PORTLAND ORTHOPAEDICS LIMITED ABN 92 086 839 992

prospectus

For the issue of a minimum 16,000,000 Shares at $0.25 per Share, payable in full upon Application, together with one attaching Option for every four Shares allotted.

THE FREEDOM OF AN ACTIVE LIFESTYLE

PORTLAND ORTHOPAEDICS

Innovation in joint replacement technology

Financial Adviser and Broker to the Issue

Axis

Financial Group (Australia) Limited

Australian Financial Services Licence No. 226169

Our Vision

"We aim to be a market leader in specialised Joint Replacement Systems, through developing a range of new and innovative orthopaedic devices."

Our Mission

"Selling Surgical Solutions to Customers profitably."

Directory

Directors

Mr Ronald Rowland AM	Non-Executive Chairman
Mr David Sekel	Managing Director
Prof Ronald Sekel OAM	Executive Director
Dr Richard Gregson	Non-Executive
Mr John Lee	Non-Executive

Company Secretary
Mr David Edwards

Registered Office
Unit 3
44 McCauley Street
Matraville, NSW 2036

Share Registry
Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000

Auditor
Grant Thornton NSW
Level 17
383 Kent Street
Sydney, NSW 2000

Financial Adviser and Broker to the Issue
AXIS Financial Group (Australia) Limited
Level 24, Royal Exchange Building
56 Pitt Street
Sydney, NSW 2000

Legal Advisers to the Issue
Deacons
1 Alfred Street
Sydney, NSW 2000

Independent Accountant
Grant Thornton Corporate (NSW) Pty Limited
Level 17
383 Kent Street
Sydney, NSW 2000

Independent Industry Expert
Brandwood Biomedical Pty Ltd
14 Richter Close
Fadden, ACT 2904

Patent Attorney
Walsh & Associates
71 St Johns Road
Glebe, NSW 2037

IMPORTANT NOTICE

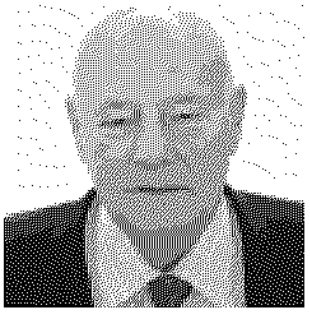
The Prospectus was lodged with the Australian Securities and Investments Commission ("ASIC") on 1 November 2005. No responsibility as to the contents of the Prospectus is taken by the ASIC or Australian Stock Exchange Limited ("ASX"). The Prospectus is dated 1 November 2005. The expiry date of this Prospectus is the date which is 13 months after the date of this Prospectus. No securities will be allotted, issued, transferred or granted on the basis of the Prospectus later than the expiry date. The directors of and advisers to Portland do not guarantee the success of the Company, the repayment of capital, the payment of dividends or the price at which Shares or Options will trade on ASX.

RESTRICTIONS ON THE DISTRIBUTION OF THIS PROSPECTUS

The distribution of the Prospectus outside the Commonwealth of Australia may be restricted by law. Consequently, all persons who receive the Prospectus must inform themselves of all applicable laws and observe any such restrictions. The failure to comply with any applicable restrictions may constitute a violation of securities laws. This Prospectus is not intended to, and does not, constitute an offer of securities in any place in which, or to any person to whom, the making of such an offer would not be lawful under the laws of any jurisdiction outside Australia.

This Prospectus is available in electronic form via the Company's web site at www.portland-orthopaedics.com and at www.axisfinancial.com.au. The offer in this Prospectus in electronic form is available only to persons receiving an electronic copy of this Prospectus in Australia. Persons having received a copy of this Prospectus in its electronic form may obtain a paper copy of the Prospectus (free of charge) during the life of this Prospectus by contacting Axis Financial Group (Australia) Limited. Applications for Shares and Options may only be made on the Application Form attached to the Prospectus in its paper copy form or as downloaded in its entirety from www.portland-orthopaedics.com or www.axisfinancial.com.au.

