mesoblast
the regenerative medicine company

Mesoblast Limited
Annual Report 2009

Contents	Page

Message from the Chairman

On behalf of Mesoblast Limited's Board of Directors, I am pleased to present this Annual Report for the year ended 30 June 2009.

Mesoblast is poised to capitalise on well-defined clinical and commercial value drivers. Throughout the year, the continuous stream of excellent results released by your Company has underscored our confidence in the potential of our proprietary adult stem cell technology to make a considerable impact on the quality of life for many people worldwide.

Mesoblast continues to make substantial progress towards commercialisation of a range of orthopaedic products for major indications with unmet clinical needs.

The path to commercialisation for our products is clear:

- Completion of ongoing and new Phase 2 programs;
- Progression towards Phase 3 registration trials;
- Establishing a firm foothold in new jurisdictions; and
- Concluding commercial and strategic partnerships that will enhance our execution capability, provide a first-tier distribution network, and maximise long-term product revenues.

Our United States-associated company, Angioblast Systems Inc., continues to drive value through clinical, corporate, and technical achievements. Angioblast is simultaneously advancing the platform stem cell technology towards commercialisation of novel treatments for non-orthopaedic indications, including cardiovascular diseases.

Over the past year, Angioblast has attained very positive results in its cardiovascular and bone marrow regeneration clinical trials. Consequently, we view our 38.4 percent equity stake in Angioblast as a major asset whose intrinsic value continues to increase.

Both Mesoblast and Angioblast completed successful capital raisings during the year to facilitate and accelerate clinical programs towards Pivotal/Phase 3 registration trials. These clinical milestones are major value inflexion points for clinical stage, maturing biotechnology companies as they approach revenue generation.

Both Companies maintain quality share registers and we are pleased that leading institutional and sophisticated investors continue to show their support for our ongoing value creation.

The Directors would like to record their appreciation for the excellent work of Mesoblast staff and consultants. We acknowledge their tireless efforts and their strong commitment to delivering value.

We thank you, our shareholders, for your ongoing strong support and loyalty and we look forward to delivering on the extraordinary promise of our proprietary stem cell technology to create a new treatment paradigm for major diseases and disorders that affect millions of people worldwide.

Mr Brian Jamieson

"Mesoblast is poised to capitalise on well-defined clinical and commercial value drivers"

Executive Director's Report

The Year in Review

I am pleased to report on another outstanding year for your Company which saw Mesoblast continuing to progress multiple orthopaedic products towards commercialisation and global leadership positions.

We have been successful at establishing a broad-based spinal franchise with a suite of products for both cartilage and bone regeneration products, and are developing a range of cartilage repair products for treating the spectrum from early to advanced stages of knee osteoarthritis.

Together with results obtained by our associate company Angioblast Systems, Inc. (Angioblast) based in the United States, our unique stem cell technology platform has demonstrably shown itself capable of addressing a breadth of clinical needs, including orthopaedic conditions, cardiovascular disorders, bone marrow transplantation, and degenerative diseases of the eye.

Our clinical trials have underscored the excellent safety profile of the platform stem cell technology, and the initial efficacy results, which have paralleled the outstanding preclinical trial data, have served to validate the unique business model associated with our allogeneic, or "off-the-shelf", products. Indeed the low-cost, high margin business model associated with our unique technology is one that is familiar to pharmaceutical companies and which should facilitate strategic alliances with global pharmaceutical leaders.

Whilst the 2009 financial year has been a difficult one due to the global financial crisis, I am pleased to inform you that during this period both Mesoblast and Angioblast were strongly supported by shareholders and investors, and are well capitalised to continue advancing multiple products towards registration and revenues.

Highlights

Mesoblast's major accomplishments during the 2009 financial year included:

- Strengthened financial position after a capital raising of $10.8 million in April, with cash reserves of $16.5 million at 30 June 2009.
- Positive results from preclinical trials of a new product for intervertebral disc repair and regeneration, a major new commercial opportunity which greatly expands our spinal products franchise.
- Significant progress in clinical programs for cervical and lumbar spinal fusion, including clearance from the United States Food and Drug Administration (FDA) to commence a Phase 2 trial of NeoFuse™, our "off-the-shelf" stem cell product, for minimally invasive interbody lumbar fusion surgery.
- Significant progress in a Phase 2 trial for knee osteoarthritis, an important first step towards development of Mesoblast's allogeneic stem cell product, RepliCart™, for treatment of both isolated cartilage defects in young, active people, and for reversing generalised, established osteoarthritis in older people.
- Initiation of a formal process aimed at obtaining licenses from the Australian Therapeutic Goods Administration (TGA) to commercially manufacture our orthopaedic products. This could result in earlier revenues than originally forecast, as well as provide a template for broader geographical jurisdictions.
- Being named the 2009 Frost & Sullivan Emerging Company in the United States Soft Tissue Repair market. The Award citation stated that Mesoblast has immense potential to be a significant contributor and promoter of the orthopaedic soft tissue and cartilage repair space, and to establish a strong presence in the United States orthopaedic market.

Development of a Global Spinal Franchise

Intervertebral Spinal Disc Cartilage Repair and Regeneration

Mesoblast is developing an allogeneic, or "off-the-shelf', adult stem cell product which can be injected by a minimally invasive approach into degenerating discs of unrelated recipients in order to repair and regenerate disc cartilage.

Degenerative intervertebral disc disease is the principal cause of low back pain, affects as many as 4 million people in the United States alone, and can result in severe disability and incapacitation. For these patients, the only option is major back surgery involving either artificial disc replacement or spinal fusion.

A simple, non-invasive injection to reverse the degenerative process, and regenerate the disc back to its healthy state, would represent a major product breakthrough into an unmet market segment where we conservatively estimate potential revenue generation to be in excess of $US2 billion per year.

The results of a placebo-controlled, randomised trial of Mesoblast's cells for the treatment of degenerative disc disease in 36 sheep was presented and highlighted at the World Congress on Osteoarthritis, OsteoArthritis Research Society International (OARSI), held in Montreal, Canada in September 2009.

A single low-dose injection of Mesoblast's allogeneic adult stem cells into severely damaged intervertebral discs resulted in dramatic reversal of the degenerative process, regrowth of disc cartilage, and sustained normalisation of disc pathology, anatomy and function.

Six months after a single direct intra-discal injection of Mesoblast's cells, discs that were initially severely damaged and degenerated were found to have become indistinguishable from healthy non-degenerated discs in their histopathology, cartilage content, height, and structure. In contrast, severely degenerated discs which served as controls and were either not injected or were injected with hyaluronic acid only, continued to demonstrate significantly reduced disc height, disordered disc structure, disrupted histopathology, and reduced cartilage content compared with healthy non-degenerated discs over six months of follow-up.

As a result of the outstanding results of this preclinical study, Mesoblast is prioritising its efforts on this major new commercial opportunity. An Investigational New Drug (IND) application is currently being prepared by the Company for submission to the US FDA, and we anticipate commencing a Phase 2 clinical trial in the first half of 2010.

The relatively short primary endpoint associated with the planned Phase 2 and Pivotal trials for this disc repair product opens the possibility of earlier registration and revenue generation than for other indications.

Following our successful capital raising in April of this year, the Company has sufficient funds earmarked to complete the proposed Phase 2 trial for intervertebral disc repair and regeneration.

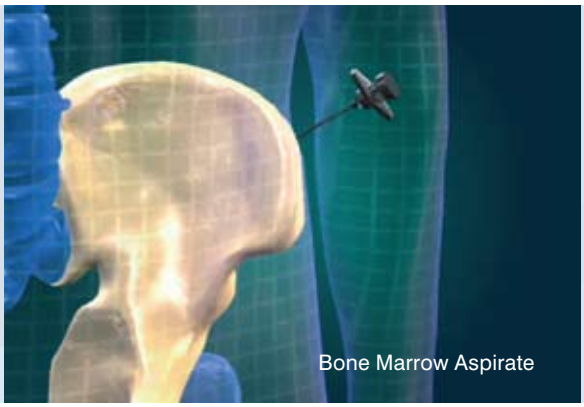
Intervertebral Lumbar and Cervical Spinal Bony Fusion - NeoFuse™

In addition to the disc regenerative product, Mesoblast is developing an allogeneic product called NeoFuse™ to generate bony spinal fusion of the intervertebral space in patients with end-stage vertebral disc disease.

Over 500,000 patients undergo spinal fusion of the lumbar and cervical spine in the United States alone annually. Mesoblast's product aims to eliminate the need for an additional autograft surgical procedure (using patient's own hipbone), which is the current standard of care in these patients, but is not effective in certain patient groups and is often complicated by pain and infection.

Over the past 12 months, Mesoblast has completed successful preclinical studies using NeoFuse™ by a minimally-invasive approach in lumbar and cervical fusion. These minimally invasive procedures are the preferred approaches taken by the majority of spinal surgeons worldwide. Mesoblast's preclinical trials showed that NeoFuse™ implanted by a minimally-invasive route resulted in significantly earlier bony fusion over 3-6 months than autograft, without any safety issues.

In August 2009, the US FDA cleared a Phase 2 clinical trial of NeoFuse™ for use in minimally invasive interbody lumbar spinal fusion surgery. The 24-patient trial, based at US sites in California, Texas, North Carolina, Colorado


Bone Marrow Aspirate

and Wisconsin, is comparing the effectiveness and safety of two low doses of NeoFuse™ with autograft in minimally invasive surgery for fusion of the lumbar spine.

This trial will build on the safety and efficacy results generated to date in Mesoblast's first spinal fusion trial at New York's Hospital for Special Surgery, which employed a more invasive surgical approach. In that trial, unilateral use of Mesoblast's NeoFuse™ has generated safe and robust fusion.

Complementing the lumbar interbody program, Mesoblast initiated in Melbourne a Phase 2 clinical trial of NeoFuse™ in 24 patients needing bony fusion of the cervical spine at multiple intervertebral levels.

The Company expects to have interim results from these two trials during 2010. Strategic decisions around Pivotal/Phase 3 clinical trial designs and commercial directions for the interbody fusion program will be made on the basis of these results and in conjunction with corporate discussions.

Development of Products for Treatment of Knee Osteoarthritis

Osteoarthritis of the knee can occur as a spectrum from small, isolated cartilage defects that occur after trauma in young, active individuals, to a more generalised loss of cartilage in older people after many years of wear and tear. Mesoblast is developing "off-the-shelf", or allogeneic, adult stem cell products to meet the needs of patients at either end of this spectrum of arthritic disease.

Cartilage Repair for Acute Knee Trauma - RepliCart™

Post-traumatic osteoarthritis represents potentially the most rapid entry point for our products into the knee arthritis markets. This is because technologies that are more precise have been validated by global regulatory authorities for demonstrating efficacy of new therapies in early stage disease, rather than in late stage disease where conventional x-rays remain the standard.

Consequently, the size and duration of Pivotal/Phase 3 trials are likely to be smaller and shorter when an effective new therapy is tested for early stage disease.

Mesoblast will move towards obtaining regulatory approval for its "off-the-shelf" knee cartilage repair and regeneration product, RepliCart™, in patients with either post-traumatic localised cartilage loss lesions (termed osteochondral defects) or in those patients with an acute knee injury who are known to have a high risk of progressing to established generalised osteoarthritis.

To maximize the likelihood of optimal outcome using RepliCart™ to repair localised cartilage defects, the Company is currently executing preclinical trials evaluating a variety of materials in combination with our cells. The best performing material will be used in advancing our stem cell product into human clinical trials.

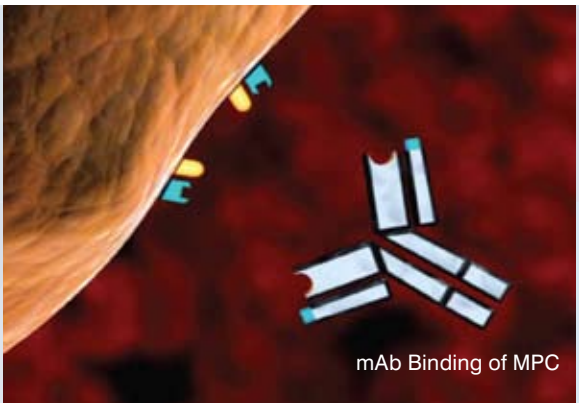
To demonstrate that RepliCart™ can prevent onset of generalised cartilage loss after an acute knee injury, a Phase 2 trial is currently underway in Melbourne where 24 patients who have undergone reconstruction of a ruptured Anterior Cruciate Ligament will receive an injection of either the Company's allogeneic stem cells or control. The Company anticipates interim results from this trial being available in 2010.

Cartilage Repair for Established Knee Osteoarthritis - RepliCart™

As many as 15 million people in the United States have severe established generalised knee cartilage loss, and there are currently no approved therapies that repair or regenerate knee cartilage. Our preclinical results indicate that RepliCart™ is highly effective for reversing and repairing generalised knee cartilage loss.

Mesoblast is in discussions with both key opinion leaders and potential government funding bodies with regard to initiating Phase 2 clinical trials for this major indication. Moreover, the Company will seek input into clinical trial design from potential global pharmaceutical partners since this commercial opportunity is likely to require larger Pivotal/Phase 3 clinical trials and earlier strategic corporate collaborations.

Identification of MPC



mAb Binding of MPC

Development of a Product for Treatment of Long Bone Fractures

Non-healing long bone fractures affect millions of people worldwide, are usually a complication of road accident trauma, are very debilitating, and in some cases result in limb amputation. In Australia alone, treatment of non-union fractures represents a potential multi-million dollar annual revenue opportunity for Mesoblast.

In our pilot clinical trial at The Royal Melbourne Hospital, we demonstrated that Mesoblast's proprietary adult stem cells were highly effective at repairing recalcitrant fractures of the long bones in the lower extremities, enabling patients to resume their normal quality of life.

In order to make our bone repair product available for these patients who have limited alternatives and a uniformly poor quality of life, Mesoblast has sought to obtain an Australian TGA license for its manufacturing process. This will enable us to make available our stem cell technology under the Special Access Scheme (SAS) to Australian patients, their physicians, surgeons and hospital centres.

Angioblast Systems

Mesoblast has maintained a highly productive relationship with our United States associate company, Angioblast Systems, Inc., as it advances the shared platform stem cell technology platform simultaneously in a number of clinical indications, notably cardiac, vascular, bone marrow and eye conditions.

Significant progress across a breadth of clinical applications facilitates potential broad-based strategic collaborations with pharmaceutical partners who may be intent on developing a pipeline of products based on a single robust platform technology.

The economic benefits of the two companies sharing development and staffing costs are enormous, as well as the implicit geographically strategic advantages of having headquarters in the United States and Australia.

Angioblast's most significant highlights for the financial year were:

- Successful completion of a $10 million equity-based capital raising in August 2009 from institutional and sophisticated investors. Mesoblast has a 38.4% equity stake in Angioblast, and may choose to maintain or increase its ownership when Angioblast completes its next financing event.
- Continued rapid enrolment in Angioblast's 60-patient Phase 2 clinical trial of its lead allogeneic cardiac product, Revascor™, for patients with congestive heart failure. To date, the first two dose cohorts of 40 patients have completed enrolment. No cell-related adverse events have been seen in any treated patients to date. Enrolment of the final 20-patient cohort is expected to be complete by end Q1 2010. The extent of clinical success in this trial will dictate the earliest timelines for progression to a Pivotal/Phase 3 trial.
- Positive interim efficacy results were reported from the first 20-patient cohort of patients suffering moderate to severe congestive heart failure being treated with the lowest dose of Revascor™. Over a three month period, heart function significantly recovered in cell-treated patients but worsened in controls. The greatest improvement was seen in patients with the most severe heart failure. In those with baseline ejection fraction <30%, cardiac function improved by a mean of 50%.
- Commencing a second FDA-cleared Phase 2 clinical trial for congestive heart failure, in patients with class IV (most severe) congestive heart failure. The rationale for this trial was founded on the positive interim results obtained from patients with moderate-severe heart failure in the first congestive heart failure trial. This latter trial is being funded by the United States National Institutes of Health (NIH) and will evaluate the effectiveness of RevascorT in patients with class IV heart failure who are being kept alive by a Left Ventricular Assist Device while awaiting heart transplantation.

- Continued evaluation of the safety and effectiveness of Revascor™ for the treatment of new-onset heart failure early in the acute heart attack setting. Separately, the Company is developing a different allogeneic stem cell product for use immediately at the time of a heart attack in order to prevent heart failure from developing. Results from preclinical studies for this new indication, together with plans for a further clinical trial in patients with heart attacks, will be released shortly.
- Positive interim results from the first five cancer patients undergoing bone marrow transplantation using cord blood expanded by Angioblast's proprietary stem cells. These patients had markedly faster bone marrow engraftment and reconstitution than those who receive standard of care. The ground-breaking trial in up to 30 patients is funded by the NIH, and is being conducted under an FDA Orphan Drug Designation which could result in accelerated product registration. Results from this trial are expected in early 2010, with positive efficacy outcomes expected to support advancing with a Pivotal/Phase 3 trial.
- Preparing an IND submission to the FDA for initiating a clinical trial of its allogeneic stem cell product in patients with end-stage age-related macular degeneration
- Awarded the 2008 Frost & Sullivan United States Stem Cell Market Technology Innovation of the Year. According to Frost and Sullivan, the proprietary stem cell technology has several attractive attributes that set it apart from other stem cell products, including very accurate identification and isolation with up to 1000-fold greater concentration of stem cells compared to other conventional methods.

