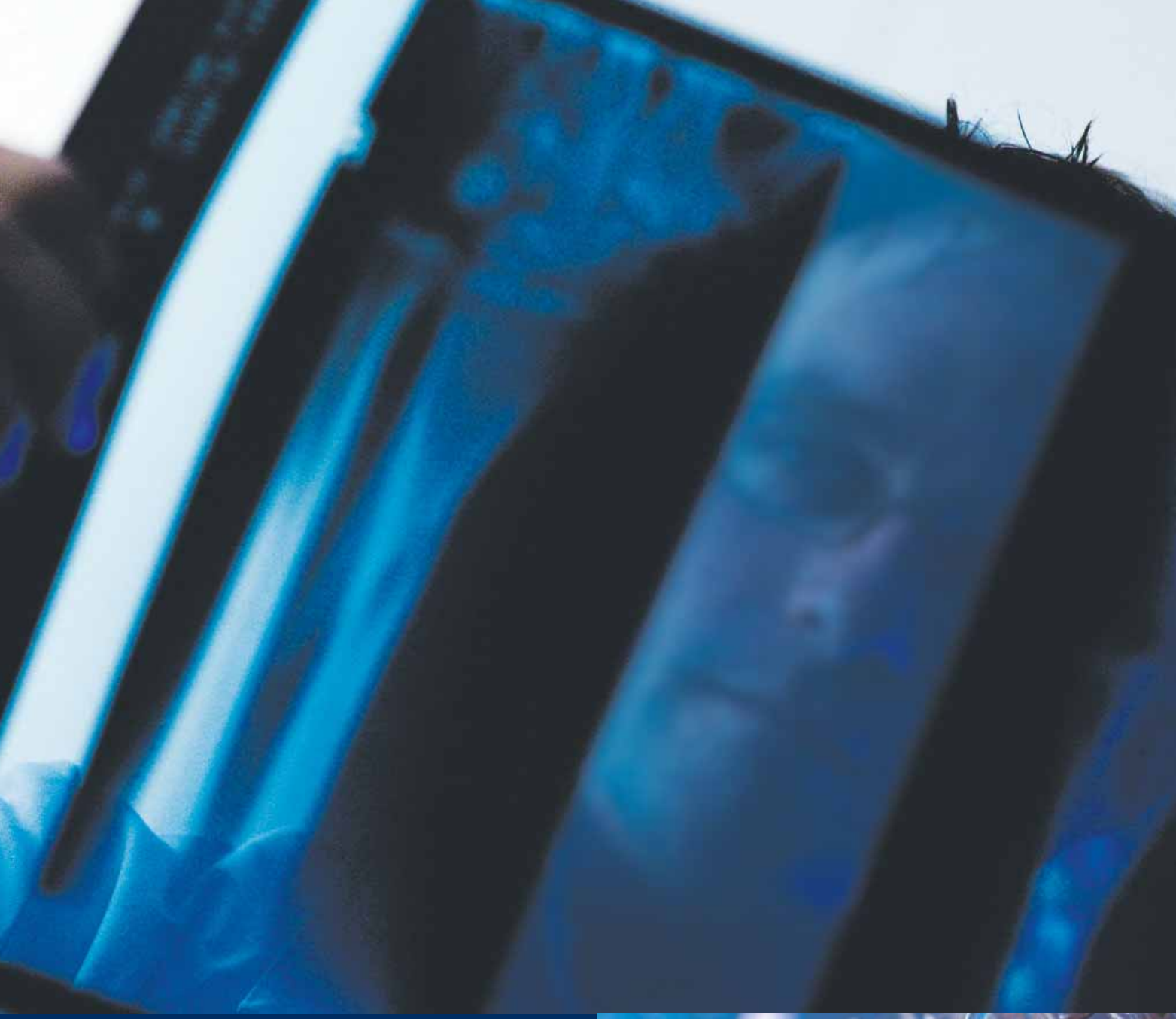

mesoblast

Mesoblast Limited

ACN 109 431 870

Mesoblast Limited is seeking to raise $21,000,000 by the issue of 42,000,000 shares at $0.50 per share

Underwriter and Lead Broker to the Issue: Lodge Partners Pty Ltd

An investment in Shares in Mesoblast Limited should be regarded as speculative. There is no guarantee of any dividends, capital returns or the market price for Shares of Mesoblast. Potential investors should consult their accountant, solicitor or other professional adviser for assistance.

Corporate Directory

Directors
Michael Spooner (Chairman)
Professor Silviu Itescu
Donal O'Dwyer
Byron McAllister

Secretary and CFO
Kevin Hollingsworth

Joint Scientific Advisory Board
Professor Robert Graham
Professor Henry Krum
Professor Richard Gilbert
Professor Steven Graves

Registered Office
Level 1, 843A Glenhuntly Road
Caulfield South, Victoria 3162

Share Registry
ASX Perpetual Registrars Limited
Level 4, 333 Collins Street
Melbourne, Victoria 3000

Home Stock Exchange
Australian Stock Exchange Ltd
530 Collins Street
Melbourne, Victoria 3000

Underwriter and Lead Broker
Lodge Partners Pty Ltd
Level 3, 405 Collins Street
Melbourne, Victoria 3000

Auditors
PKF Chartered Accountants
Level 11, 485 La Trobe Street
Melbourne, Victoria 3000

Independent Accountants
PKF Corporate Advisory Services (Vic) Pty Ltd
Level 11, 485 La Trobe Street
Melbourne, Victoria 3000

Australian Patent Attorneys
F B Rice & Co
Patent Attorneys
139-141 Rathdowne Street
Carlton, Victoria 3053

Australian Legal Advisers
Middletons Lawyers
Level 29, 200 Queen Street
Melbourne, Victoria 3000

US Legal Advisers
Gibson Dunn & Crutcher LLP
200 Park Avenue, New York
New York, USA 10166-0193

Important Information

This Prospectus is dated 16 November 2004.

A copy of this Prospectus was lodged with ASIC on 16 November 2004. Neither ASIC nor ASX or any of their officers, take any responsibility for the contents of this Prospectus. No applications for Shares will be accepted nor will any Shares be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

The Corporations Act prohibits the acceptance of Applications during the period of 7 days after lodgement of this Prospectus (which may be extended by ASIC to a period of 14 days). This period is referred to as the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the opening of the Offer. Applications received during the Exposure Period will not be accepted until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period. If any deficiencies are identified in this Prospectus during the Exposure Period, any Application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act. This Prospectus will be made generally available during the Exposure Period at http://www.mesoblast.com.au and http://lodgepartners.com.au.

Investors can only apply for Shares using the Application Form included in this Prospectus. The Application Form must not be handed on to any member of the public unless it is attached to this Prospectus.

Please refer to section 11 for definitions of terms and expressions used in this Prospectus.

If you have any Questions

If after reading this Prospectus, you do not fully understand it or the rights attaching to the Shares offered by it, you should consult an accountant, solicitor or other professional adviser for assistance.

Disclaimer

The Offer does not take into account the investment objectives, financial situation and particular needs of investors. It is important that investors read this Prospectus in its entirety before deciding to invest in Mesoblast and, in particular, in considering the prospects for Mesoblast, that they consider the risk factors that could affect the performance of Mesoblast. Investors should carefully consider these factors in the light of their personal circumstances (including financial and taxation issues) and seek professional guidance from their stockbroker, solicitor, accountant or other professional adviser before deciding whether to invest. Some risk factors that investors should consider are outlined in section 7.

No person is authorised to give any information or to make any representation in connection with the Offer and issue of the Shares described in this Prospectus, which is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by Mesoblast in connection with the Offer.

Neither Mesoblast nor any of its Directors or any other party associated with the preparation of this Prospectus guarantees that any specific objective of Mesoblast will be achieved or that any particular performance of Mesoblast or of its Shares, including those offered by this Prospectus, will be achieved.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. This Prospectus has not been, nor will it be, lodged, filed or registered with any regulatory authority under the securities laws of any country other than Australia.

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Message from the Chairman

Dear Investors,

On behalf of the board of Directors, it is with great pleasure that I invite you to become a shareholder of Mesoblast Limited.

During our lives we will all most likely suffer from complications associated with accidents, degenerative disease or just old age. These complications usually affect our bones and joints which in turn may severely limit our mobility and quality of life.

Mesoblast is a biotechnology company committed to the commercialisation of a unique adult stem cell technology with specific application in the regeneration of bone and cartilage. The technology has already achieved outstanding results in recent *in vivo* studies.

The whole field of adult stem cell technology is very exciting and rapidly evolving. Our technology has been developed over a period of more than ten years by the prestigious Institute of Medical and Veterinary Sciences and the Hanson Institute in Adelaide, Australia. Mesoblast has a proprietary world-wide licence for the ongoing development and commercialisation of this technology for orthopaedic applications including the repair and regeneration of cartilage for joints and backs as well as the repair of large bone fractures. These conditions are very common and greatly impact on both quality of life and cost to the community.

Mesoblast's strategy is to minimise corporate costs and intelligently outsource to world leading institutions a majority of the work necessary to bring the technology to market in orthopaedic applications. We intend to utilise these resources to deliver medical milestones, to meet rigorous timelines and to progressively enhance shareholder value.

Our Board of Directors and management are exceptionally experienced with substantial and relevant international capability in delivering and commercialising biotechnology. Mesoblast's human capital is well demonstrated by its scientific founder, Professor Silviu Itescu, who is a recognised world authority in adult stem cell therapy.

In addition Mesoblast will acquire a 33.3% interest in Angioblast Systems Inc. Angioblast is an American company primarily focused on developing products for the cardiovascular markets. Furthermore, Angioblast owns the intellectual property rights for the adult stem cell platform technology licensed to Mesoblast.

Clearly the funds raised as a result of this Offer will not be sufficient to deliver regulatory approval to sell the product in our targeted markets. Rather, we the Board of Directors and management believe that the funds raised will enable the Company to advance the development of the technology over the next 2 to 3 years to the stage of investigational new drug (IND) approval, thereby crystallizing shareholder value and opening opportunities to licence the technology to major international corporations in these lucrative fields.

An investment in Mesoblast involves a number of risks but also provides an opportunity to participate in this exciting technology which stands to benefit us all. On behalf of the Board of Directors, I commend this Offer to you and recommend that you read this Prospectus in full.

I very much look forward to welcoming you as a shareholder of Mesoblast.

Yours faithfully

Michael Spooner
Chairman
Mesoblast Limited

Investment Highlights

Please note investors should also read the Risk Factors outlined in section 7 of this Prospectus before deciding to invest in Shares in the Mesoblast. The following is only a summary of some of the key investment features of investing in Shares in Mesoblast -

- **Leading Adult Stem Cell Technology**

  Mesoblast is commercialising leading proprietary Adult Stem Cell Technology for Orthopaedic Applications. The Technology has been developed over a ten-year period by the prestigious Institute of Medical and Veterinary Sciences and the Hanson Institute Adelaide, and has already achieved outstanding results in recent *in vivo* studies.

- **Compelling Advantages**

  The Adult Stem Cell Technology has a number of compelling commercial and technological advantages, including:

  (a) numerous commercial applications for diseases with large potential markets and unmet clinical needs;

  (b) up to a 1000-fold increase in the purity of the initial stem cell starting material relative to competing technologies;

  (c) the potential for production of universal donor cells whereby the stem cells extracted from one donor can be purified, expanded and injected into multiple recipients without fear of rejection;

  (d) rapid cell culture and expansion to produce commercially viable quantities in a cost efficient environment;

  (e) a commercial model which delivers a universal and scaleable "off-the-shelf" product comparable to a pharmaceutical commercial model;

  (f) advantages over embryonic stem cell technologies, such as absence of ethical concerns surrounding embryo creation and destruction, lower risk of cancer formation, quicker and less costly to culture, no immune rejection.

- **Licence for Orthopaedic Applications**

  Mesoblast has a proprietary world-wide licence (Orthopaedic Licence) to develop and commercialise the Adult Stem Cell Technology for Orthopaedic Applications. These applications include the treatment of some of the most common diseases and injuries to confront the western medical system, such as bone fractures and cartilage degeneration of knee and vertebrae.

- **Significant Investment in Cardiovascular and Other Applications**

  From the proceeds of this Offer, Mesoblast will invest up to $10m (in tranches) to acquire 33.3% of Angioblast Systems Inc., a US-based corporation which owns the Adult Stem Cell Technology platform. Angioblast is commercialising the Technology for cardiovascular and other applications, including the repair and regeneration of heart muscle and growth of new blood vessels for peripheral arterial disease and skin ulcers. These funds will be specifically used by Angioblast to further develop and commercialise the cardiovascular applications of the Technology, giving a significant and positive impact on Mesoblast.

- **Focused Development Plan and Commercial Strategy**

  The focus of Mesoblast and Angioblast will be to deliver an Orthopaedic and a Cardiovascular Investigational New Drug (IND) approval from the Food and Drug Administration in the United States within 2-3 years. In gaining INDs in separate fields, it is anticipated that significant shareholder value will be delivered. Once IND approvals are obtained, the companies will also be ideally positioned to seek significant strategic partnership opportunities with major industry players.

- **Experienced Scientific Founder and Board of Directors**

  Professor Itescu is the founder of both Mesoblast and Angioblast and is a Director and Chief Scientific Adviser to each company. An acknowledged authority in adult stem cell therapies, Professor Itescu is based at New York's Columbia University and is also on the faculty of Melbourne University. He has advised the United States FDA committee which evaluates IND applications relating to stem cell technologies. The balance of the Mesoblast and Angioblast Boards comprise biotechnology, pharmaceutical and regulatory professionals experienced in the global commercialisation of medical technology including the former Managing Director & CEO of Ventracor Limited, world-wide President of the Cardiology Division of Johnson and Johnson's Cordis Corporation, Vice President, Worldwide Quality Assurance, for the Ares-Serono Group, and CEO of Knoll Pharmaceuticals Inc.

- **Eminent Scientific Advisory Board**

  The joint Scientific Advisory Board for Mesoblast and Angioblast comprises some of the world's key opinion leaders in the fields of orthopaedic, cardiovascular, diabetes and stem cell therapies.

- **Attractive Pricing**

  Based on the Issue Price of $0.50 per share, the Offer will raise $21 million and on listing, at the Issue Price, Mesoblast will have a market capitalisation of $46.755 million.

- **Underwritten Offer**

  The Offer is fully underwritten by Lodge Partners Pty Ltd.

1 Offer Summary

1.1 The Offer

Under the Offer a total of 42 million Shares are being offered to the public for subscription at an issue price of $0.50 each, payable in full upon subscription.

This Offer is fully underwritten and will raise $21 million, which is both the minimum and maximum subscription under this Prospectus.

No Shares will be allotted or issued until the minimum subscription has been received and if Mesoblast does not receive the minimum subscription within 4 months of the issue of this Prospectus, all Application monies will be refunded in full without interest.

1.2 Indicative Key Dates

Prospectus lodged with ASIC	16 November 2004
Opening Date	24 November 2004
Closing Date	10 December 2004
Expected date for dispatch of transaction confirmation statements	15 December 2004
Expected date for Official Quotation	17 December 2004

Mesoblast in consultation with the Underwriter expressly reserve the right to vary the Offer dates, or may decide to withdraw or otherwise not proceed with the Offer, without prior notice. If the Offer does not proceed the Application money will be returned to the Applicants without interest.

1.3 Purpose of the Offer

The purposes for the capital raising are to enable:

(a) Mesoblast to acquire a 33.3% interest in Angioblast Systems Inc;

(b) Mesoblast to obtain investigational new drug (IND) approval in relation to an Orthopaedic Application of the proprietary Adult Stem Cell Technology; and

(c) Angioblast to obtain investigational new drug (IND) approval in relation to Cardiovascular Applications of the proprietary Adult Stem Cell Technology.

1.4 Use of IPO Funds

Mesoblast will raise $21 million from the issue of Shares under this Offer. It is intended that the $21 million raised under this Offer will be used by Mesoblast as summarised in the table below:

Use of Funds by Mesoblast	**$A (million)**
Acquisition of 33.3% of Angioblast	10.00
Mesoblast contribution to the Expenditure Program (as detailed in section 1.5)	7.65
Working capital	1.50
Expenses of the Offer	1.85
Total funds	21.00

In addition to the IPO funds of $21 million, Mesoblast has raised approximately $1.1 million from its Existing Investors (see section 9.6). This funding from the Existing Investors provides additional working capital to that detailed in the above table.

Mesoblast has sufficient working capital to carry out its objectives stated in this Prospectus.

1.5 Expenditure Program

The total Expenditure Program outlined below is to be met jointly by Mesoblast and Angioblast, with the objective of obtaining investigational new drug (IND) approvals for the Adult Stem Cell Technology, in the case of Mesoblast in an Orthopaedic Application and in the case of Angioblast in a Cardiovascular Application.

Mesoblast will fund its contribution of $7.65 million to this Expenditure Program as outlined in section 1.4. Angioblast will fund its contribution to the Expenditure Program using the investment funds ($10 million) it receives from Mesoblast (as referred to in section 1.4).

Description	**Anticipated Expenditure ($million)**
GMP antibody manufacturing	1.676
GMP cell culture process and scale-up	6.264
Pre-clinical toxicology and safety	3.089
Autologous human clinical trials	1.546
Regulatory costs and patent expenses	0.997
Provisioning for additional research activities	3.159
Total	**16.731**

The expenses of pre-clinical development through to IND applications will be shared between Mesoblast and Angioblast as the Adult Stem Cell Technology provides in part a common platform for the specific applications for each company. This is expected to result in significant cost savings for both companies.

This anticipated expenditure program may vary from the actual expenditure incurred by the companies, reflecting the results of pre-clinical and clinical work as they come to hand.

1.6 Capital Structure

Following the completion of the Offer the shareholding structure in Mesoblast will be as follows:

Category	Number of Ordinary Shares	% Ownership Interest
New Shareholders under this Offer	42 million	44.91%
Existing Investors *	51.51 million	55.09%
Total number of Shares on issue after the Offer	93.51 million	100%
Market capitalisation at the Offer Price	$46.755 million	

* On completion of the Offer, the Existing Investors' preference shares convert to ordinary shares in the Company.

In addition the following options have been or are to be granted after the close of the Offer:

Category	Number of Options	Exercise Price	Expiry Date
Existing Investors	4.32 million	55 cents	5 years after the date of grant with an escrow period of 12 months from date of grant
Directors *	700,000	60 cents	4 years from date of grant
Chief Operating Officer *	240,000	60 cents	vest in three equal tranches subject to performance hurdles and each tranche expiring 12 months from its vesting
Underwriter *	400,000	55 cents	3 years from date of grant
Total **	5.66 million		

* The proposed options to the Directors, Chief Operating Officer and the Underwriter are partly success based and will only be granted by the Company on the admission of the Company to the Official List of the ASX.

** The total amount raised by the Company if all of the options detailed above are exercised is $3,160,000 which amount has NOT been taken into consideration by the Company in calculating its cash flows.

For details of the Existing Investors see section 9.6. For full details of the terms and conditions of the options which have been issued, see sections 9.5, 9.6 and 9.8(b).

1.7 How to Apply for Shares

To participate in the Offer the Application Form must be completed in accordance with the instructions on its reverse side.

Applications must be for at least 4,000 Shares ($2,000) or a greater number in multiples of 1,000 Shares ($500). The Offer Price of the Shares is payable in full on Application.

Cheques must be in Australian currency and made payable to "Mesoblast Limited - Share Subscription Account" and crossed "Not Negotiable".

1.8 Electronic Prospectus

If you have received this Prospectus as an Electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Underwriter or Mesoblast and you will be forwarded, free of cost, either a paper copy or a further electronic copy of the Prospectus as requested by you.

Notwithstanding that you may receive this Prospectus electronically, there is no facility for Applications to be accepted electronically. The Application Form in this Prospectus must not be circulated or handed on to prospective investors unless accompanied by a copy of this Prospectus.

Mesoblast reserves the right not to accept an Application for Shares from a person where it has reason to believe that, when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement Prospectus or any of those documents were incomplete or altered. In such case, the Application money received will be dealt with in accordance with section 722 of the Corporations Act.

1.9 Lodgement of Applications

Applicants who receive a firm offer should return their completed Application Forms to the Underwriter or broker from whom they received their firm allocation of Shares.

Applicants applying for the general offer should return their completed Application Forms together with their cheque for the Application money to the Share Registry or the Underwriter.

The Share Registry	The Underwriter
Mesoblast Limited Share Offer	Mesoblast Limited Share Offer
C/- ASX Perpetual Registrars Ltd	C/ - Lodge Partners Pty Ltd
Level 4, 333 Collins Street	Level 3, 405 Collins Street
Melbourne, Victoria 3000	Melbourne, Victoria 3000

1.10 Allocation Policy

Mesoblast reserves the right to authorise the issue of a lesser number of Shares than those for which Application has been made or to reject any Application. Where no issue or allocation of Shares is made or the number of Shares issued is less than the number applied for, surplus Application money will be refunded without interest.

If an Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. Mesoblast's decision as to whether to treat an Application as valid, and how to construe, amend or complete it, will be final. Mesoblast's decision on the number of Shares to be allocated to an Applicant will also be final.

1.11 Application Monies Held on Trust

All Application money will be held on trust in a separate bank account which has been opened only for this purpose until the Shares are issued and allotted under the Offer or the Application money is refunded to the unsuccessful Applicants.

1.12 Application for ASX Listing

Not later than 7 days after the date of this Prospectus, application will be made to the ASX for Mesoblast to be admitted to the Official List of the ASX and for the Official Quotation of the Shares.

The fact that the ASX may admit Mesoblast to its Official List is not to be taken in any way as an indication of the value or merits of Mesoblast or of the Shares offered under this Prospectus. Official Quotation, if granted, will commence as soon as practicable after the issue of transaction confirmation statements to successful Applicants. If permission for quotation of the Shares is not granted within 3 months after the date of this Prospectus, all Application money will be refunded without interest.

1.13 Underwriting Summary

The Offer is fully underwritten by Lodge Partners Pty Limited, a member firm of the ASX. The Company will pay underwriting fees and disbursements as provided for under the Underwriting Agreement. Details of the Underwriting Agreement including circumstances under which the Underwriter may terminate its obligations are set out in section 9.5(a).

1.14 Escrow Arrangements

ASX may, as a condition of granting Mesoblast's application for Official Quotation of its Shares, classify certain of its Existing Shares as restricted securities. Any such classification will restrict the transfer of effective ownership or control of any restricted securities without the written consent of the ASX and for such period as the ASX may determine. The terms of any such restriction or escrow arrangements will be determined by the ASX in accordance with the ASX Listing Rules. Details of any such restriction or escrow arrangements will be disclosed prior to commencement of Official Quotation of Mesoblast's Shares.

The Existing Investors have also entered into voluntary escrow agreements with the Company, restricting their ability to dispose of or transfer ownership or control of any of their Shares for a period ranging from 3 to 24 months from the date of listing, unless the Company consents.

1.15 Dividend Policy

Mesoblast does not intend to pay any dividends in the foreseeable future as all funds (net of expenses) are to be committed to the development and commercialisation of the Adult Stem Cell Technology in Orthopaedic Applications and the investment in Angioblast.

No assurance as to future profitability can be given as it is dependent on the commercialisation of the Adult Stem Cell Technology and the success of commercial applications of that technology. Other factors beyond the control of the Directors, such as market competition, may also affect profitability and therefore the capacity of Mesoblast to pay dividends in the long term. Consequently, the Directors cannot give any assurances concerning the payment of any dividends.

1.16 Taxation

The tax treatment and consequences of the Offer will vary depending on the particular circumstances of the Applicant. Mesoblast accepts no liability or responsibility in relation to any taxation consequences connected to the Offer. A general tax commentry is included in section 8, however Mesoblast accepts no liability or responsibility in relation to any taxation consequences for individual investors. Therefore it is

the responsibility of any Applicant to satisfy themselves regarding the appropriate tax treatment for them.

1.17 CHESS

Mesoblast will apply to be admitted to participate in CHESS, in accordance with the ASX Listing Rules and the ASTC Settlement Rules. On admission to CHESS, Mesoblast will operate an electronic issuer-sponsored subregister and an electronic CHESS subregister. The two subregisters together will make up Mesoblast's principal register of Shares.

Mesoblast will not issue certificates to Shareholders. Shareholders will be provided with a transaction confirmation statement, which sets out the number of Shares allotted to the Shareholder under this Prospectus.

At the end of the month of allotment, CHESS (acting on behalf of Mesoblast) will provide Shareholders with a holding statement that sets out transactions on your holdings and confirms the number of Shares held. The Registrar will issue holding statements for shareholders on the issuer sponsored subregister.

If you buy or sell Shares after the initial allotment, a holding statement will be provided to you at the end of the month in which the balance of your holding changed on the register.

Transaction confirmation statements and holding statements provide details of a Shareholder's Holder Identification Number in the case of a holding on the CHESS subregister or Securityholder Reference Number in the case of a holding in the issuer-sponsored subregister.

1.18 Investor Enquiries

If after reading this Prospectus you do not fully understand it or the rights attaching to the Shares offered by it, you should consult an accountant, lawyer or other qualified professional adviser for assistance.

Further information and additional copies of this Prospectus can be obtained online at http://www.lodgepartners.com.au or by contacting:

Lodge Partners Pty Limited on telephone number (03) 9618 7000.

Company Overview 2

2.1 Introduction

In 2001 Professor Silviu Itescu founded Angioblast, a United States-based company focusing on the development of therapeutic products for cardiovascular diseases. Professor Itescu is a recognised world authority in the field of adult stem cell therapy, is based at Columbia University in New York and is also on the medical faculty of the University of Melbourne. He has advised the United States President's Council on Bioethics in the fields of stem cells and cardiovascular diseases and the United States Food and Drug Administration's (FDA) Biological Response Modifiers Advisory Committee (BRMAC) which evaluates applications pertaining to stem cell technologies.

In 2002, aware of the demand by the medical community for effective cell therapy products for cardiovascular diseases, Angioblast undertook a world-wide search to identify adult stem cell technology considered to have significant and extensive advantages over competing technologies and to have the greatest prospect for commercial development.

Professor Itescu and Angioblast identified technology developed over more than 10 years by scientists at the Institute for Medical and Veterinary Sciences (IMVS) and the Hanson Institute in South Australia as meeting their technical and commercial criteria. This technology enables efficient extraction, isolation and scale-up of adult mesenchymal precursors cells, which are the building blocks for cells and tissues that make up support structures and solid organs in the body, such as arteries, heart muscle, bone, and cartilage. As a result, Angioblast entered into a commercial relationship with IMVS and today owns the proprietary Adult Stem Cell Technology.

