set out above at the Explanatory Notes to Resolution 3.

As a result of the acquisition of Angioblast, the Company has a number of employees who are US tax payers and it is in their interests and in the interests of the Company to grant those employees potentially US tax favoured options, known as incentive stock options (“ISOs”) as defined under Section 422 of the US Internal Revenue Code of 1986, as amended (the “Code”).

The ISO rules allow US\$100,000 worth of shares (based on fair market value at grant) under option, for an individual employee, to vest in any calendar year. Generally there is no tax imposed on the individual at exercise of an ISO and if the employee sells the shares acquired on a date that is more than one year after exercise and two years after grant the employee pays only long term capital gains tax.

To qualify for such potentially favourable tax treatment certain provisions of the Code are required to be followed, most importantly ISOs must be granted pursuant to a written plan approved by the Company’s shareholders within 12 months before or after the grant of ISOs and the Plan must include a cap on the aggregate number of shares that can be issued as ISOs pursuant to the Plan.

ISOs shall only be granted to employees of the Company or any parent or subsidiary corporation within the meaning of Sections 424(e) or (f) of the Code.

Thus shareholder approval to the ESOP together with confirmation of the cap of ordinary shares representing no more than 10,000,000 issued in respect of Shares over which US incentive stock options may be issued (as discussed in Resolution 3 above), including existing options already outstanding and ISOs together with existing options already outstanding under any other employee share scheme but disregarding options offered to directors of the Company, is now sought to facilitate the issue of ISOs to residents of the US under the ESOP rules.

The Board unanimously recommends that shareholders vote in favour of Resolution 4.

6. Further information

The Directors of the Company are not aware of any other information which is relevant to the consideration by members of the proposed resolutions set out in the notice of general meeting.

The Directors recommend members read these explanatory notes in full and, if desired, seek advice from their own independent financial or legal adviser as to the effect of the proposed resolutions before making any decision in relation to the proposed resolutions.

Annexure A: Director's Indemnity

In substitution for the existing Clause 28 of the Company's Constitution, the following new Clause 28 is proposed:

28 Indemnity and insurance

28.1 Definition

In this clause **Officer** means any person who is or has been an officer of the Company or of a related body corporate of the Company as officer is defined in section 9 of the Act.

28.2 Company must indemnify Officers

To the extent permitted by the Act and without limiting the powers of the Company, the Company must indemnify each Officer against all losses, liabilities, costs, charges and expenses (**Liabilities**) which results directly or indirectly from facts or circumstances relating to the person serving or having served in that capacity.

28.3 Documentary indemnity and insurance policy

To the extent permitted by the Act and without limiting the powers of the Company, the Directors may authorise the Company to, and the Company may, enter into any:

- (a) documentary indemnity in favour of; or
- (b) insurance policy for the benefit of,

an Officer of the Company, which indemnity or insurance policy shall give effect to the rights conferred by this clause 28 or the exercise of a discretion under this clause 28 in such terms as the Directors approve which are not inconsistent with this clause 28 and, in particular, may apply to acts or omissions prior to or after the time of entering into the indemnity or policy.

28.4 Limit on liability

The indemnity in clause 28 does not operate in respect of any Liability of the Officer to the extent that Liability is covered by insurance.

28.5 Extent of indemnity

The indemnity in clause 28:

- (a) is enforceable without the Officer having first to incur any expense or make any payment; and
- (b) applies to Liabilities incurred both before and after the adoption of this Constitution.

28.6 Savings

Subject to the Act, nothing in this clause 28:

- (a) affects any other right or remedy that a person to whom this clause applies may have in respect of any Liability referred to in this clause;
- (b) limits capacity of the Company to indemnify or provide or pay for insurance for any person to whom this clause 28 applies; or

- (c) limits or diminishes the terms of any indemnity conferred or agreement to indemnify entered into prior to the adoption of this Constitution.

28.7 Indemnity continues

The benefit of each indemnity given in this clause 28 continues, even if its terms or the terms of this clause 28 are modified or deleted, in respect of a liability arising out of acts, omissions or events occurring prior to the modification or deletion.

Rules of Employee Share Option Plan

Mesoblast Limited
ACN 109 431 870

Middletons Lawyers

Melbourne office
Ref:LDM.LGT.1753918

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Mesoblast Limited Employee Share Option Plan

1. The plan

The purpose of the Plan is to provide Eligible Employees with an incentive to remain with the Group and to improve the longer-term performance of the Company and its return to shareholders. It is intended that the Plan will enable the Group to retain and attract skilled and experienced employees and provide them with the motivation to make the Group more successful.

