

mesoblast investor update

ISSUE SIX

Mesoblast advances to new level of commercialisation

New capital to accelerate two US Phase II clinical trials and bring forward commercial opportunities

Major Achievements During the Quarter

- Successful institutional capital raising of \$15 million plus a Share Placement Plan (SPP) for Mesoblast retail shareholders
- New capital to be used to accelerate two Phase II multi-centre clinical trials
- New funds enable early engagement of leading US orthopaedic hospital as main trial centre
- Two major new cartilage markets targeted – osteoarthritis and sports injuries
- Preclinical trials commenced for knee osteoarthritis and acute meniscus tears
- The company remains at least six months ahead of schedule.

Capital raising to accelerate Mesoblast's progression through Phase II clinical trials in the United States

Mesoblast's new \$15 million of capital was raised through a placement with institutional and sophisticated investors. The successful uptake of the placement is a clear demonstration of ongoing support by both existing institutional and sophisticated investors.

These funds are earmarked for two Phase II allogeneic (unrelated recipient) trials in the United States, making the company exceptionally well positioned for rapid clinical and commercial progress. These advanced trials will begin as soon as clearance is obtained from the US Food and Drug Administration (FDA) for Investigational New Drug (IND) submissions. These will be filed by Mesoblast and its US-based sister company, Angioblast Systems Inc; by the end of this year.

A Mesoblast Share Purchase Plan (SPP) is only available to shareholders until 8 August, at the same price offered to institutions and with no transaction costs.

In addition to the placement, a SPP is being offered to Mesoblast shareholders to subscribe for up to \$5,000 in shares at the same price offered to institutions. Shares issued will not attract brokerage or transaction costs. Under the placement, 12 million shares will be issued at \$1.25, a discount of approximately 10% to the closing price of the company's shares on 18 July 2006. The offer to shareholders closes on 8 August.

Existing cash together with the new capital raised will provide Mesoblast with over \$20 million in funds.



According to the Intersuisse Biotechnology Index, Mesoblast's share price increase of 254.7% made it the second highest performing stock in the Australian biotechnology sector for the 2005-2006 financial year

To date, the company has established a track record of achieving its goals well ahead of schedule. The company is very much on track to file its Phase II Clinical Trial IND submissions to the FDA in the 4th quarter of 2006, at least six months ahead of our timelines.

This capital raising will enable Mesoblast to begin formalising arrangements with partner organisations including principal investigators and hospitals to undertake Phase II Clinical Trials immediately following FDA IND clearance.

The funds raised will advance Mesoblast to a whole new level without missing a beat - Executive Chairman Mr Michael Spooner

Mesoblast to partner with top United States orthopaedic hospital for Phase II spinal fusion clinical trial

Using funds from the current capital raising, Mesoblast plans to commence a Phase II Clinical Trial for spinal fusion. This trial will be based at New York's Hospital for Special Surgery, the world's leading orthopedic, rheumatologic and rehabilitation specialty hospital. The Hospital for Special Surgery has been top rated for over 11 years in the Northeast United States in orthopedics and rheumatology by US News & World Report. The Hospital for Special Surgery performs more spinal fusions, hip replacements, knee replacements, and shoulder replacements than any other hospital in New York City and in New York State.

The clinical trial team will be led by Professor Joseph Lane, MD, who is Professor of Orthopaedic Surgery and Assistant Dean at Weill Medical College of Cornell University in New York. Professor Lane's clinical expertise includes spine and hip trauma, spinal surgery, osteoporosis-related fractures, and non-union fractures. At the Hospital for Special Surgery in New York, he is Medical Director of the Osteoporosis Center, Chief of the Metabolic Bone Disease Service, and Associate Director of the Trauma Service. Professor Lane's expertise in spinal fusion and bone regeneration will be a great asset to Mesoblast as it strives for successful outcomes in its clinical trial.

Spinal fusion: major market opportunity

In preclinical trials at Colorado State University, the company's stem cells obtained from a single adult donor and produced using its proprietary technology were highly successful in generating intervertebral spinal fusion in multiple, unrelated (or allogeneic) recipients.

Spinal fusion is used to treat patients with degenerative intervertebral disc disease. Over 300,000 spinal fusion procedures are currently performed annually in the United States alone and the number is expected to grow to over 500,000 per year by 2009. Current fusion therapies use bone harvested from a patient's own hip (termed autograft), that requires a second surgical procedure which frequently

results in long-term complications such as chronic pain and infection.

The fusion resulting from Mesoblast's stem cells was equally or more robust, continuous, and mechanically strong when compared with the current standard surgical treatment, hip bone autograft, indicating that Mesoblast's therapy could eliminate the need for a second surgical procedure and its potential complications.

Numerous commercial opportunities for Mesoblast's adult stem cells

Mesoblast's specialist adult stem cells have the ability to differentiate into a variety of tissue types, create their own blood supply, and induce the body's own healthy cells to regenerate and proliferate. Because they can be expanded into very large numbers in culture and they do not activate the immune system, Mesoblast's business model for commercialising the patented stem cells is similar to that of a high-margin pharmaceutical product. The cells will be obtained from one donor and commercially expanded to produce therapeutic doses for the treatment of potentially hundreds or thousands of completely unrelated recipients.