Work by scientists at the IMVS using the proprietary Adult Stem Cell Technology has been most advanced in the fields of bone and cartilage (Orthopaedic Applications), and has already achieved outstanding results in recent *in vivo* studies. In view of the large sizes of the potential orthopaedic markets and the specialised program development skills needed for commercialisation of orthopaedic therapeutic products, Mesoblast was established in July 2004 and granted a proprietary, world-wide licence to develop and commercialise the proprietary Adult Stem Cell Technology for Orthopaedic Applications (Orthopaedic Licence). Professor Itescu is the Chief Scientific Adviser for Mesoblast.

Through the proceeds of this Offer, Mesoblast will fund the continued development of the Adult Stem Cell Technology in Orthopaedic Applications and undertake investment of $10 million (in tranches) to acquire a 33.3% interest in Angioblast. In turn, Angioblast will use the proceeds received from Mesoblast to fund continued development of the Adult Stem Cell Technology in Cardiovascular Applications.

Mesoblast and Angioblast have each planned a 2 to 3-year joint development program to build on the extensive pre-clinical studies already completed, with the objective to enable each company to obtain FDA IND approval for, respectively, a lead orthopaedic and a lead cardiovascular application of the Adult Stem Cell Technology. For each application of the Adult Stem Cell Technology, the IND submission will derive from a common technology platform, thereby enabling Mesoblast and Angioblast to act collaboratively and cost-efficiently to obtain the necessary data required for their respective IND applications.

Obtaining IND approval to begin FDA-sanctioned clinical trials is seen as a major objective of each company, as its receipt is expected to provide each company with the opportunity to enter into significant commercial arrangements with major corporate partners, anticipated to earn each company significant immediate and subsequent milestone-linked payments as well as on-going royalties on the ultimate sale of its respective products. IND approval is also expected to provide each company with attractive funding alternatives for the conduct of subsequent pivotal clinical trials, as a precursor to FDA approval of its products in the USA.

2.2 Description of the Adult Stem Cell Technology

2.2.1 Stem Cells

Human stem cells are reservoirs of immature cells that replenish organs and tissues throughout the body. Stem cell research dates back over four decades, and relates to stem cells obtained from either embryonic tissues or from various tissues in adults, including bone marrow, fat, skin and dental pulp. Stem cells obtained from human embryonic tissues, termed embryonic stem cells, are associated with profound ethical issues surrounding embryo creation and destruction, and have a much higher risk of cancer formation than those obtained from adult tissues, termed adult stem cells. Once stem cells are identified and isolated, appropriate stimuli may be applied to cause them to mature into any one of a variety of tissue types, such as blood cells, bone, cartilage, fat, blood vessels and heart muscle. This leads to the possibility of using stem cells to repair and regenerate a wide range of tissues and organs.

2.2.2 Adult Stem Cells

Adult stem cells consist of two broad types, haematopoietic precursors and mesenchymal precursors. Haematopoietic precursors give rise to new blood cells, can be harvested using existing technology, and are already being used clinically for patients with certain types of cancers after high-dose chemotherapy. These types of adult stem cells do not normally give rise to tissues other than blood cells and cannot easily be

grown up and expanded in culture. Moreover, they are immediately recognized as foreign and rejected when transplanted between unrelated individuals.

Mesenchymal precursors give rise to cells and tissues that make up solid organs in the body, such as bone, heart muscle, and cartilage. Until now, technology to efficiently isolate and expand sufficient numbers of mesenchymal precursors for commercial application has not been available. Scientists have had to rely on crude techniques to isolate such stem cells from tissue material and grow them up in sufficient numbers for clinical use, making the prospects to date for commercial application of these cells remote.

2.2.3 The proprietary Adult Stem Cell Technology: Mesenchymal Precursor Cells (**MPC**) for Tissue Regeneration

Adult stem cell research over the last four decades has shown that adult stem cells exist within a family hierarchy. At the top of the hierarchy is a highly potent stem cell that, like a queen bee, multiplies prolifically and gives rise to a large repertoire of cell types. Hence a key research goal has been to learn how to purify high potency stem cells. This was achieved in the haematopoietic system twenty years ago. However in the case of precursors of mesenchymal cell types, the ability to purify the most highly potent stem cell has lagged.

Many years of research by scientists at the Institute for Medical and Veterinary Sciences (IMVS) and the Hanson Institute in South Australia led to the discovery of ways to isolate the potent stem cells that lie at the top of the hierarchy for precursors of mesenchymal cell types. These scientists have developed proprietary technology which enables efficient extraction, isolation and scale-up of the most potent of these types of adult stem cells, called mesenchymal precursor cells or MPC (MPC Technology).

This Technology is based on the identification of unique and specific markers on the surface of the MPC and the use of monoclonal antibodies to bind to these cells and extract them from the tissues in which they reside. This results in isolation of a pure population of highly potent stem cells characterised in terms of surface markers, genetic makeup, range of factors secreted, and superior proliferative potential and biological activities compared with mesenchymal precursors isolated by other researchers.

By starting with such a pure MPC population, the subsequent culture of stem cells with multipotential capability, or ability to mature into any one of a variety of tissue types, such as bone, cartilage, fat, blood vessels and heart muscle, is greatly enhanced in comparison with current, conventional methods. Moreover, injecting cultured stem cells derived from such a pure MPC population into a foreign tissue results in more effective regeneration of the recipient's own tissues, triggering the growth of new bone, cartilage, blood vessels and heart muscle.

A key characteristic of all adult stem cells is their ability to self renew, or divide for many generations, under appropriate culture conditions. This property makes the use of adult stem cells attractive for commercial application since they can be greatly expanded in culture from only a few starting cells. The higher concentration of adult stem cells present in the starting material isolated using the proprietary MPC Technology means that this population contains approximately 1000-fold more cells with high self-renewal capability than cells isolated by other methods. Consequently, the proprietary MPC Technology will result in quicker and easier stem cell culture and expansion. The anticipated end result is that the final product derived from the proprietary MPC Technology has significantly greater potency at lower cost of culture and expansion.

Mesoblast has obtained the Orthopaedic Licence to develop the proprietary MPC Technology for all commercial Orthopaedic Applications. In addition, Mesoblast is undertaking an investment of up to $10 million to acquire a 33.3% interest in Angioblast, which owns the MPC Technology and which is currently developing the MPC Technology in Cardiovascular Applications.

2.2.4 Intellectual Property and status of Patent Portfolio

The intellectual property portfolio which is the subject matter of the Orthopaedic Licence, is now owned by Angioblast. The intellectual property covers composition-of-matter for the multi-potent MPC, methods to identify, purify and expand the cells, and specific indication patents that cover broad fields of regenerative medicine.

An Independent Expert Report pertaining to the breadth, quality and effect of the patent applications underlying the intellectual property is provided in section 6 of this Prospectus.

2.3 Advantages of the proprietary Stem Cell Technology over other adult stem cell technologies

The proprietary MPC Technology has a number of advantages over other stem cell technologies, notably:

(a) Precise identification and ease of isolation

A number of methods have been used historically to isolate mesenchymal precursors from sites at which they reside. These methods generally rely on specific physical properties of the cells, including density. The problem with this type of approach is that no physical properties have been uniquely ascribed to the mesenchymal precursors and many different cell types are co-isolated using these

methods, resulting in a mixed population of cells. The end result is a less effective, longer and more expensive process of cell production.

The purification approach embodied in the MPC Technology results in a cell population containing approximately 1000-fold greater concentration of mesenchymal precursors compared to conventional methods of isolation. This enables isolation of a homogeneous, and consequently more effective, stem cell population.

(b) *Ease of expansion and scale-up*

Most adult stem cells, including haematopoietic precursors, cannot be efficiently expanded in culture. In contrast, the MPC have a variety of receptors on their surface that can be activated by growth factors to cause rapid cellular division and efficient large-scale expansion. Since the potency of this homogeneous MPC population is likely to directly translate into easier culture and expansion, it follows that the costs of the cell culture process (a major component in the overall costs-of-goods) are therefore likely to be significantly reduced, resulting in a significant cost advantage in commercial product development.

(c) *Wide range of potential commercial applications for diseases with unmet clinical needs*

The vast majority of adult stem cells in the human bone marrow are of haematopoietic type, meaning they generally have the capacity to become blood elements but not components of mesenchymal tissues. Therefore, existing bone marrow and haematopoietic stem cell separation or harvesting technologies do not have the ability to provide a homogeneous source of adult stem cells capable of effectively regenerating mesenchymal tissues such as bone, cartilage, or heart muscle. The MPC Technology is uniquely placed to provide a homogeneous and highly-effective source of cells for the treatment of a wide range of conditions requiring repair and regeneration of mesenchymal tissues, such as bone fractures, osteoarthritis, and heart failure, for which no adequate alternative therapies currently exist.

(d) *Can be used in allogeneic recipients, generating "universal" products*

Until now, the development of adult stem cell technology has been focused on an auotologous product, i.e. extracting and culturing a patient's own stem cells to be re-applied to that patient at some later time. This is potentially a very expensive approach as the cost of any single extraction and culture process can be attributed to the treatment of only one patient.

By contrast, MPC from one donor do not elicit an immune response when exposed to immune cells from unrelated recipients. Therefore, it is likely that a range of universal ("off-the-shelf") MPC products can be generated from a few donors for use in many unrelated recipients without fear of rejection by the patient. Generating "universal" MPC in large numbers for use in unrelated recipients will enable batching of quality assurance/quality control tests, greatly reducing cost-of-goods and increasing margins. In addition, rather than having to wait several weeks to culture a patient's own stem cells for treatment of the patient, universal MPC products will immediately be available for use in treating a patient's condition as soon as it is diagnosed, e.g. fracture or heart attack, in much the same way as any pharmaceutical product.

(e) *Advantages of the proprietary Adult Stem Cell Technology over embryonic stem cells*

MPC have four major advantages over embryonic stem cells:

- there are no ethical issues or barriers such as those surrounding embryo creation and destruction,
- they are not recognized as foreign cells by the immune system of an unrelated party and are not rejected,
- they are already partially matured and, therefore, require fewer steps (and therefore less time and cost) in the culture process to develop into a specific tissue type,
- they have a much lower risk of cancer formation.

2.4 Potential Markets for the MPC Products

2.4.1 Mesoblast - Orthopedic Applications

(a) *Segmental bone defects*

Of the 6.3 million fractures occurring annually in the US alone, over 1 million are associated with difficult or prolonged healing, resulting in non-unions, delayed unions, and malunions. Non-union is defined as the cessation of all reparative processes of healing without bony union, and is generally the result of inadequate reduction of the original fracture, inadequate immobilisation, loss of blood supply, and infection. Delayed or non-union is diagnosed clinically on examination and by X-ray showing failure of bone repair more than 3 months beyond the expected time of healing.

Ultimately, approximately 10% of all fractures (approximately 500,000 per year in the US) with large segmental defects that heal slowly and/or poorly require bone grafting using autografts (patient's own bone tissue) or allografts (foreign tissue) to add to the bone volume and eventually the

bone strength. Successful use of autografts or allografts is greatly limited by a lack of blood supply to the new bone and by the limited number of regenerating bone cells within the tissue being grafted. Moreover, autografts are complicated by the chronic pain that ensues at the donor site, while allografts have poorer success rates due to immune rejection of the graft.

Mesoblast's MPC Technology uniquely offers a superior approach to each of these alternatives: it has the capacity to generate both new bone and new blood vessels, enabling greater bone regeneration. MPC behave like an autograft in that they do not induce an immune reaction, but with the advantage that there is no autograft donor sites. The Company envisages that surgical implantation of MPC into poorly-healing fracture sites will be more effective, reduce the repair procedure time, and eliminate chronic pain and other complications associated with donor wound sites.

(b) Chronic cartilage degeneration and acute meniscal tears

Inflammatory diseases of the joints affect over 43 million Americans annually. Osteoarthritis is a degenerative disease which results in damage to the articular joint surface and loss of cartilage needed for freedom of motion and stability of the joint. Cartilage has no capacity to regenerate and, consequently, loss of cartilage at the joint surface results in joint instability and loss of joint function. Irreversible osteoarthritis is the inevitable end result 5-15 years after trauma in an affected joint, most commonly the knee.

More than 10 million Americans currently suffer from osteoarthritis of the knee, making it the most common joint disease. Risk factors include being overweight, joint injury, muscle weakness, having other forms of arthritis and heredity. Osteoarthritis of the knee is characterised by degeneration and loss of meniscal cartilage which cushions the ends of bones, bone-on-bone grinding, and ultimately pain and loss of movement. In addition to degenerative osteoarthritis, acute trauma to a healthy knee joint, such as during sporting activity, frequently results in tearing and damage to the meniscal cartilage of the knee joint.

Effective therapies for progressive osteoarthritis do not exist, with current treatments at best alleviating painful symptoms without restoring the cartilage lining the joint and improving joint function. In many cases, joint replacement surgery is the only option for restoring joint function.

In the United States, approximately 800,000 patients undergo arthroscopic knee surgery annually for treatment of chronic, degenerative, osteoarthritic meniscal cartilage disease or acute meniscal cartilage tears. While arthroscopic surgical repair of an acutely torn meniscal cartilage can be effective at alleviating acute knee joint pain and/or instability, the results are usually temporary. Most knee arthroscopies are only used to perform lavage and debridement (instillation of saline and cleaning the joint of bony debris), which does not usually result in improved knee symptoms since the bone surfaces continue to lack cushioning (chondral) cartilage tissue. Surgical implantation of own (auto-) or foreign (allo-) cartilage tissue remains an experimental procedure for treatment of osteoarthritis, but this approach is severely limited by the inability of mature cartilage tissue to grow and divide.

Mesoblast will initially target the existing knee arthroscopy market for chronic osteoarthritis and acute meniscal cartilage tears, and envisages that arthroscopic knee injection of its MPC product will enable regeneration of both chronically damaged chondral cartilage as well as acutely torn meniscal cartilage, thereby permanently relieving pain and restoring joint stability and freedom of motion.

(c) Vertebral disc degeneration

The intervertebral disc is a cartilage that acts as a cushion for the stress forces on the spine and enables the normal rotational movements of the spine to occur. With advancing age, there is progressive loss of the proteoglycan material of the disc, resulting in increased susceptibility to the effects of shear forces. This results in a process termed degenerative disc disease, affecting 20-25% of the population, and characterised by progressive tears and cleft formation of the inner layer of the disc, in splitting of the outer layer, and in microfractures of the disc endplates.

Pain associated with disc degeneration may be felt locally in the back due to the local effects of spinal instability or disc incompetence, or at a distance away from its site of origin, such as sciatica, due to compression of nerve roots or due to leakage of degenerated disc material into the nerve roots. Lower back arthritis may be felt as pain in the buttock, hips, groin, and thighs. Bowel or bladder incontinence, or numbness in the perineal area, may indicate severe nerve compression needing surgical decompression.

For chronic low back pain associated with moderate degenerative disc disease, available therapies are limited and include pain management and physiotherapy. Surgical options such as spinal fusion (where the two vertebra are fused to prevent their rotation and the attendant compression of a nerve) are reserved for the more than 1 million

patients in the US who suffer from severe degenerative disc disease annually. Spinal fusion involves the use of grafted bone to form a solid bridge between two adjacent vertebra. The graft may be either a patient's own bone and marrow cells or foreign bone chips. The graft is implanted together with an agent that causes bone growth, stimulating the bony bridge to knit to the flanking vertebra. However, the procedure is performed in only approximately 200,000 patients annually, or less than 20% of patients with severe degenerative disc disease, since it is a major surgical procedure, and is associated with serious complications, including infection, risk of permanent nerve damage, and recurrence or worsening pain symptoms. Artificial vertebral disc prostheses have recently been introduced, however these are associated with the same complications of surgery as fusion procedures, as well as loss of mobility and device failure, e.g. screw breakage.

Since it is anticipated that the MPC can produce the same types of proteoglycan materials as are present in normal intervertebral discs, Mesoblast envisages its product being a simple injection of MPC into a degenerated intervertebral disc to provide cells for repair of the non-cellular component of the degenerated disc. Because of its anticipated ease of application and lack of side-effects, this approach should offer a relatively non-invasive and cost effective therapy for patients with moderate or severe degenerative disc disease.

2.4.2 Angioblast - Cardiovascular Applications

• *Myocardial infarction (MI or heart attack)*

Over 1.1 million Americans have a heart attack each year. Although 80% survive the initial heart attack, nearly half become disabled with heart failure over the next six years. Ultimately, over half a million people in the US die each year as a result of a heart attack, either due to the acute event itself or due to heart failure in the wake of a past heart attack. This makes heart attacks the single biggest killer of Americans.

A heart attack occurs when a coronary artery becomes completely blocked so starving a section of heart muscle (myocardium) of oxygen and nutrients. If the blockage remains uncleared the section of heart muscle will die. Due to improved methods of diagnosis, emergency care, and methods to unblock the obstructed coronary artery, approximately 80% of patients having a heart attack will survive the initial event. However, the major complication in survivors is that in the days after the attack, tissues surrounding the dead zone are inadequately irrigated by collateral blood vessels, and also die off. The loss of heart muscle subsequently leads to the onset of heart failure.

Numerous treatments are currently available following heart attack to aid the restoration of blood flow and/or prevent the onset of heart failure. However, each of these treatments have been shown to have only modest effects in preventing heart failure after a heart attack and none of these agents is capable of treating heart failure by increasing blood vessel formation or inducing cardiac regeneration. Enhanced blood flow to surviving heart muscle and, ultimately cardiac regeneration, is the essential goal in ensuring that risk of heart failure after heart attack is minimised.

Scientists have recently shown that methods which increase the amount of blood vessels present in healthy heart muscle adjacent to the heart attack area can induce cardiac regeneration and effectively assist in preventing heart failure after a heart attack. The larger the blood vessels that are created, the greater the preventative effect on post-infarct heart failure.

Since it is anticipated that MPC can induce sustainable large blood vessel formation, the Company envisages that catheter-directed injection of its MPC products into heart muscle shortly after a heart attack could become a routinely used procedure to improve cardiac function, enhance quality of life, and reduce the likelihood of heart failure following a heart attack.

• *Congestive heart failure*

Congestive heart failure (CHF) affects approximately 5 million people in the U.S. (2% of their population), with 550,000 new cases and 45,000 deaths occurring each year. It is estimated that as many as 20 million people have unsuspected heart failure and are likely to develop symptoms in the next one to five years.

CHF typically occurs when an injured heart muscle is unable to pump strongly enough to maintain sufficient blood circulation to meet the needs of the body's other organs. Patients are constantly tired, short of breath, and in and out of hospital. One-third of patients with CHF require repeat hospitalisation within three months after discharge, and heart failure is the leading cause of hospitalisation in the US, accounting for 3.5 million hospitalisations per year.

Patients usually take combinations of each of several classes of agents whose mode of action is complementary, but whose individual efficacy is modest. These include diuretics and angiotensin converting enzyme inhibitors (ACEi) to reduce the amount of fluid in the body, glycosides to increase the force of the heart's contractions, and beta-blockers to reduce cardiac activity and enhance survival. None of these therapies regenerate heart muscle or rebuild heart tissue, but merely alleviate heart failure symptoms such as shortness of breath and fatigue. Moreover, they are all associated with significant side effects.

Angioblast is developing MPC products with the objective to enable the damaged heart to be rebuilt by two mechanisms which differ from existing therapies. First the formation of arterioles may increase blood supply to damaged heart muscle. Secondly, these cells may directly form new heart muscle cells. The combined effects of these two mechanisms are anticipated to result in the generation of new cardiac muscle and induce functional cardiac recovery. It is currently anticipated that delivery of the MPC to the heart will occur either by direct catheter injection or surgically after placement on a biocompatible patch, and that the beneficial effects will be complementary to existing therapies.

- *Peripheral arterial disease and skin ulcers*

In addition to heart disease, the use of MPC for growth of new blood vessels is anticipated to have direct application for patients with Peripheral Arterial Disease (PAD), numbering over 8 million in the US alone. Risk factors for PAD are similar to those for coronary artery disease, and include high cholesterol, diabetes, smoking or obesity. Most patients with significant PAD are diabetics, and the most common symptom is severe leg pain associated with exertion (claudication). In advanced cases, wound ulceration and gangrene may occur due to inadequate blood flow to distal areas, such as toes, which become starved of blood, ulcerate, and fail to heal. The main objective of therapy for PAD is to eliminate or reduce leg pain, heal wound ulcers, prevent gangrene, and restore functional status.

Many patients with PAD will ultimately require angioplasty of the affected artery in the lower limb, and some will require an amputation of the affected limb within five to ten years of the diagnosis. Over 400,000 angioplasty procedures are performed annually in the US for PAD.

Angioblast development plans are for an MPC product that will be directly injected into the affected artery by catheter at the time of an angioplasty procedure so that unblocking the artery will be accompanied by formation of new blood vessels in the extremity, increasing the likelihood of long-term limb survival.

Similarly, an estimated 800,000 Americans are treated for diabetic foot ulcers each year. Since donor skin grafts are immediately rejected, and diabetics are not good candidates for an autograft (patient's own skin from another site) due to the fact that the donor site trauma will also not heal, a number of skin substitutes have been developed to treat diabetic wound ulcers. Although these products improve wound healing in the short term, their long-term success is limited by inadequate delivery of oxygen and nutrients due to lack of blood vessels, resulting in recurrent wound breakdown, ulceration, and ultimately infection.

In contrast, Angioblast's development plans are for an MPC product placed on a biocompatible patch to be the only product in the market with the unique capability to provide both a source of blood supply and of new cells to repair and regenerate the wound site.

2.5 Regulatory Requirements

Cellular products represent a new class of medical therapeutics and as such the precise environment for regulating their commercial development and use is still evolving. Since the United States is the largest single market for health care-related products, a thorough understanding of the US FDA regulatory framework for new devices and pharmaceuticals is essential in order to plan for commercial development of a new cell therapy product.

The regulatory requirements for pharmaceuticals are much more rigorous than for medical devices, with correspondingly longer times-to-market. The pre-clinical studies required for a new pharmaceutical product to commence clinical trials must conform to the rigorous standards of an Investigational New Drug (IND) application, and the clinical development program must follow a well-defined sequence of phase I, II, and III clinical trials in order to meet standards for approval by the FDA of a New Drug Application (NDA). The pre-clinical studies required for a device conform to requirements for an Investigational Device Exemption (IDE), and the clinical program usually requires only one pivotal clinical trial for obtaining FDA Pre-Market Approval (PMA).

In order to obtain FDA approval to begin clinical trials in the United States, companies developing cellular therapies are required to submit rigorous pre-clinical safety data meeting the standards set by an IND application. The amount of pre-clinical data required to obtain IND approvals differs according to the particular type of cell therapy.

For subsequent clinical development and market release, the FDA has established an approval process that differs from both pharmaceuticals and devices, and is referred to as a Biologics Licence Application (BLA). It is anticipated that the clinical development program for a BLA will fall somewhere in between that of a PMA and an NDA, meaning that the time to FDA market approval for a cell therapy product is likely to be significantly shorter than for a pharmaceutical product.

2.6 Commercial Strategy

The intrinsic advantages of the MPC technology enable the Company to pursue a business model analogous to that typical of high-margin pharmaceutical products. Specifically:

- The lack of immune activation by MPC provides the potential to use "universal" donor MPC in multiple

unrelated recipients (allogeneic cell therapy, significantly reducing cost-of-goods in comparison with autologous cell therapies which require exclusive use of a patient's own cells);

- The high purity of MPC starting material should enable easy scale-up of MPC, providing many dosages to unrelated persons from one "universal" donor;
- The MPC starting material can be easily sourced, e.g. from "universal" donors in the US under existing FDA guidelines for donor screening, in analogous fashion to collection of plasma or blood cells;
- The intrinsic advantages give rise to the prospect of establishing centralised manufacturing and distribution facilities, enabling commercial quantities of clinical-grade MPC product to be easily delivered to the end-user (orthopaedic or cardiovascular specialist) as an "off the shelf" product;
- These features are anticipated to potentially enable pharmaceutical range profit margins to ultimately be generated;
- This business model is based on the underlying proprietary MPC technology, which provides significant barriers against competitors and long-term market protection.

The immediate commercial strategy of both Mesoblast and Angioblast is based on advancing development of MPC products to a level which will enable each Company to obtain IND approvals from the FDA within 2-3 years after completion of this Offer. Following receipt of IND approval, Mesoblast and Angioblast intend to conduct their pivotal clinical trials to enable each of them to submit their respective BLA submissions for FDA product market approval.

Having regard to the subject matter of the MPC Technology, the profile of each company and its respective Board and personnel, the unmet clinical needs addressed by the intended applications of the MPC Technology and the size of the markets being targeted, it is anticipated that receipt of IND approval can be the catalyst for entry by each company into lucrative strategic corporate alliances with major industry players. From these strategic corporate alliances, each company can potentially earn significant immediate, short-term and/or mid-term milestone payments.

Potential alliance partners include established corporate entities with market leadership positions in either Orthopaedic or Cardiovascular Applications who may be seeking pipeline extension or other competitive advantage in their market.

For Orthopaedic Applications, the MPC are expected to be delivered via a biodegradable patch or matrix and may require implantation via arthroscopic guidance for precise visual access to areas of cartilage loss. These features provide opportunities for Mesoblast to identify possible corporate partners with expertise in scaffold, delivery device, bioengineering, or arthroscopic delivery technologies. The leading cannulae manufacturers in the highly lucrative arthroscopy market could benefit from obtaining technology advantages for product differentiation.

Similarly large pharmaceutical companies with extensive polymer/biomaterial and scaffold technologies could also benefit from new applications and product differentiation. Early alliances with Mesoblast, could enable each of these corporate entities to gain greater market share with an effective cell therapy product delivered on a particular biocompatible patch or scaffold arthroscopically, potentially via a particular cannula.

For Cardiovascular Applications, anticipated corporate partners include catheter manufacturers or distributors. The lucrative catheter market is congested and leading catheter manufacturers are actively seeking technology advantages for product differentiation. Preferential use of one particular catheter type for MPC delivery may enable an increased share of the catheter market, giving rise to the potential opportunity for Angioblast to earn significant early revenues from its alliance arrangements.

2.7 Development Status of MPC Technology

Research into the MPC Technology was initiated over 10 years ago, has been the subject of extensive pre-clinical work, and has already achieved outstanding results in recent *in vivo* studies. Major results from pre-clinical studies to date include:

- MPC can be isolated from bone marrow, fat, skin, or a variety of other sites in human adults;
- MPC can be grown to large numbers in a relatively short period of time with simple and inexpensive culture techniques;
- MPC can be differentiated to bone, cartilage, fat, heart muscle and blood vessels, suggesting a wide range of potential orthopaedic, cardiovascular, and other applications;
- MPC implantation *in vivo* results in sustainable functional tissue regeneration, including bone regrowth after fracture; and cardiac recovery after acute ischemia; and
- MPC from a given donor do not induce a rejection response when exposed to immune cells from unrelated recipients.

2.8 Intended Development Program

The objective for the next 2-3 years of Mesoblast and Angioblast is to complete all pre-clinical/clinical requirements to obtain Investigational New Drug (IND) approvals from the United States Food and Drug Administration (FDA) for each of a leading Orthopaedic and Cardiovascular Application of the MPC Technology.