2. Eligibility

The Board may determine at any time that any Eligible Employee is not entitled to participate in the Plan if the Eligible Employee's participation would be unlawful.

3. Participation

3.1 Invitation to participate

Subject to these rules, the Board may invite any Eligible Employee selected by it to participate in the Plan.

3.2 Letter of offer to participate

The Board must give to each Eligible Employee invited to participate in the plan, a letter of offer to participate, together with the following information relating to the Options allocated to the Eligible Employee:

- (a) the date of grant or intended date of grant;
- (b) the total number of Options to be granted;
- (c) the Exercise Period;
- (d) the Exercise Price or the method of determining the Exercise Price;
- (e) the Exercise Conditions attaching to the Options (if any);
- (f) the Disposal Restrictions attaching to any Shares issued on exercise (if any);
- (g) the Forfeiture Conditions attaching to the Options (if any);
- (h) any other terms and conditions relating to the grant which, in the opinion of the Board, are fair and reasonable but not inconsistent with these rules;
- (i) in respect of the initial grant made to an Eligible Employee, a summary, or a copy of these rules; and
- (j) any other information or documents required to be notified by the Corporations Act or the Listing Rules.

3.3 Participant bound by application form, rules and constitution

By completing and returning the Application Form, a Participant agrees to be bound by the terms of the Application Form, these rules and the Constitution.

4. Grant of options

4.1 Grant of options

The Board may grant Options to a Participant on acceptance of a duly signed and completed Application Form.

4.2 No payment for options

Unless otherwise determined by the Board, no payment is required for the grant of Options under the Plan.

4.3 Options non-transferable

An Option granted under the Plan is not capable of being transferred or encumbered by a Participant, unless the Board determines otherwise. The Company has no obligation to apply for quotation of the Options on the ASX.

4.4 Option certificate

The Company must issue a Certificate to a Participant in respect of the Options granted to that Participant. The Company must comply with the provisions of the Constitution, the Listing Rules and the Corporations Act relating to the issue of the Certificate.

4.5 Limit on issues of new shares

The number of Shares that would be issued were Options granted under this rule 4 to be exercised, when aggregated with the number of Shares that would be issued were each outstanding offer or option to acquire unissued shares, being an offer made or option acquired pursuant to the Plan or any other employee share scheme extended only to employees or directors of the Group, to be accepted or exercised (as the case may be), disregarding any offer made, or option acquired or share issued by way of or as a result of an offer to directors of the Company, must not exceed:

- a) In respect of Shares over which US incentive stock options may be issued 10,000,000 and
- b) In respect of options issued to Australian residents, that limit imposed under ASIC Class Order [CO 03/184]

5. Exercise of options

5.1 Manner of exercise of options

The exercise of any Option granted under the Plan may only be effected in such form and manner as the Board may prescribe.

5.2 Exercise conditions

Subject to rules 5.3 and 6, an Option granted under the Plan may only be exercised:

- (a) if all the Exercise Conditions have been met;
- (b) if the Exercise Price has been paid to the Company or as the Company may direct; and
- (c) within the Exercise Period relating to the Option.

An Option granted under the Plan may not be exercised once it has lapsed.

5.3 Control event

Notwithstanding rule 5.2, the Board may determine that an Option may be exercised, whether or not any or all applicable Exercise Conditions have been met, on the occurrence of a Control Event.

5.4 Issue or transfer of shares on exercise

Following exercise of an Option by a Participant, the Company must, within such time as the Board determines, allot and issue or procure the transfer to the Participant of the number of Shares in respect of which the Option has been exercised, credited as fully paid.

5.5 Shares rank equally

Subject to the satisfaction of any applicable Disposal Restrictions, Shares allotted and issued under the Plan must rank equally in all respects with all other Shares from the date of allotment and issue, including:

- (a) voting rights; and
- (b) entitlements to participate in:
 - (i) distributions and dividends; and
 - (ii) future rights issues and bonus issues,

where the record date for determining entitlements falls on or after the date of allotment and issue.

5.6 Quotation on ASX

The Company must apply for quotation on the official list of the ASX of Shares allotted and issued on the exercise of Options as soon as practicable after the allotment and issue of those Shares, so long as Shares are quoted on the official list of ASX at that time.