The Year Ahead

Translating our powerful stem cell technology platform into leading-edge products has been a major focus of both Companies and has been led by a very talented and committed group which has been carefully assembled.

In addition, we rely closely on the members of our Scientific Advisory Board and expert consultants who continue to provide excellent advice, and who have capably highlighted Mesoblast's positive clinical and preclinical results at leading global medical and scientific conferences.

We are in a very strong position to capitalise on our growing product pipeline and to make an enormous impact on clinical diseases for which there currently are no adequate treatments.

We remain confident that as a strong and committed team we will continue to execute on our broadening product pipeline and timely delivery of our commercial and business objectives. Consequently, we believe that the 2010 financial year will see significant unlocking of value.

Pictured at the awards ceremony (l-r) are Dr Tony Goldschlager, Professor Silviu Itescu, and Professor Graham Jenkin.

Collaboration with leading global stem cell scientists and clinicians remains a priority for Mesoblast. The 2009 Monash University Vice-Chancellor's Awards for Excellence in Research for Innovation and Collaboration in Research with Industry was awarded to Professor Graham Jenkin, Deputy Director of Monash Immunology and Stem Cell Laboratories, and neurosurgical registrar Dr Tony Goldschlager, for collaborating with Mesoblast to pioneer a new treatment for intervertebral disc disease.

Directors' Report

The Board of Directors of Mesoblast Limited has resolved to submit the following annual financial report of the company for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report the following information:

Directors

Directors of the Company in office at any time during or since the end of the year (unless specified) were:

Name	Position
Brian Jamieson	Non-executive Chairman
Byron McAllister	Non-executive Director
Donal O'Dwyer	Non-executive Director
Michael Spooner	Non-executive Director
Silviu Itescu	Executive Director

Details of directors qualifications, experience and special responsibilities, together with meetings attended, can be found on pages 14 to 15 of this report.

Principal Activities & Strategy

Overview

Mesoblast Limited is an Australian biotechnology company committed to the development of innovative adult stem cell products targeting a range of bone, cartilage and musculoskeletal conditions.

Mesoblast Limited has the worldwide exclusive rights for orthopedic indications relating to a series of patents and technologies that have been developed over more than 10 years and which relate to the identification, extraction and culture of adult Mesenchymal Precursor Cells (MPCs).

The Company holds a 38.4% interest in Angioblast Systems, Inc. (Angioblast), an American company developing the same platform technology for the treatment of cardiovascular diseases, including repair and regeneration of blood vessels and heart muscle.

Business Model

From the outset we have outlined a business model that is based on low cost of goods and high margins, similar to pharmaceutical drug development. To achieve this, the focus has been on allogeneic or 'off-the-shelf' products which are generated by large-scale expansion of a small amount of donor starting material. Additional advantages of allogeneic products are that they can be batched, with each batch being highly reproducible and consistent to ensure product safety and effectiveness. Equally as important is that "off-the-shelf" products will be available for immediate use at hospitals when the acute trauma or injury needs rapid treatment.

Key Achievements

Development of a global spinal franchise

Intervertebral Spinal Fusion

Spinal fusion for end-stage vertebral disc disease is a major global market opportunity for Mesoblast, with over 500,000 patients expected to undergo this procedure in the United States alone in the next year.

Mesoblast is developing an allogeneic or "off-the-shelf" cell product, called NeoFuse™, to generate bony spinal fusion. It aims to eliminate the need for an additional autograft surgical procedure (using patient's own hipbone), which is the current standard of care in these patients, but is not effective in certain patient groups and is often complicated by pain and infection.

(a) Lumbar Fusion

The preferred procedure by surgeons which is currently used in approximately 80 per cent of lumbar spinal fusions is a minimally invasive posterior or lateral interbody approach. Competitor biologic technologies have not been able to gain FDA approval for use in this preferred type of minimally invasive lumbar fusion surgery due to significant safety issues. Consequently, Mesoblast has identified this type of surgery as a major commercial focus for its NeoFuse™ product.

Over the past twelve months, Mesoblast has completed preclinical studies in minimally invasive lumbar fusion surgery showing that a lower dose of NeoFuse™ used in this approach compared with other studies in the lumbar spine resulted in significantly earlier bony fusion over 3-6 months than autograft, without any safety issues.

In August 2009, the US FDA cleared a Phase 2 clinical trial of our allogeneic adult stem cells for use in minimally invasive lumbar spinal fusion surgery. The 24-patient trial, based at multiple US sites, is comparing the effectiveness and safety of two low doses, NeoFuse™ with autograft in minimally invasive surgery for fusion of the lumbar spine.

This trial will build on the safety and efficacy results generated to date in Mesoblast's first spinal fusion trial that employed a more invasive surgical approach. In that trial, unilateral use of Mesoblast's NeoFuse™ generated safe and robust fusion over a 12-month period.

If Mesoblast is successful in its new clinical and commercial strategy, this could result in a lower-dose product than currently being used in our existing trial. Potential advantages of this new product are reduced cost-of-goods, higher margins, and greater surgeon uptake due to its use in minimally invasive surgery.

(b) Cervical Fusion

Approximately 50% of cervical fusion procedures involve more than one vertebral level. For these patients, standard therapies do not work very well. In addition, the FDA has notified surgeons of life-threatening complications following use of recombinant human Bone Morphogenic Proteins (BMP), the main class of competitor biologic technologies, in patients undergoing cervical fusion. Consequently, the limited options available for these patients presents a major commercial opportunity for Mesoblast.

Over the past twelve months, Mesoblast has completed preclinical studies in cervical fusion surgery showing that low-dose NeoFuse™ resulted in significantly earlier bony fusion over 3-6 months than autograft, without any safety issues.

On the basis of these studies, Mesoblast has commenced a Phase 2 clinical trial of NeoFuse™ in 24 patients needing bony fusion of the cervical spine at multiple intervertebral levels. Initiated in Melbourne, this trial seeks to confirm the effectiveness and safety of Mesoblast's allogeneic cell product for cervical fusion.

Intervertebral Disc Repair and Regeneration

For patients with earlier stage intervertebral disc disease, Mesoblast is developing an allogeneic adult stem cell product which can be injected by a minimally invasive approach into degenerating discs of unrelated recipients in order to repair and regenerate disc cartilage. This is likely to be a significantly larger market than spinal fusion. Results of preclinical trials and plans for clinical development are expected to be made very shortly.

Development of a product for treatment of knee osteoarthritis

Osteoarthritis is a major degenerative disease of cartilage in joints, with the knee being the most commonly affected. Knee osteoarthritis affects as many as 15 million people in the United States alone, and no approved therapies currently have any effect on cartilage repair or regeneration.

Osteoarthritis of the knee can initially occur as small, isolated cartilage defects in young, active individuals, or can affect the knee joint in a more generalised way in older people after many years of wear and tear. Additionally, knee injuries in healthy active people significantly accelerate progression to generalised cartilage loss, which may be seen after several years in as many as 50% of people with knee injuries.

To demonstrate that Mesoblast's cartilage product, RepliCart™, can prevent this progression to generalised cartilage loss after knee injury, a Phase 2 trial is underway in Melbourne where 24 patients who have undergone reconstruction of a ruptured Anterior Cruciate Ligament will receive an injection of either the company's "off-the-shelf" allogeneic stem cells or control.

This trial is an important first step towards commercial development of an allogeneic stem cell product for treatment of both isolated cartilage defects in young, active individuals and generalised osteoarthritis in older people. Together, these markets represent massive global commercial opportunities for Mesoblast.

Seeking regulatory approvals for bone and cartilage repair products in Australia

Mesoblast has commenced a formal process aimed at obtaining licenses from the Therapeutic Goods Administration (TGA) to commercially manufacture its bone and cartilage repair products. This would result in earlier revenues once this product is made available to hospitals and clinicians throughout Australia.

In the first instance, Mesoblast aims to make its bone repair product available for those patients who have poorly healing fractures of their long bones and for whom no satisfactory alternatives are available. This follows the company's successful Australian clinical trial of its proprietary stem cell therapy for the repair of non-healing long bone fractures of the legs.

Non-healing long bone fractures affect millions of people worldwide, are usually a complication of road accident trauma, are very debilitating, and in some cases result in limb amputation. Significantly, Australian regulatory approval will enable Mesoblast to formulate a template that could be duplicated in other jurisdictions on a country-by-country basis.

Mesoblast's Investment in Angioblast Systems, Inc. Continues to Appreciate.

Mesoblast maintains a highly productive relationship with its United States-based associate company, Angioblast Systems Inc.

Angioblast is simultaneously advancing the platform stem cell technology towards commercialisation of novel treatments for cardiac, vascular, bone marrow, and eye conditions. To date, Angioblast has attained strong clinical and preclinical results in these indications, supporting Mesoblast's significant equity investment and the inherent value associated with these indications.

The value of Mesoblast's 38.4% equity stake in Angioblast was again underscored after Angioblast successfully completed a $10 million financing in August 2009 by new and existing institutional and sophisticated investors. This equity-based investment emphasises the intrinsic value associated with Angioblast's rapid lead product development and underlying pipeline.

Mesoblast will retain its 38.4% equity in Angioblast until Angioblast's next financing event, defined as an Initial Public Offering, a Merger and Acquisition, or a private equity round of at least $10 million. At that time, Mesoblast may seek to maintain or increase its shareholding.

We will continue to work closely with the management and Board of Directors of Angioblast to protect and enhance our significant investment in this company.

Congestive Heart Failure

Angioblast is making strong progress with its proprietary allogeneic, or "off-the-shelf", adult stem cell product Revascor™, aimed at redefining the treatment paradigm for patients with chronic heart failure.

This condition affects an estimated 5 million people in the United States alone, with 550,000 new cases each year. Progresive loss of heart muscle function in these patients is the number one cause of recurrent hospitalisations in the Western world, and a major cause of mortality.

In May 2009, Angioblast announced positive three-month interim efficacy results from the first 20 patients enrolled in its Phase 2 trial for patients suffering from moderate to severe congestive heart failure (New York Heart Association Class II and III).

Heart function was significantly greater at three months in patients receiving Revascor™ compared with randomised controls receiving placebo, with the greatest improvement seen in patients with the most severe heart failure. Importantly, these patients received the lowest dose of Angioblast's cells that are being trialled, and results from 40 additional patients set to receive two higher doses remain to be reported. In preclinical trials, the higher doses were found to be more effective than the lowest dose.

These initial results now form the basis for a Phase 2 clinical trial testing the effectiveness of Revascor™ in class IV heart failure patients with the worst decline in heart muscle function. A clinical trial in this population has commenced and will be fully funded by the US National Institutes of Health (NIH).

Heart Attacks

Angioblast's technology is also being trialled in patients with heart attacks to prevent the onset of congestive heart failure. The advantage of Angioblast's "off-the-shelf" therapy is that it can be delivered to patients immediately after a heart attack by injection into the coronary arteries in conjunction with the standard of care angioplasty and stent procedures.

An alternative way to deliver the cells is by direct injection into damaged heart muscle using novel catheter techologies within a short timeframe after the heart attack. The initial results obtained to date indicate that Revascor™ is safe in the acute heart attack setting.

Bone Marrow Transplantation

A groundbreaking Phase I/II trial in up to 30 patients is being conducted by Angioblast at the University of Texas M. D. Anderson Cancer Center, Department of Stem Cell Transplantation and Cellular Therapy on patients undergoing bone marrow transplants. The trial is being funded through a grant awarded by the US National Institutes of Health (NIH). Angioblast's proprietary allogeneic adult stem cells are being used to expand haematopoietic stem and progenitor cells from cord blood, for use in repair/regeneration of bone marrow of cancer patients after high-dose chemotherapy.

Successful bone marrow reconstitution and engraftment was achieved in the first five patients with haematologic malignancies who received the cord blood expanded by Angioblast's cells. There have been no cell-related adverse events. Significantly, the median time to engraftment was 15 days, approximately two weeks faster than expected without MPC expansion.

By significantly reducing the time to engraftment and increasing the overall success rate of an allogeneic bone marrow transplant, this technology has the potential to lower the risk of infections, bleeding, and death in critically ill patients with haematologic malignancies.

Angioblast's product used in this trial is being developed under a US FDA Orphan Drug Designation for an important disease of unmet need. This means that if the results continue to be positive, the company will have an accelerated clinical timetable through Phase 3 trials and early product commercialization.

Intellectual Property

Mesoblast continues to exploit and expand its patent and intellectual property portfolio. Key patents have been granted in the United States, the world's largest market for commercialisation of our products. The expanding patent portfolio will continue to deliver major commercial advantages, ensuring exclusive commercialisation of our stem cell platform globally.

Funding

In April this year, Mesoblast Limited successfully completed a capital raising of $10.8 million from Australian institutional and sophisticated investors. The capital is being used for ongoing clinical trial activities, expansion of preclinical opportunities, and general administrative operations. At 30 June 2009, Mesoblast had cash reserves of $16.5 million.

Financial Summary

Operating results

The net loss for the year was $12,285,459 (2008: $10,062,379) and is in line with expectations. The result reflects full year operations for the Company and the continued development of our platform technology.

Income

Revenue earned during the year was $890,708 (2008: $909,807) and is made up of:

	30 June 2009 $	30 June 2008 $
Revenue from continuing operations		
Commercial Ready government grant	186,295	-
Interest revenue	704,413	909,807
	890,708	909,807

Expenditure

In line with the Company's policy and to comply with accounting standards, all costs associated with research and development are fully expensed in the period in which they are incurred as the directors do not consider the Company can yet demonstrate all the factors required in order to capitalise development expenditure.

Total operating expenses for the year were $13,176,167 (2008: $10,972,186) and consist of:

	30 June 2009 $	30 June 2008 $
Research and development	7,145,623	6,207,372
Management and administration	3,174,079	2,642,016
Share of losses of equity accounted associates	2,856,465	2,122,798
	13,176,167	10,972,186

Cash flow statement

Net cash outflow from operations increased to $9,237,576 in 2009 (2008: $6,202,589) largely due to the following reasons:

- Fall in USD FX rate has impacted US based clinical trial costs and employee costs;
- Preclinical cashflow was approximately $1.1m higher in 2009 as trials were completed and final payments made;

During the year under review the Company issued a further 15,018,069 shares at $0.72 (2008: 10,500,000 shares at $1.28) to sophisticated investors, providing approximately $10.3m (net of costs) in cash which the company intends to use to fund and support phase 2 clinical trials for lumbar interbody fusion and lumbar intervertebral disc repair.

Balance sheet

At 30 June 2009 the Company's cash position was $16,526,278 (2008: $14,094,219). On 19 August 2009 Mesoblast announced its associate, Angioblast Systems, Inc., had successfully raised AU$10m. This will ensure the platform technology can be significantly advanced with these levels of cash holdings between the two entities.

The Company's policy is to hold its cash and cash equivalent deposits in "A" rated or better deposits.

The Company's strategy is to outsource manufacturing, continuing research, and clinical trials to specialist, best of breed partner organisations. As a consequence the Company has not incurred any major capital expenditure for the period and does not intend to incur substantial commitments for capital expenditure in the immediate future.

Mesoblast has now completed its investment in Angioblast under the Series B agreement and as a result owns 38.4% of Angioblast as at 30 June 2009. This investment is made up of the following:

	30 June 2009 $	30 June 2008 $
Investment in Angioblast Systems, Inc.		
Cash invested (AUD denominated)	18,282,792	18,082,792
Mesoblast share of Angioblast net losses after tax (USD denominated, converted at applicable FX rates throughout the year)	(8,956,364)	(5,321,545)
Net Book Value	9,326,468	12,761,247

Earnings per share

	2009 Cents	2008 Cents
Basic losses per share	9.89	8.81
Diluted losses per share	9.89	8.81

Dividends

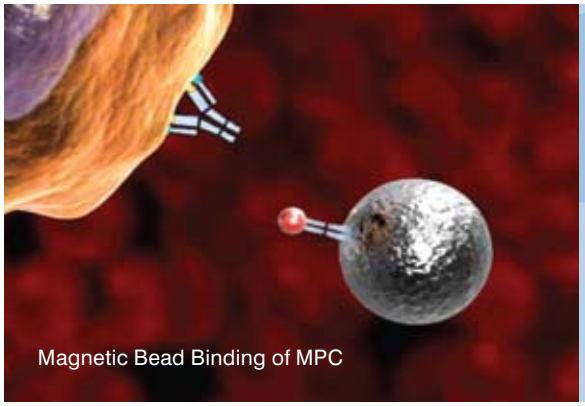
No dividends were paid or declared during the course of the financial year and no dividends are recommended in respect to the financial year ended 30 June 2009 (2008: nil).

Investment In Angioblast Systems, Inc.