2.8.1 Clinical Autologous MPC development

Mesoblast and Angioblast will each undertake clinical trials (in their respective application fields) evaluating safety, efficacy of autologous MPC in patients with, respectively, orthopaedic conditions and cardiovascular conditions.

2.8.2 Pre-clinical Allogeneic MPC development

In parallel with the clinical trials outlined above, Mesoblast and Angioblast intend to complete all pre-clinical requirements to obtain Investigational New Drug (IND) approvals from the US FDA for initiating orthopaedic and cardiovascular clinical trials using allogeneic MPC. The pre-clinical dossiers that are intended to be presented by each of Mesoblast (in respect of orthopaedic) and Angioblast Systems Inc. (in respect of cardiovascular) to the US FDA as part of the investigational new drug (IND) applications will consist of a GMP manufacturing and scale-up component and large animal studies demonstrating safety and efficacy of allogeneic MPC in animals with orthopaedic and cardiovascular conditions.

Mesoblast anticipates the results of the autologous clinical trials to be available within the same time frame as those of the allogeneic pre-clinical studies. These data are intended to be presented together in the dossiers submitted by each of both Mesoblast and Angioblast to the FDA for approval of IND applications to initiate pivotal clinical trials using allogeneic MPC in orthopaedic and cardiovascular indications.

2.9 Competitive Landscape

Mesoblast is aware of a number of technologies that may potentially seek to compete with the MPC products being developed by Mesoblast and Angioblast. These include the following:

2.9.1 Orthopaedic diseases

For Orthopaedic Diseases, competitive technologies include allogeneic bone graft tissues, synthetic bioactive materials to stimulate bone growth, recombinant bone stimulatory factors, biomaterials to replace damaged endogenous cartilage, and viscosupplementation to increase the hyaluronic acid content of cartilage.

Allogeneic bone graft technologies are limited by rejection and lack of blood supply, while bone stimulatory factors and biomaterials are limited in degree of efficacy. Viscosupplementation reduces pain, but has no effect on growth of new cartilage.

Use of MPC should prove superior to allogeneic grafts because of the dual effect of blood vessel growth and direct bone or cartilage generation. Moreover, Mesoblast envisages that combining MPC with growth factors and/or biomaterials will result in further synergistic outcomes. Finally, since MPC will most likely be delivered directly into the site of needed bone or cartilage repair, the treatment is likely to be less invasive than current surgical approaches and will not be associated with the type of donor site chronic pain that accompanies autologous bone grafts.

2.9.2 Cardiovascular diseases

Competitive technologies in this field can be categorised as those involved in developing approaches to increase blood vessel formation, termed angiogenesis, and those that use cell therapy, including adult or embryonic stem cells, for tissue regeneration. In contrast to the competitors, only the MPC products are likely to have the dual effects of inducing both new blood vessel growth and new heart muscle tissue.

- *Technologies for angiogenesis*

  Angiogenesis, or generation of small blood vessels, may be induced in heart tissue by injection of specific factors (proteins or genes) such as vascular endothelial growth factor (VEGF) or fibroblast growth factor (FGF). Results of clinical studies using these agents have to date not been conclusive, perhaps because the blood vessels are only transient and too small to sustain growth of cardiac muscle. In contrast, the MPC Technology is likely to result in permanent generation of large caliber blood vessels, such as arterioles, which have a smooth muscle outer layer and can regulate blood flow in accordance with the changing needs of the heart muscle.

- *Technologies for heart muscle regeneration*

  Several companies are evaluating the use of autologous (patient's own) cells from bone marrow or other sources, and implanting these by catheter into the heart. These approaches could be limited commercially by the expected high costs inherent to any autologous cell therapy process, and functionally by the expected inability to grow up sufficiently large numbers of bone marrow haematopoietic stem cells in culture to allow for timely administration of enough adult stem cells to result in meaningful recovery and protection of heart muscle.

  In phase I studies of autologous skeletal muscle cell implantation in the heart, a significant number of patients have developed potentially life-threatening abnormal heart rhythm disorders requiring placement of ventricular defibrillators. This problem appears to be specific to implantation of skeletal cells into the heart, since these cells have a different electrical discharge rate to heart muscle cells. This is not anticipated to occur with MPC.

Mesenchymal precursors extracted from the bone marrow by techniques which rely on physical separation methods are also being tested. In comparison to Mesoblast's precise technology for isolation of MPC, the heterogeneous cellular populations isolated by competitive technologies contain up to 1000-fold fewer true stem cells. This results in culture expansion of a cell population that is likely to be much less effective for cardiac regeneration than the MPC.

Several companies are researching the use of heart muscle cells generated from human embryonic stem cells. Use of embryonic stem cells is associated with major regulatory and ethical obstacles regarding human cloning and sourcing of embryonic cells, and use of allogeneic embryonic cells, unlike adult-derived MPC, raises the issue of rejection and the need for life-long immunosuppression. In addition, the inability to control the growth rates of embryonic stem cells gives rise to high risk of cancer development.

- *Skin and wound repair*

  The competitive landscape for skin and wound repair includes artificial skin for burns, collagen-based matrices, biological matrices, products combining collagen matrices and allogeneic skin, and allogeneic foreskin. None of these have the potential dual properties of MPC to generate both new blood vessels and new cells, but they may be synergistic when combined with MPC.

2.9.3 Granted and pending patents

In the Intellectual Property Report contained in section 6, there is a brief overview of the competitive landscape based on granted or pending patents.

Boards & Management Personnel 3

3.1 Mesoblast

(a) Non-Executive Director and Chairman: Michael Spooner, BCom, ACA, MAICD

Mr Spooner is a well known and highly respected business leader. He has an extensive network of relationships with investment firms and business communities across the globe, having spent the majority of the past 25 years living and working internationally. Mr Spooner has an outstanding track record in the rapid international commercialisation of high growth companies including within the medical application and commercial technology sectors. Most recently, Mr Spooner was Managing Director & CEO of Ventracor Limited where he led the transformation of a small Australian listed life sciences company into the second highest performing stock on the S&P/ASX 200 index in 2003. He was a Principal Partner and Director of Consulting Services with PriceWaterhouse Coopers (Coopers & Lybrand) in Hong Kong for 7 years. Currently, Mr Spooner advises a number of high growth corporations and is a non-executive director of Peplin Limited.

(b) Non-Executive Director: Donal O'Dwyer, BE, MBA

Mr. O'Dwyer has almost 20 years experience as a senior executive in the global cardiovascular and medical devices industries. From 1996 to 2003, Mr. O'Dwyer worked for Cordis Cardiology, the cardiology division of Johnson & Johnson's Cordis Corporation, initially as its president (Europe) and from 2000 as its worldwide president. Cordis is the world's largest manufacturer of innovative products for interventional medicine, minimally invasive computer-based imaging, and electrophysiology. In this role, Mr. O'Dwyer led Cordis through the launch of the revolutionary Cypher drug eluting coronary stent technology, and saw the company take over number one market share of coronary stents worldwide. He directly supervised an increase in sales from $US500 million in 2000 to $US2 billion in 2003. Prior to joining Cordis, Mr. O'Dwyer worked for 12 years with Baxter Healthcare, rising from plant manager in Ireland to president of the Cardiovascular Group, Europe, now Edwards Lifesciences. Mr. O'Dwyer is a qualified civil engineer, has an MBA and is also on the board of Sunshine Heart Inc., an ASX listed company developing cardiac assist device technology.

(c) Non-Executive Director: Byron McAllister, BS, M.Agr

Mr. McAllister has extensive expertise in product development, quality assurance, and obtaining FDA regulatory approvals within the healthcare industry. He has extensive expertise within the biologics, pharmaceutical, and medical device industries, and has prepared full documentation for approval by the U.S. FDA, UK MCA, and other world health regulatory authorities. Most recently, Mr. McAllister has served as Vice President, Worldwide Quality Assurance, for the Ares-Serono Group based in Geneva and Boston, overseeing operations in over a dozen countries. Mr. McAllister has held senior management positions in manufacturing and quality assurance with Abbott Laboratories' Ross Laboratories and Diagnostics Divisions, Amersham Corporation, and Coulter Electronics Corporation. He is a member of the PDA (Parenteral Drug Association), American Society For Quality (ASQ), and the Regulatory Affairs Professionals Society (RAPS).

(d) *Director and Chief Scientific Adviser* - Professor Silviu Itescu, MBBS (Hons), FRACP, FACP, FACR

Professor Itescu is on the medical faculties of both Columbia University in New York and the University of Melbourne. He has established an outstanding international reputation in the fields of stem cell biology, autoimmune diseases, organ transplantation, and heart failure. In these areas of focus he has gained broad experience, from basic research in the laboratory through to new drug development and clinical evaluation. Most recently he has pioneered novel approaches to the use of adult stem cells for the treatment of heart disease, is leading international collaborative trials in this area, and has been an adviser on cell therapy for cardiovascular diseases to both the United States President's Council on Bioethics and the United States FDA Biological Response Modifiers Advisory Committee (BRMAC). Professor Itescu has consulted for various international pharmaceutical companies, has been an adviser to biotechnology and health care investor groups, and is a non-executive director of Amrad Corporation and Ambri Limited. Professor Itescu is the founder of both Mesoblast Limited and Angioblast Systems, Inc.

(e) *Chief Operating Officer:* Paul Rennie, B.Sc., MBM, MS

Mr. Rennie has over 25 years experience in marketing and business development within the Australian biomedical and pharmaceutical industry. He was formerly Director of Business Development for Soltec, a wholly owned subsidiary of F H Faulding & Co., Ltd, with focus on developing improved pharmaceutical drug delivery systems. Previously, as Business Development Manager for the Biosciences Division of Bonlac, he led the commercialisation strategies and licensing negotiations between Bonlac and multinational global oral care and health care/nutritional companies, including Johnson & Johnson, Procter & Gamble, and SmithKlineBeecham, and successfully concluded licensing of Bonlac's CPP-ACP technology to Warner Lambert. Between 1990-1994 he held various positions with the global pharmaceutical company Merck Ltd, where as National Sales and Marketing Manager he was responsible for Australia-wide sales of pharmaceuticals, analytical reagents, environmental monitoring products, and scientific research products. In this capacity, Mr. Rennie implemented a new strategic plan which contributed to transforming Merck Australia from having a loss in 1993 to record sales and profits in 1996.

(f) *Chief Financial Officer and Company Secretary:* Kevin Hollingsworth, FCPA, FCMA

Mr. Hollingsworth is a Fellow of CPA Australia, and a past chairman of both the National and Victorian Industry and Commerce Accountants Committees. He is also a Fellow of the Chartered Management Accountants. Mr. Hollingsworth has most recently been non-executive director and company secretary for Alpha Technologies Corporation Ltd, a global company with operations in the US, Mexico and China, designing and manufacturing temperature sensors for disposable medical devices, as well as precision thermometry and instrumentation for the biotechnical and life science industry.

3.2 Angioblast

(a) Non-Executive Director and Chairman: Carter H. Eckert, BS, MBA

Mr. Eckert has over 25 years experience in the global healthcare and pharmaceuticals industry. He has been non-executive chairman of Angioblast since 2002. During the 2003-2004, he served as chief executive officer of Impath, Inc., a cancer information company, which was sold for more than US$200 million to Genzyme Inc and US Oncology Inc. Between 1995-2001 Mr. Eckert served as President and Chief Executive Officer of Knoll Pharmaceuticals and President of the Americas for Knoll's parent company, BASF Pharma. As a member of BASF Pharma's Global Pharmaceutical Board, he was responsible for global therapeutic franchises and corporate transactions. His efforts culminated in the March 2001 sale of BASF's Pharmaceuticals Division to Abbott Laboratories for $6.9 billion. Between 1986-1995, Mr. Eckert was with Boots Pharmaceuticals, Inc., first as Chief Operating Officer and then President and Chief Executive Officer. Previously, Mr. Eckert was for over a decade with Baxter Travenol Laboratories, Inc., where he was President of Baxter's Prescription Pharmaceutical Division. Mr. Eckert holds a BS in Chemical Engineering from Illinois Institute of Technology and an MBA from Northwestern University. Between 1997-2001 Mr. Eckert served on the Board of Directors of the Pharmaceutical Research and Manufacturing Association of America (PhRMA), and is currently on the Board of Directors of OraSure Technologies, Inc., and Andrx Corporation and is a former director of Imparth, Inc. and Boron, Lepore & Associates, Inc.

(b) Non-Executive Director: Michael Esposito, R.Ph., MBA

As a senior partner at Norbridge Inc., a Massachusetts-based consulting firm, Mr. Esposito has over 20 years' experience in a variety of functionally-oriented and corporate planning assignments for the pharmaceutical, biotechnology, medical equipment/supply/device companies and diagnostic companies around the world, including operating companies in the Johnson & Johnson group. He has been involved in acquisition and due diligence analysis across a wide range of medical and pharmaceutical industries, and development of manufacturing facility strategies and rationalization analysis. Mr. Esposito was Vice President with Arthur D. Little for 15 years, and worked in product management for the Roerig Division of Pfizer developing and implementing product marketing strategies. He received his M.B.A from the Amos Tuck School at Dartmouth College and a B.S. from the Massachusetts College of Pharmacy.

(c) Non-Executive Director: Professor Silviu Itescu
(as per Mesoblast Board)

(d) Non-Executive Director: Donal O'Dwyer
(as per Mesoblast Board)

(e) Clinical and Regulatory Affairs: Dr. Donna L. Skerrett, MD, MS

Dr. Skerrett has been involved in stem cell procurement, manipulation, and transplantation for over ten years. She has most recently been Director of the Stem Cell Facilities at Weill-Cornell Medical Center in New York, and previously served as Associate Director of Transfusion Medicine at Columbia University's New York-Presbyterian Hospital. Dr. Skerrett will oversee the clinical development of both the antibody-based stem cell selection technology and in vitro culture process. In addition, she will liaise closely with the FDA and oversee the human clinical trial programs. Dr. Skerrett is an adviser to the New York State Department of Health as a member of the progenitor cell committee and the governor's Council on Blood and Transfusion Services. Dr. Skerrett has also served as an adviser and committee member with the National Marrow Donor Program and the American Society of Hematology.

(f) Business Development: Michael Schuster, BSc, MS

Michael Schuster heads Business Development, assisting the Board and senior management with strategic planning, maintaining differentiation of Angioblast's technology from its competitors, and advancing prospects for commercial growth. Mr. Schuster holds an undergraduate degree in science from Tufts University, a Master's degree in Immunology & Microbiology from New York Medical College, and is completing a Masters of Business Administration at Fordham University in New York.

3.3 Joint Scientific Advisory Board

(a) Chairman: Professor Silviu Itescu
(as per Mesoblast Board)

(b) Member: Professor Stephen Graves, MBBS, D. Phil FRACS, FA, Orth A

Professor Graves was the inaugural Professor of Orthopaedics at the University of Melbourne, and Director of Orthopaedics at the Royal Melbourne Hospital, where he remains Director of Orthopaedic Research. He is currently Director of Musculoskeletal Research at Epworth Hospital and Flinders Medical Centre. Professor Graves is Director of the Australian Orthopaedic Association National Joint Replacement Registry, Chairman of the Australian Orthopaedic Association Bone and Tissue Banking Committee, and member of the Commonwealth Health Department Hip and Knee Prostheses Clinical Advisory Groups. He is a member of the Therapeutic Goods Administration Medical Device Evaluation Committee (MDEC), Expert Advisory Group on Cell & Tissue Based Therapies, and subcommittee on Device Tracking.

(c) *Member:* Professor Robert M. Graham, FAA, MBBS (Hons), MD, FRACP, FACP, FAHA

Professor Graham is the Des Renford Professor of Medicine, University of NSW, Executive Director, Victor Chang Cardiac Research Institute, Sydney and Professor (adjunct) of Physiology and Biophysics, Case Western Reserve University School of Medicine, Cleveland. His research has focussed on molecular cardiology, with emphasis on circulatory control mechanisms, receptor signalling and cardiac hypertrophy. Professor Graham is the author of over 200 peer-reviewed papers, is a Fellow of the Australian Academy of Science, and serves on many committees, including the National Heart Foundation and the Australian Academy of Science. He has been a consultant to many major pharmaceutical and biotechnology companies, such as Bristol-Myers Squibb, Glaxo, American Cyanamid, Ciba Corning Diagnostics, the CRC for Cardiac Technology, and CSIRO (Pharmaceutical Division). Currently, he is Chairman, Scientific Committee, Cardiac Society of Australia and New Zealand; Member, NSW Ministerial Advisory Council on Medical and Health Research; and Board Member, EngeneIC Ltd, MirACL Therapeutics Pty Ltd and the Lowy Medical Foundation.

(d) *Member:* Professor Henry Krum, MBBS, Ph D, FRACP

Professor Krum is Chair of Medical Therapeutics at Monash University, Melbourne, Australia, and is an Adjunct Faculty member of Columbia University, New York. He is also Director of the NHMRC Centre of Clinical Research Excellence in Therapeutics at Monash University. Professor Krum is currently a member of the Pfizer Global Heart Failure Advisory Board, has previously served on Glaxo Smith Kline and Roche Global Advisory Boards, and is Chairman of the Working Group on Heart Failure of the Cardiac Society of Australia and New Zealand. Professor Krum has been Principal Investigator, Chairman and Advisory Board Member for numerous international and national trials in cardiovascular therapeutics, and has consulted for many pharmaceutical companies, investment banks, and venture capital firms.

(e) *Member:* Professor Richard E. Gilbert, MBBS, Ph D, FRACP

Professor Gilbert is Professor of Medicine at the University of Melbourne where he directs a large research program exploring new therapeutic strategies for the treatment of cardiovascular and kidney disease. Professor Gilbert is an international authority on the complications of diabetes, including vascular, eye and kidney diseases, and in 2004 was the recipient of the prestigious Eric Susman Medal from the Royal Australasian College of Physicians for outstanding contributions in diabetes research. Professor Gilbert consults to many global pharmaceutical and biotechnology companies on drug discovery, preclinical testing and clinical trials.

4.1 Capital Structure

The Company's issued capital presently comprises 46,790,000 ordinary shares, 4,720,000 fully paid preference shares and 4,320,000 options over ordinary shares. On completion of the Offer and allotment of ordinary shares, and allotment of options over ordinary shares as detailed in this Prospectus, and the conversion of fully paid preference shares to fully paid ordinary shares, the Company's capital will increase to 93,510,000 fully paid ordinary shares with the following options over ordinary shares on issue:

- 4,320,000 options with an exercise price of $0.55 to be exercised by five years of grant date with an escrow period of 12 months from the grant date;
- 400,000 options issued to the Underwriter with an exercise price of $0.55 to be exercised by the third anniversary of the grant date;
- 700,000 options issued to Directors under the Company's Executive Share Option Plan with terms and conditions as set out in sections 9.5(c) and 9.8(b) of the Prospectus; and
- 240,000 options issued to the Chief Operating Officer under the Company's Executive Share Option Plan with terms and conditions as set out in sections 9.5(c) and 9.8(b) of the Prospectus.

4.2 Statement of Financial Position

Set out below is the actual statement of financial position and the pro-forma statement of financial position of Mesoblast at 30 September 2004. The pro-forma statement of financial position represents the actual statement of financial position adjusted for capital raising transactions and acquisition of the Angioblast investment and other pro-forma transactions detailed in section 4.4.

Statements of Financial Position

	Refer	Actual 30 Sep 2004	Pro-forma Adjustments	Pro-forma 30 Sep 2004
		$	$	$
CURRENT ASSETS				
Cash assets	4.5	625,542	17,628,858	18,254,400
Receivables	4.6	154,609	(154,609)	-
Capital Raising Costs		563,984	(563,984)	-
		1,344,135		**18,254,400**
NON CURRENT ASSETS				
Investments accounted for using the equity method	4.7	-	5,782,791	5,782,791
Intangible assets	4.8	558,000		558,000
TOTAL NON CURRENT ASSETS		**558,000**		**6,340,791**
TOTAL ASSETS		**1,902,135**		**24,595,191**
CURRENT LIABILITIES				
Payables	4.9	239,735	3,543,056	3,782,791
TOTAL CURRENT LIABILITIES		**239,735**		**3,782,791**
TOTAL LIABILITIES		**239,735**		**3,782,791**
NET ASSETS		**1,662,400**		**20,812,400**
EQUITY				
Contributed Equity	4.10	1,662,400	19,150,000	20,812,400
TOTAL EQUITY		**1,662,400**		**20,812,400**

Note: The 30 September 2004 statement of financial position and pro-forma statement of financial position have been reviewed by the Company's Independent Accountant in preparation of their report at section 5. The scope of work performed by the Independent Accountant is detailed in their report.

4.3 Summary of Significant Accounting Policies

The historical and pro-forma financial information has been prepared in accordance with the measurement but not all disclosure requirements of Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act. In the view of the Directors of Mesoblast, the omitted disclosures provide limited relevant information to potential investors.

The financial information has been prepared in accordance with the historical cost convention. The stated accounting policies have been applied consistently in the period presented in the historical and pro-forma financial information. The significant accounting policies, which have been adopted in the preparation and presentation of the historical and pro-forma financial information, are:

(a) Cash

Cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(b) Receivables

Trade receivables and other receivables represent the principal amounts due at balance date less, where applicable, any provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Debts which are known to be uncollectible are written off. All trade receivables and other receivables are recognised at the amounts receivable as they are due for settlement within 60 days.

(c) Research and Development Costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond a reasonable doubt, in which case it is deferred and amortised on a straight line basis over the period in which the related benefits are expected to be realised.

(d) Payables

Liabilities for payables and other amounts are carried at cost which approximates fair value of the consideration to be paid in the future for goods and services received, whether or not billed. The amounts are unsecured and are usually paid within 30 days of recognition.

(e) Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Company are classified as finance leases. Finance leases are capitalised, recorded as an asset and a liability equal to the present value of the minimum lease payments, including any residual payments as determined by the lease contract. Leased assets are amortised on a straight line basis over the estimated useful lives where it is likely that the Company will obtain legal ownership of the asset on expiry of the lease. Lease payments are allocated over both the lease interest expense and the lease liability.

Lease payments for operating leases where substantial risks and benefits remain with the lessor are charged as expenses in the periods in which they are incurred.

(f) Taxation

Mesoblast adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a deferred tax asset or deferred tax liability.

Deferred tax assets are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Deferred tax assets which include tax losses are only brought to account when their realisation is virtually certain.

(g) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

(h) Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(i) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of any goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position.

(j) Recoverable Amount of Non-Current Assets

The recoverable amount of a non-current asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

When the carrying amount of a non-current asset is greater than recoverable amount, the asset is written down to the recoverable amount. Where the net cash inflows are derived from a group of assets working together, the recoverable amount is determined on the basis of the relevant group of assets. The decrement in carrying amount is recognised as an expense in net profit or loss in the period in which the write down occurs. The expected net cash inflows included in determining recoverable amounts of non-current assets are not discounted.

(k) Translation of Foreign Currency Items

Except for foreign currency contracts where the exchange rate is fixed, each asset, liability, item of equity, revenue or expense is recognised and translated using the spot rate at the date of the transaction.

Foreign currency monetary items outstanding at the reporting date are translated at the spot rate at the reporting date.

Exchange differences are recognised as revenues or expenses in the net profit or loss in the period in which exchange rates change except for qualifying assets and hedge transactions.

(l) Intangible Assets

The Orthopaedic Licence is recorded at cost. The carrying value of this licence is amortised over a useful life of 25 years.

(m) Investments Accounted for using the Equity Method

Investments in associates are accounted for using the equity method in the financial report. Associates comprise entities over which the Company has significant influence and holds an ownership interest. Under the equity method of accounting:

- the carrying amounts of investments in associates are increased or decreased to recognise the Company's share of the post-acquisition profits or losses and other changes in net assets of the associates; and
- the Company's share of the post-acquisition profits or losses of associates is included in profit and loss.

The carrying amount of investments in associates is reviewed annually by the Company to ensure it is not in excess of recoverable amount. Any decrement in the carrying value of a non-current investment resulting from a write down to recoverable amount will be accounted for in accordance with Australian Accounting Standard AASB 1010 "Recoverable Amount of Non-Current Assets".

Equity accounting information in respect of associated companies is included in section 4.12.

(n) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the financial year but not distributed at balance date.

(o) Financial Period

The Company was incorporated on 8 June 2004 and therefore there is no previous reporting period or comparatives.

4.4 Adjustments - Pro-Forma Statement of Financial Position

The pro-forma statement of financial position has been based on the actual statement of financial position at 30 September 2004, and reflects the following events and transactions as if they had taken place at that date:

- subscription under the Offer of 42 million new fully paid ordinary shares for an issue price of $0.50 per share for a total of $21 million;
- payment of total share issue expenses of $1.85 million as if they had occurred at 30 September 2004. Share issue expenses of $1,286,016 (inclusive of GST) are expected to be paid from the proceeds of the Offer. At 30 September 2004, the Company has incurred share issue expenses of $563,984 as detailed at section 4.2 and which will be recognised in Contributed Equity on completion of the Offer;
- the acquisition of a 33.3 percent equity interest in Angioblast for an initial consideration of $6 million. On completion of the Offer and ASX Listing, Mesoblast has agreed to immediately pay Angioblast $2 million. Both Mesoblast and Angioblast have agreed that the remaining initial consideration of $4 million should be deferred and paid by instalments over a period of less than 12 months. The Directors have determined that the fair value of the deferred cash consideration of $4 million, assuming completion of the acquisition occurred at 30 September 2004, is $3,782,791. Consequently, the fair value of the initial Angioblast investment is $5,782,791. The pro-forma statement of financial position represents the fair value of Mesoblast's investment which is contractually committed on completion of the Offer and ASX listing.

- Mesoblast has a contingent obligation to pay a further $4 million for its 33.3 percent equity interest in Angioblast. This further consideration is payable only on completion of successful research milestones by Angioblast as mentioned in the Stock Purchase Agreement in section 9.4 of the Prospectus. If the research milestones are not achieved, then Mesoblast has no contractual obligation to pay the further consideration of $4 million. If the research milestones are achieved, the Directors of Mesoblast expect that this further consideration will be paid over a period of 12 months to 24 months after completion of the Offer and ASX Listing;
- the receipt of a receivable of $150,209 from Angioblast and receipt of sundry debtors of $4,400; and
- the payment of trade creditors of $239,735.