5.7 Financial assistance

The Company may financially assist a person to pay for the grant of an Option, to pay any Exercise Price for an Option or to acquire Shares under the Plan, subject to compliance with the provisions of the Corporations Act and the Listing Rules relating to financial assistance.

6. Cessation of appointment/employment and lapsing of options

6.1 Resignation, retirement, redundancy, Permanent Disability and death

If a Participant ceases to be appointed as director or employed by any member of the Group due to his or her death, resignation, retirement, retrenchment by reason of redundancy or Permanent Disability:

- (a) all Options granted to that Participant as at the date of cessation which are Vested Options may be exercised by that Participant in the 60 day period following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which those Vested Options will lapse; and
- (b) all other Options granted to that Participant will lapse on the date of cessation, unless the Board determines otherwise, in which event the Board will determine the period within which those other Options may be exercised following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which those other Options will lapse.

6.2 Cessation for any other reason

If a Participant ceases to be appointed or employed by any member of the Group for any reason other than those contemplated by rule 6.1:

- (a) all Options granted to that Participant as at the date of cessation which are Vested Options will lapse on the date of cessation, unless the Board determines otherwise, in which event the Board will determine the period within which those other Options may be exercised following the date of cessation of appointment or employment (and the Exercise Period is amended accordingly), after which those other Options will lapse; and
- (b) all other Options granted to that Participant will lapse as at the date of cessation.

6.3 Liquidation

On Liquidation, all Options which are not Vested Options will lapse.

6.4 Fraud

If, in the opinion of the Board, a Participant (or, where a Participant is a person nominated by an Eligible Employee, the employee or director who nominated the Participant) has acted fraudulently or dishonestly, the Board may determine that any Option granted to that Participant should lapse, and the Option will lapse accordingly.

6.5 Forfeiture conditions

An Option will lapse on the occurrence of a Forfeiture Condition relating to that Option, unless the Board determines otherwise.

6.6 Lost Options

A Participant may submit a request to the Board that an Option granted to that Participant should lapse. On receipt of that request, the Board may determine that the Option should lapse, in which case the option will lapse accordingly.

6.7 End of exercise period

If an Option has not lapsed earlier in accordance with this rule 6, it will lapse at the end of the Exercise Period.

7. Changes in circumstances

7.1 Reconstruction

In the event of any reconstruction (including consolidation, subdivision, reduction, capital return, buy back or cancellation) of the share capital of the Company, the number of Options to which each Participant is entitled and/or the Exercise Price of those Options must be reconstructed in accordance with the Listing Rules. Options must be reconstructed in a manner which will not result in any additional benefits being conferred on Participants which are not conferred on other shareholders of the Company.

7.2 Participation in new issues

Subject to the Listing Rules, a Participant is only entitled to participate (in respect of Options granted under the Plan) in a new issue of Shares to existing shareholders generally if the Participant has validly exercised his or her Options within the relevant Exercise Period and become a Shareholder prior to the relevant record date, and is then only entitled to participate in relation to Shares of which the Participant is the registered holder.

7.3 Adjustment to exercise price - rights issues

Subject to the Listing Rules, if there is a Pro Rata Issue (except a Bonus Issue) to the holders of Shares, the Exercise Price of an Option will be reduced according to the following formula:

$$O' = O - \frac{E[P - (S + D)]}{N+1}$$

where:

- O' = the Exercise Price immediately following the adjustment;
- O = the Exercise Price immediately prior to the adjustment;
- E = the number of Shares into which one Option is exercisable;
- P = the average market price per Share (weighted by reference to volume) during the 5 trading days ending on the day before the ex rights date or ex entitlements date;
- S = the subscription price for a Share under the Pro Rata Issue;
- D = any dividend due but not yet paid on a Share (except any Share to be issued under the Pro Rata Issue); and
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

7.4 Adjustment to number of underlying securities - bonus issues

Subject to the Listing Rules, if there is a Bonus Issue to the holders of Shares, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the Bonus Issue.

8. Amendment

Subject to the Listing Rules, these rules may be amended or supplemented by resolution of the Board. Unless the resolution of the Board expressly states otherwise, any amendment or supplement to these rules will not apply to any Options granted under these rules which have not yet been exercised.