Letter from the Chairman



Dear Investor,

On behalf of the board of Directors, it gives me great pleasure to invite you to become a shareholder in Portland Orthopaedics Limited (Portland).

Portland specialises in the development, distribution and marketing of innovative joint replacement systems. Portland's first product, the DTC hip, was conceived in 1991 and first implanted in 1997. Portland has obtained regulatory approvals in the US, Europe, Australia, New Zealand and Israel and will soon release its Equator Plus and M-COR ranges, followed shortly by its Beacon Knee system. The Company has to date sold more than 1,500 implants in the US and Australia alone.

The Directors believe that the cornerstone of Portland's success is the innovative design of several unique prostheses for use in hip and knee replacements. The technology used in Portland's products assists in improved patient quality of life.

The global market for orthopaedics last year was estimated to be valued at US$17.9 billion and is forecast to grow over the next five years at a compound rate of 12%. The most common reason for a hip or knee replacement is osteoarthritis and it is estimated that there are 21 million people in the US alone suffering this condition.

Orthopaedic companies are well positioned to take advantage of contemporary demographic trends. Individuals are at risk of requiring hip or knee surgery whether they live an active or indeed a sedentary lifestyle. Obesity is a major contributor to joint replacement as individuals who are just 4kg overweight have a high arthritis risk especially in weight bearing joints such as knees. Individuals who are active and athletic are also prone to joint replacement surgery as high levels of activity will cause wear and can damage joints.

In this initial public offer, Portland is offering a minimum of 16,000,000 fully paid ordinary shares at $0.25 per Share together with one Option for every four Shares subscribed. The issue of Shares pursuant to this Issue will enable Portland to fund the continued commercialisation of the Company's technology and product applications. It will also enable public participation in the ownership and growth potential of this innovative Company.

This Prospectus contains detailed information on the Issue, our Company and our business and I encourage you to read it carefully before making your investment decision. On behalf of the Directors I commend this investment opportunity to you and look forward to welcoming you as a shareholder.

Yours faithfully

Ronald Rowland AM
Chairman

Contents

KEY DATES

Opening date for receipt of Applications	16 November 2005
Closing date for receipt of Applications	9 December 2005*
Expected despatch of Share and Option holding statements	16 December 2005
Expected date of quotation of Shares and Options on ASX	21 December 2005

*The Company may close the issue before or after the Closing Date at any time after the expiry of the exposure period (see Section 1.6). The above dates are indicative only and may vary, subject to the requirements of the Listing Rules and the Corporations Act.

WEB SITE ADDRESS

This Prospectus can be downloaded from the following web sites:

www.portland-orthopaedics.com **www.axisfinancial.com.au**

Interpretation: Certain words have defined meanings when used in this Prospectus. A glossary of defined terms is set out in Section 10 of this Prospectus.

The people and assets depicted in photographs in this Prospectus are not employees or assets of Portland, unless otherwise stated. Diagrams appearing in this Prospectus are illustrative only and may not be drawn to scale.

Issue Statistics

AND INVESTMENT HIGHLIGHTS

IMPORTANT DOCUMENT

Prospective investors should be aware that an investment in the Company involves risk and should consider carefully the risk factors which are described in Section 4 of this Prospectus. Investment should be made only by those who have the necessary expertise to appraise the investment or alternatively those who have obtained appropriate investment advice.

The following information is a summary only and is not intended to provide comprehensive details of the Issue. Prospective investors should read the full text of this Prospectus. Neither the Company nor any other person guarantees the performance of the Shares or Options issued pursuant to this Prospectus or the performance of the Company or the return on any investment.