	Actual 30 Sep 2004	Pro-forma 30 Sep 2004
	$	$
4.5 Cash		
Cash assets	625,542	625,542
Issue of 42 million shares at 50 cents per share	-	21,000,000
Payment of share issue expenses from proceeds of the Offer	-	(1,286,016)
Investment in Angioblast	-	(2,000,000)
Receipt of receivable from Angioblast	-	150,209
Receipt of sundry debtor	-	4,400
Payment of trade creditors	-	(239,735)
Total Cash	**625,542**	**18,254,400**
4.6 Receivables		
Receivable from Angioblast	150,209	150,209
Sundry Debtor	4,400	4,400
Less receipt from Angioblast and sundry debtor	-	(154,609)
Total Receivables	154,609	-
4.7 Investment Accounted for using Equily Method		
Investment in Associated Company (refer section 4.12 for further details)	-	5,782,791
Total Investments	**-**	**5,782,791**
4.8 Intangible Assets		
Orthopaedic License at cost	**558,000**	**558,000**
4.9 Payables		
Trade creditors	239,735	239,735
Less payment of trade creditors	-	(239,735)
Amount owing to Angioblast (deferred purchase consideration)	-	3,782,791
Total Payables	**239,735**	**3,782,791**

Actual	Pro-forma		
		30 Sep 2004	30 Sep 2004
		$	$

4.10 Contributed Equity

The movement in the contributed equity of Mesoblast in the actual and pro-forma statements of financial position at 30 September 2004 is detailed below:

Balance of Shares at 30 September 2004		
44,000,000 ordinary shares issued on incorporation	4,400	4,400
2,790,000 ordinary shares at 20 cents per share for acquisition of Orthopaedic Licence.	558,000	558,000
4,720,000 fully paid preference shares to be converted to ordinary shares on completion of ASX listing	1,100,000	1,100,000
42,000,000 fully paid ordinary shares to the public at 50 cents per shares	-	21,000,000
Share issue expenses paid by the Company up to 30 September 2004	-	(563,984)
Payment of share issue expenses from proceeds of the Offer	-	(1,286,016)
Total Contributed Equity	1,662,400	20,812,400

4.11 Share Options

Initial seed investors who have subscribed for 4,720,000 fully paid preference shares have received in aggregate 4,320,000 options to acquire 4,320,000 ordinary shares at an exercise price of $0.55, which options if not exercised will lapse five years from the date of expiry of any escrow period imposed by the ASX.

Lodge Partners Pty Limited (or nominee), as underwriter to the Offer will in aggregate receive 400,000 options to acquire 400,000 ordinary shares on the terms set out in section 9.5(a).

The Company has established an Executive Share Option Plan (referred to in the Prospectus as the Mesoblast ESOP and described in more detail at sections 9.5(c) and 9.8(b)), under which the Company intends to grant 700,000 options to Directors to acquire ordinary shares in Mesoblast immediately after completion of the Offer and ASX Listing. These options will progressively vest with 350,000 options exercisable 12 months after the grant date and 350,000 options 24 months after the grant date with an exercise price of $0.60 per option. In addition, the Company also proposes to issue 240,000 options to acquire 240,000 Ordinary Shares to the incoming Chief Operations Officer at an exercise price of $0.60. These options will progressively vest in 3 equal tranches as set out in sections 9.5(c) and 9.8(b) of the Prospectus.

4.12 Investments Accounted for using Equity Method

Name	Principal Activities	Type of Shares	Ownership Interest Pro-forma 30 Sep 2004	Carrying Amount of Investment Pro-forma 30 Sep 2004
Unlisted:			%	$
Angioblast Systems Inc.	Biotechnology	Pref	33.3	5,782,791

Summary Assets and Liabilities of Angioblast at 30 September 2004 (i)	Pro-forma 30 Sep 2004 $
Current Assets	
Cash	2,000,143
Receivables	3,782,791
	5,782,934
Non Current Assets	
Intangible Assets	
	107,485
	107,485
Total Assets	**5,890,419**
Current Liabilities	
Payables	445,059
Total Liabilities	**445,059**
Net Assets	**5,445,360**

Note (i): Represents summary Assets and Liabilities of Angioblast immediately after subscription by Mesoblast for 33.3 percent of the equity as detailed in section 4.4 above and section 4.12A below

Movement in carrying amount of investment:	$
Opening balance	-
Investment in Angioblast	5,782,791
Closing balance	**5,782,791**

4.12A Details of Angioblast members

Angioblast member's name	Number of common stock	Percentage interest (%)
Professor Silviu Itescu	937,500	62.5%
Mr Cater Eckert	25,000	1.7%
WS Investment Company LLC (2003A)	15,000	1.0%
Mr Michael Schuster	20,000	1.3%
Mr Michael Esposito*	2,500	0.2%
Mesoblast Limited *	500,000	33.3%
Total	**1,500,000**	**100%**

Note * The above table assumes the exercise of the option granted to Mr Esposito for the issue of 2,500 shares of common stock, and both the issue of the Angioblast preferred shares to Mesoblast and the conversion of those preferred shares to common stock in Angioblast on the achievement by Angioblast of the conversion events detailed in section 9.4(d).

4.13 Contingent Liabilities

There is a contingent liability of $4 million relating to the Company's investment in Angioblast. This investment amount will only be paid to Angioblast when it meets certain research milestones as set out in the Stock Purchase Agreement. In the event Angioblast does not meet these research milestones, Mesoblast has no contractual obligation to pay the further consideration of $4 million.

Mesoblast has entered into a Licence Agreement with Medvet Science Pty Ltd regarding the licensing of use of orthopaedic intellectual property by Mesoblast. Under the Orthopaedic Licence, Mesoblast is obliged to make royalty payments on future sales and make future cash payments if certain research events occur as detailed in section 9.3(b)(i) of the Prospectus.

4.14 International Financial Reporting Standards

Australia will adopt International Financial Reporting Standards (IFRS) as the reporting and accounting framework from 1 January 2005. The operative date of IFRS for Mesoblast is the financial year beginning 1 July 2005. Based on existing difference between Australian Accounting Standards and IFRS, Mesoblast expects that the introduction of IFRS will impact on the Company's financial statements for the year ended 30 June 2006 and beyond. Mesoblast expects that the most significant impact on the financial statements will be as follows:

(a) Share and Option Based Payments

If Pending Accounting Standard AASB 2, Share based Payments, had applied during the year ending 30 June 2005, the fair value of options granted as part of a remuneration package would need to be expensed in Mesoblast's statement of financial performance. The expense will be recognised with a corresponding increase in equity.

Mesoblast have instructed an independent expert to prepare a valuation of Mesoblast share options on the basis that Mesoblast will use the valuation for incorporation of the option values into the prospectus using the Black-Scholes valuation formula. In accordance with Australian Accounting Standard AASB1046 “Director and Executive Disclosures by Disclosing Entities” and Pending Australian Accounting Standard AASB 2 “Share Based Payment”, the independent expert assessed the value at 26 October 2004.

The independent expert valued each of the option streams by applying the terms of each option stream to the Black-Scholes valuation formula, although where applicable the value was adjusted to account for the specific terms associated with the option. The independent expert assessed the value of the option streams as follows:

	Option Value	Number	Total Value
Director option stream			
12 months vesting date	$0.29	350,000	$101,500
24 months vesting date	$0.29	350,000	$101,500
COO option stream			
12 months vesting date	$0.171	80,000	$13,680
24 months vesting date	$0.229	80,000	$18,320
36 months vesting date	$0.251	80,000	$20,080

We note the following key assumptions support the valuation in the table above:

	Director	COO
Option pricing model	Black-scholes option formula	
Inputs including:		
Share price	$0.50	$0.50
Exercise price	$0.60	$0.60
Expected volatility	0.80	0.80
Option life (years)	4 years from grant date	12 months from vesting date
Risk free interest rate	5.04 to 5.14	5.04 to 5.14

Based on the above independent valuation, and the vesting period of the ESOP director option stream and the ESOP COO option stream, an expense of $121,118 before tax would have occurred in the 2005 financial year had pending Australian Accounting Standard AASB 2 been operative and the options were issued at 26 October 2004.

(c) Impairment of Non Current Assets

Mesoblast has stated at section 4.3 that in assessing recoverable amount, the relevant cash flows are not discounted to their present value. Under pending Australian Accounting Standard AASB 136 "Impairment of Assets", recoverable amount is measured at the higher of fair value less costs to sell or value in use, where value in use requires the discounting of cash flows to their present value.

(d) Tax Effect Accounting

Mesoblast currently matches the income tax expense in the statement of financial performance with the accounting profits after allowing for permanent differences.

Under pending Australian Accounting Standard AASB 112 Income Taxes, a full provision balance sheet approach to tax effect accounting will be adopted. The recovery of all assets and the settlement of all liabilities are assumed to have future tax consequences that can

be estimated reliably and expect in some circumstances cannot be avoided. The deferred tax balances will be determined based on the tax effect on the differences between the carrying amounts and tax bases of assets and liabilities. For the purposes of recognising deferred tax assets, the test used is less onerous, requiring “probability” rather than “virtual certainty”.

(e) Accounting for Associates

Under Australian Accounting Standard AASB 1016 "Accounting for Associates", the carrying amount of an investors' investment in an associate is increased or decreased to recognise its share of the post acquisition profits or losses and other changes in net assets of the associates. In calculating the investors' share of post acquisition profits or losses, an investor also includes amortisation of notional goodwill determined as the difference between the fair value of the share of net assets acquired and the fair value of the consideration paid in the determination of post acquisition profits or losses. Under pending Australian Accounting Standard AASB 128 "Investments in Associates", goodwill included in the investment carrying value is not amortised. Rather, the entire carrying amount of the investment is subject to impairment testing. The financial result for the 2005 financial year will include a goodwill amortisation of approximately $148,787 had the investment occurred at 30 September 2004 based on a goodwill amortisation period of 20 years.

5 Independent Accountant's Report

16 November 2004

PKF Corporate Advisory Services (Vic) Pty Ltd

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The Board of Directors
Mesoblast Limited
Level 29
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MELBOURNE VIC 3000

To the Board of Directors

INDEPENDENT ACCOUNTANT'S REPORT

1. INTRODUCTION

This report has been prepared by PKF Corporate Advisory Services (Vic) Pty Ltd (PKF Corporate) for inclusion in a prospectus for Mesoblast Limited (Mesoblast) to be dated on or about 16 November 2004 relating to a public invitation to subscribe for 42 million new fully paid ordinary shares at an issue price of $0.50 each to raise $21 million, (Prospectus). The Offer is fully underwritten by Lodge Partners Pty Ltd on the terms set out in section 9.5 of the Prospectus.

As Independent Accountant, PKF Corporate has been engaged to perform the following in connection with the issue of the Prospectus:

- review the statement of financial position of Mesoblast at 30 September 2004 as set out in section 4.2 of the Prospectus and the notes to the financial statements for the purposes of rendering a review opinion on the statement of financial position; and
- review the Pro-forma statement of financial position of Mesoblast at 30 September 2004 as set out in section 4.2 of the Prospectus and the notes to the financial statements for the purposes of rendering a review opinion on the Pro-Forma statement of financial position.

Expressions defined in the Prospectus have the same meaning in this report.

2. BACKGROUND

Mesoblast was incorporated on 8 June 2004 to undertake research and development activities and acquire a strategic investment in Angioblast Systems Inc (Angioblast) as detailed in the Prospectus. The monies raised are to be used to provide working capital for the administration of Mesoblast, to fund its investment in Angioblast and to conduct its own research and development activities.

PKF Corporate has been requested to prepare an Independent Accountant's Report dealing with the following financial information:

- the statement of financial position of Mesoblast at 30 September 2004 as set out in section 4.2 of the Prospectus; and
- the Pro-Forma statement of financial position of Mesoblast at 30 September 2004 which comprises the statement of financial position referred to above adjusted to include funds raised under the Prospectus and completion of the transactions referred to in section 4.4 of the Prospectus.

The historical financial information and the pro forma financial information is in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to financial reports prepared in accordance with the Corporations Act.

The Directors are responsible for the preparation of the statement of financial position at 30 September 2004 and the preparation of the Pro-Forma statement of financial position at 30 September 2004 and have determined that the basis of accounting used is appropriate.

This report does not form the basis of an independent expert opinion with respect to the valuation of Mesoblast or a valuation of the share issue price of $0.50 per share. This report does not address the rights attaching to the securities to be issued in accordance with the Prospectus, nor the risks associated with the investment. We have not been requested to consider the prospects for Mesoblast, the securities on offer, nor the merits and risks associated with becoming a shareholder, and accordingly, take no responsibility for those matters or for any matter or omission in the Prospectus, other than responsibility for this report.

3. SCOPE

Our review was conducted in accordance with Australian Auditing Standards relating to review engagements to report whether anything has come to our attention which would cause us to believe that Mesoblast's abbreviated statement of financial position at 30 September 2004 and Pro-Forma statement of financial position at 30 September 2004 and the assumptions on which it is based, were not properly drawn up in accordance with Mesoblast's accounting policies as set out in section 4.3 and the assumptions as set out in section 4.4 of the Prospectus.

Our review is substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. Review procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit and, accordingly, we do not express such an audit opinion. Our examination included:

- enquiries of Directors and other key officers of Mesoblast;
- a review of contractual arrangements and agreements, a summary of which is set out in section 9 of the Prospectus;
- workpapers, accounting records and other documents provided by Mesoblast;
- the methodology by which the pro-forma financial information was prepared;
- the arithmetical accuracy of the historical and pro forma financial information;
- the consistent application of the underlying assumptions to the pro-forma financial information; and
- the use of appropriate accounting policies consistent with Australian Accounting Standards.

4. OPINION

4.1 Financial Information

Based on the scope of our review, which is not an audit, nothing has come to our attention which would cause us to believe that the abbreviated statement of financial position and notes at 30 September 2004 are not fairly presented in accordance with the recognition and measurement requirements prescribed in Australian Accounting Standards and other mandatory professional reporting requirements and accounting policies adopted by Mesoblast as disclosed in section 4.3 of the Prospectus.

4.2 Pro Forma Statement of Financial Position

Based on the scope of our review, which is not an audit, nothing has come to our attention which would cause us to believe that the Pro-Forma statement of financial position and notes at 30 September 2004 and the assumptions on which they are based, are not fairly presented on the basis of the pro forma adjustments and in accordance with the recognition and measurement requirements prescribed in Australian Accounting Standards and other mandatory professional reporting requirements and accounting policies adopted by Mesoblast as disclosed in section 4.3 of the Prospectus, and on the assumption that all the transactions contemplated in the Prospectus as summarised in section 4.4 of the Prospectus were undertaken at 30 September 2004.

5. INDEPENDENCE

Neither PKF Chartered Accountants, PKF Corporate, (a wholly owned entity of PKF), nor the persons preparing this report have any interest in the securities of Mesoblast, or any interests in the outcome of the Offer, or other interests that would be reasonably regarded as capable of affecting their ability to give an unbiased opinion, other than that PKF Corporate is entitled to receive a fee of $30,000 (exclusive of GST) in connection with the preparation of this report and for the conduct of due diligence services in connection with this Prospectus. Neither PKF Chartered Accountants, PKF Corporate nor the persons preparing this report are entitled to receive or have received other fees from Mesoblast.

6. SUBSEQUENT EVENTS

To the best of PKF Corporate's knowledge and belief, there have been no material items, transactions or events subsequent to 30 September 2004, or to the date of this report, not otherwise disclosed in this report or in the Prospectus that have come to our attention during the course of our review which would cause the information in this report to be misleading.

Yours faithfully

PKF Corporate Advisory Services (Vic) Pty Ltd

D J Garvey
Director

G P Andreola
Director

6 Intellectual Property Report

FB RICE & CO
Patent and Trade Mark Attorneys

Ref: 502691/JEP

29 October 2004

Board of Directors
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Dear Sirs

PATENT ATTORNEY'S REPORT

This report has been prepared for inclusion in a Prospectus required for lodgment at the Australian Securities and Investments Commission for the purpose of raising funds through the issue of securities and to seek listing on the Australian Stock Exchange Limited.

Contents

1. Executive Summary

The Background section (section 2) of this report explains how Mesoblast Ltd derives rights to the technology covered by the patent portfolio set out in Schedule 1.

A general introduction to the relevant field of technology is provided in section 3 (The Technology Field).

section 4 (Competitor Technologies) provides a brief summary of patents owned by three competitor groups who are active in this area of technology.

Section 5 describes in detail the patent portfolio set out in Schedule 1 and highlights how the technology covered by this patent portfolio differs from and provides advances over the competitor technologies. In section 5 we also provide our preliminary view that the competitor patents described in section 4 should not adversely impact on freedom to operate the technology covered by this patent portfolio.

In section 6 we explain that we are not aware of any issues that affect proprietorship of the relevant patent applications in the portfolio.

Sections 7 to 10 provide general comments on patent procedures and protection.

Section 11 provides general comments on trade mark protection and refers to Schedule 2 which sets out the trade mark applications filed by Mesoblast Ltd or Angioblast Systems, Inc at the date of this report.

2. Background

Schedule 1 sets out patent applications that are licensed to Mesoblast Ltd (the licensed patent portfolio).

Medvet Science Pty Ltd (Medvet) is recorded as the owner of a number of applications in this patent portfolio. The patent portfolio is made up of patent applications directed to methods of isolating mesenchymal precursor cells (MPCs) from a wide range of tissues, methods for inducing blood vessel formation using the isolated MPCs, and methods for inducing proliferation and differentiation of tissue specific progenitors and committed cells.

We are advised that Medvet Science Pty Ltd assigned by agreement its right, title and interest in the patent portfolio Angioblast Systems, Inc. (Angioblast).

We are also advised that Mesoblast has a proprietary worldwide licence to develop and commercialise the patent portfolio relating to use of MPCs in the field of bone regeneration and repair and cartilage regeneration and repair.

3. Technology Field

3.1 Hematopoietic and Non-Hematopoietic Adult Stem Cells

Bone marrow transplantation (BMT) is accepted as an effective therapeutic modality for genetic and acquired diseases of the hematopoietic system. This cellular therapy is established on the concept that bone marrow contains both hematopoietic stem cells that give rise to all the lineages of the blood, and, possibly, incompletely understood cells that facilitate engraftment of the stem cells. However, the first human trials of bone marrow transplantation proceeded without any knowledge of the phenotype of the putative hematopoietic stem cell. Over the past two decades, it has been recognized that bone marrow also contains a certain stem cell population that can give rise to a wide variety of non-hematopoietic tissues, such as connective tissue, adipocytes, fibroblasts and muscle cells, all tissues of mesenchymal lineage. In principle, then, bone marrow transplantation, as a means of transplanting both hematopoietic and mesenchymal cells, could be used to treat disorders of mesenchymal tissues as well as those of the blood. This recognition has generated great interest in non-hematopoietic adult stem cells and their potential therapeutic applications for regenerating mesenchymal tissues.

What are Mesenchymal Stem Cells (MSCs)?

Mesenchymal Stem Cells (MSCs) have the capacity to develop into a variety of mesenchymal-lineage tissue types including bone, cartilage, tendon, muscle, fat and haematopoietic-supportive stroma. They also have the capacity to repopulate tissues upon transplantation.

In contrast to hematopoietic stem cells, MSCs can be expanded ex vivo and do not give rise to an immune response in a subject following transplantation. These characteristics are particularly advantageous for therapeutic applications.

The precise phenotypic characteristics of MSCs are still unclear. In particular, there is no universal definition of cell surface markers for MSCs, analogous to the CD34+, CD45+ markers for hematopoietic stem cells. Nor is there a

universal assay for MSCs, analogous to hematopoietic repopulation assays for hematopoietic stem cells. MSCs can be distinguished from hematopoietic stem cells, however, in that they are CD34-,CD45- cells.

Several research groups have developed methods for isolating MSCs with both self-renewal and multi potent differentiation capacity. Since each cell is unique, and no one research group is isolating cells by multiple methods and comparing them, it is difficult to state how these isolated MSCs relate to one another.

Isolation of MSCs

The most frequently used method for isolating MSCs is usually density centrifugation (e.g. Percoll®) to obtain the mononuclear fraction of marrow cells where precursors of MSCs predominate. After that adherence to plastic is typically involved as this is one of the more general characteristics of MSCs. Following density gradient separation and plastic adherence, the residual cells are cultured in growth medium and repeatedly passaged until confluence. During this culture process, colonies of cells form that contain MSC, as defined by assays demonstrating multilineage differentiation capability. After these steps, the approach to isolation can vary widely, as suggested above. Thus, the method of isolation or preparation of MSCs is often being used to define the cell and then the characteristic of that cell, such as self-renewal and multipotent differentiation are described.

Characterization and Differentiation of MSCs

The passaged cells can be characterized on the basis of expression of a wide variety of surface receptors and absence of certain lineage-specific markers. Although an important element of MSC characterization in culture rests on assays demonstrating multilineage differentiation capability, the precise proportion of cultured cells isolated in this manner that are truly multipotential is unknown, although the number of initial multipotential cell colonies is relatively small. MSCs can clearly give rise to hematopoietic supportive stroma, bone, cartilage, fat, and skeletal muscle in experimental animal systems. There have also been reports of these cells giving rise to cardiac myocytes and neurons.

Transplantation of MSCs

MSCs may be infused intravenously and will engraft in the recipient. Whether the cells truly home to target tissues has not been completely determined. Furthermore, the level of engraftment within the marrow space and other tissues and the duration of biologic activity after engraftment is not yet fully understood. These issues are analogous to hematopoietic stem cells homing to the marrow space, giving rise to enough terminally differentiated tissue (i.e. blood) to maintain normal function, and persisting for the life of the recipient.

What are Mesenchymal Precursor Cells (MPCs)?

Progenitor cells that reside in the body and give rise to multipotential cells when isolated are referred to as Mesenchymal Precursor Cells (MPCs). More specifically, purified MPCs are capable of forming very large numbers of multipotential cell colonies. Indeed, as outlined below, the patent portfolio owned by Medvet and assigned to Angioblast teaches methods to isolate MPCs to such purity that the number of multipotential cell colonies is over 1000-fold greater than that observed using Percoll gradient separation and plastic adherence.

Therapeutic applications of MSCs and MPCs

The goal of mesenchymal cell therapy is to treat diseases of no hematopoietic tissues in an analogous fashion to treating leukaemia or aplastic anaemia with hematopoietic stem cell transplantation. Virtually any tissue may be amenable to cellular therapy, and only preclinical models and clinical trials will identify the susceptibility of a given tissue and disease to such therapy. The extraordinary importance such cellular therapy is likely to have in the future of medicine underlies the importance of MPC and MSC technology.

3.2 Blood vessel formation and development

There is universal recognition that blood vessels help supply oxygen and nutrients to living tissues. Blood vessels also facilitate removal of waste products. The formation and spreading of blood vessels, or vasculogenesis and angiogenesis, respectively, play important roles in a variety of physiological processes such as embryonic development, wound healing, organ regeneration and female reproductive processes such as follicle development in the corpus luteum during ovulation and placental growth after pregnancy. Vascular conditions such as ulcers, strokes, and heart attacks are thought to result from the absence of angiogenesis normally required for natural healing.

Vasculogenesis is the process involved in formation of capillaries whereas angiogenesis results in the development of larger blood vessels. More specifically, vasculogenesis involves mobilisation of bone marrow derived endothelial

progenitor cells (EPCs) to sites where the formation of new vessels is required followed by differentiation of these EPCs into mature endothelial cells (ECs). During angiogenesis, mature ECs break free from their basement membrane and migrate and proliferate to form sprouts from parental vessels. Various growth factors, cytokines and hormones act to promote EPC mobilisation, proliferation and differentiation and are known as angiogenic agents.

Methods for promoting vasculogenesis and angiogenesis are desirable for the treatment of vascular conditions and a variety of agents and methods that enhance these processes are currently being tested. For example, preliminary reports have described new blood vessel development in the heart through injection of angiogenic agents. Gene therapy has also been suggested as a delivery mechanism for angiogenic agents.

Another suggested approach to promoting new blood vessel development for the treatment of vascular conditions is the administration of stem cells which can differentiate and give rise to cells required for blood vessels to form. One problem associated with this approach is that it is not entirely clear which progenitor cells are responsible for formation of blood vessels, or whether more than one cell type is required or whether other angiogenesis promoters are required. Improved methods for inducing blood vessel formation are therefore currently desirable.

4. Competitor Technologies

4.1 Mesenchymal Stem cells (MSCs)

We have been advised that one of the major competitors in this area of technology is Osiris Therapeutics, Inc (Osiris). Osiris developed a method for purifying human mesenchymal stem cells from bone marrow in the early 1990's. This method is described in US 5,486,359 and essentially involves the following steps:

- obtaining a bone marrow sample (i.e. an aspirated marrow sample)
- adding the aspirated bone marrow sample to complete medium
- employing density gradient centrifugation method (70% Percoll gradient) to separate cells within the sample on the basis of their density. This step achieves crude separation of red blood cells and mononucleate hematopoietic cells from the low density platelet fraction which contains marrow-derived mesenchymal stem cells
- Plating the low density platelet from a Petri dish and culturing the cells for 1-7 days in "complete medium" which allows for selective adherence of only the MSCs to the petri dish surface
- removing the non-adherent matter from the substrate surface by replacing the medium with a fresh medium of the same composition
- allowing the isolated MSCs to culture-expand.

Osiris conducted experiments to characterise its isolated mesenchymal stem cells population. These experiments included immunological assays to probe for cell surface markers present on the MSCs. The results of these experiments are presented in US 5,837,539 (Example 4, Table 5) and show that the marrow stromal cell progenitor marker (STRO-1) was absent from the cell surface of the MSCs isolated by Osiris.

Osiris has also developed monoclonal antibodies (MAbs) raised against mesenchymal stem cells isolated by its purification method. These MAbs are designated SH2 (directed against the CD105 marker), SH3 (directed against the CD73 marker) and SH4 and have been deposited with the ATCC under Accession Nos. HB10743, HB10744 and HB10745 respectively.

Osiris has also shown that its isolated MSC population expresses the cell surface marker CD45. This marker is commonly found on leukocytes and hematopoietic cells but had not previously been identified on mesenchymal stem cells. Based on this finding Osiris developed a method for purifying human mesenchymal stem cells by selecting for cells expressing the cell surface marker CD45, preferably in combination with either of the markers SH2, SH3 or SH4. This purification method is described and claimed in US 6,387,367.

Osiris has also developed methods for inducing differentiation of its isolated MSC population into osteogenic lineage (US 6,022,540) and adipogenic lineage (US 5,827,740, US 6,322,784 and US 6,709,864); and has described the use of its MSC preparations for regeneration of connective tissue (US 5,811,094) and cardiac muscle (US 6,387,369).

Another competitor group based at the University of Minnesota has developed a method for isolating and propagating MSCs which involves treatment of samples derived from a range of tissue sources to remove hematopoietic cells (i.e. cells that are CD45+) followed by expansion of the remaining MSCs in the sample. This method is described in US patent application number 20040107453. The MSCs isolated by this method were shown to be CD45 negative and class-I and class-II histocompatibility antigen negative.