Mesoblast has now completed its investment in Angioblast under the Series B agreement and as a result now owns 38.4% of Angioblast (refer above).

Angioblast Systems, Inc. is a non-listed biotechnology company based in New York. The company was incorporated on 27 April 2001 in Delaware, United States of America.

Angioblast's principal focus is to commercialise cardiovascular and other non-orthopaedic applications of our adult stem cell technology which was acquired from the Hanson Institute/Institute of Medical and Veterinary Science in South Australia.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Share Options

Shares under option

Unissued ordinary shares of Mesoblast Limited under option at the date of this directors' report are as follows:

Option Series Issued	Issue Date	Number of shares under option	Exercise price of options	Expiry date of options
1	29 September 2004	1,960,000	$0.55	29 September 2009
1	29 September 2004	1,960,000	$0.55	16 December 2009
4(a)	23 February 2006	66,000	$0.65	1 May 2010
4(b)	23 February 2006	200,000	$1.20	30 June 2010
4(b)	23 February 2006	350,000	$1.20	30 June 2011
5	23 November 2006	150,000	$0.65	23 November 2009
6(d)	1 January 2007	15,000	$1.96	1 January 2010
6(d)	1 January 2007	15,000	$1.96	1 January 2011
7	27 July 2007	2,330,000	$2.13	30 June 2012
8	7 July 2008	2,586,000	$1.00	30 June 2013
9	19 January 2009	240,000	$0.96	18 January 2014
		9,872,000		

No option holder has any right under the options to participate in any other share issue of the Company. Further details of the options series can be found in Note 18 to the financial statements.

Shares issued on exercise of options

Detail of shares or interests issued as a result of the exercise of options during or since the end of the financial year are:

Option Series	Grant Date	Number of shares issued	Amount paid per share	Amount unpaid per share
1	29 September 2004	200,000	$0.55	Nil
2(a)	16 December 2004	550,000	$0.60	Nil
2(b)	16 December 2004	150,000	$0.60	Nil
2(c)	16 December 2004	80,000	$0.60	Nil
3	25 August 2005	700,000	$0.65	Nil
4(a)	23 February 2006	34,000	$0.65	Nil
4(b)	23 February 2006	166,667	$0.65	Nil
4(c)	23 February 2006	20,000	$0.65	Nil
		1,900,667		

Significant Changes in the State of Affairs

No significant changes occurred in the state of affairs of the Company during the financial year other than those disclosed in the review of operations.

Matters Subsequent to the End of the Financial Year

On 25 August 2009 Mesoblast announced that Angioblast Systems, Inc., (a US based associate of Mesoblast), had successfully raised $10m from new and existing institutional and sophisticated investors. Mesoblast will retain its 38.4% equity in Angioblast until Angioblast's next financing event, defined as an Initial Public Offering, a Merger and Acquisition, or a private equity round of at least $10 million. At that time, Mesoblast may seek to maintain or increase its shareholding.

No other matters or circumstances have arisen since 30 June 2009, other than those described above, up to the date of this report that the directors believe have significantly affected or may significantly affect:

- the Company's operations in future financial years; or
- the results of those operations in future financial years; or
- the Company's state of affairs in future financial years.

Business Strategy Prospects for Future Years

Mesoblast is committed to the rapid commercialisation of its adult stem cell platform technology. Our ongoing strategy is to maximise shareholder wealth through rapid completion of existing clinical trial programs and to significantly extend our market opportunities by initiating new programs that build logically on extensive work that has been completed. Mesoblast will continue to actively engage commercial partner organisations as a key part of our ongoing strategy.

At the date of this report, Mesoblast's business strategy is to:

- focus on patient enrollment and trial completion associated with our phase II clinical trial programs for lumbar and cervical spinal fusion (US and Aus) and knee osteoarthritis (Aus);
- consider the filing of a new indication with the United States Food and Drug Administration for the commencement of clinical trials associated with intervertebral disc repair.

Mesoblast has a strong and ongoing relationship with its associate company Angioblast Systems, Inc. in the United States. We will continue to work closely with the management and board of directors of Angioblast to protect and enhance our significant investment in that company.

Environmental Regulations

Mesoblasts operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. The Board, however, considers that adequate systems are in place to manage the Company's obligations and is not aware of any breach of environmental requirements as they relate to the Company.

Indemnification of Officers

During the financial year, the Company paid premiums in respect of a contract insuring the directors and company secretary of the Company, and all executive officers of the Company. The liabilities insured are to the extent permitted by the Corporations Act 2001. Further disclosure required under section 300(9) of the Corporations Act 2001 is prohibited under the terms of the insurance contract.

Proceedings on Behalf of the Company

The *Corporations Act 2001* allows specified persons to bring, or intervene in, proceedings on behalf of the Company. No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporation Act 2001.*

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience are relevant and considered to be important.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of the non-audit services as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* because the services are not deemed to undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	30 June 2009 $	30 June 2008 $
Taxation services		
Corporate tax compliance	10,000	-
Employment tax and withholding advice	2,000	-
Total taxation services	12,000	-

Auditor's Independence Declaration

A copy of the auditor's declaration under Section 307C in relation to the audit for the year ended 30 June 2009 is included on page 25 of the annual report.

Information on Directors

Brian Jamieson, Non-executive Chairman – FCA

Shares held: 235,000
Options held: -

Mr Jamieson has over 30 years experience in providing advice and audit services to a diverse range of public and large private companies. He was chief executive of Minter Ellison, Melbourne, from 2002-2005. Prior to that he was chief executive officer of KPMG Australia from 1998-2000, managing partner of KPMG Melbourne and Southern Regions from 1993-1998, and chairman of KPMG Melbourne from 2001-2002. He was also a KPMG board member in Australia and a member of the USA management committee.

Mr Jamieson is currently a non-executive director of Tatts Group Limited (since May 2005), Sigma Pharmaceuticals Limited (since December 2005) and Oz Minerals Limited (since August 2004), all ASX listed companies. He is also a non-executive director of the Bank of Western Australia Ltd, a subsidiary of Commonwealth Bank of Australia Ltd, a director and treasurer of the Bionic Ear Institute, and a director of The Sir Robert Menzies Foundation. He is also Chairman of the George Adams Tattersalls Foundation.

Silviu Itescu, Executive Director – MBBS (Hons), FRACP, FACP, FACR

Shares held: 37,125,000
Options held: -

A medically trained physician scientist, Professor Itescu has established an outstanding international reputation in the fields of stem cell biology, autoimmune diseases, organ transplantation, and heart failure. He has been a faculty member of Columbia University in New York and of the University of Melbourne. His pioneering work in the use of adult stem cells for heart disease has laid the groundwork for a potential paradigm shift in the treatment of cardiovascular disorders. Professor Itescu has consulted for various international pharmaceutical companies, has been an adviser to biotechnology and health care investor groups, and has served on the Board of Directors of several publicly-listed Australian life sciences companies. In addition, he is the founder and a member of the Board of Directors of Angioblast Systems Inc.

Donal O'Dwyer, Non-executive Director – BE, MBA

Shares held: 150,000
Options held: 150,000

Mr O'Dwyer has over 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 his 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 on the board of a number of companies including Cochlear Limited, Atcor Medical Holdings Ltd and Sunshine Heart Inc.

Mr O'Dwyer is currently Mesoblast's representative on the Board of Directors for Angioblast Systems, Inc.

Byron McAllister, Non-executive Director – BS M.Agr

Shares held: 41,315
Options held: -

Mr McAllister has extensive expertise in product development, production, quality control and assurance, and obtaining U.S. FDA and other county product regulatory approvals within the healthcare industry. Mr McAllister has been an independent management consultant to industry for the past 25 years, providing interim management solutions and management advice in product, registration, and licensing matters. Most recently, Mr McAllister served as Vice President, Worldwide Quality Assurance, for the Ares-Serono Group (now Merck Serono) 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).

Michael Spooner, Non-executive Director – Bcom, ACA, MAICD

Shares held: 1,100,000
Options held: -

Mr Spooner is a well known and 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 is a non-executive director of Peplin Inc, a dermatology focused skin cancer company. He is also a non-executive director of Hawaii Biotech Inc a specialty developer of vaccines. Most recently, Mr Spooner was Executive Chairman of Hunter Immunology Limited a respiratory medicine company. Previously, Mr Spooner was the Chairman of Mesoblast Limited and 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. He was a Principal Partner and Director of Consulting Services with PricewaterhouseCoopers (Coopers & Lybrand) in Hong Kong for several years.

Kevin Hollingsworth, Company Secretary – FCPA, FCMA

Shares held: -
Options held: 200,000

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 and a Past National President of CIMA Australia. 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, Europe 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.

Meetings of Directors

The number of meetings of the Company's directors (including committee meetings of directors) held during the year ended 30 June 2009 and the numbers of meetings attended by each director were:

	Board of directors		Audit & Risk committee		Nomination & remuneration committee	
Director	Held	Attended	Held	Attended	Held	Attended
Brian Jamieson	10	10	2	2	1	1
Silviu Itescu	10	10	2	2	1	1
Byron McAllistair	10	9	2	2	1	1
Donal O'Dwyer	10	10	2	2	1	1
Michael Spooner	10	10	2	2	1	1

Positive Selection of MPC

Remuneration Report

The directors of the Company present the following remuneration report, which forms part of the directors' report and has been prepared in accordance with s300A of the *Corporations Act 2001*. The remuneration report has been audited as required by s308(3C) of the *Corporations Act 2001*.

The remuneration report is set out under the following main headings:

A. Remuneration principles and policies
B. Remuneration of key management personnel
C. Service agreements
D. Share-based compensation

A. Remuneration Principles and Policies

Board policy for determining remuneration

The Company's goal is to engage and promote excellence at Board level, in staff members and in partner organisations. The Company looks to engage the services of individuals and organisations with the experience necessary to assist the Company in meeting its strategic objectives.

The Board ensures that executive reward complies with good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage
- Transparency
- Capital management

The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

The Company's remuneration framework is aligned to shareholders interests and in particular aligned to the rapid commercialisation of the Company's intellectual property and in achieving its milestones in a highly ethical and professional manner.

The executive remuneration framework provides a mix of fixed and variable pay and performance incentive rewards.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, non-executive directors and executives of the Company.

Remuneration structure

(a) Non-executive directors fees

The current base fees were reviewed and approved effective 1 July 2008;

Position	Base Salary
Chair	$120,000
Non-executive directors	$60,000
Company Secretary	$40,000

Components of the above remuneration package include a cash element together with unquoted medium term options in some cases.

(b) Executive pay

The executive pay and reward framework has three components, which in combination comprises the executives' total remuneration:

- Base pay and benefits (i)
- Short term performance incentives (ii)
- Long term performance incentives (iii)

(i) Base pay and benefits

A total employment cost package may include a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. The base pay for executives is reviewed annually to ensure the executives pay is competitive with the market. An executive's pay is also reviewed on promotion.

There is no guaranteed base pay increases included in any executive contracts.

(ii) Short term performance incentives

Bonuses are payable to executives based upon the attainment of agreed corporate and individual milestones, which are reviewed annually and approved by the Board of Directors.

(iii) Long term performance incentives

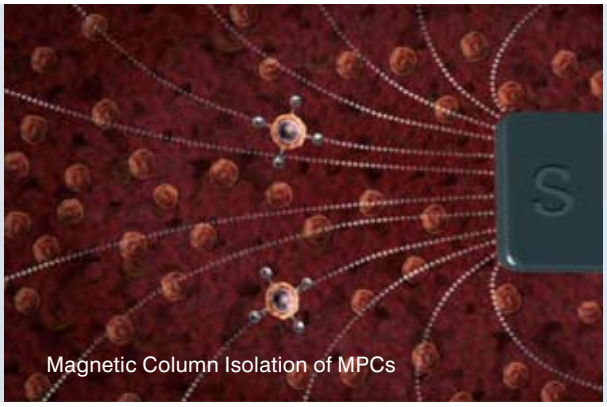
Performance conditions were previously attached to options granted to key management personnel and directors in previous financial years. There have not been any long term performance incentives attached to options granted in the current or previous financial years, nor does any remuneration reported in this report include remuneration as a result of long term performance incentives being achieved.

Relationship between remuneration policy and company performance

	30 June 2005	30 June 2006	30 June 2007	30 June 2008	30 June 2009
Closing share price	$0.43	$1.52	$2.02	$0.91	$0.83
Price increase/(decrease) $	$(0.07)	$1.09	$0.50	$(1.11)	$(0.08)
Price increase/(decrease) %	(14%)	255%	33%	(55%)	(8.8%)
Total key management personnel remuneration	503,703	1,368,039	1,189,907	1,802,804	1,971,389
Remuneration increase/ (decrease) %		172%	(13%)	52%	10%

The Company's remuneration policies seek to reward staff members for their contribution to achieving significant clinical and regulatory milestones. These milestones build sustainable and long term shareholder value. The increase in remuneration from IPO (16 December 2004: share price $0.50) to 30 June 2009 reflects the expansion of the clinical program of the Company.

The directors note the stock market fell significantly between 2007 and 2008 as a result of the global financial crisis. The Company's share price also fell significantly during this time despite the company continuing its clinical progress, hence there is no corresponding fall in remuneration levels. The Company raised a further $10.8m (at $0.72) in this difficult market, and is pleased to note that the share price has risen since 30 June 2009, closing at $1.17 on 14 August 2009.



Magnetic Column Isolation of MPCs

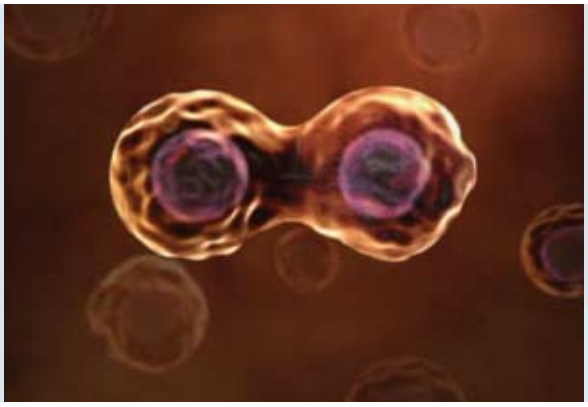
B.Remuneration of Key Management Personnel

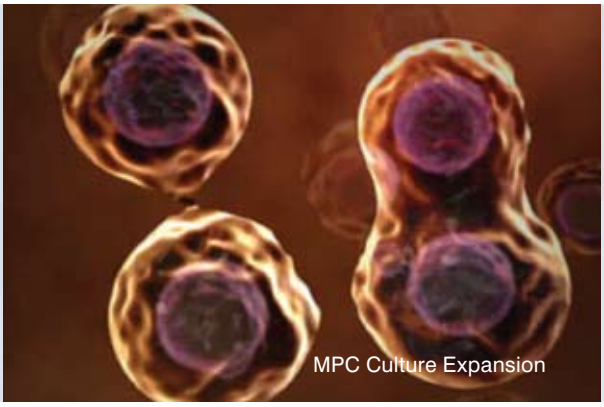
Details of the remuneration of key management personnel are set out in this section of the remuneration report. Key management personnel includes all directors (as disclosed on page 8), and certain executives of the company, who all belong to the Senior Executive Management Group and they have authority and responsibility for planning, directing and controlling the activities of the Company together with the Board of Directors.