9. Powers of the Board

9.1 Powers of the Board

The Plan will be managed by the Board, which will have power to:

- (a) determine appropriate procedures for the administration of the Plan consistent with these rules;
- (b) resolve conclusively all questions of fact or interpretation arising in connection with the Plan;
- (c) determine matters falling for determination under these rules in its discretion having regard to the interests of and for the benefit of the Company;
- (d) exercise the discretions conferred on it by these rules or which may otherwise be required in relation to the Plan; and
- (e) delegate to any one or more persons (for such period and on such conditions as it may determine) the exercise of any of its powers or discretions arising under the Plan.

9.2 Indemnification

The Company must indemnify, and keep indemnified, to the full extent permitted by law, each person who is or has been a director or alternate director of the Company against all proceedings, actions, claims, demands, losses, liabilities, damages, costs and expenses which may be made, brought against, suffered or incurred by the person arising directly or indirectly out of or in connection with the administration of the Plan.

9.3 Commencement of Plan

The Plan will take effect on and from such date as the Board may resolve.

9.4 Termination or suspension of Plan

The Board may terminate or suspend the operation of the Plan at any time.

9.5 Resolution to terminate, suspend, supplement or amend

In passing a resolution to terminate or suspend the operation of the Plan or to supplement or amend these rules, the Board must consider and endeavour to ensure that there is fair and equitable treatment of all Participants.

10. Powers of the administrator

10.1 Appointment of administrator

The Board may appoint an Administrator and may determine the terms and conditions of the Administrator's appointment. The Board may remove the Administrator.

10.2 Role of administrator

The Administrator must administer the Plan in accordance with these rules and any procedures determined by the Board and agreed to as between the Board and the Administrator.

11. Contracts of employment and other employment rights

11.1 Discretion of board

It is a condition of these rules that the Plan may be terminated at any time at the discretion of the Board and that no compensation under any employment contract will arise as a result.

11.2 No right to grant of options

Participation in the Plan does not confer on any Eligible Employee any right to a grant of Options.

11.3 Calculation of employee benefits

The value of the Options do not increase a Participant's income for the purpose of calculating any employee benefits.

11.4 No right to future employment etc.

Participation in the Plan does not confer on any Participant any right to future employment and does not affect any rights which the Company may have to terminate the employment of any Participant.

11.5 Acknowledgment by Participant

It is acknowledged and accepted by each Participant that the terms of the Plan do not form part of the terms and conditions of the Participant's employment contract, nor do the terms of the Plan constitute a contract or arrangement (including any related condition or collateral arrangement) in relation to the Participant's employment contract.

12. Connection with other plans

Unless the Board otherwise determines, participation in the Plan does not affect, and is not affected by, participation in any other incentive or other plan operated by the Company unless the terms of that other plan provide otherwise.

13. Notices

Any notice or direction given under these rules is validly given if it is handed to the person concerned or sent by ordinary prepaid post to the person's last known address or given in any reasonable manner which the Board from time to time determines.

14. General

Notwithstanding any rule, Shares may not be allotted and issued, acquired, transferred or otherwise dealt with under the Plan if to do so would contravene the Corporations Act, the Listing Rules, or any other applicable laws.

15. Plan costs

15.1 Plan Costs

Unless otherwise determined by the Board, the Company must pay all costs, charges and expenses relating to the establishment and operation of the Plan, including all costs incurred in or associated with an allotment, issue or acquisition of Shares for the purposes of enabling Participants to exercise Options granted to them under the Plan.

15.2 Reimbursement

The Company and any Associated Body Corporate of the Company may provide money to the trustee of any trust or any other person to enable them to acquire Shares to be held for the purposes of the Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by the Corporations Act. In addition, the Company may require any Associated Body Corporate to enter into any other agreement or arrangement as it considers necessary to oblige that Associated Body Corporate to reimburse the Company for any amounts paid by the Company in connection with this Plan, directly or indirectly, in relation to any employee or director of that Associated Body Corporate.

16. Overseas eligible employees

The Company at the Board's discretion may:

- (a) grant options to Eligible Employees and Participants who are resident outside of Australia; and
- (b) make regulations for the operation of the Plan which are not inconsistent with these rules to apply to Eligible Employees and Participants who are resident outside of Australia.

17. Governing law

The laws of Victoria, Australia, govern these rules.

18. Definitions and interpretation

18.1 Definitions

In this document, unless the context requires otherwise:

Accounting Standards means the Australian Accounting Standards from time to time and if and to the extent that any matter is not covered by Australian Accounting Standards means generally accepted accounting principles applied from time to time in Australia for a business similar to the Business.

Administrator means the person (if any) selected by the Board to carry out the day to day administration of the Plan as contemplated by rule 10.1.