4.2 Blood vessel formation and development

We have been advised that a group at St Elizabeth's Medical Center of Boston (St Elizabeth's) has developed a method for enhancing angiogenesis in patients which involves administration of isolated EPCs. This method is described in US patent number 5,980,887. The EPCs used in this method are isolated from blood and express markers of hematopoietic lineage cells, including CD34+. Following administration of these EPCs to the patient, they migrate to sites of active angiogenesis or blood vessel injury. Vasculogenesis then begins as a cluster formation comprised of EPCs at the periphery and hematopoietic stem cells at the centre.

One limitation of this method is that it only enhances the process of vasculogenesis, or formation of capillaries (small calibre vessels lacking any smooth muscle outer layer). It does not promote angiogenesis, nor, more importantly, arteriogenesis, defined as formation of larger calibre vessels containing a smooth muscle outer layer required for compensatory vasodilation. Arteriogenesis, the process resulting in a vascular network of capacitance vessels, is essential for optimal recovery from ischemic conditions.

5. The Licensed Patent Portfolio

5.1 Mesenchymal Precursor Cell

This invention relates to a method of purifying mesenchymal precursor cells (MPCs) which involves enriching for cells based on the presence, absence or expression levels of at least two markers. In a preferred aspect of the invention, the method involves enriching for cells which express the cell surface markers STRO-1 and VCAM-1. This approach is distinct from the purification methods described by Osiris as it selects for MPCs, rather than MSCs, based on the presence of the STRO-1 cell surface marker. As discussed above, results presented by Osiris in US 5,837,539 make it clear that the STRO-1 marker is not expressed on the surface of MSCs isolated by its purification method.

The method of purification based on enriching for cells which express the cell surface markers STRO-1 and VCAM-1 provides an enrichment several orders of magnitude better than previous methods known to the inventors. In particular, the inventors have shown that an enriched population in which up to 50% of the MPCs can form colonies of ten or more cells can be achieved using this invention. In contrast, previous methods had achieved an enrichment of up to 0.01% cells capable of forming colonies.

5.2 Perivascular Mesenchymal Precursor Cells

This invention is based on the finding that MPCs are present in perivascular tissue. One of the benefits of this finding is that it greatly expands the range of source tissues from which MPCs (and ultimately MSCs) can be isolated or enriched and there is no longer an effective restriction on the source of MPCs to bone marrow. The tissues from which MPCs have been isolated according to this invention include human bone marrow, dental pulp cells, adipose tissue and skin. In addition, studies conducted by the inventors have identified MPCs in the perivascular compartment of spleen, pancreas, brain, kidney, liver and heart.

The MPCs of the invention are distinguished from known MSCs in that they are positive for the cell surface marker 3G5. They can therefore be isolated by enriching for cells carrying the 3G5 marker, or by enriching for an early developmental surface marker present on perivascular cells such as CD146 (MUC18), VCAM-1, or by enriching for high level expression of the cell surface marker STRO-1.

The patent application relating to this invention includes claims directed to isolated multipotent mammalian cells that are positive for the surface marker 3G5. The application also claims MPCs isolated from tissues such as adipose tissue, teeth, dental pulp, skin, liver, kidney, retina, brain, hair follicles, intestine, lung, spleen, lymph node, thymus, pancreas, bone, ligament, bone marrow, tendon, and skeletal muscle, which is positive for the surface marker STRO-1.

Also claimed is an unexpanded population of cells enriched for mesenchymal precursor cells (MPCs), capable of forming a clonogenic colony and differentiating to three or more mesenchymal tissue types, said MPCs co-expressing the surface markers MUC18/CD146 and alpha-smooth muscle actin.

Finally, the patent application includes claims directed to a method of enriching for mesenchymal precursor cells (MPCs), the method including the step of preparing a single cell suspension from a vascularised source tissue and the step of enriching based on the presence of markers expressed in the vascularised tissue by perivascular cells.

5.3 Perivascular Mesenchymal Precursor Cell Induced Blood Vessel Formation

This invention is based on the finding that MPCs isolated from perivascular tissue are capable of inducing neovascularisation and improvement in cardiac function. Suitable administration of preparations of the MPCs are

therefore useful for treatment of cardiovascular diseases, cerebrovascular diseases and peripheral vascular diseases.

In contrast to the method developed at St Elizabeth's, MPCs derived from perivascular tissue are CD34-, and are able to promote both angiogenesis and arteriogenesis. This is because MPCs derived from perivascular tissue have the capacity to differentiate into the smooth muscle outer layer that surrounds arteries.

The claims of the relevant patent application are directed to methods of inducing formation or repair of blood vessels and methods of repairing damaged tissue involving the use of perivascular MPCs.

5.4 Proliferation of Mesenchymal Precursor Cells and Tissue Specific Committed Cells and uses thereof

This invention is based on the development of methods for inducing proliferation of MPCs and proliferation or differentiation of tissue specific progenitor and committed cells. The method applies to cells that are cultured ex vivo for transplantation or to endogenous cells in a human patient.

This invention is therefore relevant to the aspects of transplantation therapies using MPCs. In particular, it provides an improved method for obtaining adequate quantities of MPCs for manipulation (i.e. differentiation into a specific tissue type such as bone, cartilage or tendon) and transplantation. Importantly, this methodology can be used with MPCs that have been isolated by any means and from any source.

The relevant patent applications have been filed as provisional applications. However, these applications are not available to the public nor have they otherwise been made public. Accordingly, in order to maintain confidentiality in this invention a detailed description has not been provided.

5.5 Preliminary Comment on Freedom to Operate

Since the applications in the licensed patent portfolio are based on both (a) using a different methodology of cell isolation to that described in the Osiris patents, and (b) relate to a phenotypically and genotypically distinct population of cells than the MSCs described in the Osiris patents, it is our preliminary view that the Osiris patents should not impact on freedom to operate the technology covered by the licensed patent portfolio.

Specifically, (a) the Osiris patents are all based on methods to isolate MSCs using Percoll gradient separation and plastic adherence. The applications in the licensed portfolio are based on methods to isolate MPCs using positive immunoselection by monoclonal antibodies, and the use of these methods should not infringe any claims related to the use of the Osiris method. Furthermore, (b) all the Osiris patents relate to MSC defined by surface marker characteristics after isolation using density gradient and plastic adherence, and these cells have been characterized as being STRO-1 negative. In contrast, the MPCs covered by the licensed patent portfolio have been characterized as being STRO-1 positive, and to express a number of additional surface markers and gene products that have been reported in the Osiris patents as being absent in the MSCs. Therefore, it is our view that the MPCs defined in the applications of the licensed portfolio represent a separate and distinct population from the MSCs defined in the Osiris patents. Consequently it is our preliminary view that use of this MPC population should not infringe any claims in the Osiris patents related to the use of its MSC population.

With respect to the University of Minnesota's US patent application number 20040107453, which teaches how to isolate a population of multipotential cells by negative immunoselection based on use of monoclonal antibodies against markers on other contaminating cell populations to deplete such populations, the licensed patent portfolio teaches how to isolate multipotential cells (MPC) by positive immunoselection based on markers identified as being present on the MPCs themselves to enrich for such populations. Since the methodologies used are unrelated, and the cell populations that are subsequently enriched are unrelated, it is our preliminary view that US patent application number 20040107453 should not impact on freedom to operate the technology covered by the licensed patent portfolio.

It is also our preliminary view that US 5,908,887 in the name of St Elizabeth's should not impact on freedom to use the MPCs covered by the licensed patent portfolio for formation of blood vessels. This is because the claims of US 5,980,887 in the name of St Elizabeth's involve the use of haematopoietic and endothelial lineage progenitor cells that are CD34+ for inducing formation of blood vessels, whereas the MPCs covered by the licensed patent portfolio represent a separate and distinct population of mesenchymal lineage progenitors that are CD34-.

5.6 Existing Patent Applications

Schedule 1 attached hereto provides brief details of the patent applications in respect of the above-mentioned inventions.

As indicated in this Schedule, the MESENCHYMAL PRECURSOR CELL invention is the subject of patent applications pending in the United States and Australia.

The Australian application is currently undergoing examination. An Examiner's first report issued 10 November 2003 and the final deadline for acceptance is 10 August 2005. The Examiner has indicated that most of the claims are considered to be allowable. The only objection raised relates to claims 25, 28, 31, 34 and 40-51, and these claims do not relate specifically to the inventive method of purifying mesenchymal precursor cells (MPCs) which involves enriching for cells based on the presence, absence or expression levels of at least two markers. We are confident that we can readily place this application in order for acceptance by deletion of these claims.

The United States application is currently pending but has not as yet been examined. Two continuation-in-part applications have also recently been filed and are awaiting examination.

The PERIVASCULAR MESENCHYMAL PRECURSOR CELLS invention is the subject of an International (PCT) application filed 29 MARCH 2004, claiming a priority date of 28 March 2003.

An International Search Report and Written Opinion of the International Searching Authority has recently issued in relation to this PCT application. The Written Opinion states that the claims are considered not novel and/or obvious in light of the prior art. It is not uncommon for this type of objection to be raised in the initial assessment stage of a patent application. The objection requires the applicant to submit further information to distinguish its claim from the prior art or to otherwise amend its claim in so far as any genuine overlap does exist. We are confident of the novelty embodied in the application and are therefore confident that in the usual course of the progress of the application, any query as to novelty or obviousness can be overcome.

The PERIVASCULAR MESENCHYMAL PRECURSOR CELL INDUCED BLOOD CELL FORMATION invention is the subject of an International (PCT) application filed 29 MARCH 2004, claiming a priority date of 28 March 2003.

An International Search Report and Written Opinion of the International Searching Authority has recently issued in relation to this PCT application. The main objection raised in this Written Opinion is that the claims are considered obvious in light of prior art relating to the recruitment of smooth muscle cells and pericytes during blood vessel formation. Again, we believe that the Examiner's analysis of the prior art is flawed and we are confident that the objections raised in this Written Opinion can be overcome by argument during the usual course of the progress of the application.

The PROLIFERATION OF MESENCHYMAL PRECURSOR CELLS AND TISSUE SPECIFIC COMMITTED CELLS AND USES THEREOF invention is the subject of five provisional applications, all of which were filed on 24 September 2004. It is possible that these provisional applications will be cognated into a single PCT application by 24 September 2005.

6. Proprietorship

A patent for an invention may only be granted to the inventor(s) or to a person who has entitlement to the invention by way of assignment, employment contract or other means.

We are not aware of any issues regarding the entitlement of Medvet Science Pty Ltd to the inventions listed in attached Schedule 1.

7. Patent protection

A patent is a monopoly right granted by the relevant national patent office on behalf of the government of a country in return for publication and full disclosure of an invention. The monopoly right enables a patent owner to prevent third parties from exploiting the invention without its consent. The owner of a patent has exclusive rights to manufacture, import, use, keep, sell, offer for sale or otherwise exploit the products or processes protected by the patent in the countries where patent protection has been obtained. A third party "infringes" the patent if it exploits the invention without consent.

Patents can be licensed by the owner of a patent to third parties. An exclusive licensee has an exclusive right to exploit an invention. Under an exclusive licence, the patent owner cannot exploit the licensed patent in a particular country where the patent owner has granted an exclusive licence to another party in that country.

Patents have a limited term, usually 20 years, subject to the payment of renewal fees, after which the patented invention is available for others to use without restriction. In many countries, including Europe and Australia, extensions to the period of patent protection may be obtained for pharmaceutical and veterinary products when delays are involved in obtaining regulatory approval for pharmaceutical and veterinary products covered by the patent. Extensions are available in the USA in similar circumstances.

8. Requirements for Patentability

The main requirements for patentability are that the invention must be new and inventive at the time of lodging the patent application.

In order to be new or "novel", the invention must be different from that which was known as at the priority date, and the invention cannot previously have been made available to the public. To be "inventive" or "non-obvious", an invention needs to be a significant development over what was previously known.

In some countries such as Europe methods of medical treatment or diagnosis of conditions affecting a human or animal body are not considered to be patentable. However, compounds and compositions which are made for treating particular medical conditions, or for use in such methods, may be patentable if they meet the other requirements of patentability. In the USA and Australia, methods of medical treatment are considered to be patentable subject matter.

9. Procedure for obtaining patent protection in a range of countries

In most cases, patents are granted on a country-by-country-basis.

The date of filing the first application in one country, which we will refer to as the home application, is known as the "priority date". An international convention enables foreign patent applications to be filed within twelve months of the filing of the first home application for an invention, and enables the foreign application to claim the priority date of the home patent application as the foreign patent application filing date.

These foreign patent applications can be filed directly in the country or region of concern, or through an International system referred to a as the Patent Co-operation Treaty (PCT). The PCT system has been adopted by approximately 120 countries, including all of the countries which are of commercial interest to Mesoblast Ltd. The effect of filing an International application is generally the same as filing individual patent applications in all of the countries designated in the International patent application. Within prescribed time limits, it is necessary to file national phase applications in all of the countries in which patent protection is to be sought. This may include some or all of the countries designated in the International application.

Usually before patents are granted in any jurisdiction, the patents are examined by the National or Regional Patent Office for novelty and inventive step. In some jurisdictions the examination is more rigorous than in others. The USA and Europe have fairly rigorous standards of examination. As a consequence, the granting of patents in the USA and Europe is sometimes used as a yardstick to assess the likelihood of obtaining patents in other countries.

10. Potential limitation of patent protection

Evan after a patent is granted it is possible in most countries for third parties to challenge the validity of the patent. A successful challenge to the validity of the patent can result in the patent being revoked or narrowed in scope. Such action may take place in an opposition proceedings before a Patent Office, or before a court.

11. Trade Marks

Trade marks are marks or signs used to distinguish the products and services of one trader from those of another. A registered trade mark generally gives the owner the exclusive right to use, sell or license the trade mark in the country in which it is registered, for the goods and/or services covered by the registration. The process to achieve a trade mark registration varies from country to country, and generally involves filing a trade mark application which identifies the mark, the owner and the goods and/or services to be protected. The application is then examined for registrability under the trade marks legislation of the relevant country. If accepted, there is typically an opposition process allowing other traders a time limit within which to object to registration of the trade mark. Once a trade mark application has passed the examination and opposition processes, registration fees are payable and the trade mark is registered. A registered trade mark can be maintained indefinitely by the payment of renewal fees.

Schedule 2 attached hereto provides brief details of the trade mark applications filed by Angioblast Systems, Inc or Mesoblast Limited.

12. Author's Curriculum Vitae

FB Rice & Co is a Patent Attorney firm having offices in Sydney and Melbourne.

The author of this report is an Australian Patent and Trademark Attorney registered in 1995 and has a Bachelor of Science (Biochemistry) from Monash University and a PhD from the University of Adelaide. Following completion of the PhD, the author was employed as a Technical Assistant and Patent Attorney by a large Melbourne-based patent attorney firm. The author joined FB Rice & Co in 1995 and became a partner of the firm in 2000.

FB Rice & Co has not been involved in the drafting and prosecution of the patent applications discussed in this report. Accordingly, the information provided in this report is based on an independent review of the status of the patents and patent applications. We have consulted with the patent attorneys for Medvet to obtain information on the status of the patent applications and we have no reason to doubt the accuracy of this information as at the date of this report. The scope of this report does not extend to the provision of an opinion on the validity of the patents and patent applications over prior art documents.

13. Statement of Independence

Neither the author nor any principal or member of staff of FB Rice & Co have any financial or other material interests in Mesoblast Ltd. The payment of fees to FB Rice & Co for the preparation of this independent report is not contingent upon the outcome of the prospectus.

Yours sincerely

F B RICE & CO

JENNY PETERING
Partner
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Schedule 1 to Patent Attorney's Report

1. Mesenchymal Precursor cell

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
Australia	Medvet Science Pty Ltd	56636/00	07/07/1999	07/07/2000	Under Examination
United States of America	Medvet Science Pty Ltd	10/030411	07/07/1999	07/07/2000	Filed
United States of America	Medvet Science Pty Ltd	10/813,747 (Continuation In Part)	07/07/1999	29/03/2004	Filed
United States of America	Medvet Science Pty Ltd	TBA (Continuation in Part)	07/07/1999	29/09/2004	Filed

2. Perivascular Mesenchymal Precursor Cells

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
Patent Co-operation Treaty	Medvet Science Pty Ltd	PCT/AU2004/00416	28/03/2003	29/03/2004	Application pending

3. Perivascular Mesenchymal Precursor Cell Induced Blood Vessel

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
Patent Co-operation Treaty	Medvet Science Pty Ltd	PCT/AU2004/00417	28/03/2003	29/03/2004	Application pending

4. Proliferation of Mesenchymal Precursor Cells and Tissue Specific Committed Cells and Use Thereof to Generate Cardiac Muscle, Bone or Vascular and Endothelial Tissue

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
United States	Filed initially in the names of the inventors in accordance with US patent practice - to be assigned to Angioblast Systems, Inc	TBA	24/09/04	24/09/04	Provisional application

5. Proliferation of Mesenchymal Precursor Cells and Tissue Specific Committed Cells and Use Thereof to Generate Adipose Tissue

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
Australia	Medvet Science Pty Ltd	2004905528	24/09/04	24/09/04	Provisional application
*Australia	Angioblast Systems, Inc.	TBA	19/10/04	19/10/04	Provisional application

Schedule 1 to Patent Attorney's Report

6. Proliferation of Mesenchymal Precursor Cells and Tissue Specific Committed Cells and Use Thereof to Generate Neural and Glial Tissue

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
Australia	Medvet Science Pty Ltd	2004905525	24/09/04	24/09/04	Provisional application
*Australia	Angioblast Systems, Inc.	TBA	19/10/04	19/10/04	Provisional application

7. Proliferation of Mesenchymal Precursor Cells and Tissue Specific Committed Cells and Use Thereof to Generate Smooth Muscle Tissue

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
Australia	Medvet Science Pty Ltd	2004905527	24/09/04	24/09/04	Provisional application
*Australia	Angioblast Systems, Inc.	TBA	19/10/04	19/10/04	Provisional application

8. Proliferation of Mesenchymal Precursor Cells and Tissue Specific Committed Cells and Use Thereof to Generate Cartilage and Ligamentous Tissue

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
Australia	Medvet Science Pty Ltd	2004905526	24/09/04	24/09/04	Provisional application
*Australia	Angioblast Systems, Inc.	TBA	19/10/04	19/10/04	Provisional application

* The provisional applications filed in Australia on 24/09/04 were re-filed in the name of Angioblast Systems, Inc following execution of the assignment from Medvet to Angioblast in order to correct minor details in the original filings. Both the original and re-filed provisional applications will be used as priority documents when the PCT applications are filed.

Schedule 2 to Patent Attorney's Report

Country	Applicant/Owner	Patent Application No.	Earliest Priority Date	Date Filed	Status
Mesoblast	Australia	Mesoblast Ltd	1022910	30/09/2004	Filed
Angioblast	Australia	Angioblast Systems, Inc	1022939	30/09/2004	Filed
Angioblast systems and device	Australia	Angioblast Systems, Inc	1022940	30/09/2004	Filed

7 Risk Factors

This section identifies some of the major risks associated with an investment in Mesoblast.

Intending Applicants should read the whole of this Prospectus in order to fully appreciate such matters and the manner in which Mesoblast intends to operate before any decision is made to subscribe for Shares.

7.1 Nature of Investment

Any potential investor should be aware that subscribing for Shares involves various risks. Participating in the Offer should be considered speculative. The Shares to be issued pursuant to the Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares.

7.2 Business Risks

(a) **Reliance on Key Personnel:** The Company currently employs or is in the process of employing a number of key management and scientific personnel, and in part the Company's future depends on retaining and attracting suitable qualified personnel. The Company has structured its employment practices aimed at providing incentives and assisting in the recruitment and retention of key personnel. It has also, as far as legally possible, established contractual mechanisms through employment and consultancy contracts to limit the ability of key personnel to join a competitor or compete directly with the Company. Despite these measures, however there is no guarantee that the Company will be able to attract and retain suitable qualified personnel, and a failure to do so could materially adversely effect the business, operating results and financial prospects.

(b) **Contract risks generally:** The Company will operate through a series of contractual relationships with licensors, sub-licensees, independent contractors, distributors, customers and suppliers. All contracts including those entered into by the Company carry a risk that the respective parties will not adequately or fully comply with their respective contractual rights and obligations or that these contractual relationships may be terminated.

(c) **Risk as to Technical Capacity:** The Company intends to establish commercial outsourcing relationships to achieve its objectives. While the Company will seek to enter into relationships with reputable and quality organisations, such relationships are subject to the risk that the counterparty to those relationships may not meet their obligations. Some research or clinical development programs will not be under the sole control of the Company. The quality of the research and clinical results will therefore depend on the technical competencies of the staff at the outsourced research organisation, which in turn will potentially affect the success of the research and clinical results of the Company's activities. Furthermore, irrespective of the competencies of staff, research - clinical trials are inherently subject to risk and there is no guarantee that, despite the best efforts of researchers and clinicians, the research or clinical trials will be successful or the ultimate research results and clinical trials results will be those sought in undertaking the relevant research and clinical trials or support regulatory approval.

(d) **Technological Development and competition:** The Company's future success will depend on the Company's ability to develop products and methods that are competitive in a global market place. The Company's current and potential future competitors include companies with significantly greater resources than the Company.

(e) **Product Development:** There are many risks inherent in the development of medical and biotechnology products and they may fail during clinical trials or may fail to gain regulatory authorities' approval. The Company cannot guarantee that the development work being undertaken will result in the development of any products, or even if they do, that those products will be marketed or commercially successful. In the medical and biotechnology field the time taken to develop and obtain regulatory approval for marketable products is long and consequently is subject to inherent risk.

(f) **Product liability:** As with all new therapeutic products, even after regulatory approval, there is no guarantee that unforeseen adverse events or manufacturing defects will not arise, which could expose the Company to product liability claims or litigation - resulting in removal of the regulatory approval for the relevant products and/or monetary damages being awarded against the Company. The question of product liability will be a question dealt with more comprehensively as and when products, which may give rise to claims, are commenced to be manufactured whether by the Company or any of its licensees.

(g) **Sufficiency of funding:** The Company will have limited financial resources and may need to raise additional funds from time to time. In certain circumstances the Company's ability to successfully operate will be subject to its ability to raise additional funds which will be subject to factors beyond the control of the Company and its Directors including cyclical factors affecting the economy and share markets generally.

(h) **No Valuation:** No formal or informal valuation has been completed of the technology or assets of the Company. The Company makes no representation as to the value of its technology or as to the value of the technology licensed to it from third parties. All impending investors and their advisers should make their own assessments as to these matters after having regard to all of the matters contained in this prospectus.

(i) **Currency Risk:** Revenue and expenditure in overseas jurisdictions are subject to the risk of fluctuations in international currency exchange markets. A major portion of the research and clinical trials to be undertaken in the first 2.5 years will be done outside Australia, primarily in the United States and Germany. Accordingly, payment will be made in those countries' currencies, and may exceed the budgeted expenditure if there is adverse currency fluctuations against the A$. The Company has no plans at this stage to hedge its foreign currency payments.

(j) **Generally:** There is the possibility that, for a wide range of reasons, the Company's present strategies, plans, policies, intentions and expectations may not be able to be implemented.

7.3 Intellectual Property

The Company's core asset is its licensed technology. The commercial value of the technology is dependent on legal protections provided by a combination of copyright, patent, confidentiality, trade secrecy laws, and other intellectual property rights. These legal mechanisms, however, do not guarantee that the technology will be protected or the Company's competitive position maintained.

No assurances can be given that employees or third parties will not breach confidentiality agreements, infringe or misappropriate the Company's technology or that competitors will not be able to produce non-infringing competitive technology.

Further, no assurance can be given that others will not challenge the Company's rights in the technology, a licensor's rights in the technology or the underlying patents or other intellectual rights in the technology. The Company will make assessments on the patent protection strategies in different countries to determine whether patent protection is required and if it is available. Patent protection may not be sought in all countries either because such protection might not be commercially practical or because patent protection may be unavailable or limited in certain countries. A full list of countries where patent protection has been applied for or obtained is detailed in FB Rice's Intellectual Property Report in section 6 of this Prospectus.

The Company was not involved in the initial research stages undertaken at Medvet and IMVS which led to the development of its licensed core technology, and its knowledge therefore regarding the inventors and initial research methods and process is based on the information the Company has gathered through its relationship with Medvet and IMVS and by undertaking reasonable due diligence. While there may be other risks in relation to the licensed core technology and associated intellectual property rights, which cannot be revealed from reasonable due diligence, the Company has been able to mitigate these risks by requiring Medvet (for and on behalf of IMVS) to give extensive warranties over the licensed core technology.

Litigation may be necessary, where commercially feasible, from time to time to enforce and protect the Company's rights in the technology. Such litigation, however, can be costly and could have adverse effects on the Company's activities, business, operating results and financial position. Likewise, a failure to succeed in protecting any such rights may equally have a materially adverse effect on the Company's activities, business, operating results and financial position.

Although the Company has itself conducted patent searches on publicly available databases, there are limitations on such searching. Searches are dependent on the accuracy and effectiveness of the searching method used and the accuracy and scope of the records held. Even if the accuracy of the records is guaranteed, any search strategy inevitably involves a compromise between scope and costs. For this reason the Company's searches were restricted to those keywords considered most likely to reveal relevant disclosures. Another limitation is that in the major jurisdictions, patent applications are not published until 18 months from the earliest priority date. This means that for any given search, it is generally not possible to detect patent applications filed within the previous 18 months.

It is possible that third parties may assert intellectual property infringement, unfair competition or like claims against the Company under copyright, trade secret, patent or other laws. While the Company is not aware of any claims of this nature in relation to any of the intellectual property rights in which it has interests, such claims, if made, may harm, directly and indirectly, the Company's business. If the Company is forced to defend claims of intellectual property infringement, whether they are with or without merit or are determined in the Company's favour, the costs of such litigation will potentially be significant and will divert management's attention from normal commercial operations. Furthermore such disputes may require the Company to develop non-infringing technology or enter into royalty or licensing agreements. Such agreements, if necessary,

may be unavailable on terms acceptable to the Company, if at all. If there is a successful claim of intellectual property infringement or unfair competition against the Company and it is unable to develop non-infringing technology or license the infringed or similar technology or content on a timely basis, it could harm the Company's business, operations and financial condition.

7.4 Regulatory Authority Approvals

Without conducting further development and clinical trials (and obtaining regulatory authority approvals) Mesoblast will NOT be able to commercialise the MPC Technology.

(a) Pre-clinical product development

To initiate MPC clinical trials in an Australian TGA-registered GMP facility, a standard operating protocol (SOP) will need to be developed by the Company. There can be no assurances as to the time required to complete the SOP to the satisfaction of the Company, the GMP facility, and the ethics board of the administering institution.

The costs or the time lines for MPC product development and scale-up, including both monoclonal antibody and cell processing components, may be greater than anticipated or extend beyond schedule due to unforeseen circumstances by the subcontracted facilities. Since the cell isolation and manufacturing processes are novel, the FDA may require additional, unanticipated validation steps or assays to be incorporated prior to IND approval and initiation of pivotal clinical trials.