ISSUE STATISTICS

	Minimum Subscriptions	Maximum Subscriptions
Number of Shares in the Issue	16.0 million	20.0 million
Issue price of each Share pursuant to this Prospectus	25 cents	25 cents
Number of ASX tradeable Options in the Issue	4.0 million	5.0 million
Gross proceeds received from the Issue	$4.0 million	$5.0 million
Issued Shares at completion of the Issue	128.0 million	132.0 million
Market Capitalisation at completion of the Issue	$32.0 million*	$33.0 million*

*Based on the Issue Price

INVESTMENT HIGHLIGHTS

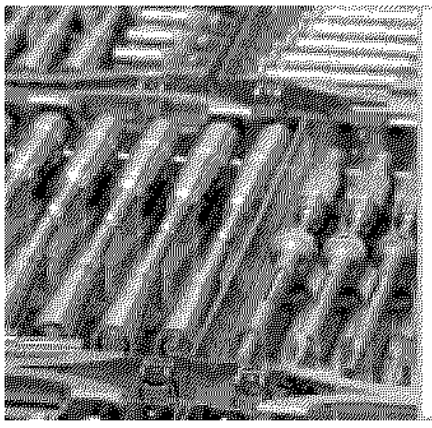
- **Large, growing and attractive market:** The global market for reconstructive orthopaedic implants was estimated at US$8 billion in 2004. This was an increase of 16% over 2003, and the compound annual growth rate over the next 5 years is forecast at 13%.
- **Strong competitive position in market:** Portland's hip and knee replacement systems, i.e. DTC for revision, M-COR for primary, Equator Plus cup and the proposed Portland Revision Knee offer significant potential advantages over competing products for both surgeons and patients:
  - Portland's products have particular application in primary, revision and difficult anatomy cases as well as oncology patients;
  - Portland's Equator Plus cup, recently FDA approved, is designed to increase the longevity of an implant by reducing wear particle generation which causes secondary bone damage; and
  - Portland's second hip range, the M-COR will complement the Company's existing revision range of products.

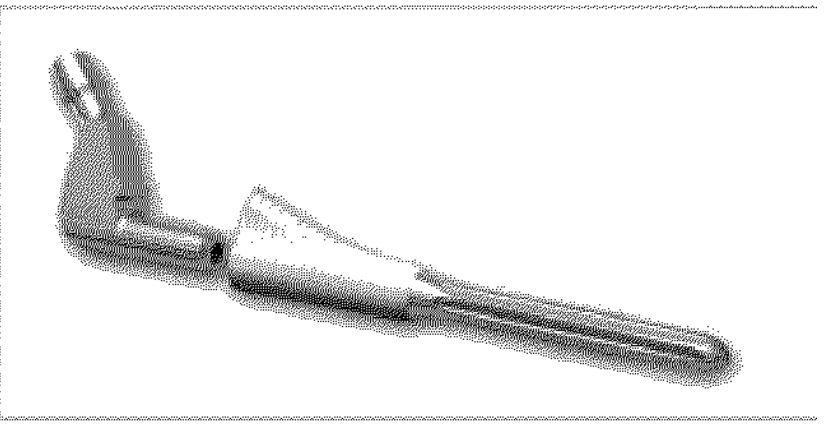
These advantages allow for better outcomes for the patients.

- **Demonstrable Clinical History:** In orthopaedics, data on the performance of implants over 5 and 10 years is the 'standard' for establishing the credentials of a new product. Portland's data collection for its DTC hip commenced in the US in 2001.

Issue Statistics

"We have regulatory approval in the United States, Europe, Australia and Israel for the sale of our innovative DTC hip with over 1,500 implants sold to date."





- **Track record of operations and performance:** Portland's first hip, the DTC system, was conceived in 1991 with the first implant in 1997. Since that time, the DTC hip has been successfully implanted in over 1,500 patients in Australia and the United States.
- **International player with strong growth prospects:** Portland began operations in the US in 2001 and has established a network of sales agents and surgeons. Portland is poised for strong revenue growth by expanding the product range and by expanding its distributor and surgeon user network.
- **In-house manufacturing:** Portland operates fully accredited facilities in Sydney, NSW, incorporating 3D design, manufacture and packaging of orthopaedic surgical instruments and devices.
- **Strong patent position**: Intellectual property associated with the proprietary elements of Portland's products are patented and owned by the Portland group.

Details of The Issue

SECTION ONE

PORTLAND ORTHOPAEDICS

Details of The Issue

> Portland is offering 16.0 million Shares for subscription together with one attaching Option to subscribe for a further Share for every 4 Shares allotted to subscribers pursuant to this Prospectus.