Application Form means the form that the Board determines is to be used by an Eligible Employee to apply for Options under the Plan.

Associated Body Corporate of the Company means each:

- (a) related body corporate of the Company, within the meaning of section 50 of the Corporations Act;
- (b) body corporate that has voting power in the Company of not less than 20%; or
- (c) body corporate in which the Company has voting power of not less than 20%,

where “voting power” has the meaning in section 610 of the Corporations Act.

ASX means Australian Stock Exchange Limited (ACN 008 624 691).

Board means the board of directors of the Company or a committee appointed by the board of directors of the Company.

Bonus Issue means a Pro Rata Issue of Shares to holders of Shares for which no consideration is payable by them.

Certificate means, in relation to a Participant, the certificate or holding statement (in a form approved by the Board) issued to the Participant which discloses the number of Options entered in the register of Option holders in the name of the Participant.

Company means Mesoblast Ltd ACN 109 431 870.

Constitution means the constitution of the Company.

Control of an entity means having the right:

- (a) to vote 50% (or more) of the votes that can be cast on the election or removal of the entity’s directors;
- (b) to appoint or remove directors who possess 50% (or more) of the votes exercisable by all directors of the entity; or
- (c) to 50% (or more) of the profits or distributions of the entity or of its net liquidation proceeds.

For this definition, if the entity does not have a board of directors, ‘director’ means a member of the entity’s governing body with a role similar to a board of directors.

Control Event means any of the following:

- (a) an offer is made by a person for the whole of the issued ordinary share capital of the Company (or any part as is not at the time owned by the offeror or any person acting in concert with the offeror) and after announcement of the offer the offeror (being a person who did not Control the Company prior to the offer) acquires Control of the Company;
- (b) any other event occurs which causes a change in Control of the Company; or
- (c) any other event which the Board reasonably considers should be regarded as a Control Event.

Corporations Act means *Corporations Act 2001 (Cth)*.

Disposal Restrictions means, in relation to an Option, the restrictions (if any) determined by the Board that are required to be satisfied before a Share acquired as a result of the exercise of the Option by the Participant can be sold, transferred or otherwise dealt with by a Participant.

Eligible Employee means an employee or a director of any member of the Group who is determined by the Board to be an Eligible Employee for the purposes of the Plan, or any other person who is determined by the Board to be an Eligible Employee for the purposes of the Plan.

Exercise Conditions means, in relation to an Option, the period of time, performance hurdles and other conditions (if any) determined by the Board that are required to be satisfied before the Option can be exercised.

Exercise Period means, in relation to an Option, the period in which the Option may be exercised specified by the Board under rule **Error! Reference source not found.**, subject to any variation under rules 5.3 and 6.

Exercise Price means the price per share that needs to be paid in order for the option to convert to ordinary shares of the company, and will be determined by the Board, and will be subject to any adjustment under rule 7.3.

Forfeiture Conditions means, in relation to an Option, the conditions (if any) determined by the Board that will result in the Option lapsing if satisfied.

Group means the Company and each Associated Body Corporate of the Company.

IPO Price means the price per Share at which Shares are offered under the prospectus issued in connection with the initial public offering of Shares in the Company.

Liquidation means the passing of a resolution for voluntary winding up, or the making of an order for the compulsory winding up of the Company.

Listing Rules means the listing rules (as defined in the Corporations Act) made or adopted by the ASX.

Market Price means, in relation to an Option, the volume weighted average market price of Shares sold on the ASX on the 5 trading days immediately before the date of determination.

Option means a right to subscribe for or acquire a Share, subject to any adjustment under rule 7.4.

Participant means an Eligible Employee who has been invited to participate in the Plan and any other person who is nominated by that Eligible Employee (following receipt of an invitation by the Board under rule 3.1) and who is determined by the Board to be a Participant for the purposes of the Plan.

Permanent Disability means, in relation to a Participant, the inability, by reason of physical condition, mental illness or accident, of the Participant to perform substantially all of the duties of the position in which the Participant has been employed or appointed (as determined by the Board).

Plan means the Mesoblast Limited Employee Share Option Plan established and operated in accordance with these rules.

Pro Rata Issue means an issue which has been offered to all holders of Shares on a pro rata basis.

Share means a fully paid ordinary share in the capital of the Company.

Vested Option means an Option in respect of which all Exercise Conditions have been met or which are otherwise exercisable (including as contemplated by rules 5.3 and 6).