(b) Clinical development

All clinical trials have an inherent risk of adverse events, and these may occur in patients receiving MPC treatments for only certain indications, suggesting a disease-specific event, or for all indications, suggesting an event caused by the manufacturing process or even of the MPC themselves. While appropriate and extensive pre-clinical studies should minimise the risk of adverse events in humans, not all such events can be anticipated prior to initiating human clinical trials.

There can be no assurances as to the amount of pre-clinical data an ethics board committee will require nor as to the time that it will ultimately take to obtain ethics board approval of the administering institutions for initiating clinical trials.

The extent of clinical evaluation needed to satisfy the FDA, TGA, or other regulatory authorities, and obtain approval for new product registration can be anticipated, but may be subject to alteration pending FDA decisions by these authorities. Moreover, cell therapy products represent a novel class of therapeutics and may be subject to unique safety requirements by the regulatory authorities. Requests for additional clinical studies may extend the timeline of the registration process.

7.5 Market for Shares

Prior to the Offer there has been no public market for the Shares. No assurance can be given that an active market will develop in the Shares or that the Shares will trade at or above the Offer Price after the Shares have been listed on the Official List and after Official Quotation.

7.6 Stockmarket Volatility

Regardless of the performance of Mesoblast, the day to day performance of the share market and general share market conditions may effect Mesoblast and the price at which shares trade on a share market such as the ASX. The share market has in the past and may in the future be affected by a number of matters including:

(a) economic conditions in general terms and in particular to the industry that a business operates in;

(b) interest rates;

(c) market confidence;

(d) supply and demand for money;

(e) currency exchange rates;

(f) general economic outlook; and

(g) changes in government policy.

8 Taxation

The following taxation summary provides a general overview of the Australian tax implications to Australian resident and non-resident investors who acquire and hold the Shares under the offer contained in this Prospectus. This summary is based on the tax laws of Australia as at the date of this Prospectus.

The Australian tax laws are complex and the following is not intended to be a complete statement of the possible implications for investors. It is your responsibility to be satisfied as to the particular taxation treatment that applies to your investment. You should seek independent professional advice with respect to the tax consequences applicable to your individual circumstances before investing.

The following discussion assumes you hold the Shares on capital account. A different treatment may apply if you hold the Shares on revenue account, for example if you are a share trader.

8.1 Australian Investors

(a) Capital gains tax

Australian income tax laws contain a capital gains tax (CGT) regime. Shareholders who hold Shares on capital account will be subject to the CGT regime on disposal of those Shares. For CGT purposes, you acquire your Shares on the date the Shares are issued or allotted to you. The cost base and reduced cost base of Shares acquired is generally the amount you pay to acquire the Shares plus any incidental costs of acquisition and non-capital costs of ownership that you incur.

Gains on the disposal of Shares held on capital account will be subject to the CGT provisions. A capital gain will arise where the proceeds received exceed the cost base of the Shares. Conversely, you incur a capital loss where the proceeds received on disposal are less than the reduced cost base of the Shares.

Capital losses made in the same or prior years can typically be offset against any capital gains. Any remaining net capital gain is included in assessable income and taxed. Where a net capital loss is incurred it may be carried forward indefinitely and offset against future capital gains subject to the loss recoupment rules.

Individuals and trusts in certain circumstances may be entitled to a 50% discount on capital gains derived where they have held the Shares as a CGT asset for 12 months or more. Complying superannuation funds and life insurance companies holding the Shares as virtual pooled superannuation trust assets are entitled to a discount of 33.3%. Any discount would apply only after capital losses are first applied against the capital gain. Companies are not entitled to the discount.

(b) Stamp duty

No stamp duty is payable on the issue or transfer of listed Shares. Under current stamp duty legislation, no stamp duty would be payable on subsequent transfers of the Shares as long as the Shares remain quoted on the ASX.

(c) Taxation of dividends

Dividends paid to you will be included in your assessable income in the income year they are paid. Dividends you receive may be franked or unfranked. Franked dividends have “franking credits” attached and reflect the Australian corporate tax paid on the profits out of which the dividends are paid. The dividends and any franking credits attached should be included in your assessable income.

You will be entitled to a tax offset equal to the franking credits received, provided the recipient is a "qualified person". In general terms, to be a qualified person two tests must be satisfied being the "holding period rule" and the "related payments rule". These rules will, in broad terms, be satisfied where you have held the Shares at risk for at least 45 continuous days (excluding the dates of acquisition and disposal).

Corporate shareholders may also be entitled to a franking credit in their franking account equal to the franking credit attached to the dividend paid. Such credit can be attached to dividends paid by the corporate shareholder to its shareholders. Certain types of taxpayers, including individuals and superannuation funds, are entitled to a refund of any excess franking credits. Companies are not able to claim a refund for excess franking credits.

Unfranked dividends will be included in assessable income.

(d) Goods and Services Tax

Under current law, Goods and Services Tax is not payable on the issue or transfer of Shares.

8.2 Non-Resident Investors

(a) Capital gains tax

As a non-resident, you will generally not be subject to Australian CGT on disposal of the Shares unless you (and your associates) hold at least 10% of the Shares on issue at any time during the 5 years prior to disposal. In the event that the Shares are subject to CGT, the taxation consequences outlined above for an Australian resident will apply, subject to the application of any relevant Double Tax Agreement.

(b) Taxation of dividends

Dividends you receive will not be subject to dividend withholding tax to the extent the dividend is franked. However, dividend withholding tax may apply to that part of the dividend that is unfranked. The rate of dividend withholding tax rate is 30%, however this may be reduced (usually to 15%) where Australia has a Double Taxation Agreement with the Country in which the shareholder is a resident.

In addition, Australia has a foreign dividend account system which allows certain foreign dividends received in Australia to pass through Australia to foreign investors free from Australian dividend withholding tax.

Non-resident investors should consult their own tax adviser for the taxation implications in their own domestic jurisdiction of this offer.

9 Additional Information

9.1 Company Information

(a) **Incorporation:** Mesoblast was incorporated under the Corporations Act as a public company limited by shares on 8 June 2004. Mesoblast will be taxed as a public company. Mesoblast was incorporated to enter into the Orthopaedic Licence.

(b) **Rights attaching to Shares:** The Shares offered under this Prospectus are fully paid ordinary shares in the capital of Mesoblast. A summary of the more significant rights attaching to the Shares (taken from the Constitution) is set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Mesoblast members. To obtain such a statement, applicants should seek independent legal advice.

- **Ranking** - The Shares will be ordinary shares and will rank equally in all respects with the ordinary shares in Mesoblast on issue prior to the date of this Prospectus.
- **Reports and Notices** - Members are entitled to receive all notices, reports, accounts and other documents required to be furnished to members under the Constitution of Mesoblast and the Corporations Act.
- **General Meetings** - Subject to any preferential or special rights attaching to any shares that may be issued by Mesoblast in the future, members are entitled to be present in person, or by proxy, attorney or representative to speak and to vote at general meetings of Mesoblast. Members may requisition general meetings in accordance with the Corporations Act and the Constitution of Mesoblast.
- **Voting** - At a general meeting of Mesoblast every ordinary member present in person, or by proxy, attorney or representative shall on a show of hands have one vote and upon a poll every member present in person or by proxy, attorney or representative has one vote for every share held. A qualification to the above is that where a person is present at a meeting as proxy or representative for more than one member then on a show of hands that person shall have only one vote and not one vote for each person represented by him.
- **Reduction of Capital** - Subject to the Corporations Act and ASX Listing Rules, Mesoblast may resolve to reduce its share capital by any lawful manner as the Directors may approve.
- **Winding Up** - Members will be entitled in a winding up to share in any surplus assets of Mesoblast in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.
- **Transfer of Shares** - Shares in Mesoblast may be transferred in any form authorised by the Corporations Act or approved by the Directors and in the manner prescribed by the Constitution of Mesoblast, the Corporations Act, the ASX Listing Rules or the ASTC Settlement Rules. The Directors may subject to the ASX Listing Rules and the ASTC Settlement Rules, request the ASTC to place a holding lock to prevent any ASTC transfer of shares. The Directors may refuse to register a paper based transfer of a share in particular circumstances. If the Directors decline the registration of a transfer, Mesoblast must within seven business days, or any other period prescribed by the ASX Listing Rules, after the transfer is lodged, give the party lodging the transfer written notice of the refusal setting out reasons for the refusal.
- **Issue of Further Shares** - The Directors control the allotment, issue, grant of options in respect of and disposal of shares. Subject to restrictions on the allotment of shares and grant of options to Directors or their associates and the Corporations Act, the Directors may allot, grant options or otherwise dispose of shares on such terms and conditions as they see fit.
- **Takeover Approval Provisions** - Any proportional takeover scheme must be approved by those members holding shares included in the class of shares in respect of which the offer to acquire those shares was first made. The registration of the transfer of any shares following the acceptance of an offer made under a scheme is prohibited until that scheme is approved by the relevant members.
- **Application of ASX Listing Rules** - On admission to the Official List of the ASX then, despite anything in the Constitution of Mesoblast, if the ASX Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the ASX Listing Rules require to be done. If the ASX Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the ASX Listing Rules require a constitution to contain a provision or not to contain a provision, the Constitution is deemed to contain that provision or not to contain that provision (as the case may be). If a provision of the Constitution is or becomes inconsistent with the ASX Listing Rules, the Constitution is deemed not to contain that provision to the extent of that inconsistency.

(c) **Dividends:** It is not envisaged that Mesoblast will pay any dividends in the foreseeable future.

(d) **Litigation:** There is no litigation commenced or threatened against Mesoblast.

9.2 Material Contracts

The following contracts are considered by the Directors to be material for the purposes of this Prospectus or may be relevant to a potential investor:

(a) Intellectual Property Agreements

(i) Orthopaedic Licence Agreement between Medvet & Mesoblast and Deed Amending the Orthopaedic Licence;

(ii) Intellectual Property Assignment Deed between Angioblast & Medvet;

(iii) Option Deed between Angioblast and Medvet;

(iv) Option Deed between Mesoblast & Medvet;

(v) Mutual Licence Agreement between Mesoblast & Angioblast.

(b) Mesoblast investment in Angioblast

The material contracts relating to the acquisition by Mesoblast of a 33.3% interest in Angioblast and the rights conferred on Mesoblast in respect of that shareholding in Angioblast is contained in -

- Stock Purchase Agreement - containing the terms on which Mesoblast has the ability to acquire 33.3% interest in the common stock of Angioblast;
- Investor Rights Agreement - conferring certain rights on Mesoblast in relation to corporate action by Angioblast after the acquisition by Mesoblast of its interest in Angioblast;
- Right of First Refusal and Co-Sale Agreement which provides the framework under which existing stockholders in Angioblast may dispose of their shares; and
- Amended and Restated Certificate of Incorporation of Angioblast - which incorporates the rights attaching to the convertible preference shares to be acquired by Mesoblast in Angioblast and which convertible preference shares convert to a 33.3% interest in Angioblast.

(c) Operational Agreements

- Underwriting Agreement;
- Consultancy Agreement;
- Executive Share Option Plan;
- Confidentiality Agreements: Staff, Consultants and Joint Scientific Advisory Board Members;
- Voluntary Escrow Agreements;
- Directors' Deeds of Indemnity, Insurance and Access;
- Appointment of Joint Scientific Advisory Board Members

9.3 Intellectual Property Agreements

(a) Background

The Institute of Medical and Veterinary Science (IMVS) is a body corporate established pursuant to the *Institute of Medical and Veterinary Science Act 1982 (SA)*. Medvet Science Pty Ltd (Medvet) was incorporated by IMVS to act as the delegate and agent of IMVS in the commercial exploitation of technology and intellectual property belonging to IMVS.

IMVS assigned its intellectual property rights to Medvet including:

- *Patent Family 1* - patents and patent applications relating to 'Mesenchymal Precursor Cells' PCT/AU00/00822, Australian patent application no. 56636/00, US patent application no. 10/030411, Continuation-in-Part U.S. Patent Application No. 10/813,747, US continuation-in-part related to USSN10/030411 titled ' Mesenchymal Precursor Cell and use thereof in the repair of bone defects and fractures in mammals';
- *Patent Family 2* - patents and patent applications 'Perivascular Mesenchymal Precursor Cells' PCT/AU2004/00416;
- *Patent Family 3* (its 50% share, the other 50% already owned by Angioblast) - patents and patent applications relating to 'Perivascular Mesenchymal Precursor Cell Induced Blood Vessel Formation' PCT/AU2004/00417.
- *Patent Family 4* - patents and patent applications relating to the proliferation of mesenchymal precursor cells and tissue specific committed cells and use thereof to generate cardiac muscle, bone or vascular and endothelial tissue;
- *Patent Family 5* - patents and patent applications relating to the proliferation of mesenchymal precursor cells and tissue specific committed cells and use thereof to generate adipose tissue;
- *Patent Family 6* - patents and patent applications relating to the proliferation of mesenchymal precursor cells and tissue specific committed cells and use thereof to generate neural and glial tissue;
- *Patent Family 7* - patents and patent applications relating to the proliferation of mesenchymal precursor cells and tissue specific committed cells and use thereof to generate smooth muscle tissue; and
- *Patent Family 8* - patents and patent applications relating to the proliferation of mesenchymal precursor cells and tissue specific committed cells and use thereof to generate cartilage and ligamentous tissue.

(b) Intellectual Property Agreements

(i) Licence Agreement between Medvet & Mesoblast (Orthopaedic Licence)

Medvet and Mesoblast entered into a licence agreement granting Mesoblast a worldwide licence to conduct research, use and exploit within the bone regeneration and repair and cartilage regeneration and repair field (Orthopaedic Field) in relation to the Patent Families 1, 2 and Medvet's 50% interest in Patent Family 3 and certain materials. The Orthopaedic Licence was subsequently amended by a Deed of Amendment executed by Medvet and Mesoblast, which among other things, extended Medvet's licence to Mesoblast to include Patent Families 4 to 8.

The Orthopaedic Licence is exclusive to Mesoblast other than certain non-exclusive rights granted to an Australian research institution to conduct research in relation to Patent Family 1 and some materials, and potentially a non-exclusive licence to the extent reasonable and necessary to use Patent Family 1 and those materials to commercialise future IP the research institute develops using the research licence.

The Orthopaedic Licence will expire on the date of expiry of the last patent subsisting in the technology. Mesoblast grants back to the Medvet a non-exclusive, perpetual, irrevocable and royalty-free licence to use the technology and materials for Medvet's non-commercial, internal research and academic purposes, on the condition that Mesoblast will own all further research results. Further key provisions of the Orthopaedic Licence are as follows:

- the licence from Medvet extends to all improvements to the technology made by Medvet/IMVS, and all improvements developed by or on behalf of Mesoblast will be owned by Mesoblast;
- any scientific and academic publications and presentations in respect of the technology require the prior written consent of Mesoblast before publication;
- Mesoblast will be required to make milestone payments to Medvet of US$250,000 on completion of Phase III (human) clinical trial and US$350,000 on FDA marketing approval;
- Mesoblast will pay Medvet commercial arm's length royalty based on both net sales from the sale by Mesoblast of licensed products each quarter;
- Mesoblast is free to sublicense to third parties the rights granted to Mesoblast, and Mesoblast will pay an agreed commercial arm's length percentage of sub-licence revenues to Medvet;
- Mesoblast will issue to Medvet such number of shares in Mesoblast which will constitute 5% (on a fully diluted basis) of the issued voting share capital of Mesoblast when issued at the earlier of an IPO or 31 Dec 2004;
- Medvet granted to Mesoblast a first right of refusal to the use of its facilities, know-how and personnel for the production of FDA/TGA monoclonal antibody for therapeutic use, and human clinical trials involving the technology;
- Medvet will throughout the Orthopaedic Licence term supply such amounts of material and cells free of charge as is reasonably required by Mesoblast for the purposes of the licence, excluding antibodies;
- Medvet will file, prosecute, register and maintain any intellectual property rights in relation to the technology and materials and improvements made or acquired by Medvet in accordance with Mesoblast's reasonable directions;
- Mesoblast may take legal action to protect against infringement of intellectual property rights in the technology and materials by third parties;
- Medvet's liability for any claim or loss or damage for breach of confidence or a breach of warranty for non-breach of third party intellectual property rights from Mesoblast's use of the technology and materials, is unlimited. The maximum liability for all other proven losses is limited to loss, damage, cost, liability or expense except where incurred other than by indirect or consequential losses and to the extent that that another party (including Mesoblast) was responsible;
- Medvet warrants that:
  - its legal and equitable title to the technology and materials is not subject to any encumbrance;
  - it has all rights and interest required to grant the licence under this agreement;
  - use of technology and materials by Mesoblast in accordance with the Agreement will not infringe third party intellectual property rights;
  - it has not granted any person any right (other than the rights granted to the Australian research institution) to use or exploit in any way all or any part of the technology or materials or to manufacture, market and sell products incorporating any part of the technology or materials in all or any part of the world;
  - no person's consent is required in respect of the assignment or licence of the technology and materials;

- Medvet is entitled to make all patent applications which it has made in respect to the technology and materials;
- use of the technology and materials by Mesoblast in accordance with the Licence Agreement will not infringe the intellectual property rights of any third party; and
- there is no litigation or claim pending or threatened, challenging or disputing the ownership or validity of the technology and materials or any rights to the technology and materials;

- Medvet also provided further warranties that certain essential materials will be exclusively licensed to Mesoblast free of any encumbrances and such grant of licence would not breach any third party rights. These essential materials are relevant to Mesoblast undertaking its research under the agreement;
- Mesoblast acknowledges that other than the expressed warranties, Medvet has not made and excludes all other warranties, terms, representations, conditions or undertakings (expressed or implied) including any implied warranty of merchantability or fitness for a particular purpose of the licensed technology and materials;
- Mesoblast will indemnify Medvet for actions, claims, demands, liabilities, damages, outgoings or proceedings of any nature including loss or damage arising from any acts or omissions of Mesoblast or its officers, employees, agents, contractors or sub-licensees including:
  - performance of its rights and obligations under the agreement or a sub-licence;
  - breach of obligations under the agreement or a sub-licence;
  - negligence in performance or breach of rights or obligations under the agreement or a sub-licence;
  - the manufacture, use and sale of licensed products incorporating the technology by Mesoblast, its sub-licensees or any other third party.

After the Orthopaedic Licence and Deed of Amendment were executed, Medvet, with the prior written consent of Mesoblast, transferred all of its rights in the technology and materials, as well as Medvet's rights as the licensor under the Orthopaedic Licence, to Angioblast pursuant to an Intellectual Property Assignment Deed which was executed between Medvet and Angioblast.

(ii) Intellectual Property Assignment Deed between Angioblast & Medvet

Medvet has assigned to Angioblast all of Medvet's rights in Patent Families 1 to 8 and certain materials (including all intellectual property rights subsisting therein) under the Intellectual Property Assignment Deed.

Under this Intellectual Property Assignment Deed:

- the assignment of Patent Families 1-8 and materials was made subject to the limited non-exclusive rights of an Australian research institution over Patent Family 1 and certain materials;
- Angioblast provided a list of essential materials which is relevant to Angioblast's research and which Medvet warrants that it has assigned to Angioblast free of any encumbrances;
- Medvet also agreed to assign to Angioblast all its right, title and interest in the Orthopaedic Licence, on the condition that Mesoblast will continue to make payments under the Orthopaedic Licence directly to Medvet, notwithstanding the assignment by Medvet under this Deed;
- the previous world wide licence agreement between Medvet and Angioblast over the technology in the cardiac muscle and blood vessels field (Cardio Licence) terminated upon assignment, but notwithstanding such termination, Angioblast will continue to be obligated to pay Medvet the fees payable to Medvet under that licence as part of the assignment consideration. Angioblast is also obliged to pay Medvet certain milestone and royalty payments to Medvet in fields other than Orthopaedic and cardiovascular fields as part of the assignment consideration;
- Angioblast grants Medvet a non-exclusive, perpetual, irrevocable, royalty free licence to use the assigned technology and materials for non-commercial, internal research and academic research provided that Medvet will not use the technology commercially or enter contractual obligations with third parties that is either inconsistent with Angioblast's rights under the Deed or relates in any way to the technology, and provided that Angioblast will own improvements arising form such research;
- Medvet provided Angioblast with an extensive list of warranties in relation to the assigned technology including Medvet's entitlement to assign, non-infringement of third party rights, no pending litigation, no pending breach of the Orthopaedic Licence, the limited rights of an

Australian research institute over the Patent Family 1 and some materials do not effect the assignment, and Mesoblast's consent has been obtained prior to the assignment of the Orthopaedic Licence;

- Medvet will indemnify Angioblast against all actions, claims, proceedings, demands, liabilities, losses, damages, expenses, and costs (including legal costs) that may be brought against Angioblast which Angioblast may sustain as a direct or indirect result of any breach or non-performances of this Deed by Medvet.

(iii) Option Deed between Angioblast and Medvet

Subsequent to the execution of the Intellectual Property Assignment Deed, Medvet and Angioblast entered into an option deed whereby Medvet granted Angioblast an option to obtain from Medvet:

- an assignment of Medvet's certain other technology and materials which has application of cell therapy as defined (other than Patent Families 1-8 and materials which have been licensed and which have been assigned to Angioblast) (Other Technology) in any field other than those that have application in the Orthopaedic Field;
- to the extent that Medvet cannot assign any Other Technology, then an exclusive worldwide licence to exploit any of Medvet's Other Technology in any field other than the Orthopaedic Field, on terms identical to the Cardio Licence, with the exception of the commercial terms which will be agreed by the parties within specified ranges provided; and
- to the extent that an exclusive worldwide licence over any of the Other Technology cannot be granted, a non-exclusive worldwide licence to exploit all or part of the Other Technology in all fields other than the Orthopaedic Field on terms substantially similar to the Cardio Licence, except those clauses which must be changed on the basis that the licence is non-exclusive and such commercial terms to be agreed by the parties within specified ranges provided.

Other key provisions include:

- the term of the Option Deed is for 5 years, and the option may be exercised over any Other Technology during the term. Angioblast is able to exercise the option over any of Other Technology more than once until the relevant Other Technology has been assigned to Angioblast;
- if Angioblast decides to exercise its option under this deed, it must do so in accordance with the specified procedure provided;
- Medvet is required to provide an updated list to Angioblast on a quarterly basis of all Other Technology. Angioblast is able to request an independent audit of the Other Technology from time to time upon reasonable written notice to Medvet;
- Medvet warrants that it is free to assign or license its Other Technology and in doing so will not infringe any third party rights;
- Medvet's agrees to indemnify Angioblast for losses and damages suffered by Angioblast as a direct or indirect result of Medvet's non-performance or breach of the deed, or its wrongful, wilful or negligent act or omission under this deed.

(iv) Option Deed between Mesoblast & Medvet

Subsequent to the execution, by Mesoblast of the Orthopaedic Licence, Medvet and Mesoblast entered into an option deed whereby Medvet granted Mesoblast an option to obtain from Medvet:

- an exclusive worldwide licence to exploit Medvet's Other Technology in the Orthopaedic Field, on terms identical to the Orthopaedic Licence, with the exception of the commercial terms which will be agreed by the parties within specified ranges provided; and
- to the extent that an exclusive worldwide licence over any of the Other Technology cannot be granted, a non-exclusive worldwide licence to exploit all or part of the Other Technology in the Orthopaedic Field on terms substantially similar to the Orthopaedic Licence, except those clauses which must be changed on the basis that the licence is non-exclusive and such commercial terms to be agreed by the parties within specified ranges provided.

Other key provisions include:

- the term of the Option Deed is for 5 years, and the option may be exercised over any Other Technology during the term. Mesoblast is able to exercise the option over any of Other Technology more than once until the relevant Other Technology has been licensed to Mesoblast;
- if Mesoblast exercises the option under this deed, it must do so in accordance with the specified procedure provided in the deed;
- Medvet is required to provide an updated list to Mesoblast on a quarterly basis of all Other Technology. Mesoblast is able to request an independent audit of the Other Technology from time to time upon reasonable written notice to Medvet;

- Medvet agrees that if it assigns any part of the Other Technology during the term of the option to Mesoblast, it may only do so on the condition that the assignee will grant the same option to Mesoblast over the assigned Other Technology;
- Medvet warrants that it is free to assign or license its Other Technology and in doing so will not infringe any third party rights;
- Medvet's agrees to indemnify Mesoblast for losses and damages suffered by Mesoblast as a direct or indirect result of Medvet's non-performance or breach of the deed, or its wrongful, wilful or negligent act or omission under this deed.