In addition to the directors of the Company, key management personnel, as described above, also includes the following people and positions held during the reporting periods:

Name	Position	Effective date
Kevin Hollingsworth	Chief Financial Officer Company Secretary	21 November 07 (R) Full Year
Roger Brown	Vice President of Regulatory Affairs	19 January 2009 (A)
Suzanne Lipe	Vice President of Operations	18 March 08 (A)
Jenni Pilcher	Chief Financial Officer	21 November 07 (A)
Paul Rennie	Special Projects Consultant Chief Operating Officer	12 May 08 (A) 11 May 08 (R)
Jim Ryaby	Vice President of Research and Clinical Affairs	3 March 08 (A)

(A) Appointed to this position
(R) Resigned from this position





MPC Culture Expansion

Details of the remuneration of each director of Mesoblast Limited and the other key management personnel (including the five highest paid executives) of the Company are set out below:

	Short term employee benefits			Post-employment benefits
Name	Salary & fees $	Cash Bonus (i) $	Non-monetary benefits $	Superannuation $
Directors				
2009				
Executive directors				
Silviu Itescu	275,229	-	-	14,231
Non-executive directors				
Brian Jamieson	110,092	-	-	9,908
Byron McAllister	60,000	-	-	-
Donal O'Dwyer	55,046	-	-	4,954
Michael Spooner	55,046	-	-	4,954
	555,413	-	-	34,047
2008				
Executive directors				
Silviu Itescu	174,312	-	-	15,688
Michael Spooner*	63,008	137,615	-	14,990
Non-executive directors				
Brian Jamieson**	66,935	-	-	6,024
Byron McAllister	40,000	-	-	-
Donal O'Dwyer	36,697	-	-	3,303
Michael Spooner*	41,958	-	-	3,777
	422,910	137,615	-	43,782
Other Key Management Personnel* **				
2009				
Roger Brown	140,336	-	19,417	-
Suzanne Lipe	190,000	-	-	17,100
Jenni Pilcher	150,000	-	-	13,500
Paul Rennie	160,000	29,583	-	4,750
James Ryaby	211,339	-	22,271	-
Kevin Hollingsworth	40,000	-	-	-
	891,675	29,583	41,688	35,350
2008				
Suzanne Lipe	47,256	-	-	4,253
Jenni Pilcher	130,000	21,918	-	13,682
Paul Rennie****	122,552	76,697	-	27,912
James Ryaby	56,520	-	-	-
Donna Skerrett	65,472	20,252	-	-
Kevin Hollingsworth	112,600	-	-	-
	534,400	118,867	-	45,847
Total 2009	1,447,088	29,583	41,688	69,397
Total 2008	957,310	256,482	-	89,629

Sharebased payments	Other			
Options & rights $	Termination benefits $	Total $	Remuneration consisting of options %	Performance based remuneration (ii) %
-	-	289,460	-	-
-	-	120,000	-	-
-	-	60,000	-	-
5,983	-	65,983	9%	-
-	-	60,000	-	-
5,983	-	595,443	1%	-
-	-	190,000	-	-
-	-	215,613	-	63.8%
-	-	72,959	-	-
-	-	40,000	-	-
33,571	-	73,571	45.6%	-
-	-	45,735	-	-
33,571	-	637,878	5.3%	21.6%
29,333	-	189,086	15.5%	-
52,360	-	259,460	20.2%	-
90,337	-	253,837	35.6%	-
94,882	-	289,215	32.8%	-
69,813	-	303,423	23.0%	-
40,925	-	80,925	50.6%	-
377,650	-	1,375,946	27.4%	-
-	-	51,509	-	-
60,335	-	225,935	26.7%	9.7%
168,032	21,963	417,156	40.3%	18.4%
-	-	56,520	-	-
125,152	-	210,876	59.3%	9.6%
90,330	-	202,930	44.5%	-
443,849	21,963	1,164,926	38.1%	10.2%
383,633	-	1,971,389	19.7%	1.5%
477,420	21,963	1,802,804	26.5%	14.2%

* Michael Spooner was an executive up until 8 August 2007, after that date became a non-executive director.

** Brian Jamieson was appointed Chairman on 22 November 2007.

*** Refer to the table on page 19 for periods that remuneration has been disclosed.

**** Termination benefits included annual leave entitlements for Paul Rennie upon the expiry of his employment contract. His new contract is as a consultant with no leave entitlements.

(i) All bonuses reported in the above table are 100% of the bonus entitlement for each relevant executive. Bonuses forfeited during the year as a result of performance targets not being met were nil (2008: nil).

(ii) Performance-based remuneration includes all bonuses paid.

C. Service Agreements

The non-executive directors and the company secretary are engaged through a letter of appointment. Non-executive directors are appointed by shareholders on the basis that one third of all non-executive directors retire annually and are eligible for re-election at the Company's Annual General Meeting.

Remuneration and other terms of employment for the Executive Director and other key management personnel are formalised in service agreements. These agreements may provide for the provision of performance related cash bonuses and the award of options. Provisions of the agreements relating to remuneration are set out below:

Silviu Itescu, Executive Director

- Term of agreement: commencing 1 March 2008;
- Salary: $250,000 per annum
- Superannuation: $13,745 per annum;
- Termination: no terms have been agreed;
- Bonus: eligible to participate in the Company's bonus scheme.

Roger Brown, Vice President of Regulatory Affairs

- Term of agreement: commencing 19 January 2009;
- Salary: US$220,000 per annum;
- Other benefits: Dental and health fully covered;
- Termination: Three months;
- Bonus: eligible to participate in the Company's bonus scheme.

Suzanne Lipe, Vice President of Operations

- Term of agreement: commencing 18 March 2008;
- Salary: $190,000 per annum;
- Superannuation: 9% of $190,000 per annum;
- Termination: One month;
- Bonus: eligible to participate in the Company's bonus scheme.

Jenni Pilcher, Chief Financial Officer

- Term of agreement: commencing 22 November 2007;
- Salary: $150,000 per annum;
- Superannuation: 9% of $150,000 per annum;
- Termination: One month;
- Bonus: eligible to participate in the Company's bonus scheme.

Paul Rennie, Special Projects Consultant

- Term of agreement: commencing 12 May 2008;
- Consulting fees: $1,000 per day, three days per week;
- Termination: 30 days
- Bonus: eligible to participate in the company's bonus scheme.

Jim Ryaby, Vice President of Research and Clinical Affairs

- Term of agreement: commencing 3 March 2008;
- Salary: US$156,000 per annum, 3 days per week;
- Other benefits: Dental and health fully covered;
- Termination: Without notice;
- Bonus: eligible to participate in the Company's bonus scheme.

MPC Freezing of Product Doses

D. Share-Based Compensation

Options to purchase fully paid shares of the Company were granted as remuneration during the year as follows:

	Grant Date	Granted No.	Vesting date*	Expiry Date	Exercise price $	Fair value $
2009						
Roger Brown	19/01/2009	240,000	01/07/2009	18/01/2014	0.96	0.40
Suzanne Lipe	07/07/2008	180,000	01/07/2009	30/06/2013	1.00	0.48
Jenni Pilcher	07/07/2008	240,000	01/07/2009	30/06/2013	1.00	0.48
Paul Rennie	07/07/2008	150,000	01/07/2009	30/06/2013	1.00	0.48
Jim Ryaby	07/07/2008	240,000	01/07/2009	30/06/2013	1.00	0.48
2008						
Kevin Hollingsworth	27/07/2007	200,000	01/07/2008	30/06/2012	2.13	0.74
Jenni Pilcher	27/07/2007	100,000	01/07/2008	30/06/2012	2.13	0.74
Paul Rennie	27/07/2007	250,000	01/07/2008	30/06/2012	2.13	0.74
Donna Skerrett	27/07/2007	200,000	01/07/2008	30/06/2012	2.13	0.74

* Each grant of options is divided into three equal tranches. Tranche A has a vesting date which is shown in the above table. Tranches B and C have vesting dates one and two years respectively after Tranche A. All tranches have the same expiry date, exercise price and fair value which are as shown in the above table.

All share options issued to key management personnel were made in accordance with the provisions of the executive share option plan. All options issued were issued for no consideration, therefore there are no amounts unpaid with respect to these options. There are no performance criteria attached to any of the options granted during the year (2008: nil).

Modifications to terms and conditions of options granted

There has been no modification to any terms and conditions of options during the current and previous financial years.

Options held by key management personnel that vested and were exercised during the year:

	Options exercised during the current year			Number of options vested during the year	
	Exercise Price	Exercise Date	Exercise #	2009	2008
Donal O'Dwyer	$0.60	16/12/2008	150,000	50,000	50,000
Byron McAllister	$0.60	16/12/2008	150,000	-	-
Michael Spooner	$0.55 $0.60	03/09/2008 03/09/2008	400,000 700,000	-	-
Kevin Hollingsworth			-	67,000	-
Paul Rennie			-	163,000	-
Jenni Pilcher			-	33,000	60,000
Donna Skerrett*			-	-	100,000
			1,400,000	313,000	210,000

* comparative purposes only

Value of options issued to directors and key management personnel

The following table summarises the value of options granted, exercised and lapsed during the annual reporting period to the identified directors and executives. All values have been determined using the Black-Scholes model and in accordance with Australian accounting standards:

	Value of options granted at grant date (i) $	Value of options exercised at the exercise date (ii) $	Value of options lapsed at the date of lapse (iii) $
Donal O'Dwyer	-	30,000	-
Byron McAllister	-	30,000	-
Michael Spooner	-	658,000	-
Roger Brown	96,000	-	-
Suzanne Lipe	86,400	-	-
Jenni Pilcher	115,200	-	-
Paul Rennie	72,000	13,600	-
Jim Ryaby	115,200	-	-

(i) The value of options granted during the period is recognised as compensation over the vesting period of the grant, in accordance with Australian accounting standards.

(ii) The value of options exercised as at exercise date with reference to market share price

(iii) The value of options lapsed because performance milestones were not met, valued on date of lapse with reference to market share price.

Value of options yet to vest after the end of the current financial year

	Vested during the year %	Forfeited during the year %	Subsequent financial years in which options vest	Minimum total value of grant yet to vest $	Maximum total value of grant not yet expensed $
Donal O'Dwyer	17	-	-	-	-
Kevin Hollingsworth	34	-	2010-11	16,223	16,223
Roger Brown	-	-	2011-13	66,667	66,667
Suzanne Lipe	-	-	2011-12	33,320	33,320
Jenni Pilcher	8	-	2010-12	52,784	52,784
Paul Rennie	15	-	2010-12	48,414	48,414
Jim Ryaby	-	-	2010-12	44,427	44,427

This report is made in accordance with a resolution of the directors.

Mr Brian Jamieson
Chairman

26 August 2009, Melbourne

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
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MELBOURNE VIC 3001
DX 77
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999
Website:www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the audit of Mesoblast Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mesoblast Limited during the period.

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
26 August 2009

Corporate Governance

Mesoblast Limited (the Company) and its Board of Directors (the Board) are committed to implementing and achieving the highest standards of corporate governance. The Board will continue to ensure that the corporate governance framework is relevant, efficient and cost effective to the Company and its shareholders.

A description of the Company's corporate governance practices is set out below. All of these practices, unless otherwise stated, were in practice for the entire year. They comply with the August 2007 ASX *Principles of Good Corporate Governance and the Best Practice Recommendations*. The following report has been laid out according to those recommendations.

Principle 1. Lay solid foundations for management and oversight

The Board is responsible for, and has authority to determine, all matters relating to the policies, practices, management and operations of the Company.

Specifically the Board's functions include:

- contributing to, and approving, corporate strategies, objectives and plans for the Company to assist the Company with the achievement of its goals;
- reporting to shareholders on the Company's strategic direction and performance including constructive engagement in the development, execution and modification of the Company's strategies;
- ensuring risks to the business are identified, and approving systems and controls to manage these risks and monitor compliance;
- reviewing, ratifying and monitoring systems of risk management and internal control, and legal compliance.
- approving the Company's major human resources (HR) policies, including the code of conduct, and overseeing the development strategies for senior and high performing executives;
- monitoring executive management and business performance in the implementation and achievement of strategic and business objectives;
- ratifying and approving the appointment and removal of senior executives;
- approving and reviewing financial plans, financial results and annual budgets;
- determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- reviewing and approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding); and
- ensuring appropriate resources are available to senior management.

The Board delegates day-to-day management of the Company's operations and the implementation of the corporate strategy and policy initiatives are delegated to the Executive Director and senior executives.

A performance assessment for the Executive Director was completed in August 2009. Performance assessments for other members for Senior Management are yet to have been completed, however the Board has made a commitment to management these will be undertaken in the near future. The process for these assessments is currently being finalised and will be made available on the Company's website.

Principle 2. Structure the Board to add value

The Board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the Company website at www.mesoblast.com. The charter sets out the Board's composition and responsibilities.

2.1 Independence of Directors

Board composition

During the 2009 year, the Board of Directors comprised five Directors, being one executive and four Non-executives (including the Chair).

The term in office held by each Director in office as at 30 June 2009 is as follows:

Name	Term as director	Position held at 30 June 2009
Brian Jamieson	1 yr 7 mths	Independent Chairman
Silviu Itescu	5 yrs 1 mths	Executive Director
Byron McAllister	4 yrs 9 mths	Independent Director
Donal O'Dwyer	4 yrs 9 mths	Independent Director
Michael Spooner	4 yrs 9 mths	Director

Directors are appointed to the Board based on the specific governance skills required by the Company and on the independence of their decision making and judgment. The skills, experience and expertise relevant to the position of director held by each Director in office at the date of the annual report is included in the Director's Report. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

Board independence

The Board considers that an independent Director is a Non-executive Director who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years has not been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment
- is not a material supplier to the Company, or an officer of or otherwise associated directly or indirectly with, a material supplier
- has no material contractual relationship with the Company other than as a director of the Company
- are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Company's and an individual director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 2% of the Company's gross revenue or expenditure (whichever is the greater). In accordance with the definition of independence above, and the materiality thresholds set by the Board, the following Directors of Mesoblast were considered to be independent:

- Brian Jamieson (Chairman of the Board and Chairman of the Nomination and Remuneration Committee)
- Donal O'Dwyer (Deputy Chairman of the Board and Chairman of the Audit & Risk Committee)
- Byron McAllister

Michael Spooner has held an executive role within the last three years, and Silviu Itescu is currently an Executive Director, consequently neither of these Director's are considered by the Board to be independent.

Independent professional advice

In order to facilitate director independence, there are procedures in place to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense (subject to Board approval).

2.2 Independent Chairman

The Chair is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating discussions and managing the Board's relationship with the Company's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chair. The Chair is an independent Director.

2.3 Role of the CEO (or equivalent)

At the date of this annual report, the equivalent role to that of CEO (Executive Director) for the Company is not held by the Chairman, which is in accordance with the ASXCGC recommendations. The Executive Director is responsible for implementing Company strategies and policies.

2.4 Board Committees

The following Committees have been established to assist the Board in the effective discharge of its duties:

- Nomination and Remuneration Committee
- Audit and Risk Committee

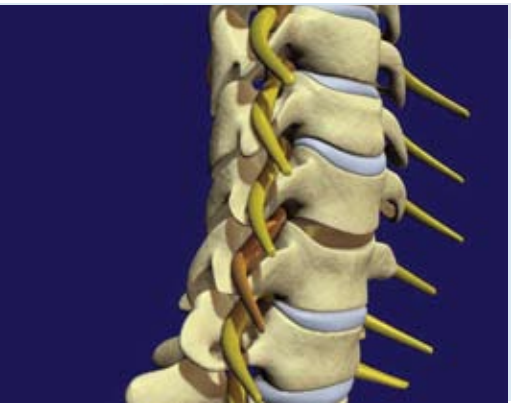
Each Committee is comprised of entirely Non-executive Directors. The Committee structure and membership is reviewed on an annual basis. All matters determined by the Committees are submitted to the full Board as recommendations for Board decisions.

Each Committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company's website.

Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee comprising four directors as follows:

Name	Position held during the year
Brian Jamieson	Independent Chairman
Byron McAllister	Independent member
Donal O'Dwyer	Independent member
Michael Spooner	Member



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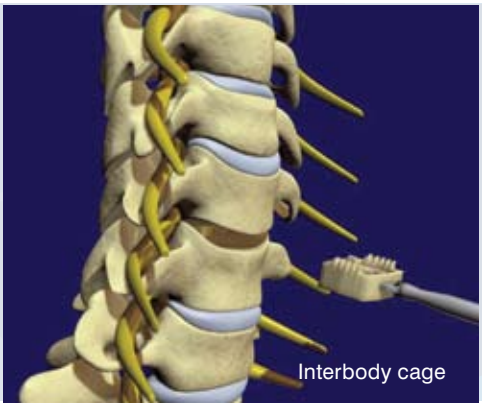


Details of meetings attended are found in the Directors' Report.

The Nomination and Remuneration Committee provides an efficient mechanism for examination of the selection, appointment, and remuneration practices and policies of the Company. The main responsibilities of the Nomination and Remuneration Committee are to:

- conduct an annual review of the membership of the Board having regard to present and future needs of the Company and to make recommendations on Board composition and appointments
- conduct an annual review of an conclude on the independence of each Director
- propose candidates for Board vacancies
- oversee the annual performance assessment program
- assess and make recommendations annually on remuneration levels for the Board and senior executives
- oversee the review of Board succession plans
- assess the effectiveness of the induction process

Commitments of Directors

The commitments of Non-executive Directors are considered by the Nomination Committee prior to the directors' appointment to the Board of the Company and are reviewed each year.

Prior to appointment or being submitted for re-election, each Non-executive Director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the company.

2.5 Performance of the Directors

Board appointments

Directors receive a formal letter of appointment setting out the key terms, conditions and expectations of their appointment.

The induction provided to new Directors and senior executives enables them to actively participate in Company decision-making as soon as possible. The induction includes being presented with key strategic, financial and relevant operational documents, and the facilitation of meetings with existing Directors and senior executives to ensure all relevant and material information is explained thoroughly. The induction also includes an explanation of the existing human resources structure of the Company and roles and responsibilities of key senior executives are explained.

Access to information

The Board is given papers, prepared by senior management, for every Board meeting held. These papers include, but are not limited to, an operational update, financial reporting package, report of operations from our associate Angioblast Systems, Inc., investor relations update, market activity report, and other topical strategic documents relevant to the Company's operations and performance.

Directors are entitled to request any additional information from management where they consider such information necessary to make informed decisions.