18.2 Interpretation

In these rules, unless the context otherwise requires:

- (a) a reference to any thing (including an amount or a provision of this document) is a reference to the whole and each part of it;
- (b) the singular includes the plural, and vice versa;
- (c) the word 'person' includes an individual, a body corporate, a firm, an unincorporated body, a society, an association and an authority;
- (d) a reference to a particular person includes their legal personal representatives, administrators, successors, substitutes and permitted assigns;
- (e) a reference to 'costs' includes charges, expenses and legal costs;
- (f) a reference to a "rule" or "these rules" is to the rule or these rules (as the case may be) as amended or replaced;
- (g) a reference to the Constitution includes a reference to any provision having substantially the same effect which is substituted for or replaces the Constitution;
- (h) where a Participant is a director of any member of the Group, but is not also an employee of any member of the Group, a reference to the employment with any member of the Group of that Participant is a reference to that Participant holding office as a director of any member of the Group;
- (i) where a Participant is a person nominated by an Eligible Employee, a reference to the employment with any member of the Group of that Participant is a reference to the employment with any member of the Group of that Eligible Employee;
- (j) a Participant does not cease to be employed by any member of the Group where the Participant ceases to be employed by one member of the Group but commences employment with another member of the Group provided that the new employment commences within 60 days from the date of termination or such other period as the Board may determine by notice in writing;
- (k) a reference to 'law' means statute law, common law and equitable principles;
- (l) a reference to a particular law includes that law and any subordinate legislation (such as regulations) under it, in each case as amended, replaced, re-enacted or consolidated;
- (m) a reference to an accounting term is to that term as it is used in the Accounting Standards;
- (n) a reference to 'dollars', '\$' or 'A\$' is to the lawful currency of Australia;
- (o) a time means that time in Melbourne, Australia;

- (p) a reference to a day or a month means a calendar day or calendar month;
- (q) if a period of time starts from a given day (or event), it is to be calculated exclusive of that day (or the day the event occurs);
- (r) the masculine includes the feminine, and vice versa;
- (s) the meaning of any general language is not restricted by any accompanying example and the words 'includes', 'including' 'such as' or 'for example' (or similar phrases) are not words of limitation; and
- (t) headings in this document are for convenience only and do not affect its meaning.

If (but for this rule) a provision of this document would be illegal, void or unenforceable or contravene the law, this document is to be interpreted as if the provision was omitted.



By mail: Mesoblast Limited C/- Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia



By fax: +61 2 9287 0309



All enquiries to: Telephone: 1300 554 474 Overseas: +61 2 8280 7111

SHAREHOLDER VOTING FORM

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

STEP 1

APPOINT A PROXY

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 shareholder) 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 and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 11:00am on Monday, 29 November 2010, at Middletons Lawyers, Rialto South Tower, Level 25, 525 Collins Street, Melbourne, Victoria and at any adjournment or postponement of the meeting.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. Please read the voting instructions overleaf before marking any boxes with an X

STEP 2

VOTING DIRECTIONS

Resolution 1

Adoption of Remuneration Report (Non-Binding Resolution)

For [] Against [] Abstain* []

Resolution 3

Approval of Employee Share Option Plan

For [] Against [] Abstain* []

Resolution 2

Amend the Constitution (Director's Indemnity)

For [] Against [] Abstain* []

Resolution 4

Approval of Employee Share Option Plan to facilitate the issue of incentive stock options to residents of the United States of America

For [] Against [] Abstain* []

* 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.

STEP 3

IMPORTANT - VOTING EXCLUSIONS

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 Resolution 3 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 that Resolution and that votes cast by him/her for that Resolution, 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 Resolution 3 and your votes will not be counted in calculating the required majority if a poll is called on this Resolution. The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 3.

STEP 4

SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder'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 company's constitution and the Corporations Act 2001 (Cth).



HOW TO COMPLETE THIS PROXY FORM

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.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. 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 Step 1. 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.

Votes on Items of Business - Proxy Appointment

You may 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.

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 and return them both together.

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.

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 shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge 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.

Corporate Representatives

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 in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's share registry.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 11:00am on Saturday, 27 November 2010, 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:



ONLINE >

www.linkmarketservices.com.au

Select the 'Proxy Voting' option on the top right of the home page. Choose the company you wish to lodge your vote for from the drop down menu, enter your holding details as shown on this form, and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



by mail:

Mesoblast Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:

+61 2 9287 0309



by hand:

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

**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.**