(v) Mutual Licence Agreement between Mesoblast & Angioblast

Subsequent to the execution of the Intellectual Property Assignment Deed between Medvet and Angioblast, Mesoblast and Angioblast entered into a mutual licence agreement whereby:

- Angioblast granted Mesoblast a non-exclusive, worldwide, royalty-free, irrevocable and perpetual right to use and exploit improvements to Patent Families 1 to 8 and related materials developed or acquired by Angioblast in the Orthopaedic Field, which is separate and in addition to the licence granted to Mesoblast under the Orthopaedic Licence pursuant to which Medvet transferred its rights (as the licensor) to Angioblast;
- Mesoblast granted Angioblast a non-exclusive, worldwide, royalty-free, irrevocable and perpetual right to use and exploit improvements to Patent Families 1 to 8 and related materials developed or acquired by Mesoblast in all fields other than the Orthopaedic Field;
- the parties may sub-license their respective licence rights in the other party's technology improvements provided that they meet certain preconditions, being (a) the sublicensing party will provide to the other party prior written notice of its intention to sub-licence, and (b) the sublicensing party must ensure that the sublicensing agreement is consistent with the terms of the Mutual Licence Agreement and must provide a copy of each sublicensing agreement to the other party prior to execution;
- the parties confirm that the Mutual Licence Agreement will not operate to prevent Mesoblast from exercising its sublicensing rights under the Mesoblast Licence;
- the parties must promptly disclose to the other party any improvements to the technology it acquires or develops;
- the parties may agree in writing to vary the terms of their respective licences to technology improvements (including the respective fields of the licences);

Further key provisions are as follows:

- Mesoblast and Angioblast agreed on a mechanism for agreeing and managing the collaboration and sharing of each party's resources in the future, such collaboration must be pursuant to a written agreement to be negotiated between Mesoblast and Angioblast, and specifically as part of this collaboration, the parties will jointly develop the IND Dossier for Patent Families 1-8 which will be jointly owned by the parties and each party will be entitled to use such Dossier (without having to account to the other) for making IND applications in their respective fields;
- the parties agreed that any costs, expenses or resources associated with their collaboration which Angioblast is not required to meet or not provided for under an agreed expenditure program will be shared by the parties equally;
- the parties agree that Mesoblast will be able to reasonably direct Angioblast in the filing, prosecution, registration and maintenance of the intellectual property rights subsisting in the Technology to the extent that it is related to the Orthopaedic Field provided that Mesoblast reimburses Angioblast for costs which Angioblast incurs as result of following Mesoblast's directions;
- the parties agreed that notwithstanding the provisions of the Orthopaedic Licence, Angioblast will have a discretion to commence legal proceedings regarding infringement of intellectual property rights (unilaterally or jointly with Mesoblast), and where Angioblast seeks to join Mesoblast in any action, then it agrees to indemnify Mesoblast for any losses and damages suffered by Mesoblast as a result of Mesoblast being joined as a party;
- each party will be responsible for the filing, prosecution, registration, maintenance and protection of its own improvements to the technology, with the other party agreeing to provide any assistance and comply with any reasonable directions required;
- Mesoblast and Angioblast agreed to undertake collaborative joint research projects in the future within the field of mesenchymal precursor cell research on normal commercial terms including the following:

- neither party will conduct collaborative research together within the field of mesenchymal precursor cell research unless it is pursuant to a written agreement between Mesoblast and Angioblast; and
- ownership of project results will be agreed on a case by case basis for each research project;

- the parties must provide each other with a quarterly written report on any independent technology that a party develops or acquires that relates to use of stem cells for therapy or diagnostic purposes;
- Angioblast granted to Mesoblast a non-exclusive, worldwide, perpetual and irrevocable licence to use and exploit Angioblast independent technology in the Orthopaedic Field on normal commercial terms to be agreed between the parties (with any failure to agree being referred to an independent expert for resolution);
- Angioblast also granted Mesoblast an option to negotiate an exclusive licence to Angioblast's independent technology for use and exploitation in the Orthopaedic Field within 90 days from each quarterly report from Angioblast. The exercise of the option must be in accordance with the procedure set out in the Mutual Licence Agreement;
- Mesoblast granted Angioblast an option to negotiate a non-exclusive or exclusive licence to such of Mesoblast's independent technology for use and exploitation in the all fields other than the Orthopaedic Field within 90 days from each quarterly report from Mesoblast. The exercise of the option must be in accordance with the procedure set out in the Mutual Licence Agreement;
- Angioblast granted Mesoblast a non-exclusive, worldwide, royalty free, perpetual and irrevocable licence to use and exploit technology developed or acquired by Angioblast which is funded by Mesoblast using funds from Mesoblast's initial public offering of its shares on the Australian Stock Exchange;
- the parties also confirmed that Mesoblast's option over Medvet's Other Technology (other than Patent Families 1-8 and related materials) will survive in the event that such Other Technology is assigned to Angioblast pursuant to a separate option granted to Angioblast over the same Other Technology;
- on termination of the Mutual Licence Agreement, the options over each other's respective independent technology will cease to operate, and all other licences granted under the Mutual Licence Agreement will survive and continue operation;
- the Mutual Licence Agreement is governed by the laws of Victoria, Australia.

9.4 Mesoblast - investment in Angioblast

(a) Stock Purchase Agreement

The Stock Purchase Agreement details the terms on which Mesoblast has agreed to subscribe for, and Angioblast has agreed to issue to Mesoblast, up to 500,000 preferred shares for a purchase price of AU$20.00 per share (AU$10 million in aggregate).

The Angioblast preferred shares confer on the holder the rights detailed in the Amended and Restated Certificate of Incorporation of Angioblast (described in greater detail in section 9.4(d)). One of the essential features of the terms for the Angioblast preferred shares is that on the occurrence of a conversion event (as described in section 9.4(d) below), the Angioblast preferred shares will convert into 33.3% of the common stock of Angioblast on a fully diluted basis after taking into account the number of common stock to be issued on the conversion of the relevant Angioblast preferred shares.

Therefore while Mesoblast is to subscribe for the Angioblast preferred shares in stages, irrespective of the number of Angioblast preferences shares actually issued to Mesoblast, on the conversion of the Angioblast preferred shares Mesoblast will hold 33.3% of the common stock of Angioblast.

The subscription for Angioblast preferred shares is structured to occur in a series of tranches as follows:

(i) first tranche of 100,000 preferred shares for an aggregate purchase price of $2 million no later than 14 days after the closing of the Offer;

(ii) second tranche of up to 200,000 preferred shares subject to adherence by Angioblast to the Angioblast Expenditure Program;

(iii) where Angioblast achieves an SOP within 24 months of the date of Stock Purchase Agreement, the third tranche of up to 200,000 preferred shares, again subject to adherence by Angioblast to the Angioblast Expenditure Program.

In respect of the second and third tranche, Mesoblast is obliged to purchase from Angioblast at the end of each quarter 50,000 shares (or such greater number of shares as are specified in a draw notice from Angioblast) for a purchase price of AU$20.00 per preferred share. The Stock Purchase Agreement allows Angioblast to require the amount of each quarter drawdown to be increased where Angioblast can detail the purpose for which the

funds are required (which must be contemplated by the Angioblast expenditure program see paragraphs (b)(i) and (b)(xii) below for further details). Mesoblast must also be satisfied that all amounts previously advanced by it to Angioblast to purchase preferred shares has been expended for the purposes contemplated by the Angioblast expenditure program.

Mesoblast is not obliged to subscribe for further Angioblast preferred shares if at any time Angioblast commits a material default under the Angioblast expenditure program and fails to remedy that default within 30 days after receipt of a written notice from Mesoblast requiring it to do so.

The Stock Purchase Agreement also contains warranties and representations from Angioblast in favour of Mesoblast that are usual for a document of this nature.

(b) Investor Rights Agreement

The Angioblast shareholders and Mesoblast have entered into the Investor Rights Agreement, which agreement provides that for so long as Mesoblast holds preferred shares in Angioblast the following matters must not be authorised by the Angioblast board or its shareholders unless the Mesoblast nominee to the Board of Directors of Angioblast has approved:

(i) the adoption of, and any amendment to, Angioblast's annual program (including the Angioblast expenditure program);

(ii) the appointment of a Chief Executive Officer of Angioblast;

(iii) the entry by Angioblast into any transaction which provides a material financial benefit to any directors or any stockholder of Angioblast or any associate of either;

(iv) the issuance of any shares, convertible notes, options, securities or other like entitlements which are convertible into shares or equity interests in Angioblast;

(v) the variation of any obligations, rights or entitlements attaching to shares in the Angioblast;

(vi) the acquisition by Angioblast of an equity interest in a business or another company;

(vii) any material transaction in Angioblast's present or future intellectual property;

(viii) a transaction or series of related transactions involving the transfer by Angioblast of an asset or assets of Angioblast with a value in excess of AU$1,000,000;

(ix) the creation of any security interest over an asset of Angioblast;

(x) Angioblast entering into a commitment or liability which is not in the ordinary course of its business;

(xi) the declaration of dividends by Angioblast; and

(xii) any divergence, or variation to, the Angioblast expenditure program.

On the conversion of the Angioblast preferred shares into Angioblast common stock, the above restrictions will lapse and Mesoblast's rights will rank equally with the rights of all holders of common stock in Angioblast.

(c) Right of First Refusal and Co-Sale Agreement

The Right of First Refusal and Co-Sale Agreement (Pre-emptive Rights Agreement) provides the framework under which shareholders of Angioblast may dispose of their shares.

The Agreement stipulates that, prior to selling any shares (Disposal Shares) in Angioblast, a shareholder (Seller) must first offer the Disposal Shares to both Angioblast and the Eligible Stockholders for purchase. In order to initiate this process a Seller must deliver a Transfer Notice to Angioblast and the Eligible Stockholders in the form prescribed by the Pre-emptive Rights Agreement. Angioblast will then have a period of 20 days (Initial Exercise Period) to exercise the right to purchase part or all of the Disposal Shares.

Upon the earlier to occur of:

- the expiration of the Initial Exercise Period (in which case Angioblast will be deemed not to have elected to purchase the Disposal Shares); or
- the time that the Seller receives written confirmation from Angioblast that it wishes to purchase the Disposal Shares),

Angioblast shall be deemed to have made its election with respect to the Disposal Shares and the remainder (if any) will be offered to the Eligible Stockholders. The Eligible Stockholders will then have the opportunity to exercise a Right of First Refusal over the remaining shares under the same terms as made available to Angioblast.

If neither Angioblast nor the Eligible Stockholders exercise their Right of First Refusal with respect to all or any part of the Disposal Shares, each Eligible Stockholder will then have the right to participate in a co-sale of the remaining Shares not taken up (Residual Shares) on the same terms and conditions as specified in the Transfer Notice.

The Seller of the shares will then give written notice to Angioblast and each of the Selling Stockholders specifying the number of Residual Shares to be sold by the Seller and each of the Selling Stockholders exercising the Right of Co-Sale. Any Selling Stockholders must then deliver to the Seller the relevant share certificates, properly endorsed for transfer, representing the number of Residual Shares that the Selling Stockholder is entitled to sell. Upon delivery of

the certificates by the Seller to the Transferee, the Seller will remit the proceeds of the sale to each of the Selling Stockholders in the relevant proportions.

(d) Angioblast Certificate of Incorporation

The Certificate of Incorporation was adopted by Angioblast in accordance with the General Corporations Law of the State of Delaware. It contains the various rights, restrictions and other matters attaching to issued stock in Angioblast as well as certain key internal corporate matters.

The Certificate of Incorporation authorises Angioblast to issue two classes of stock which are to be respectively designated as "common stock" and "preferred shares". The total initial number of shares which the Corporation is authorised to issue are 9,500,000 shares of common stock and 500,000 shares of preferred shares.

The key rights attaching to the preferred shares are as follows:

Dividend Rights: Holders of each preferred shares are entitled, in priority to holders of common stock, to receive any dividends declared by the board of Angioblast up to the original issue price of each share (AU$20 per share);

Conversion into common stock: All of the preferred shares then on issue automatically convert into 33.3% of the common stock of Angioblast on a fully diluted basis after taking into account the number of common stock to be issued on the conversion of the relevant Angioblast preferred shares on:

- Angioblast obtaining Investigative New Drug Approval (IND) by the US Federal Drugs and Administration Authority (FDA) for the initiation of cardiovascular clinical trials; and
- Angioblast collating all material developed pursuant to the Angioblast expenditure program under the Investor Rights Agreement and providing that material to Mesoblast in a form that Angioblast considers (acting reasonably) would reasonably support an IND submission by Mesoblast to the FDA for initiation of Orthopaedic clinical investigations.

Nominee to Angioblast Board: The Angioblast constitution provides for the board of directors to consist of 4 directors. The holders of the preferred shares have the right to elect one director to the board of Angioblast. The holders of Angioblast common stock will have the right to elect two directors while the holders of preferred shares will have the right to elect one. All Angioblast shareholders (irrespective of class of share / stock) voting together on an as-converted basis, will elect the fourth and final director.

Voting: Holders of preferred shares have the same voting rights (on an as converted basis) as holders of common stock.

Additional voting rights: Angioblast must obtain the approval of the holders of a majority of the preferred shares before undertaking certain actions. Those actions include voluntary liquidation or winding up of the corporation, amendments of the Certificate of Incorporation which adversely affect holders of preferred shares, increasing or decreasing the authorised number of preferred shares, payment of common stock dividends without first satisfying all outstanding preferred dividends and the creation of any class of equity ranking equal to or above preferred shares.

Liquidation: On a liquidation or winding up of Angioblast holders of preferred shares are entitled, in priority to holders of common stock, to receive the net assets of Angioblast (after satisfaction of all liabilities) up to the original issue price of each share (AU$20 per share) with any remaining balance to be distributed to common stock holders pro rata based on their proportionate shareholdings.

9.5 Operational Agreements

(a) Underwriting Agreement

The Company has entered into the Underwriting Agreement with Lodge Partners Pty Ltd (Underwriter). Pursuant to the terms of the Underwriting Agreement, the Underwriter has agreed to underwrite the full amount of the Offer on the terms and conditions set out in the Underwriting Agreement and has reserved the right to appoint sub-underwriters.

Pursuant to the terms of the Underwriting Agreement, the Company must on or before 5.00pm on the day which is three business days after the Closing Date, provide the Underwriter with a certificate stating the number of Shares for which valid applications have not been received (the Shortfall Shares). Pursuant to clause 5.2, the Underwriter must thereafter lodge or cause to be lodged valid applications for all the Shortfall Shares.

The Company has an obligation to allot the Shortfall Shares in accordance with the valid applications lodged or caused to be lodged by the Underwriter.

The Company provides warranties to the Underwriter in relation to its power to enter into and comply with the Underwriting Agreement and to make the Offer.

The Company indemnifies the Underwriter, its related bodies corporate and each of the directors, employees and agents thereof against any material claim, judgment, damage, loss, liability or expense in connection with, or resulting from, any misleading or deceptive statement in or any omission from the Prospectus or any announcement, advertisement or publicity in relation to the Prospectus or the Offer, or from any non-compliance by the Company with any legal obligation in relation to the Offer or the Prospectus.

The Underwriting Agreement provides for payment of underwriting fees of $65,000 plus 5% of the amount raised under the Offer together with certain other expenses as referred to in the Underwriting Agreement.

In addition to the fees due, on the successful listing of Mesoblast on the ASX the Company is to grant to the Underwriter 400,000 unlisted options to acquire 400,000 ordinary unissued shares in the capital of the Company. An option which has vested must be exercised before the 3rd anniversary of the grant date and the exercise price for each option will be $0.55 per Share.

The Underwriting Agreement sets out a series of termination events. If one or more of the termination events occur after the date of the Underwriting Agreement, the Underwriter may by written notice to the Company terminate the underwriting. Those events include any of the following:

- the Company fails to lodge the Prospectus, or any necessary supplementary or replacement prospectus, with ASIC;
- a time period of 6 weeks elapses after the Closing Date without quotation in respect of the Shortfall Shares being granted by ASX or, if granted, being subsequently withdrawn or qualified, or made conditional upon any term or condition that the Underwriter reasonably believes is unacceptable;
- a Prescribed Occurrence (as defined in the Underwriting Agreement) occurs in relation to the Company other than in relation to the issue of the Shares and the occurrence is not remedied within 7 days of a receipt of a notice of default from the Underwriter;
- the Company commits any material breach of the Underwriting Agreement and the breach is not remedied within 7 days of a receipt of a notice of default from the Underwriter;
- the All Ordinaries Index of the ASX is at the close of trading for 5 consecutive Business Days at a level which is 10% or more below the level at close of trading on the ASX on the day before the date of the Underwriting Agreement;
- any law or regulation is introduced into the Parliament of the Commonwealth of Australia or the legislature of any State or Territory of Australia (other than a law or regulation which was officially announced before the date of this Agreement) which would have a material adverse effect on the financial position or prospects of the Company, or on the success of the Offer;
- the Underwriter becomes aware of any information in the Prospectus which is untrue, incorrect or misleading in its content in a material way or the Underwriter becomes aware of any material omission or non-disclosure therein or there is made public any item, transaction or event of a material nature not previously made public, which, in the Underwriter's reasonable opinion, could reasonably be expected to affect adversely in a material way:
  - from the Underwriter's perspective, the outcome of the Underwriting of the Offer; or
  - the financial position or prospects of the Company.
- a stop order or notice of intention to hold a hearing is issued by the ASIC in relation to the Prospectus or any supplementary or replacement prospectus relating to the Prospectus, in accordance with section 739 of the Corporations Act and is not dismissed or withdrawn by the Closing Date;
- a supplementary prospectus or replacement prospectus is required to be lodged under the Corporations Act in relation to the Offer containing any information that is materially adverse from the perspective of the Underwriter or potential subscribers to the Offer;
- any public comment or statement by a Director of the Company about the Company, the Offer or the Underwriting Agreement which in the reasonable opinion of the Underwriter will have a material adverse effect on the prospects of the Issue being fully subscribed or any Director of the Company being charged with an indictable offence;
- an application is made by the ASIC for any order under section 1324B of the Corporations Act in relation to the Prospectus and that application has not been dismissed or withdrawn by the Closing Date;
- any person (except the Underwriter) who consented to the issue of the Prospectus withdraws that consent;
- the death of Professor Itescu, or his disability to the extent that he is unable to perform his duties as a director and chief scientific adviser of Mesoblast, and a director of Angioblast; or
- a material adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company from that disclosed in the Prospectus, including:
  - a material adverse change in the earnings, future prospects or forecasts of the Company;
  - a material adverse change in the nature of the business conducted, or to be conducted, by the Company; or
  - the insolvency or voluntary winding up of the Company or the appointment of any receiver, receiver and manager, liquidator or other external administrator.

If the Underwriter terminates the Underwriting Agreement, the Company remains liable to pay any fees expenses and charges incurred by the Underwriter in connection with the Underwriting Agreement, the Prospectus or Offer.

(b) Consultancy Agreement

(i) Agreement with a company associated with Professor Silviu Itescu

The Company entered into a Consultancy Agreement with Transplantation & Immunology Consultants Pty Ltd ACN 091 344 624 (Consultant), a company associated with Professor Itescu. The Consultant will provide certain services and make available Professor Itescu as the Company's chief scientific adviser. The key features of the agreement may be summarised as follows:

- the Consultant is engaged by the Company on a non-exclusive basis (subject to the restrictions described below) as an independent consultant to provide consultancy services and to manage the Company's research and development work as contemplated by Mesoblast's participation in the Expenditure Program outlined in section 1.5 (together being the Services);
- the term of the agreement is 3 years from the date of signing;
- in consideration of the Consultant providing the Services to the Company, the Consultant will receive the following fee:
  - during the first year of its engagement - $125,000; and
  - during each subsequent year of its engagement - such sum (being not less than $125,000) as is determined by the Board from time to time;
- the Consultant may employ its own employees and/or engage sub-contractors as it deems necessary;
- the Consultant is not entitled to any benefits or entitlements of the Company's employees including but not limited to sick, annual or long service leave, workcover, superannuation contributions;
- during the term of the agreement the Consultant and Professor Itescu shall allocate sufficient time to meet the expectations of their role, faithfully and diligently perform the Services and such other duties and exercise such powers as assigned to or vested in them by the Board and will use their best endeavours to promote the business interests of the Company;
- the Consultant is solely responsible for any payroll tax or other liabilities associated with the provision of the Services and for all loss and damage arising out of the provision of the Services and or the acts and omissions of the Consultant or any of its agents, employees or contractors and the Consultant will indemnify the Company for any loss, claim or cause of action of any kind arising out of the provision of the Services;
- the Company may terminate the agreement without notice if:
  - the Consultant or Professor Itescu defaults or breaches the agreement;
  - the Consultant or Professor Itescu goes into liquidation or bankruptcy, or is wound up, or enters into any composition or arrangement with or for the benefit of their creditors;
  - Professor Itescu becomes mentally incapable or dies;
  - in the opinion of the Company, Professor Itescu, the Consultant or any of its agents, employees or contractors is guilty of gross misconduct, gross neglect or engages in conduct prejudicial to the interests or reputation of the Company;
  - the Consultant or Professor Itescu is charged with a criminal offence or is precluded from taking part in the management of a corporation,
- during the term of the agreement and any time after its termination the Consultant and Professor Itescu shall keep in strictest confidence all confidential information and shall not disclose to any person any confidential information without the consent of the Company;
- the Consultant and Professor Itescu shall make full and complete disclosure to the Company of the existence, nature and extent of any conflict of interest that they may have in any manner or capacity whatever with their duties or obligations under the contract;
- the Consultant and Professor Itescu assigns to the Company all of their rights, title and interest in the world to any Intellectual Property Rights (as that term is defined in the agreement) acquired, developed or created by the Consultant or Professor Itescu in the course of the agreement whether in the course of providing the Services or in the course of duties falling outside the Services but assigned to the Consultant or Professor Itescu pursuant to the agreement, whether presently existing or arising after the date of the contract (Assigned Intellectual Property Rights);
- the Assigned Intellectual Property Rights will vest in the Company immediately upon creation or acquisition by the Consultant or Professor Itescu;
- the Consultant and Professor Itescu agree and undertake to promptly and fully disclose to the

Company any Assigned Intellectual Property Rights of which the Consultant or Professor Itescu becomes aware, so as to enable the Company to have the fullest benefit of any actual or potential rights, and Professor Itescu consents to the Company reproducing, adapting, publishing, performing, exhibiting, communicating or transmitting any works in the Assigned Intellectual Property Rights to which he has moral rights;

- the Consultant and Professor Itescu are each restricted from being involved in:
  - any entity that competes with any business in orthopaedic applications carried on by the Company;
  - any entity that develops intellectual property similar to or competitive with the Company's intellectual property in orthopaedic applications; or
  - any business or undertaking in orthopaedic applications which deals with a person who is or was a customer of the Company in the 12 months prior to the termination of the Consultancy Agreement;
  - any business or undertaking which solicits employees of the Company to terminate their employment,

  during the term of the engagement and for the period of 3 years after the termination of the Consultancy Agreement.

(c) Executive Share Option Plan

The Company has adopted an executive share option plan (Plan) to foster an ownership culture within the Company and to motivate senior management and Directors to achieve performance targets of the Company and/or their respective business units. As at the date hereof, except as outlined in section 9.8(b), no shares or options have been issued under the Plan, which is to be administered by the Directors. Selected senior management of the Company and its subsidiaries (Group) and the Directors (collectively the Participants) are eligible to participate in the Plan at the absolute discretion of the Board. Except as outlined in section 9.8(b), no options or shares will be issued under this Plan to any Directors without the prior approval of the Mesoblast shareholders.

The aggregate number of Shares which may be issued pursuant to the Plan (Plan Shares), and all other share purchase plans shall not at any time exceed 5% of the total number of issued shares of the Company.

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 exercise period in relation to an option means the period in which the option may be exercised specified by the Board.

The exercise price is the greater of $0.20 and in relation to an option granted on or before the date of the Official Quotation of Shares, an amount per Share that is 20% higher than the Offer Price; and in relation to an option granted after the Official Quotation of Shares, the volume weighted market price of a Share sold on the ASX on the 5 trading days immediately before the date a participant was invited to complete an Application Form relating to the option, or any other amount that is specified by the Board subject to any adjustment.

(d) Agreements: Staff, Consultants and Scientific Advisory Board Members

The Company has entered into agreements with staff, consultants, Scientific Advisory Board Members and other parties providing advisory and consulting services and/or undertaking research and development on behalf of those companies. Each of these agreements contains a confidentiality clause. The terms of those agreements with regards to confidentiality are standard in that they impose restrictions on the disclosure of confidential information and restrictions on the use of confidential information, except for the purposes for which it has been disclosed. The agreements are subject to the usual exclusions in relation to information that was in the public domain when disclosed, that comes into the public domain after disclosure, other than as a result of the recipient's breach of the agreement or was in the recipient's possession when disclosed. Some agreements contain other exclusions relating to disclosure required by law to the extent required to be so disclosed.

(e) Voluntary Escrow Agreement

As a condition of the Underwriting Agreement, each of the Existing Investors have entered into a voluntary escrow agreement under which they each agree that they will not sell or otherwise dispose of shares or other securities held by such shareholder in the capital of the Company during the "Escrow Period".

The "Escrow Period" in the case of Professor Itescu and Michael Schuster is 24 months from the date of the listing of Mesoblast.

In the case of all other Existing Investors, the "Escrow Period" is defined as follows:

- with respect to all their Shares (and any options attached to those Shares), a period of 3 consecutive calendar months commencing on and from the date of the listing of Mesoblast;

- with respect to 75% of their Shares (and any options attached to those Shares), a period of 6 consecutive calendar months commencing on and from the date of the listing of Mesoblast; and
- with respect to 50% of their Shares (and any options attached to those Shares), a period of 12 consecutive calendar months commencing on and from the date of the listing of Mesoblast.

This restriction does not apply to any Shares which may be applied for by any such shareholder pursuant to the Offer under this Prospectus. Please note that this voluntary escrow restriction on each of the Existing Investors is in addition to any restriction which may be imposed by the ASX pursuant to the ASX Listing Rules.

(f) Directors' Deeds of Indemnity, Insurance and Access

The Company has entered into a deed of indemnity, insurance and access with each of its Directors. The key features of this deed may be summarised as follows:

- to the extent permitted by law, the Company:
  - indemnifies each of the Directors against any liability (excluding liability for legal costs) incurred by the Director as an officer or former officer of the Company;
  - indemnifies the Director against any reasonable legal costs incurred as a result of the Director defending an action for any liability incurred by the Director as an officer or former officer of the Company;
  - releases the Director from any present, future or contingent claims that arise directly or indirectly from the Director's position acts or omissions as an officer or former officer of the Company; and
- must, where possible, maintain appropriate insurance cover in favour of the Director during the term of the Director's appointment for at least a period of seven years after the Director ceases to be an officer of the Company on terms that are reasonably prudent to the Company;
- the Director, during his or her appointment and for a period of seven years after the Director ceases to be an officer of the Company, may inspect any books and records of the Company in certain circumstances and for particular purposes; and
- the Director is entitled to retain any board documents, including minutes of board meetings or committees. These documents will become the property of the Director at the time they are supplied to the Director. Notes of board meetings or other communications made by the Director will remain the property of the Director.

(g) Appointment as Joint Scientific Advisory Board Members

- The term of appointment is 1.5 years commencing from the date of appointment. Each Board Member will be paid $15,000 per annum, paid monthly into a nominated bank account.
- The Board Member must attend meetings of the Scientific Advisory Board in Melbourne or elsewhere, in person or via telephone, as advised. The Board Member must ensure that they are free at all times from any interest and any relationship which could, or could reasonably be perceived to, materially interfere with their ability to act as a member of the Board.
- All reasonable travelling, hotel and other expenses incurred by the Board Member for attending meetings of the Board or otherwise on the business of the Company or in the execution of duties as a member of the Board will be paid for by the Company.
- Board Members irrevocably and conditionally consent for any moral rights owned by them to be reproduced, adapted, or published by the Company.

9.6 Existing Investors

The holders of shares and options immediately prior to the issue of this prospectus are:

Name	Existing shares	Existing Options	Total (assuming exercise of options)
Professor Silviu Itescu	43,120,000	Nil	43,120,000
Medvet Sciences Pty Ltd	2,790,000	Nil	2,790,000
J G M Investment Group Pty Ltd	1,920,000	1,520,000	3,440,000
Thorney Holdings Pty Ltd	1,400,000	1,400,000	2,800,000
Michael Schuster	880,000	Nil	880,000
Rak Investment Pty Ltd	200,000	200,000	400,000
Jack Gurman	200,000	200,000	400,000
Neurotransmision Inc	200,000	200,000	400,000
John Bennetts	400,000	400,000	800,000
Belmavic Holdings Pty Ltd	400,000	400,000	800,000
Total	51,510,000	4,320,000	55,830,000

* The options granted to the Existing Investors as detailed above include the follow major terms:

- Exercise - each option is convertible into one ordinary fully paid share in the capital of Mesoblast;
- Exercise price - $0.55 per option;
- Exercise period - the period of 4 years from the date of expiry of any escrow period imposed in respect of the relevant option (with an expected escrow period of 1 year from the listing of Mesoblast, this will result in a 5 year exercise period);
- Rights issues - Options do not carry the right to participate in any bonus issues or new issues of securities by the Company;
- Reconstructions - If there is a re-organisation of Mesoblast then the exercise price or the number of outstanding options (or both) must be adjusted by the Mesoblast Board to the extent necessary so as to neither materially benefit not materially prejudice the option holder as between itself and other option holders or as between it and the holders of ordinary shares in the capital of Mesoblast.