Performance evaluation

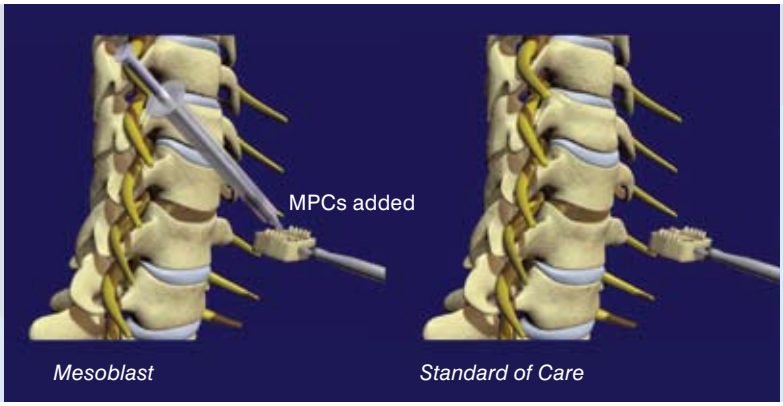
A description of the process for performance evaluation for the Board and senior executives is currently being finalised and will be made available on the Company's website in due course.

The Board has not completed a formal review of its members this financial year, but is committed to completing this review by the end of this calendar year.

2.6 Website disclosures

The following information relating to the Boards structure can be found on the Company's website at www.mesoblast.com:

- a description of the procedure for the selection and appointment of new Directors and the re-election of incumbent Directors
- the Board's policy for the nomination and appointment of Directors
- the charter of the Nomination and Remuneration Committee



Principle 3. Promote ethical and responsible decision-making

3.1 Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide all employees, particularly Directors, the Chief Financial Officer and other senior executives in respect of ethical behavior expected by the Company.

The Code of Conduct covers conflicts of interest, confidentiality, fair dealing, protection of assets, compliance with laws and regulations, whistle blowing, security trading and commitments to stakeholders. In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies.

3.2 Trading policy applied to Directors, officers and employees

The Directors, employees and key consultants are permitted to trade in the Company's securities at any time subject to the following approval procedures:

- a request to trade is submitted to the Chief Financial Officer who circulates this request to the Chairman, any executive Directors and the Company Secretary;
- the Board have 7 business days to respond and either approve or deny the request; and
- at the end of this 7 day period, if there is no objection, then that person has a trading window of 7 business days from the deemed approval date, provided they do not hold any price sensitive information.

The Company Secretary is committed to reviewing regularly the contents of the share register, which is currently maintained by Link Market Services Limited. Any significant share trading by officers of the Board is duly noted and shall be reported to the Company in a timely manner.

3.3 Website disclosures

A copy of the Code of Conduct and the share trading policy can be found on the Company's website.

Principle 4. Safeguard integrity in financial reporting

4.1 Audit and Risk Committee establishment

The Board has established an Audit and Risk Committee, to which it has delegated the responsibility for ensuring that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

4.2 Audit and Risk Committee structure

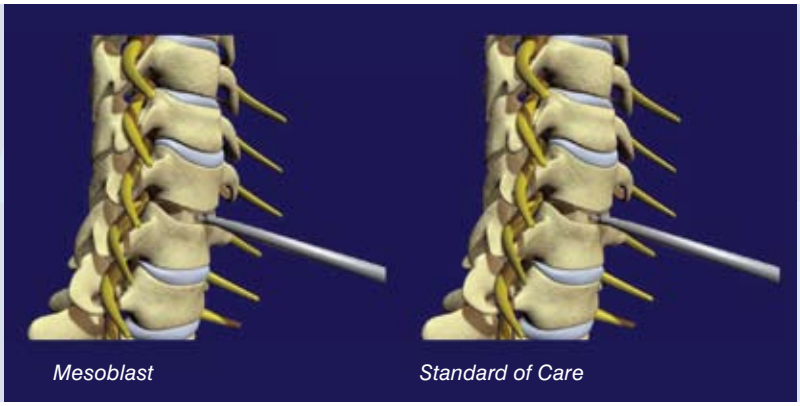
The Board has established an Audit and Risk Committee comprising four directors, the majority of whom are independent, and are as follows:

Name	Position held during the year
Donal O'Dwyer	Independent Chairman
Brian Jamieson	Independent member
Byron McAllister	Independent member
Michael Spooner	Member

The Chairperson of the Committee is not the Chairperson of the Board. All of the Directors are financially literate and two of the members, Brian Jamieson and Michael Spooner, have accounting qualifications and have worked in the top four chartered accounting firms. Both the Chair of the Committee, Donal O'Dwyer, and two Committee members, Michael Spooner and Byron McAllister, have valuable industry experience having served in the industry in senior positions for a number of years. Further details on the members of the Audit and Risk Committee and their qualifications, together with meetings attended, can be found in the Directors' Report.

4.3 Formal charter

The Audit and Risk Committee operates under a formal charter approved by the Board.



The main responsibilities of the Audit and Risk Committee are to:

- review, assess and approve the annual full and concise reports, the half-year financial report and all other financial information published by the Company or released to the market
- review, and report to the Board, on the effectiveness of management processes supporting external reporting
- assist the Board in reviewing the effectiveness of the organisation's management internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- determine whether an internal audit function is deemed necessary, and if so, determine its scope, assess its performance and independence, and ensure that its resources are adequate and used effectively
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and implement and enforce procedures governing the rotation of the external audit engagement partner
- review the terms of the external audit engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the Board on all matters relevant to the Committee's role and responsibilities

4.4 Website disclosure

The charter of the Audit and Risk Committee can be found on the Company's website. Also disclosed is the process for the appointment of the external auditor.

Principle 5. Make timely and balanced disclosure

The Board has established a policy governing continuous disclosure and has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the Australian Stock Exchange (ASX) as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Upon confirmation of receipt from the ASX, the Company posts all information disclosed in accordance with this policy on the Company's website at www.mesoblast.com.

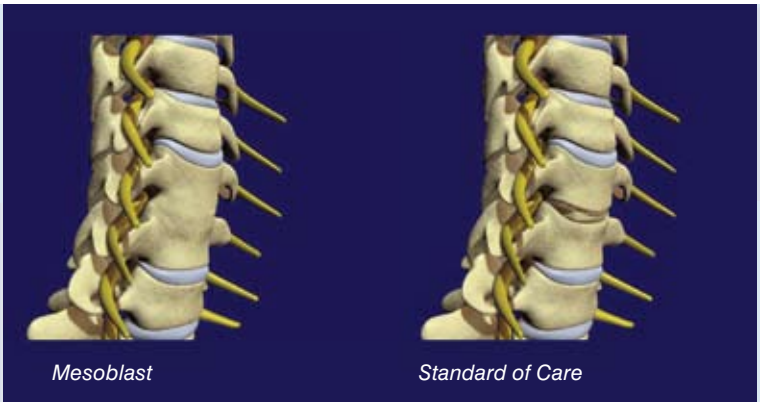
Principle 6. Respect the rights of shareholders

6.1 Communications strategy

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via the ASX, the Company's website, information mailed and emailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company.

The Company also makes available a telephone number and e-mail address (info@mesoblast.com) for shareholders to make enquiries of the Company.



Principle 7. Recognise and manage risk

7.1 Establish policies on risk oversight and management and internal control

The Board, through its Audit and Risk Committee, is responsible for reviewing the Company's policies in relation to risk oversight and management, compliance and internal control systems. These policies are available on the Company's website.

7.2 Establish policies on risk oversight and management

The operation of the Company's risk management and compliance system is managed by the risk management group which consists of senior executives and is chaired by the Chief Finiancial Officer. This group is newly established and is committed to providing six monthly reports, or more frequent if deemed necessary at the time, regarding the status and management of relevant material business risks to the Audit and Risk Committee for review.

7.3 Corporate reporting

The Executive Director and the Chief Financial Officer have made the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control, which implement the policies adopted by the Board, and the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principle 8. Remunerate fairly and responsibly

8.1 Remuneration Committee

Composition and charter

The Board has established a Remuneration Committee. Details of its structure and members can be found in section 2.4 of this report. The Committee operates in accordance with a charter which can be found on the Company's website.

Responsibilities

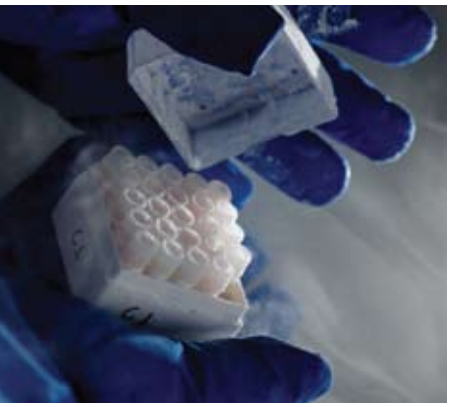
The responsibilities of the Remuneration Committee include providing a review and recommendation to the Board of:

- senior executive remuneration and incentive policies
- specifics for remuneration packages of senior executives and Non-executive directors
- the Company's recruitment, retention and termination policies and procedures for senior executives
- superannuation arrangements

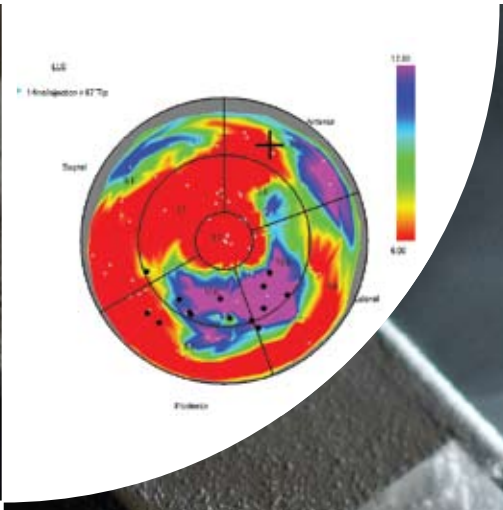
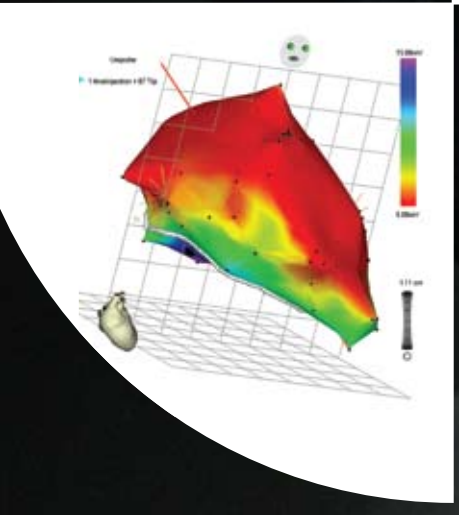
The Committee is also responsible for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Remuneration policies

Details of the nature and amount of each element of remuneration, including principles of remuneration, for each director and the Company's highest-paid executives during the year can be found in the remuneration report section of the Directors' Report.





Financial Statements

for the year ended 30 June 2009

Income Statement
for the year ended 30 June 2009

	Note	30 June 2009 $	30 June 2008 $
Revenues from continuing operations	2(a)	890,708	909,807
Expenses from continuing operations			
Research and development		(7,145,623)	(6,207,372)
Management and administration		(3,174,079)	(2,642,016)
Share of losses of equity accounted associates		(2,856,465)	(2,122,798)
Total expenses from continuing operations		(13,176,167)	(10,972,186)
Loss before income tax expense		(12,285,459)	(10,062,379)
Income tax (expense)/benefit	4	-	-
Loss after related income tax expense from continuing operations		(12,285,459)	(10,062,379)
Loss attributable to members of the company		(12,285,459)	(10,062,379)
Loss per share – from continuing operations:		**cents**	**cents**
Basic – cents per share	6	9.89	8.81
Diluted – cents per share	6	9.89	8.81

The above income statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
for the year ended 30 June 2009

	Notes	Contributed Equity $	Accumulated Losses $	Share Based Payment Reserve $	Foreign Currency Translation Reserve $	Total $
As of 1 July 2007		37,422,183	(18,497,087)	1,614,243	-	20,539,339
Exchange gain on translation of overseas associate		-	-	-	796,498	796,498
Net income recognised directly in equity		-	-	-	796,498	796,498
Loss for the year		-	(10,062,379)	-		(10,062,379)
Total recognised income and expense for the year		**-**	**(10,062,379)**	**-**	**796,498**	**(9,265,881)**
Contributions of equity net of transaction costs	13	13,596,900	-	-	-	13,596,900
Share based payment		-	-	1,345,774	-	1,345,774
At 30 June 2008		**51,019,083**	**(28,559,466)**	**2,960,017**	**796,498**	**26,216,132**
As of 1 July 2008		51,019,083	(28,559,466)	2,960,017	796,498	26,216,132
Exchange loss translation of overseas associate		-	-	-	(778,354)	(778,354)
Net income recognised directly in equity		-	-	-	(778,354)	(778,354)
Loss for the year		-	(12,285,459)	-	-	(12,285,459)
Total recognised income and expense for the year		**-**	**(12,285,459)**	**-**	**(778,354)**	**(13,063,813)**
Contributions of equity net of transaction costs	13	11,441,153	-	-	-	11,441,153
Share based payment		-	-	1,196,490	-	1,196,490
At 30 June 2009		**62,460,236**	**(40,844,925)**	**4,156,507**	**18,144**	**25,789,962**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Balance Sheet
as at 30 June 2009

	Note	30 June 2009 $	30 June 2008 $
Current Assets			
Cash and cash equivalents	7	16,526,278	14,094,219
Trade and other receivables	8	305,361	123,900
Prepayments		88,533	85,533
Total Current Assets		16,920,172	14,303,652
Non-Current Assets			
Property, plant and equipment	9	246,137	197,997
Investments accounted for using the equity method	10	9,326,428	12,761,247
Intangible assets	11	482,275	526,006
Total Non-Current Assets		10,054,840	13,485,250
Total Assets		26,975,012	27,788,902
Current Liabilities			
Trade and other payables	12	1,185,050	1,572,770
Total Current Liabilities		1,185,050	1,572,770
Total Liabilities		1,185,050	1,572,770
Net Assets		**25,789,962**	**26,216,132**
Equity			
Issued capital	13	62,460,236	51,019,083
Reserves	14	4,174,651	3,756,515
Accumulated losses		(40,844,925)	(28,559,466)
Total Equity		**25,789,962**	**26,216,132**

The above balance sheet should be read in conjunction with the accompanying notes.

Cash Flow Statement
for the year ended 30 June 2009

	Note	30 June 2009 $	30 June 2008 $
Cash Flows From Operating Activities			
Payments to suppliers and employees		(9,423,871)	(6,326,130)
Government grants and other income received		186,295	123,541
Interest and other costs of financing paid		-	-
Net cash used in operating activities	15 (b)	(9,237,576)	(6,202,589)
Cash Flows From Investing Activities			
Interest received		650,778	841,725
Investment in fixed assets		(170,020)	(100,956)
Investment in patents & licenses		-	-
Investment in equity accounted associate		(200,000)	(6,419,452)
Loan repaid/(advanced) to associate company		(13,871)	330,645
Net cash used in investing activities		266,887	(5,348,038)
Cash Flows From Financing Activities			
Proceeds from issue of shares		11,941,443	14,134,500
Payments for share issue costs		(548,290)	(537,600)
Net cash provided by financing activities		11,393,153	13,596,900
Net increase in cash and cash equivalents		2,422,464	2,046,273
Cash and cash equivalents at beginning of year		14,094,219	12,055,040
FX losses on the translation of foreign bank accounts		9,595	(7,094)
Cash and cash equivalents at end of year	15 (a)	16,526,278	14,094,219

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
for the year ended 30 June 2009

INTRODUCTION

The financial report covers Mesoblast Limited ("Mesoblast"), a company limited by shares whose shares are publicly traded on the Australian stock exchange. Mesoblast is incorporated and domiciled in Australia and has its registered office and principal place of business as follows:

Registered office	Principal place of business
Level 2 517 Flinders Lane Melbourne	Level 39 55 Collins Street Melbourne

The principal activity of the economic entity during the financial year was the commercialisation of unique intellectual property associated with the isolation, culture and scale-up of adult stem cells referred to as Mesenchymal Precursor Cells ("MPC").

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Urgent Issue Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial reporting Standards ("A-IFRS"). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Board of Directors of Mesoblast on the date shown on the Directors' Declaration attached to the Financial Statements.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted.

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Going concern

For the year ended 30 June 2009, the company incurred an operating loss of $12,285,459 (2008 loss: $10,062,379) as it continued to further its investment in research initiatives. As at year end, the company's net assets stood at $25,789,962 (2008: $26,216,132), with available cash of $16,526,278 (2008: $14,094,219).

During the financial year ending 30 June 2009, the company will work to further advance both the development of its core technologies, and if possible, the commercialisation of those technologies. Based on the forecast cash flows approved by the Board of Directors for the period ending 31 August 2010, which excludes any cash that may be raised through further allotment of capital or through collaboration arrangements with third parties, the Directors believe that sufficient cash will be available to fund the company's operations over the 12 month period subsequent to the date of signing the financial statements.

Accordingly the financial statements have been prepared on a going concern basis. The financial statements do not include any adjustments to the carrying values or classification of assets or liabilities that would be necessary in the event that the company, were unable to continue as a going concern.

Early adoption of standards
The company decided to adopt AASB 8 *Operating Segments* for both the current and previous reporting periods. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a "management approach", which aligns the disclosure to that used internally for management reporting.