Mesoblast is initially focusing on the commercialisation of its proprietary technology for orthopaedic disorders such as spinal fusion, long bone fractures, degenerative intervertebral disc disease and cartilage degeneration in the knee and other joints. Angioblast is focusing on heart failure, heart attacks and chronic multi-vessel coronary artery disease. Together, these are all extremely large market opportunities, with vast patient populations whose medical needs are unmet and where existing therapies are inadequate or absent.

Cartilage trials underway

Showing that it can rapidly leverage off its clinical and technical achievements to fully exploit new opportunities for its platform technology, Mesoblast has commenced preclinical trials for cartilage repair and regeneration.

Targeting diseases of cartilage significantly expand Mesoblast's clinical applications and global commercial markets.

Under an agreement with Mesoblast, Murdoch University in Western Australia will perform the preclinical trials of Mesoblast's patented adult stem cell technology for cartilage repair and regeneration.

The cartilage trials will evaluate the effectiveness of Mesoblast's patented adult stem cells to treat osteoarthritis of the knee, and to repair damaged knee meniscus due to traumatic conditions such as sports injuries. Knee osteoarthritis is the most common joint disease, representing a new massive market opportunity, and meniscal repair is a major opportunity for treatment of sports injuries.

Inflammatory diseases of the joints, such as osteoarthritis, affect over 43 million people annually in the United States alone. More than 10 million people in the US currently suffer from osteoarthritis of the knee, making it the most common joint disease. Osteoarthritis results in loss of cartilage that cannot repair itself after injury and for which there is no effective therapy. Current treatments attempt to alleviate painful symptoms but are unable to restore the cartilage lining the joint. Joint replacement is often the only option for restoring function.

Mesoblast's patented stem cells have already been shown to generate cartilage, and to be effective in multiple unrelated (or allogeneic) recipients in various other target diseases.

The results of these cartilage trials will be used by Mesoblast in its IND submissions to the FDA for multiple Phase II clinical trials, including treatment of patients with degenerative osteoarthritis of the knee, and treatment of patients with acute meniscal tears. It is anticipated that these submissions will be filed during 2007.

With the support of the Australian Government's Commercial Ready Grant awarded to Mesoblast last December, we are now in a position to rapidly generate data to show that our off-the-shelf stem cell product can also be used in the treatment of major cartilage diseases of unmet clinical need – Mesoblast Founder and Chief Scientific Adviser, Professor Silviu Itescu

BRW – 27 July 2006

'The adult stem cell company Mesoblast went from strength to strength, meeting all milestones and moving steadily towards commercialisation. Using adult stem cell therapy, the company is developing treatments for bone and joint diseases, including fractures, spinal disease and for regeneration of damaged cartilage. Recent clinical trials have included using the company's adult stem cell treatment on a young motorcyclist whose femur had not healed nine months after it was broken in an accident. Normally such an injury would require bone grafts, with possible long-term complications. Mesoblast's mixture of experienced management and space-age science caught the market's attention and it has been one of the best-performing stocks since its float late in 2004.'



What they say...

'Mesoblast Limited, whose share price has roughly trebled over the year as positive news flow from clinical trials accelerates, is testimony to investor interest in the possibilities for healing bones, arthritis, ailing hearts, and in treating a variety of diseases and injuries that affect the vast majority of people at some stage during their lives through the use of adult stem cells – a therapeutic that works, is safe, has no side effects, nor does it raise any ethical questions and is likely to replace many of the treatments and devices in use today – not in the distant future but within the next five years or so.

'A lucrative opportunity almost beyond compare...

'A treatment that is safe, that works, that is comparatively inexpensive both to produce and to purchase due to its ability to be frozen for virtual "off the shelf" instant treatment, that can potentially deliver 90 pct plus profit margins to the company on a comparable basis to a pharmaceutical - a treatment that also eliminates the expenses involved in cultivating a patient's own stem cells – and that in many cases will need repeat doses on a six monthly, yearly or 5-year basis – offers Mesoblast an immense opportunity.

'The size of the markets, which cover so wide an array of diseases and injuries, runs into several hundred billions of dollars annually.

'Key to Mesoblast technology is an ability to work with existing technologies...each of these technologies command billion dollar markets. The opportunity for Mesoblast and for international device manufacturers and pharmaceutical companies is to work together to produce a blockbuster combination product to take massive market share.

'Mesoblast has already proven an ability to enter into collaborative agreements and it is expected that these agreements will be an important part of the company's future strategy.'

OzEquities - June 16 2006 feature report

'Mesoblast has reached the phase of development six months early, presumably because of the positive allogeneic preclinical results and the results from the autologous clinical studies underway in Melbourne and Newcastle.

'Mesoblast has a well thought out business model, where it will seek to sell its MPCs in conjunction with existing delivery vehicles in both orthopaedic (with bone filler putty) and in cardiovascular (through collaborators' catheters) applications.'

Bioshares – 24 July 2006

Newsletters

This Mesoblast newsletter is available online on Mesoblast's website – www.mesoblast.com

Announcements to the Australian Stock Exchange and other public announcements are posted on a timely basis on the Mesoblast website.

If you would like to be informed of Mesoblast's progress by e-mail, please register by sending your contact details to: info@mesoblast.com



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