9.7 Corporate Governance

The Directors are responsible for the strategic direction of Mesoblast, the identification and implementation of corporate policies and goals, and monitoring of the business and affairs of Mesoblast on behalf of its members.

Mesoblast is cognisant of the Principles of Good Corporate Governance and Best Practice Recommendations as published by ASX Corporate Governance Council and acknowledges that the 10 principles set out therein are fundamental to good corporate governance. The Board will comply with ASX Listing Rule 4.10 which requires Mesoblast to provide a statement in its annual return disclosing the extent to which those best practice recommendations are followed in any reporting period and to identify any recommendations not followed and provide reasons for their not being followed.

The Board believes that the structure of Mesoblast, its management and business practices provide a basis of governance which meets the essential corporate governance principles articulated by ASX in that publication.

One of the key objectives of the Board is to ensure timely, transparent and accurate communication with all members and compliance with all regulatory requirements. To this effect the Board has established a number of Committees.

The Board has formally adopted a Corporate Governance Policy for Mesoblast.

Under this Policy, the Board will establish:

(a) an Audit and Risk Committee whose primary function will be to give additional assurance regarding the quality and reliability of financial information used by the Board and financial information provided by Mesoblast pursuant to its statutory reporting requirements and ongoing assessment of such risks confronted by the Company;

(b) a Nomination Committee to review the composition of the Board to ensure that the Board has an appropriate mix of expertise and experience and to assess and review the performance of the Directors of Mesoblast; and

(c) a Remuneration Committee to review and report to the Board on matters concerning executives' and Directors' remuneration.

9.8 Directors' Share Qualifications, Remuneration and Interests

Except as disclosed in the Prospectus, no Director or proposed Director of Mesoblast, or firm in which a Director or proposed Director is a partner, has any interest, nor has had any interest for registration, or has received or is entitled to receive any sum for services rendered by either him or the firm to induce him to become or qualify him as a Director, or otherwise in connection with the promotion or formation of Mesoblast or in the property proposed to be acquired by Mesoblast in connection with its promotion or formation.

(a) Shareholding Qualifications & Remuneration

The Directors are not required under the Constitution of Mesoblast to hold any Shares in order to qualify as Directors.

The Constitution provides that the Directors are entitled to an aggregate remuneration not exceeding $500,000.00 for non-executive Directors.

Details of the Directors and COO current remuneration are set out below:

Name	Position	Mesoblast (fees) Aus$	Angioblast (fees) Aus$
Michael Spooner	Non Executive Director and Chairman of the Board	$75,000	Nil
Professor Silviu Itescu*	Chief Scientific Adviser	$125,000*	$165,000*
Donal O'Dwyer	Non Executive Director	$40,000	Nil
Byron McAllister	Non Executive Director	$40,000	Nil
Mr Paul Rennie**	Chief Operating Officer	$115,000	Nil

* These amounts represent the consulting fees payable to Transplantation & Immunology Consultants Pty Ltd, a consultancy company associated with Professor Itescu and which has been engaged by Mesoblast and Angioblast to provide the consultancy services of Professor Itescu on a combined basis, apportioned between Mesoblast and Angioblast. In addition to the consultancy fees outlined above, Angioblast will pay a living / accommodation allowance of 1 scientist being his living expenses in Manhattan, New York (where Angioblast is located).

** Paul Rennie (Chief Operating Officer) has been appointed as a full time Mesoblast employee and in addition to his salary outlined above, Paul will be paid $20,000 by way of superannuation and may be paid a performance based bonus at the discretion of the Board.

Please note that a Director may be paid fees or other amounts as the Directors reasonably determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a director. A Director may also be reimbursed for any disbursements or any other out of pocket expenses incurred as a result of the directorship or any special duties.

(b) Directors' and COO's Interests in Securities

Set out below are details of the interests of the Directors in the Shares and other securities of Mesoblast immediately prior to lodgement of the Prospectus with the ASIC for registration. Interests include those held directly and indirectly.

Director	Interests in securities
Professor Silviu Itescu	43,120,000 Shares
Michael Spooner	400,000 options*
Donal O'Dwyer	150,000 options*
Byron McAllister	150,000 options*

* The Directors will hold these options in accordance with the terms and conditions of the Mesoblast Ltd Executive Share Option Plan except that:

(i) The options must be exercised before the 4th anniversary of the date on which the Company is admitted to the Official List of the ASX and Official Quotation of the Shares commences;

(ii) The exercise price for each option will be an amount per Share that is equal to 20% higher than the Offer Price;

(iii) The first 50% of the options will progressively vest 12 months after the date of the initial public offering of shares in the Company and the second 50% of the options will progressively vest 24 months after the date of the initial public offering of shares in the Company;

(iv) The options may not be sold or transferred except with the prior written consent of the Company; and

(v) Any options which have not vested and become exercisable will lapse within four weeks of the Director ceasing to be a Director of the Company.

In addition to the proposed options to be issued to Directors as detailed above, the Company has also agreed to issue to the COO (Mr Paul Rennie) after the successful listing of Mesoblast, 240,000 options on the following terms:

- Exercise Price: The exercise price for each option will be $0.60.
- Exercise Conditions: The options will progressively vest/become exercisable in 3 tranches as follows:
  - Tranche A - 80,000 options, on achieving an SOP (Standard Operating Procedure) for the manufacture of cells;

- Tranche B - 80,000 options on completing human preclinical trials for a Mesoblast Orthopaedic Application of the licensed technology; and
- Tranche C - 80,000 options, approval of Mesoblast's FDA IND (Investigative New Drug) approval.

- Exercise Period: An option which has vested (ie the exercise conditions have been satisfied) must be exercised within 12 months of its vesting date.
- Disposal Restrictions: The options may not be sold or transferred except with the prior written consent of Mesoblast.
- Other Conditions: If the COO ceases to be employed by Mesoblast for any reason:
  - any options which have not vested will immediately lapse;
  - any options which have vested and continue to be exercisable but have not been exercised, may be exercised by the COO within 4 weeks of the COO's cessation of employment, after which those options will lapse.
- Reconstructions - If there is a re-organisation of Mesoblast then the exercise price or the number of outstanding options (or both) must be adjusted by the Mesoblast Board to the extent necessary so as not to materially prejudice the option holder as between it and the holders of ordinary shares in the capital of Mesoblast.

9.9 Interests of Experts

Except as disclosed in this Prospectus:

(a) no expert, or firm in which any expert is a partner, has any interest that existed when a copy of the Prospectus was lodged with the ASIC for registration, nor had any such interest within 2 years before lodgement of the Prospectus for registration, in the promotion of Mesoblast or has received or is entitled to receive any sum for services rendered by the expert or the firm in connection with the promotion or formation of Mesoblast, or in any property proposed to be acquired by Mesoblast in connection with the promotion or formation; and

(b) no amounts have been paid or agreed to be paid to any expert, or any firm in which any expert is a partner, for services rendered in connection with the promotion or formation of Mesoblast.

In accordance with the terms of its engagement, PKF Corporate Advisory Services (Vic) Pty Ltd has prepared its Independent Accountants Report which forms part of this prospectus. In aggregate, PKF Corporate Advisory Services (Vic) Pty Ltd will be paid $30,000 (plus GST) for services performed in conection with the Offer, and may receive further payments in accordance with its normal time based charges.

In accordance with the terms of its engagement, F B Rice & Co as Australian Patent Attorneys for Mesoblast will be paid $21,075 (plus GST) for provision of its report on the intellectual property as contained in section 6 of this Prospectus together with services regarding the Company's patent applications, and may receive further payments in accordance with its normal time based charges.

In accordance with the terms of its engagement, Gibson Dunn & Crutcher LLP as US Legal Advisers for Mesoblast will be paid US$32,000 for services provided in connection with this Offer and may receive further payments in accordance with its normal time based charges.

In accordance with the terms of their engagement, Middletons as Australian Legal Advisers for Mesoblast will be paid $314,310 (plus GST) for services provided in connection with this Offer and may receive further payments in accordance with its normal time based charges.

9.10 Consents to be named

The Company has authorised and caused the issue of this Prospectus. The Company and the Directors are wholly responsible for its contents.

None of the parties referred to below has made, or has purported to make, any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified below. Each of these parties, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements or omissions from this Prospectus, other than a reference to its name and a statement or report included in this Prospectus with the consent of that party as specified below.

Lodge Partners Pty Ltd

Lodge Partners Pty Ltd has given and not withdrawn its written consent to be named herein as the Underwriter for the Offer in the form and context in which it is so named. Lodge Partners Pty Ltd does not make, or purport to make, any statement in this Prospectus and is not aware of any statement in this Prospectus which purports to be based on a statement made by it and makes no representation, expressed or implied, regarding and takes no responsibility for, any statements in or omissions from this Prospectus.

PKF Corporate Advisory Services (Vic) Pty Ltd

PKF Corporate Advisory Services (Vic) Pty Ltd has given and not withdrawn its written consent to being named as Independent Accountant for Mesoblast in the Prospectus in the form and context in which it is named and the issue of the Prospectus with its Independent Accountant's Report dated 16 November 2004 in the form and context in which it is included and to all

references to that report in the Prospectus in the form and context in which those references are included

PKF Corporate Advisory Services (Vic) Pty Ltd has only participated in the preparation of the Prospectus to the extent of:

- preparing its Independent Accountant's Report; and
- was not involved in the preparation of any other part of the Prospectus and did not authorise or cause the issue of any other part of the Prospectus.

Except as provided above PKF Corporate Advisory Services (Vic) Pty Ltd does not make, or purport to make, any statement in this Prospectus and is not aware of any statement in this Prospectus which purports to be based on a statement made by it and makes no representation, expressed or implied, regarding and takes no responsibility for any statement in or omissions from this Prospectus.

PKF Chartered Accountants

PKF Chartered Accountants has given and not withdrawn its written consent to being named as Auditor for Mesoblast in the Prospectus in the form and context in which it is named.

PKF Chartered Accountants was not involved in the preparation of any part of the Prospectus and did not authorise or cause the issue of any other part of the Prospectus.

PKF Chartered Accountants does not make, or purport to make, any statement in this Prospectus and is not aware of any statement in this Prospectus which purports to be based on a statement made by it and makes no representation, expressed or implied, regarding and takes no responsibility for any statement in or omissions from this Prospectus.

Middletons Lawyers

Middletons has given and not withdrawn its written consent to be named herein as Australian legal advisers to Mesoblast in the form and context in which it is so named. Middletons does not make, or purport to make, any statement in this Prospectus and is not aware of any statement in this Prospectus which purports to be based on a statement made by it and makes no representation, expressed or implied, regarding and takes no responsibility for, any statements in or omissions from this Prospectus.

Gibson Dunn & Crutcher LLP

Gibson Dunn & Crutcher LLP has given and not withdrawn its written consent to be named herein as US legal advisers to Mesoblast in the form and context in which it is so named. Gibson Dunn & Crutcher LLP does not make, or purport to make, any statement in this Prospectus and is not aware of any statement in this Prospectus which purports to be based on a statement made by it and makes no representation, expressed or implied, regarding and takes no responsibility for, any statements in or omissions from this Prospectus.

F B Rice & Co - Patent Attorneys

F B Rice & Co has given and not withdrawn its written consent to:

(a) be named herein as Australian Patent Attorneys to Mesoblast in the form and context in which it is so named; and

(b) the inclusion in this Prospectus of its report as contained herein in the form and context in which it is so included and to all references thereto herein in the form and context in which they are so included.

F B Rice & Co does not make, or purport to make, any statement in this Prospectus and is not aware of any statement in this Prospectus which purports to be based on a statement made by it and makes no representation, expressed or implied, regarding and takes no responsibility for, any statements in or omissions from this Prospectus.

ASX Perpetual Registrars Limited

ASX Perpetual Registrars Limited has given and not withdrawn its written consent to be named herein as the share registry to Mesoblast in the form and context in which it is so named. ASX Perpetual Registrars Limited does not make or purport to make any statement in this Prospectus and is not aware of any statement in this Prospectus which purports to be based on a statement made by it and makes no representation expressed or implied regarding and takes no responsibility for any statements in or omissions from this Prospectus.

9.11 Costs of the Offer

The total estimated costs of the Offer, including legal fees incurred, registration fees, fees for other advisers, prospectus design, printing and advertising expenses and other miscellaneous expenses, is approximately $1,850,000.

9.12 Privacy

When making an Application, Applicants will be required to provide personal information to Mesoblast and the Registrar. Mesoblast and the Registrar will collect, hold and use an Applicant's personal information in order to assess the Application, service the Applicant's needs as an investor, provide facilities and services that an Applicant requests and carry out appropriate administration.

Company and tax law requires some of the information to be collected. If an Applicant does not provide the information requested, the Application may not be able to be processed efficiently, or at all.

9 Additional Information

Mesoblast and the Registrar may disclose an Applicant's personal information for purposes related to the Applicant's investment to their agents and service providers including those listed below or as otherwise authorised under the *Privacy Act 1988 (Cth)*:

- the Underwriter in order to assess the Application;
- the Registrar for on-going administration of the register;
- the printers and the mailing house for the purpose of preparation and distribution of statements and for handling of mail; and
- if applicable, Mesoblast in order to verify that an investor qualifies as an eligible employee.

If an Applicant becomes a shareholder, the Applicant's information may also be used or disclosed from time to time to inform the Applicant about Mesoblast's products or services that Mesoblast thinks may be of interest to the Applicant. If an Applicant does not want personal information to be used for this purpose, the Applicant should contact Mesoblast in writing to its registered office.

The information may also be disclosed to its agents and service providers on the basis that they deal with such information in accordance with Mesoblast's privacy policy.

Under the *Privacy Act 1988 (Cth)*, an Applicant may request access to personal information held by (or on behalf of) Mesoblast or the Registrar. An Applicant can request access to personal information by telephoning or writing to Mesoblast.

10 Authorisation

This Prospectus is issued by the Board of Mesoblast. Its issue was authorised by a resolution of the Directors on 16 November 2004.

Michael Spooner
Chairman
Mesoblast Limited

11 Defined Terms

In this Prospectus, unless the context otherwise requires:

$ or A$ means Australian dollars.

Adult Stem Cell Technology means the MPC Technology.

AEST means Australian Eastern Standard Time.

Allogeneic means taken from different or unrelated individuals of the same species.

Angioblast means Angioblast Systems Inc, a US company incorporated in Delaware with its principal office located at 279 East 44th Street, New York, NY 10017.

Applicant means a person who makes an Application for Shares.

Application means an application for Shares under this Prospectus made by an Applicant under an Application Form.

Application Form means the form accompanying or attached to this Prospectus by which an Applicant may apply for Shares.

ASIC means the Australian Securities and Investments Commission.

ASTC means the ASX Settlement and Transfer Corporation Pty Ltd approved as a securities clearing house under the Corporations Act.

ASTC Settlement Rules means the rules of ASTC from time to time.

ASX means the Australian Stock Exchange Limited ACN 008 624 691.

ASX Listing Rules means the official listing rules of the ASX.

Autologous means derived or transferred from the same individual's body.

Board means the board of directors of Mesoblast.

Business Day means a day that is not a Saturday, Sunday, public holiday or bank holiday in the state of Victoria.

Cardiovascular Applications means the regeneration and repair of heart muscle, blood vessels and associated tissues in need of blood supply.

CHESS means the Clearing House Electronic Subregister System.

Closing Date means the date on which the Offer closes.

Company or Mesoblast means Mesoblast Limited ACN 109 431 870.

Constitution means the constitution of Mesoblast.

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

Directors means the directors of Mesoblast from time to time.

Existing Investors means those persons or entities outlined in section 9.6.

Existing Shares means the issued Shares immediately prior to the allotment of Shares under the Offer.

Exposure Period means the period of 7 days (or 14 days extended by ASIC) after the lodgement of the Prospectus with the ASIC during which Mesoblast may not accept Applications.

FDA means the United States Food and Drug Administration.

GMP means Good Manufacturing Practice.

IMVS means Institute of Medical and Veterinary Science (Adelaide).

IND means investigational new drug.

Medvet means Medvet Science Pty Ltd ACN 008 089 745 incorporated by IMVS to act as the delegate and agent of IMVS in the commercial exploitation of technology and intellectual property belonging to IMVS.

MPC means specified adult stem cells known as "Mesenchymal Precursor Cells".

MPC Technology or the Technology means the application of MPC in various potential commercial applications and includes the rights to the patent families outlined in the Intellectual Property Report in section 6.

Offer means the offer of 42 million ordinary Shares under this Prospectus.

Offer Price means $0.50 per Share.

Official List means the official list of the ASX.

Official Quotation means official quotation of the Shares on the Official List.

Opening Date means the date the Offer opens.

Orthopaedic Applications means bone regeneration and repair and cartilage regeneration and repair.

Orthopaedic Licence means the proprietary worldwide licence granted to Mesoblast for the development and commercialisation of the MPC Technology in Orthopaedic Applications as detailed in section 9.3(b).

Prospectus means this document dated 16 November 2004.

Registrar means ASX Perpetual Registrars Limited.

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

Shareholder means a person who holds Shares.

Stock Purchase Agreement means the agreement between Mesoblast and Angioblast as detailed in section 9.4(a).

TGA means the *Therapeutic Goods Act 1989 (Cth).*

Underwriter means Lodge Partners Pty Limited.

Underwriting Agreement means the agreement between the Underwriter and Mesoblast to underwrite the Offer as detailed in section 9.5(a).

Application Forms

Pin cheque here (do not staple)

MESOBLAST LIMITED

Closing date: 10 December 2004

Broker Code | Adviser Code

Application Form

This Application Form must not be handed to another person unless attached to or accompanied by the prospectus dated 16 November 2004 and a person who gives another person access to this Application Form must at the same time and by the same means give the other person access to the prospectus and any supplementary document. This Offer is irrevocable. Mesoblast Limited will send you a free paper copy of the prospectus if you have received an electronic prospectus and you ask for a paper copy before the prospectus expires on 16 December 2005.

A Number of Shares applied for ____ at Offer Price per Share **$A0.50**

(minimum **4,000** Shares, thereafter in multiples of **1,000** Shares)

B I/We lodge full Application Money **$A** ____ **.00**

PLEASE COMPLETE YOUR DETAILS BELOW (refer overleaf for correct forms of registrable names)

C

Applicant
Surname/Company Name +

Title | First Name | Middle Name

Joint Applicant #2
Surname

Title | First Name | Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

PLEASE COMPLETE ADDRESS DETAILS

D

PO Box/RMB/Locked Bag/Care of (c/-)/Property name/Building name (if applicable)

Unit Number/Level | Street Number | Street Name

Suburb/City or Town | State | Postcode

Email address (only for purpose of electronic communication of shareholder information)

E

TFN/ABN/Exemption Code
First Applicant | Joint Applicant #2 | Joint Applicant #3

TFN/ABN type - if NOT an individual, please mark the appropriate box ☐ Company ☐ Partnership ☐ Trust ☐ Super Fund

F

CHESS HIN (if you want to add this holding to a specific CHESS holder, write the number here)
X

G

Telephone Number where you can be contacted during business hours | Contact Name (PRINT) +

Cheque or bank draft should be made payable to "Mesoblast Limited - Share Subscription Account" in Australian currency and crossed "Not Negotiable".

H

Cheque or bank draft Number | BSB | Account Number

Cheque or bank draft Number | BSB | Account Number

I/we the Applicant(s) above named state that I/we have received the prospectus and any supplementary document.

LODGEMENT INSTRUCTIONS

You must return your Application so it is received before 5.00 pm (Melbourne time) on 10 December 2004 to:

Postal Delivery:
ASX Perpetual Registrars Limited,
GPO Box 2785,
Melbourne Vic 3001

OR

Hand Delivery:
Lodge Partners Pty. Ltd.,
Level 3, 405 Collins Street,
Melbourne Vic 3000

MSB IPO001

Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form. The securities to which this Application Form relates are full paid ordinary shares in Mesoblast. **Further details about the Shares are contained in the prospectus dated 16 November 2004 issued by Mesoblast Limited.** The prospectus will expire on 16 December 2005. While the prospectus is current, Mesoblast Limited will send paper copies of the prospectus, any supplementary document and the Application Form, free of charge on request. **The Australian Securities and Investments Commission requires that a person who provides access to an electronic Application Form must provide access, by the same means and at the same time, to the relevant prospectus.** This Application Form is included in the prospectus. **The prospectus contains important information about investing in the Shares. You should read the prospectus before applying for Shares.**

A Insert the number of Shares you wish to apply for. The application must be for a minimum of 4,000 Shares and thereafter in multiples of 1,000 Shares. You may be issued all of the Shares applied for or a lesser number, or none.

B Insert the relevant amount of Application Moneys. To calculate your Application Moneys, multiply the number of Shares applied for by the Offer Price. Amounts should be in Australian dollars. Please make sure the amount of your cheque(s) or bank draft(s) equals this amount.

C Write the full name you wish to appear on the statement of Shares. This must be either your own name or the name of a company. Up to three joint applicants may register. You should refer to the table on the reverse of the Application Form for the correct registrable title.

D Please enter your postal address for all correspondence. All communications to you from Mesoblast Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants only one address can be entered.

E Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Mesoblast Limited will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.

F If you are already a CHESS participant or sponsored by a CHESS participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHESS for this HIN is different to the details given on this form your Shares will be issued to Mesoblast Limited's Issuer Sponsored subregister.

G Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.

H Please complete cheque or bank draft details and make it payable to Mesoblast Limited - Share Subscription Account as follows:

- Make your cheques or bank draft payable to "Mesoblast Limited - Share Subscription Account" in Australian currency and cross it "Not Negotiable". Your cheque or bank draft must be drawn on an Australian Bank.
- The amount should agree with the amount shown in section B.
- Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.
- Pin (do not staple) your cheque(s) to the Application Form where indicated.

ASX Perpetual Registrars Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a security holder (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 security holding and if some or all of the information is not collected then it might not be possible to administer your security holding. 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.asxperpetual.com.au).

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Limited	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs / Unincorporated Bodies / Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Limited <Super Fund A/C>	XYZ Pty Limited Superannuation Fund

- Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

Pin cheque here (do not staple)

MESOBLAST LIMITED

Closing date: 10 December 2004

Broker Code | Adviser Code

Application Form

This Application Form must not be handed to another person unless attached to or accompanied by the prospectus dated 16 November 2004 and a person who gives another person access to this Application Form must at the same time and by the same means give the other person access to the prospectus and any supplementary document. This Offer is irrevocable. Mesoblast Limited will send you a free paper copy of the prospectus if you have received an electronic prospectus and you ask for a paper copy before the prospectus expires on 16 December 2005.

A Number of Shares applied for ____ at Offer Price per Share **$A0.50**

(minimum **4,000** Shares, thereafter in multiples of **1,000** Shares)

B I/We lodge full Application Money **$A** ____ **.00**

PLEASE COMPLETE YOUR DETAILS BELOW (refer overleaf for correct forms of registrable names)

C

Applicant
Surname/Company Name +

Title | First Name | Middle Name

Joint Applicant #2
Surname

Title | First Name | Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

PLEASE COMPLETE ADDRESS DETAILS

D

PO Box/RMB/Locked Bag/Care of (c/-)/Property name/Building name (if applicable)

Unit Number/Level | Street Number | Street Name

Suburb/City or Town | State | Postcode

Email address (only for purpose of electronic communication of shareholder information)

E

TFN/ABN/Exemption Code
First Applicant | Joint Applicant #2 | Joint Applicant #3

TFN/ABN type - if NOT an individual, please mark the appropriate box ☐ Company ☐ Partnership ☐ Trust ☐ Super Fund

F

CHESS HIN (if you want to add this holding to a specific CHESS holder, write the number here)

X

G

Telephone Number where you can be contacted during business hours | Contact Name (PRINT) +

Cheque or bank draft should be made payable to "Mesoblast Limited - Share Subscription Account" in Australian currency and crossed "Not Negotiable".

H

Cheque or bank draft Number | BSB | Account Number

Cheque or bank draft Number | BSB | Account Number

I/we the Applicant(s) above named state that I/we have received the prospectus and any supplementary document.

LODGEMENT INSTRUCTIONS

You must return your Application so it is received before 5.00 pm (Melbourne time) on 10 December 2004 to:

Postal Delivery:
ASX Perpetual Registrars Limited,
GPO Box 2785,
Melbourne Vic 3001

OR

Hand Delivery:
Lodge Partners Pty. Ltd.,
Level 3, 405 Collins Street,
Melbourne Vic 3000

MSB IPO001

Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form. The securities to which this Application Form relates are full paid ordinary shares in Mesoblast. **Further details about the Shares are contained in the prospectus dated 16 November 2004 issued by Mesoblast Limited.** The prospectus will expire on 16 December 2005. While the prospectus is current, Mesoblast Limited will send paper copies of the prospectus, any supplementary document and the Application Form, free of charge on request. **The Australian Securities and Investments Commission requires that a person who provides access to an electronic Application Form must provide access, by the same means and at the same time, to the relevant prospectus.** This Application Form is included in the prospectus. **The prospectus contains important information about investing in the Shares. You should read the prospectus before applying for Shares.**

A Insert the number of Shares you wish to apply for. The application must be for a minimum of 4,000 Shares and thereafter in multiples of 1,000 Shares. You may be issued all of the Shares applied for or a lesser number, or none.

B Insert the relevant amount of Application Moneys. To calculate your Application Moneys, multiply the number of Shares applied for by the Offer Price. Amounts should be in Australian dollars. Please make sure the amount of your cheque(s) or bank draft(s) equals this amount.

C Write the full name you wish to appear on the statement of Shares. This must be either your own name or the name of a company. Up to three joint applicants may register. You should refer to the table on the reverse of the Application Form for the correct registrable title.

D Please enter your postal address for all correspondence. All communications to you from Mesoblast Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants only one address can be entered.

E Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Mesoblast Limited will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.

F If you are already a CHESS participant or sponsored by a CHESS participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHESS for this HIN is different to the details given on this form your Shares will be issued to Mesoblast Limited's Issuer Sponsored subregister.

G Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.

H Please complete cheque or bank draft details and make it payable to Mesoblast Limited - Share Subscription Account as follows:

- Make your cheques or bank draft payable to "Mesoblast Limited - Share Subscription Account" in Australian currency and cross it "Not Negotiable". Your cheque or bank draft must be drawn on an Australian Bank.
- The amount should agree with the amount shown in section B.
- Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.
- Pin (do not staple) your cheque(s) to the Application Form where indicated.

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