Critical accounting judgements and key assumptions

In the application of the Company's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There have been no significant judgements made in applying accounting policies that the Directors consider would have a significant effect on the amounts recognised in the financial statements.

There have been no key assumptions made concerning the future, and there are no other key sources of estimation uncertainty at the balance date, that the Directors consider have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term deposits with an insignificant risk of change in value.

Bank overdrafts, if applicable, are shown within borrowing in current liabilities in the balance sheet. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts (if any).

(b) Contributed equity

Ordinary shares are classified as equity.

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.

(c) Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share
Diluted earning per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(d) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave.

Liabilities recognised in respect of employee benefits which are expected to be settled within 12 months, are measured at their nominal values using the remuneration rates expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

(e) Foreign currency

Foreign currency transactions are translated to Australian currency, which is the Company's functional currency, at the rates of exchange ruling at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at balance date. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities at year end exchange rates are recognised in the income statement.

Exchange differences arising from the translation of any investment in foreign entities are taken to the foreign currency translation reserve in shareholders equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

(g) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them on a systematic basis with the costs that they are intended to compensate.

Government grants whose primary condition is for the Company to purchase property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(h) Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

An impairment loss would be recognised if the amount by which the assets carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment of goodwill is not subsequently reversed.

(i) Intangible assets

Patents and Licences

Patents and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of the asset over its remaining useful life, which equates to the remaining life of the underlying patent.

(j) Income taxes

Income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for Australia, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. Deferred income tax is not provided if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time affects neither accounting, nor taxable, profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted by the reporting date and are expected to apply when the related deferred income tax assets is realised or the deferred liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probably that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(k) Investments accounted for using the equity method

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The financial statements of the associate are used by the Company to apply the equity method. The reporting dates of the associate and the Company are identical and both use consistent accounting policies.

The investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The income statement reflects the Company's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Company recognised its share of any change and disclosed this, when applicable, in the statement of changes in equity.

The carrying amount of an investment accounted for using the equity method is assessed annually to determine whether there is any indication that the asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(l) Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Property, plant and equipment, other than freehold land, are depreciated over their estimated useful lives using the straight line method. The expected useful lives are between two and nine years, with the majority being depreciated over four years.

Gains and losses on disposal of plant and equipment are taken into account in determining the profit for the year.

(m) Provisions

Provisions are recognised when the Company has a present obligation (legal and constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(n) Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its future recoverability can reasonably be regarded as assured, 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.

The carrying value of development cost is reviewed for impairment annually when the asset is not yet in use or when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue when the amount of revenue can be reliably measured, it is probably that future economic benefits will flow to the entity, and specific criteria have been met for each of the Company's activities.

Interest revenue
Interest revenue is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(p) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Senior Management Executive Group and the Board of Directors, both of which make strategic decisions for the Company.

(q) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted since the date of incorporation and that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

(r) Trade and other 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 and there is objective evidence of impairment. Debts which are known to be uncollectible are written off in the income statement. All trade receivables and other receivables are recognised at the value of the amounts receivable, as they are due for settlement within 60 days and therefore do not require re-measurement.

(s) Trade and other payables

Payables represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest. 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.

(t) Changes in accounting policies

There have been no significant changes in accounting policy during the reporting period.

(u) Comparative figures

Comparatives have been reclassified where necessary so as to be consistent with the figures presented in the current year.

(v) New and revised accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 is effective for annual reporting periods commencing on or after 1 January 2009. This standard allows for a "management" style of disclosure of operating segments. The Company decided to adopt this standard for both the current and previous reporting periods on the basis that it more accurately discloses the financial information pertaining to the segments of the Company.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123

Revised AASB 123 is effective for annual reporting periods commencing on or after 1 January 2009. The Company has not adopted this standard for the current reporting period as it has no borrowing costs.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

Revised AASB 101 is effective for annual reporting periods commencing on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of equity. The Company has decided not to adopt this standard on the basis that the changes are of a disclosure nature only and do not impact what is recognised in the financial statements.

(iv) AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations

AASB 2008-1 was issued in February 2008 and will become applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company will apply the revised standard from 1 July 2009.

	30 June 2009 $	30 June 2008 $
2. REVENUE AND EXPENSES FROM CONTINUING OPERATIONS		
(a) Revenue from continuing operations		
Commercial Ready government grant*	186,295	-
Interest revenue	704,413	909,807
	890,708	909,807

**Further details of the grant are contained in note 17(a) to the financial statements.*

(b) Expenses		
Employee benefits		
Salaries and employee benefits	2,414,426	1,530,719
Defined contribution superannuation expenses	100,907	110,662
Share based payments – employees & directors	573,308	425,435
	3,088,641	2,066,816
Depreciation and amortisation of non-current assets		
Plant and equipment depreciation	76,098	62,721
Intellectual property amortisation	43,731	94,038
	119,829	156,759
Other		
Research & development – external	2,777,798	3,075,548
Intellectual property costs (excluding amortisation as shown above)	267,328	396,762
Share based payments – consultants	623,182	920,339
Finance costs	-	-
Foreign exchange losses	111,312	10,032
Write-off of intangible assets	-	198,182
Loss on disposal of plant and equipment	45,783	-

3. SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments presented here are those that are internally reported on a regular basis to the board of directors, who are ultimately responsible for the allocation of resources to those segments and for making strategic decisions for the Company.

Two reportable operating segments have been identified, the orthopaedic segment and the cardiovascular segment, both having two distinct markets for which the MPC platform technology is currently being developed. The orthopaedic segment operates in Australia, and the cardiovascular segment operates in the United States of America through our investment in Angioblast systems, Inc.

(b) Segment information

	Orthopaedic	Cardiovascular & non-orthopaedic	Total
	$	$	$
2009			
Revenue from external parties	186,295	-	186,295
Total segment revenue	186,295	-	186,295
Net loss after tax	6,240,855	2,856,465	8,911,025
Net loss after tax includes the following items:			
Research and development	6,197,123	-	6,197,123
Equity accounted losses	-	2,856,465	2,856,465
Amortisation of intellectual property purchased	43,731	-	43,731
Total segment assets	493,609	9,326,428	9,820,037
Total segment assets include:			
Carrying value of investments accounted for using the equity method	-	9,326,428	9,326,428
Total segment liabilities	575,510	-	575,510
2008			
Revenue from external parties	-	-	-
Total segment revenue	-	-	-
Net loss after tax	5,287,033	2,122,798	7,409,831
Net loss after tax includes the following items:			
Research and development	5,192,995	-	5,192,995
Equity accounted losses	-	2,122,798	2,122,798
Amortisation of intellectual property purchased	94,038	-	94,038
Total segment assets	549,519	12,761,247	13,310,766
Total segment assets include:			
Carrying value of investments accounted for using the equity method	-	12,761,247	-
Total segment liabilities	1,194,186	-	1,194,186

3. SEGMENT INFORMATION CONTINUED

(c) Segment reconciliations

The following table reconciles each of the segment totals to the totals reported for the Company in the income statement and balance sheet. These reconciling items are not considered by the Company to be an operating segment as defined in AASB 8 *Operating Segments* (which has been early adopted in this current financial year) and therefore are not disclosed as such. They are administrative in nature and relate largely to the running of the Mesoblast head office.

	30 June 2009 $	30 June 2008 $
Total segment revenue	**186,295**	**-**
Interest revenue	704,413	909,807
Total revenue from continuing operations	890,708	909,807
Total segment net loss after tax	**8,911,025**	**7,409,831**
Interest revenue	(704,413)	(909,807)
Administration expenses	2,882,357	2,216,581
Share-based payments	1,196,490	1,345,774
Total net loss after tax	12,285,459	10,062,379
Total segment assets	**9,820,037**	**13,310,766**
Property, plant and equipment	246,137	197,997
Interest receivable	121,718	68,081
Other receivables	48,945	-
GST receivable	89,905	39,195
Prepayments	77,200	62,021
Receivable from associate	44,792	16,623
Cash	16,526,278	14,094,219
Total assets	26,975,012	27,788,902
Total segment liabilities	**575,510**	**1,194,186**
Trade payables and accruals – administration	570,837	293,317
Employee entitlements – administration	37,014	22,523
Payable to Angioblast	1,689	62,744
Total liabilities	1,185,050	1,572,770

	30 June 2009 $	30 June 2008 $
4. INCOME TAX EXPENSE		
(a) Reconciliation of income tax to prima facie tax payable		
Loss from continuing operations before income tax	12,285,459	10,062,379
Prima facie tax benefit on operating loss before income tax at 30%	3,685,638	3,018,713
Tax effect of amounts which are (not deductible)/taxable in calculating taxable income:		
Share based payments expense	(358,947)	(403,732)
Equity accounting loss	(856,940)	(636,839)
R&D Tax Offset	250,000	258,150
FX unrealised gains/(losses)	2,879	(2,071)
Amortisation of intangibles	(13,119)	(28,211)
Capital raising expenses	164,487	299,600
Other sundry items	(1,500)	(4,118)
Tax benefit not recognised	(2,872,498)	(2,501,492)
Income tax expense attributable to loss before income tax	-	-
(b) Deferred tax asset not bought to account*		
Temporary differences	390,336	267,296
Tax losses	8,742,479	5,993,021
	9,132,815	6,260,317

** Tax losses carried forward and temporary differences has not been brought to account at 30 June 2009 because the Directors do not consider it probable, at this stage of the Company's program, that sufficient taxable amounts will become available which deductible temporary differences and unused tax losses can be applied to. Realisation of the benefit of tax losses would also be subject to the Company satisfying the conditions for deductibility imposed by tax legislation. The Company has made no assessment as to the satisfaction of these conditions at 30 June 2009.*

5. REMUNERATION OF AUDITORS		
(a) PricewaterhouseCoopers – Australia		
(i) Audit and assurance services		
Audit and review of financial reports	90,000	87,500
(ii) Taxation services		
Corporate tax compliance	10,000	-
Employment tax and withholding advice	2,000	-
Total taxation services	12,000	-
Total remuneration of PricewaterhouseCoopers	102,000	87,500
(b) PKF – Australia		
(i) Audit and assurance services		
Audit of Commercial Ready Grant reporting	4,850	-
Total remuneration of PKF	4,850	-
Total remuneration paid to audit firms	106,850	87,500

	30 June 2009 $	30 June 2008 $
6. EARNINGS PER SHARE		
Net loss used in calculating basic earnings per share	12,285,459	10,062,379
Net loss used in calculating diluted earnings per share	12,285,459	10,062,379
	No.	No.
Weighted average number of ordinary shares used in calculating basic earnings per share	124,217,494	114,209,029
Dilutive potential ordinary shares	-	-
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	124,217,494	114,209,029

	30 June 2009 $	30 June 2008 $
7. CASH AND CASH EQUIVALENTS		
Cash at bank	257,352	753,606
Deposit at call	1,023,906	4,231,882
Term deposits	15,245,020	9,108,731
	16,526,278	14,094,219

8. TRADE AND OTHER RECEIVABLES

Current		
Interest receivable	121,718	68,082
Sundry Debtors	48,946	
Goods and services tax recoverable	89,905	39,195
Loan to Angioblast Systems, Inc. (associate)	44,792	16,623
	305,361	123,900

All trade and other receivable balances are within their due dates and none are considered to be impaired at both 30 June 2009 and 30 June 2008. See note 21 for the impact of credit risk on the Company.

9. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		
Cost		
Balance at the beginning of year	299,802	197,319
Additions	170,021	102,483
Disposals	(47,560)	-
Balance at the end of year	422,263	299,802
Accumulated depreciation		
Balance at the beginning of year	(101,805)	(39,084)
Depreciation expense	(76,098)	(62,721)
Disposals	1,777	-
Balance at the end of year	(176,126)	(101,805)
Net book value at the end of the year	246,137	197,997

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Country of Incorporation	Principal Activity
Angioblast Systems, Inc.	USA	Adult stem cell research and development for cardiovascular indications

	Ownership Interest			
	30 June 2009 %	30 June 2008 %	30 June 2009 $	30 June 2008 $
(a) Carrying amount				
Angioblast Systems, Inc.	38.4	39.1	9,326,428	12,761,247

(b) Movement in carrying amount		
Carrying amount at the beginning of year	12,761,247	7,668,095
Additional investment	200,000	6,419,452
Share of losses	(2,856,465)	(2,122,798)
Exchange difference on translation	(778,354)	796,498
Carrying amount at the end of year	9,326,428	12,761,247

The following information has been extracted from the audited report of Angioblast Systems, Inc. and translated at the exchange rate prevailing at year end, with the exception of the company's share of net loss which has been determined using exchange rates prevailing through-out the year:

Summaries financial information of associates:

Financial position		
Total assets	1,820,388	6,244,935
Total liabilities	1,225,046	(6,089,556)
Net assets/(liabilities)	595,342	155,379
Company's share of net assets/(liabilities)	228,611	60,753
Financial performance		
Income	248,026	873,380
Expenses	(6,992,987)	(6,153,802)
Company's share of associates' loss		
Share of associates' loss before tax	(2,856,465)	(2,122,798)
Share of associates' income tax expense	-	-
Share of associates' loss	(2,856,465)	(2,122,798)

The Directors have followed the guidance of AASB136 in determining whether an investment is impaired. The Directors have made an assessment of the value of this investment in the accounts, reviewing the results to date against the original milestones and work plans and having considered current market conditions and are comfortable to continue to carry it at equity accounted cost. The value of the investment is dependent on its research and development and subsequent commercialisation. The Directors are of the view that the investment in Angioblast Systems, Inc. is not impaired at balance date.

The contingent liabilities of the associate are disclosed in Note 17(c).

	30 June 2009 $	30 June 2008 $
11. INTANGIBLE ASSETS		
Patents and licences		
Gross carrying amount		
Balance at the beginning of year	690,000	904,226
Patent costs written off (i)	-	(214,226)
Carrying amount at the end of year	690,000	690,000
Accumulated amortisation		
Balance at the beginning of year	(163,994)	(86,000)
Amortisation expense (i)	(43,731)	(94,038)
Patent costs written off (i)	-	16,044
Carrying amount at the end of year	(207,725)	(163,994)
Net book value	482,275	526,006

(i) Intellectual property expenses are included in research and development in the income statement.

12. TRADE AND OTHER PAYABLES

Current		
Trade payables	1,042,335	1,428,780
Employee benefits	61,023	81,216
Payable to Angioblast Systems, Inc.*	81,692	62,774
	1,185,050	1,572,770

**associate and related party of the company*

13. ISSUED CAPITAL

Ordinary shares participate in dividends and the proceeds on winding up of the company in equal proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

	30 June 2009 No.	30 June 2009 $	30 June 2008 No.	30 June 2008 $
(a) Movements in issued capital during the year				
Fully paid ordinary shares				
Balance at beginning of financial year	119,256,133	51,019,083	107,716,133	37,422,183
Shares issued at $1.28 14 December 2007	-	-	10,500,000	13,440,000
Shares issued at $0.72 01 April 2009	15,018,069	10,813,009	-	-
Transaction costs arising on issue of shares	-	(548,290)	-	(537,600)
Issue of shares under employee share option plan (note 18)	1,900,667	1,176,434	1,040,000	694,500
Balance at end of financial year	136,174,869	62,460,236	119,256,133	51,019,083
(b) Options over ordinary shares				
Balance at end of financial year	9,872,000		9,316,667	
Amounts unvested at end of financial year	4,396,000		2,680,000	

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the employee share option plan are contained in note 18 to the financial statements.

	30 June 2009 $	30 June 2008 $
14. RESERVES		
(a) Reconciliation of reserves		
Share based payments reserve	4,156,507	2,960,017
Foreign currency translation reserve	18,144	796,498
	4,174,651	3,756,515

(b) Nature and purpose of reserves

Share based payment reserve
The share based payments reserve is used to recognise the fair value of options issued and vested but not exercised.

Foreign currency translation reserve
Exchange differences arising on translation of the equity accounted investment are taken to the foreign currency translation reserve.

15. CASH FLOW INFORMATION

(a) Reconciliation of cash and cash equivalents		
Cash at bank	257,352	753,606
Deposit at call	1,023,906	4,231,882
Term deposits	15,245,020	9,108,731
	16,526,278	14,094,219
(b) Reconciliation of net cash flows used in operations with loss after income tax		
Loss from ordinary activities	(12,285,459)	(10,062,379)
Add/(deduct) profit and loss items as follows:		
Depreciation and amortisation	119,829	156,759
Loss on sale of plant and equipment	45,783	-
Intellectual property disposal costs	-	198,182
Interest received (investing activity)	(704,413)	(909,807)
Foreign exchange losses on bank translation	(9,595)	7,094
Equity settled share based payment	1,196,490	1,345,774
Equity accounted losses (Angioblast)	2,856,465	2,122,798
Change in operating assets & liabilities:		
(Increase)/decrease in trade and other receivables	(54,657)	53,766
Increase/(decrease) in trade creditors and accruals	(402,019)	885,224
Cash flows used in operations	(9,237,576)	(6,202,589)

	30 June 2009 $	30 June 2008 $
16. COMMITMENTS FOR EXPENDITURE		
(a) Capital commitments		
Not longer than 1 year	-	-
(b) Further investment in associate*		
Not longer than 1 year	-	200,000
Longer than 1 year and not longer than 5 years	-	-
	-	200,000

* As at 30 June 2009 the company has completed all of its investment into Angioblast per the Series B investment that was approved by shareholders of Mesoblast in November 2006. As at 30 June 2008 the company had a final $200,000 instalment still to be made under this agreement. This investment was made during the current financial year. The preference shares awarded to Mesoblast are in the process of being converted to common stock.

(c) Company's share of associates expenditure commitments

Angioblast have report no expenditure commitments for the year ended 30 June 2009 (2008: nil).

17. CONTINGENT ASSETS AND LIABILITIES

(a) Contingent assets

The company does not consider it has any contingent assets outstanding as at 30 June 2009. As at 30 June 2008, the company had a government grant payment due on completion of certain milestones. This payment was received during the current financial year. There are no unfulfilled conditions or other contingencies attached to the portions of government grants recognised in the year. The Company did not benefit from any other form of government assistance.

(b) Contingent liabilities

Mesoblast will be required to make a milestone payment to Medvet of US$250,000 on completion of Phase III (human) clinical trials and US$350,000 on FDA marketing approval. Mesoblast will pay Medvet a commercial arm's length royalty based on net sales by Mesoblast of licensed products each quarter.

The company has no pending litigation as at the end of the financial year.

(c) Contingent liabilities of Angioblast in relation to Medvet

The contingent liabilities described below represent 100 per cent of the contingent obligations of Angioblast. By way of its equity interest, Mesoblast currently has a 38.4% interest in these contingent liabilities. Mesoblast is not liable for these contingent liabilities.

Angioblast has agreed to pay consideration for certain intellectual property assets assigned to it by Medvet on the basis of future milestones being reached. These milestones will not be reached as part of the current development program which envisages funding through to IND approvals. They represent payments on successful completion of subsequent clinical milestones. If all milestones were to be reached these payments total US$1,500,000. In addition royalties at 2.5% of net sales with stipulated minimum annual royalties scaling up from US$100,000 to US$500,000 over 5 years exist.

18. SHARE-BASED PAYMENTS

The Company has adopted an Employee Share Option Plan to foster an ownership culture within the Company and to motivate directors, senior management and consultants to achieve performance targets of the Company and/or their respective business units. Selected directors, employees and consultants of the Company may be eligible to participate in the Plan at the absolute discretion of the Company's board of directors. Except as outlined in the remuneration report 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 options which may be issued pursuant to the Plan and all other share purchase plans shall not at any time exceed 5% of the total number of issued shares of the Company. All grants of options are subject to the following general terms and conditions:

- option grants require approval from the board of directors;
- options are granted under the plan for no consideration;
- each share option converts into one ordinary share of Mesoblast Limited;
- options carry neither rights to dividends nor voting rights.

Per the Company's current policy, options are issued in three equal tranches, each tranche having an expiry date of five years following grant date. The first tranche typically vests 12 months after grant date, the second tranche 24 months after grant date, and the third tranche 36 months after grant date.

The exercise price is the greater of $0.20 and:

- in relation to an option on or before the date of the official quotation of the Company's shares, an amount per share that is 20% higher than the offer price of $0.50; and
- in relation to an option granted after the official quotation of the company's shares, the volume weighted market price of a share sold on the ASX on the 5 trading days immediately before the grant date plus a premium determined by the Board; and
- any other amount that is specified by the Board.

18. SHARE-BASED PAYMENTS CONTINUED

(a) Existing share-based payment arrangements

The share options outstanding at the end of the financial year have a weighted average remaining contractual life of 772 days (2008: 714 days) and a range of exercises prices from 55c to $2.13.

(i) The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Series	Grant date	Granted No.	Exercised No.	Lapsed / cancelled No.	Balance No. 2009	Balance No. 2008	Earliest Vesting date	Expiry date	Exercise price $	Fair value $
1(a)(i)	29/09/04	2,160,000	(200,000)	-	1,960,000	1,960,000	29/09/05	29/09/09	0.55	0.29
1(a)(ii)	29/09/04	2,160,000	(200,000)	-	1,960,000	2,160,000	16/12/05	16/12/09	0.55	0.29
1(b)	26/10/04	400,000	(400,000)	-	-	-	16/12/04	30/12/07	0.55	0.29
2(a)	16/12/04	550,000	(550,000)	-	-	550,000	16/12/05	16/12/08	0.60	0.29
2(b)	16/12/04	75,000	(75,000)	-	-	75,000	16/12/06	16/12/08	0.60	0.29
2(b)	16/12/04	75,000	(75,000)	-	-	75,000	01/05/07	16/12/08	0.60	0.29
2(c)	16/12/04	80,000	(80,000)	-	-	-	06/09/06	06/09/07	0.60	0.171
2(c)	16/12/04	80,000	(80,000)	-	-	-	16/12/06	16/12/07	0.60	0.229
2(c)	16/12/04	80,000	(80,000)	-	-	80,000	04/07/08	04/07/09	0.60	0.251
3	25/08/05	350,000	(350,000)	-	-	350,000	31/12/05	31/12/08	0.65	0.19
3	25/08/05	350,000	(350,000)	-	-	350,000	30/06/06	30/06/09	0.65	0.21
4(a)	23/02/06	150,000	(150,000)	-	-	34,000	31/03/06	31/03/09	0.65	0.96
4(a)	23/02/06	150,000	(84,000)	-	66,000	66,000	01/05/07	01/05/10	0.65	0.96
4(b)	23/02/06	150,000	(150,000)	-	-	-	30/06/06	30/06/09	0.65	0.89
4(b)	23/02/06	150,000	(150,000)	-	-	-	30/06/07	30/06/10	1.20	0.65
4(b)	23/02/06	150,000	-	-	150,000	150,000	30/06/08	30/06/11	1.20	0.75
4(b)	23/02/06	200,000	(200,000)	-	-	166,667	30/06/06	30/06/09	0.65	0.89
4(b)	23/02/06	200,000	-	-	200,000	200,000	30/06/07	30/06/10	1.20	0.65
4(b)	23/02/06	200,000	-	-	200,000	200,000	30/06/08	30/06/11	1.20	0.75
4(c)	23/02/06	90,000	(90,000)	-	-	20,000	23/02/06	23/02/09	0.65	0.92
5	23/11/06	50,000	-	-	50,000	50,000	23/11/06	23/11/09	0.65	0.589
5	23/11/06	50,000	-	-	50,000	50,000	23/11/07	23/11/09	0.65	0.678
5	23/11/06	50,000	-	-	50,000	50,000	23/11/08	23/11/09	0.65	0.718
6(a)	17/03/06	50,000	-	(50,000)	-	-	17/03/07	17/03/08	2.02	0.554
6(a)	17/03/06	50,000	-	(50,000)	-	50,000	17/03/08	17/03/09	2.02	0.702
6(b)	17/05/06	10,000	-	(10,000)	-	-	17/05/07	17/05/08	1.52	0.404
6(b)	17/05/06	10,000	-	(10,000)	-	10,000	17/05/08	17/05/09	1.52	0.521
6(c)	06/06/06	10,000	-	(10,000)	-	-	06/12/06	06/12/07	1.75	0.303
6(c)	06/06/06	10,000	-	(10,000)	-	-	06/06/07	06/06/08	1.75	0.380
6(d)	01/01/07	15,000	-	(15,000)	-	15,000	01/07/07	01/07/08	1.96	0.512
6(d)	01/01/07	45,000	-	(45,000)	-	45,000	01/01/08	01/01/09	1.96	0.601
6(d)	01/01/07	30,000	-	(15,000)	15,000	30,000	01/01/09	01/01/10	1.96	0.749
6(d)	01/01/07	40,000	-	(25,000)	15,000	40,000	01/01/10	01/01/11	1.96	0.873
6(d)	01/01/07	30,000	-	(30,000)	-	30,000	01/08/07	01/08/08	1.96	0.512
6(d)	01/01/07	30,000	-	(30,000)	-	30,000	01/02/08	01/02/09	1.96	0.601
7	27/07/07	2,480,000	-	(150,000)	2,330,000	2,480,000	01/07/08*	30/06/12	2.13	0.74
8	07/07/08	2,736,000	-	(150,000)	2,586,000	-	01/07/09*	30/06/13	1.00	0.48
9	19/01/09	240,000	-	-	240,000	-	19/01/10*	18/01/14	0.96	0.40
Balance at 30 June 2009		13,736,000	(3,264,000)	(600,000)	9,872,000					
Balance at 30 June 2008		10,760,000	(1,363,333)	(80,000)		9,316,667				

*Refer Note 18 (a) (ii) for vesting details.

(a) Existing share-based payment arrangements (continued)

(ii) General terms and conditions attached to each series are as follows:

1. At the time of the IPO the Company provided initial seed investors and the underwriter with share options as follows:

   (a) Seed investors, who subscribed for 4,320,000 fully paid preference shares, were provided with 4,320,000 options to acquire ordinary shares at an exercise price of $0.55. These options expire on the fourth anniversary of the expiry of two relevant imposed escrow periods being:

      (i) 50% of each holder's options are subject to an escrow period expiring on 29 September 2005, therefore these options expire on 29 September 2009

      (ii) 50% of each holder's options are subject to an escrow period which expired on 16 December 2005, therefore these options expire on 16 December 2009.

   (b) Lodge Partners Pty Limited (or nominee), as underwriter to the Offer received in aggregate 400,000 options to acquire 400,000 ordinary shares on the terms set out in 9.5(a) of the prospectus. These options have since been transferred to Thorney Holdings Pty Ltd and were exercised during the current financial year.

2. These options were granted as follows:

   (a) Two equal tranches, the first tranche vesting 12 months after listing date, the second 24 months after listing. Both tranches expire on the fourth anniversary of the listing date.

   (b) Two equal tranches, each expiring on the third anniversary of the Company being listed on the ASX. Vesting occurs upon reaching the following milestones:

      - The Company obtaining IND approval from the US Food and Drug Administration (FDA) for initiating multi-centre orthopaedic clinical trials within a period of two years after the options were granted, which was the date of listing on the ASX (16 December 2004). This milestone was reached on 16 December 2006, consequently the options vested on this date.
      - Angioblast Systems, Inc. (associate) must achieve IND approval from the US FDA for initiating multi-centre cardiovascular clinical trials within a period of three years after the options were granted. This milestone was reached on 1 May 2007 consequently the options vested on this date.

   (c) Three equal tranches, each expiring 12 months after vesting. Vesting occurs upon reaching the following milestones:

      - On achieving Standard Operating Procedure (SOP) for the manufacture of cells. This milestone was reached on 6 September 2006, consequently the options vested on this date.
      - On approval of Mesoblast's FDA Investigative New Drug (IND) approval. Approval was obtained on 16 December 2006, therefore the options vested on this date.
      - On completing human pre-regulatory trials for a Mesoblast Orthopaedic Application of the licensed technology. The last patient for this trial had their final follow up visit on 4 July 2008, so the options will vest on this date.

3. Options granted were approved by shareholders at the Annual General Meeting held 15 November 2005. The options were issued in two equal tranches, each having a three year life. There are no performance conditions attached to these options.

(a) Existing share-based payment arrangements (continued)

4. Options granted are subject to the following conditions:

   (a) Two equal tranches, each expiring 36 months after vesting. Vesting occurs upon reaching the following milestones:

   - The first patient is treated with Human Autologous Mesenchymal Prescursor Cells (MPC's). The milestone was reached on 31 March 2006 and these options vested accordingly.
   - Angioblast Systems, Inc. (associate) receives Investigational New Drug Approval from the US FDA. This was received on 1 May 2007 and these options vested accordingly.

   (b) Three equal tranches, each expiring 36 months after vesting. The vesting dates for tranches 1, 2 and 3 are 30 June 2007, 30 June 2008 and 30 June 2008 respectively, and the exercise prices are $0.65, $1.20 and $1.20 respectively. There are no performance conditions attached to these options.

   (c) One tranche only, with a vesting date equal to grant date, and an exercise period of 36 months. There are no performance conditions attached to these options.

5. Options granted were approved by shareholders at the Annual General Meeting held 23 November 2006. Options were issued in three equal tranches, each having a three year life. The first tranche vests 12 months after grant date, the second tranche 24 months after grant date, and the third tranche 36 months are grant date. All tranches expire 36 months after grant date. There are no performance conditions attached to these options.
6. Options granted were approved by the Remuneration Committee on 14 February 2007. Options granted were in two equal tranches, the first tranche exercisable in twelve months following grant date, and the second exercisable in 18 months following grant date. Grant dates are equal to commencement of employment/contract and the options have exercise periods of 12 months. There are no performance conditions attached to these options.
7. Options granted were approved by the Remuneration Committee on 27 July 2007. The options were granted in three equal tranches vesting on 1 July 2008, 1 July 2009 and 1 July 2010 respectively. All tranches expire on 30 June 2012.
8. Options granted were approved by the Remuneration Committee on 7 July 2008. The options were granted in three equal tranches vesting on 1 July 2009, 1 July 2010 and 1 July 2011 respectively. All tranches expire on 30 June 2013.
9. Options granted were approved by the Remuneration Committee during January 2009 as per the relevant employment contract. The options were granted in three equal tranches vesting on 19 January 2010, 19 January 2011 and 19 January 2012 respectively. All tranches expire on 18 January 2014.

(iii) Modifications to terms and conditions

There has been no modification to terms and conditions in either the current or previous financial years.

(b) Fair values of share options

The weighted average fair value of options granted during the year was $0.47 (2008: $0.74). The fair value of all options granted has been calculated using the Black-Scholes option pricing model. The model requires the Company share price volatility to be measured. The share price volatility has been measured with reference to the historical share prices of the Company, and also similar company's given the Company has only been listed since 16 December 2004. The official measurement of share price volatility for the options granted on 23 February 2007 was 55%, and for the options granted 23 November 2007 it was 54%. Given the consistency of the two volatility measurements, both volatility rates have been used for series 8 and 9.

18. SHARE-BASED PAYMENTS CONTINUED

(b) Fair values of share options (continued)

The model inputs for the valuations of options approved and issued during the current and previous financial years are as follows:

Option series	Share price at grant date $	Exercise Price $	Expected share price volatility	Option life	Dividend yield	Risk-free interest rate
3	0.505	0.65	56.57%	128 & 310 days	0%	5.085%
4(a)	1.48	0.65	55.0%	3yrs & 3.98yrs	0%	5.18%
4(b)	1.48	0.65 & $1.20	55.0%	1.35-3.35 yrs	0%	5.18%
4(c)	1.48	0.60	55.0%	1.1-3.1 yrs	0%	5.18%
5	1.205	0.65	54.0%	3 yrs	0%	5.725%
6(a)	1.81	2.02	54.0%	18 & 24 months	0%	6.39%
6(b)	1.35	1.52	54.0%	18 & 24 months	0%	6.39% & 6.46%
6(c)	1.41	1.75	54.0%	18 & 24 months	0%	6.27% & 6.39%
6(d)	1.84	1.96	55.0%	18 & 24 months	0%	6.39%, 6.45% & 6.46%
7	1.91	2.13	55.0%	5 years	0%	6.25%
8	0.91	1.00	55.0%	5 years	0%	6.50%
9	0.848	0.96	55.0%	5 years	0%	3.27%

The closing share market price of an ordinary share of Mesoblast Limited on the Australian Stock Exchange at 30 June 2009 was $0.83 (30 June 2008: $0.91).

(c) Reconciliation of outstanding share options

	2009		2008	
Share options over ordinary shares	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of financial year	9,316,667	1.06	7,956,667	0.69
Granted during the year	2,976,000	1.00	2,480,000	2.13
Exercised during the year	(1,900,667)	0.62	(1,040,000)	0.67
Expired or forfeited during the year	(520,000)	1.73	(80,000)	1.89
Balance at end of financial year	**9,872,000**	**1.09**	**9,316,667**	**1.06**
Unvested at end of financial year	4,396,000	1.40	2,680,000	2.05
Exercisable at end of financial year	5,476,000	0.85	6,636,667	1.51

18. SHARE-BASED PAYMENTS CONTINUED

(d) Share options exercised during the year

Option series	Number exercised	Exercise date(s)	Share price at exercise date
2009			
1	200,000	11 August 2008	$1.16
2(a)	550,000	16 December 2008	$0.80
2(b)	150,000	16 December 2008	$0.80
2(c)	80,000	30 June 2009	$0.83
3	700,000	3 September 2008	$1.23
4(a)	34,000	3 April 2009	$0.75
4(b)	166,667	30 June 2009	$0.83
4(c)	20,000	23 February 2009	$0.79
	1,900,667		
2008			
2(c)	80,000	10 October 2007	$1.50
4(b)	300,000	10 October 2007	$1.50
4(c)	60,000	10 October 2007	$1.50
1	200,000	13 December 2007	$1.28
1	400,000	20 December 2007	$1.27
	1,040,000		

19. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Details of key management personnel

The directors and other members of key management personnel of the Company during the current and prior years were:

		Effective Date	
Name	Position	2009	2008
Brian Jamieson	Non-executive Chairman (A)	Full year	22 November 07
Byron McAllister	Non-executive Director	Full year	Full year
Donal O'Dwyer	Non-executive Director	Full year	Full year
Michael Spooner	Non-executive Director (A); Executive Chairman (R)	Full year	8 August 07 8 August 07
Silviu Itescu	Executive Director	Full year	Full year
Kevin Hollingsworth	Company Secretary Chief Financial Officer (R);	Full year n/a	Full year 21 November 07
Suzanne Lipe	Vice President of Operations (A)	Full Year	18 March 08
Jenni Pilcher	Chief Financial Officer (A); Financial Controller (R)	Full Year n/a	n/a 21 November 07
Roger Brown	Vice President of Regulatory Affairs (A)	19 January 09	n/a
Paul Rennie	Special Projects Consultant (A) Chief Operating Officer (R);	Full Year n/a	12 May 08 12 May 08
Jim Ryaby	Vice President of Research and Clinical Affairs (A)	Full Year	3 March 08
Donna Skerrett	Head of Regulatory (2008) Medical Director (2009)	Not included for reporting purposes	Full year n/a

(A) Appointed to this position;
(R) Resigned from this position

19. KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

(b) Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the Company is set out below:

	30 June 2009 $	30 June 2008 $
Short-term employee benefits	1,518,357	1,235,755
Post-employment benefits	69,397	89,629
Share based payments	383,635	477,420
	1,971,389	1,802,804

Further disclosures regarding key management personnel compensation are contained within the remuneration report.

(c) Key management personnel equity holdings

Options

	Balance at 1 July No.	Granted as compensation No.	Exercised No.	Net change other No.	Balance at 30 June No.	Total vested 30 June No.	Vested and exercisable No.	Unvested No.
2009								
Brian Jamieson	-	-	-	-	-	-	-	-
Byron McAllister	150,000	-	(150,000)	-	-	-	-	-
Donal O'Dwyer	300,000	-	(150,000)	-	150,000	150,000	150,000	-
Michael Spooner	1,100,000	-	(1,100,000)	-	-	-	-	-
Silviu Itescu	-	-	-	-	-	-	-	-
Kevin Hollingsworth	200,000	-	-	-	200,000	67,000	67,000	133,000
Roger Brown	-	240,000	-	-	240,000	-	-	240,000
Suzanne Lipe	-	180,000	-	-	180,000	-	-	180,000
Jenni Pilcher	160,000	240,000	-	(60,000)	340,000	33,000	33,000	307,000
Paul Rennie	250,000	150,000	-	-	400,000	83,000	83,000	317,000
James Ryaby	-	240,000	-	-	240,000	-	-	240,000
2008								
Brian Jamieson	-	-	-	-	-	-	-	-
Byron McAllister	150,000	-	-	-	150,000	150,000	150,000	-
Donal O'Dwyer	300,000	-	-	-	300,000	250,000	250,000	50,000
Michael Spooner	1,100,000	-	-	-	1,100,000	1,100,000	1,100,000	-
Silviu Itescu	-	-	-	-	-	-	-	-
Kevin Hollingsworth	-	200,000	-	-	200,000	-	-	200,000
Suzanne Lipe	-	-	-	-	-	-	-	-
Jenni Pilcher	60,000	100,000	-	-	160,000	-	-	160,000
Paul Rennie	-	250,000	-	-	250,000	-	-	250,000
James Ryaby	-	-	-	-	-	-	-	-
Donna Skerrett	300,000	200,000	-	-	500,000	300,000	300,000	200,000

19. KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

c) Key management personnel equity holdings continued

Shareholdings

Fully paid ordinary shares held by directors and key management personnel or their personally related parties (as defined by AASB 124):

	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net change other No.	Balance at 30 June No.
2009					
Brian Jamieson (i)	200,000	-	-	110,000	310,000
Byron McAllister	-	-	150,000	(108,685)	41,315
Donal O'Dwyer (ii)	273,850	-	150,000	5,000	428,850
Michael Spooner (iii)	839,255	-	1,100,000	(790,000)	1,149,255
Silviu Itescu	37,120,000	-	-	5,000	37,125,000
Kevin Hollingsworth	-	-	-	-	-
Roger Brown	-	-	-	-	-
Suzanne Lipe	-	-	-	-	-
Jenni Pilcher	6,000	-	-	-	6,000
Paul Rennie	-	-	-	-	-
James Ryaby	-	-	-	-	-
2008					
Brian Jamieson (i)	-	-	-	200,000	200,000
Byron McAllister	-	-	-	-	-
Donal O'Dwyer (ii)	273,850	-	-	-	273,850
Michael Spooner (iii)	839,255	-	-	-	839,255
Silviu Itescu	37,120,000	-	-	-	37,120,000
Kevin Hollingsworth	-	-	-	-	-
Suzanne Lipe	-	-	-	-	-
Jenni Pilcher	6,000	-	-	-	6,000
Paul Rennie	-	-	-	-	-
James Ryaby	-	-	-	-	-
Donna Skerret	-	-	-	-	-

(i) Brian Jamieson's shareholding includes 275,000 (2008:125,000) shares held by a related party as defined by the accounting standard AASB124 Related Party Disclosures.

(ii) Donal O'Dwyer's shareholding includes 278,950 (2008:273,850) shares held by a related party as defined by the accounting standard AASB124 Related Party Disclosures.

(iii) Michael Spooner's shareholding includes 48,455 (2008:839,355) shares held by a related party as defined by AASB124 Related Party Disclosures.

20. RELATED PARTY TRANSACTIONS

(a) Equity interests in related parties

Details of interests in associates are disclosed in note 10 to the financial statements.

(b) Transactions with other related parties

Accounts receivable from and accounts payable to Angioblast Systems, Inc. as at the end of the financial year are disclosed in notes 8 and 12 respectively. Both parties may pay invoices in their local currency on behalf of the other party to facilitate timely payment of suppliers. This results in a loan account between both parties which is settled monthly. The transactions being paid for are described below:

	30 June 2009 $	30 June 2008 $
Amounts paid on behalf of Angioblast, by Mesoblast		
50% sharing of research and SAB fees	125,500	98,418
50% sharing of cell and antibody manufacturing	216,391	118,515
50% sharing of clinical research organisation costs	50,000	-
50% sharing of intellectual property costs	183,589	157,606
Research and development (Australia based)	192,470	209,802
Other	54,756	19,950
	822,706	604,291
Amounts paid on behalf of Mesoblast, by Angioblast		
Research and development (US based)	-	428,299
Employees and consultants (US based)	774,520	112,513
Other (US based)	260,682	57,385
	1,035,202	598,197

20. RELATED PARTY TRANSACTIONS CONTINUED

(c) Transactions between related parties of the company

Together, Mesoblast and Angioblast have been jointly developing process manufacturing and scale-up of the MPC technology, as well as pre-clinical and clinical components which were necessary to obtain Investigational New Drug (IND) clearance from the FDA for orthopaedic and cardiovascular applications (respectively). Both companies have received IND clearance for their respective applications during the current financial year and are now embarking on phase 2 clinical trials. In order to maximise economies of scale and expertise in both entities, certain members of key management personnel provide expert services to both entities. These relationships are outlined below:

Mesoblast key management personnel	Relationship(s) with Angioblast	Nature of transaction(s)(i)
Silviu Itescu	Director, Chief Scientist and Chairman of the Scientific Advisory Board	Directors fees & contract for services
Donal O'Dwyer	Non-executive Director, as Mesoblast representative	Directors fees & Angioblast share options
Angioblast key management personnel	**Relationship(s) with Mesoblast**	**Nature of transaction(s)(i)**
Michael Schuster	Consultant	Contract for services & Mesoblast share options (ii)
Donna Skerrett	Consultant	Contract for services & Mesoblast share options (ii)

(i) All contracts for services are prepared on normal commercial terms.

(ii) Mesoblast share options held by Angioblast employees are included in the table disclosed in note 18 to the financial statements.

21. FINANCIAL RISK MANAGEMENT

Financial risks impacting the company fall into three categories:

- Market risk (includes currency, interest rate and price risks)
- Credit risk
- Liquidity risk

A description of each risk, together with the risk as it relates to the company, is presented below.

(a) Market risk

(i) Currency risk

The company has certain clinical, regulatory and manufacturing activities in the United States of America. As a result of these activities, the company has certain amounts owing to creditors and Angioblast Systems, Inc. and a bank account that are denominated in US dollars. These balances give rise to a currency risk, which is the risk of the exchange rate moving, in either direction, and the impact it may have on the company's financial performance.

The company manages the currency risk by evaluating the trend of the US dollar in comparison to the Australian dollar and making decisions whether to purchase US dollars in advance for the purposes of settling these liabilities. The company has a USD bank account for this purpose.

21. FINANCIAL RISK MANAGEMENT CONTINUED

(a) Market risk continued

The balances held at the end of the year that give rise to currency risk exposure are presented in the table below, together with a sensitive analysis which assesses the impact that a change of +/-20% (2008: +/-10%) in the exchange rate as at 30 June would have had on the company's reported net losses and/or equity balance. The USD prevailing as at 30 June 2009 was 0.8048 (2008: 0.9615).

30 June 2009	Balance held	+20%		-20%	
	US$	Profit/(Loss) AU$	Equity AU$	Profit/(Loss) AU$	Equity AU$
USD bank account	47,439	(9,824)	-	14,736	-
Trade payables	131,275	(27,185)	-	40,779	-
Amounts owing to Angioblast Systems, Inc	(65,746)	13,615	-	(20,423)	-
	112,968	(23,394)	-	55,515	-

30 June 2008	Balance held	+10%		-10%	
	US$	Profit/(Loss) AU$	Equity AU$	Profit/(Loss) AU$	Equity AU$
USD bank account	47,368	(4,478)	-	4,478	-
Trade payables	(268,803)	25,816	-	(25,816)	-
Amounts owing to Angioblast Systems, Inc	(60,040)	6,007	-	(6,007)	-
	(281,475)	27,345	-	(27,345)	-

(ii) Interest rate risk

The company has exposure to interest rate movements from the interest income it earns on its term deposits and deposits at call. The interest income derived from these balances can fluctuate due to interest rate changes. This interest rate risk is managed by spreading our deposits across various maturity periods and by keeping deposits subject to floating interest rates at a level where they can be used for managing the cash flows of the company. The balances held which derive interest revenue are described in (c) below. There is no material impact on the company's net loss and equity if the interest rates were to be different, by any reasonable amount, as at the end of the financial year. This is because interest is calculated daily and has largely already been earned at the prescribed bank rates at this point in time.

(iii) Price risk

Price risk is the risk that future cashflows derived from financial instruments will be altered as a result of a market price movement, other than foreign currency rates and interest rates. The company does not consider it has any exposure to price risk other than those already described above.

21. FINANCIAL RISK MANAGEMENT CONTINUED

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and will therefore cause financial loss to the other party. As the company is non-revenue generating it generally does not have trade receivables. Its receivables are typically due from the government in the form of GST and government grants, and from its related party. The company manages the exposure to credit risk by ensuring all amounts due from Angioblast are received monthly and that the balance is not more than $200,000 at any one time without prior approval of a director. The credit risk to the company is detailed below:

	30 June 2009 $	30 June 2008 $
Cash and cash equivalents		
Cash and cash equivalents (note 7) – AAA rated	16,526,278	14,094,219
Trade receivables		
Receivable from Australian Government (GST)	89,905	39,195
Receivable from AAA rated bank deposits (interest)	121,718	68,082
Receivable from related party (Angioblast)	44,792	16,623
Receivable from other parties (non-rated)	48,946	-

(c) Liquidity risk

Liquidity risk is the risk that the company will not be able to pay its debts as and when they fall due. The company has had no borrowings to date and the directors ensure that cash on hand is sufficient to meet the commitments of the company at all times while it is in a loss making phase of research and development. The going concern basis of preparation is further described in note 1.

All financial liabilities held by the Company at 30 June 2009 and 30 June 2008 are non-interest bearing and mature within 6 months. The total contractual cash flows associated with these liabilities equate to the carrying amount disclosed within the financial statements.

22. SUBSEQUENT EVENTS

On 25 August 2009 Mesoblast announced that Angioblast Systems, Inc., (a US based associate of Mesoblast), had successfully raised $10m from new and existing institutional and sophisticated investors. Mesoblast will retain its 38.4% equity in Angioblast until Angioblast's next financing event, defined as an Initial Public Offering, a Merger and Acquisition, or a private equity round of at least $10 million. At that time, Mesoblast may seek to maintain or increase its shareholding.

There are no other subsequent events that the directors consider would have a material impact on the results of the company for the year ending 30 June 2009.

Directors' Declaration

In accordance with a resolution of directors of Mesoblast Limited,

In the opinion of the directors:

(a) the accompanying financial statements and notes on pages 33 to 66 are in accordance with the Corporations Regulations 2001 and comply with the accounting standards and give a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date.

(b) At the date of this declaration there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) The remuneration disclosures set out on pages 17 to 24 of the director's report comply with accounting standard AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

(d) The directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295 A.

Signed in accordance with a resolution of the Board of Directors.

Mr Brian Jamieson
Director

26 August 2009, Melbourne

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Independent auditor's report to the members of Mesoblast Limited

Report on the financial report

We have audited the accompanying financial report of Mesoblast Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independent auditor's report to the members of Mesoblast Limited (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Mesoblast Limited is in accordance with the *Corporations Act 2001,* including:

(i) giving a true and fair view of the company's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in sections A to D of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Mesoblast Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
26 August 2009

Shareholder Information

A. SUBSTANTIAL SHAREHOLDERS

The company's Holders of Relevant Interests as notified by ASX Substantial Shareholders and the number of shares in which they have an interest as disclosed by notices received under Part 6.7 of the Corporation Act 2001 as at 16 October 2009 are:

Shareholder	Number of ordinary shares held
Aviva Investors Australia Limited (ex: Portfolio Partners Limited)	8,347,165
Silviu Itescu	37,120,000
Thorney Holdings Pty Ltd	13,258,403

B. NUMBER OF HOLDERS OF EQUITY SECURITIES AND VOTING RIGHTS

	Ordinary shares (i)	Share options (ii)
Number of holders	2,209	29

The voting rights attaching to each class of equity securities are:

(i) Ordinary shares

On a show of hands, every member present at a meeting, in person or by proxy, shall have one vote and upon a poll each share shall have one vote.

(ii) Share options

No voting rights.

C. DISTRIBUTION OF EQUITY SECURITIES

Distribution of holders of equity securities as at 16 October 2009

No. of holders	Ordinary shares	Share options
1 – 1,000	392	-
1,001 – 5,000	810	-
5,001 – 10,000	403	-
10,001 – 100,000	521	4
100,000 and over	83	25
	2,209	29

Number of holders of less than a marketable parcel of shares	76

D. TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

The names of the 20 largest shareholders of each class of equity security as at 16 October 2009 are listed below:

No.	Name	No. of shares held	% of total shares
1	Professor Silviu Itescu	36,632,196	26.48%
2	ANZ Nominees Limited	16,537,077	11.95%
3	National Nominees Limited	11,202,955	8.10%
4	J P Morgan Nominees Australia Limited	10,805,688	7.81%
5	UBS Nominees Pty Ltd	4,455,620	3.22%
6	J G M Investment Group Pty Ltd	3,050,000	2.20%
7	Dalit Pty Ltd	3,040,000	2.20%
8	Cogent Nominees Pty Limited	2,892,431	2.09%
9	Medvet Science Pty Ltd	2,790,000	2.02%
10	RBC Dexia Investor Services Australia Nominees Pty Ltd	2,102,919	1.52%
11	Cogent Nominees Pty Limited	2,078,104	1.50%
12	RBC Dexia Investor Services Australia Nominees Pty Limited	1,675,622	1.21%
13	Equity Trustees Limited	1,257,444	0.91%
14	Hsbc Custody Nominees (Australia) Limited	1,155,831	0.84%
15	Michael Spooner	1,100,000	0.80%
16	Citicorp Nominees Pty Limited	985,933	0.71%
17	Tigcorp Nominees Pty Ltd	960,000	0.69%
18	Thorney Holdings Pty Ltd	700,000	0.51%
19	Hazlaha Investments Limited	637,600	0.46%
20	Queensland Investment Corporation	618,082	0.45%
		104,677,502	75.65%

Mesoblast Limited ABN 68 109 431 870

Board of Directors and Company Particulars

DIRECTORS
Brian Jamieson (Chairman)
Silviu Itescu
Byron McAllister
Donal O'Dwyer
Michael Spooner

COMPANY SECRETARY
Kevin Hollingsworth

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MELBOURNE VIC 3006

SOLICITORS
Middletons Lawyers
Level 25, Rialto Tower
525 Collins Street
MELBOURNE VIC 3000

BANKERS
National Australia Bank Ltd
221 Drummond Street
CARLTON VIC 3053

SHARE REGISTRY
Link Market Services Limited
Level 4
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MELBOURNE VIC 3000

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