1.1 Shares and Options Offered for Subscription

Portland is offering a minimum of 16.0 million Shares for subscription together with one attaching Option to subscribe for a further Share for every 4 Shares allotted to subscribers pursuant to this Prospectus.

Shares

The Shares will be issued at a price of $0.25 each, payable in full upon application. The newly issued Shares will rank equally in all respects with all other existing Shares on issue.

Options

One attaching Option for every 4 new Shares subscribed for will be offered to participating investors. The Options will be exercisable at a price of $0.25 on or before 30 November 2008.

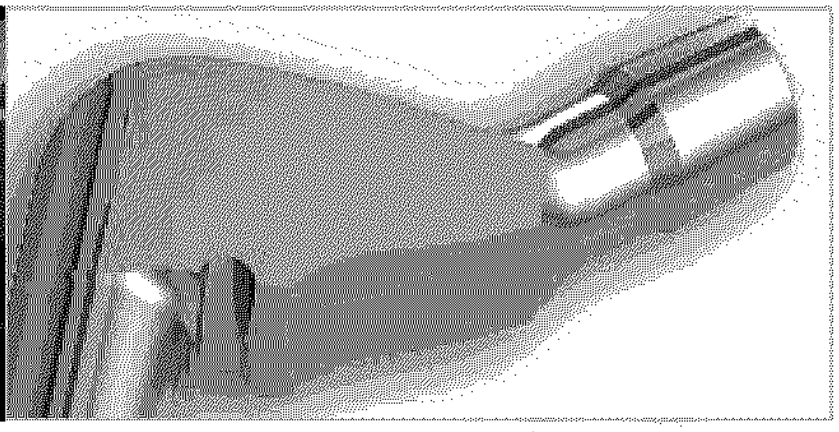
Subscriptions

The minimum subscription is $4.0 million by the issue of 16.0 million Shares, which would carry entitlement to 4.0 million Options. The Company reserves the right to accept over subscriptions prior to the Closing Date up to a maximum additional 4.0 million Shares and 1.0 million Options. The maximum subscription is $5.0 million by the issue of 20.0 million Shares, which would carry an entitlement to 5.0 million Options.

Offer period

Opening Date for receipt of Applications	16 November 2005
Closing Date for receipt of Applications (subject to alteration)	9 December 2005

Details of The Issue



Allotment

The Company will proceed to allotment once the Issue closes.

If the minimum subscription for the Issue is not achieved and the application monies for these Shares are not received by the Company by the Closing Date, the Company will repay all money received from applicants, without interest.

1.2 Proceeds of the Issue

The funds raised by the Issue, net of costs, will be directly applied towards expansion of the business as follows:

	Minimum $	Maximum $
Gross funds raised	4,000,000	5,000,000
Less Issue costs	656,000	711,000
Net amount available to the Company after listing on ASX	**3,344,000**	**4,289,000**
Intended use of funds:		
Expansion of US distribution channel	975,000	1,243,000
Marketing and clinical affairs	311,000	418,000
Inventory and instrumentation	1,326,000	1,695,000
Research and development	732,000	933,000
	3,344,000	**4,289,000**

Following completion of the Issue, the Directors believe that the Company will have sufficient working capital to achieve its objectives outlined in this Prospectus.

1.3 Capital Structure

Immediately prior to the issue of Shares and Options under this Prospectus the total issued capital of Portland will be 112,000,000 Shares and 5,767,901 Options. Following completion of the Issue, the capital structure of the Company will be as set out in the tables below:

(i) Minimum Subscription

	Number	Holders	% Holding
Shares	7,928,999	Founders and Employees	6.19%
	104,071,001	Venture Capital Investors	81.31%
	16,000,000	Public	12.5%
Total	**128,000,000**		**100.0%**

Options	5,767,901	Founders, Employees & Consultants	50.74%
	1,600,000	Axis	14.07%
	4,000,000	Public	35.19%
Total	**11,367,895**		**100.0%**

(ii) Maximum Subscription

	Number	Holders	% Holding
Shares	7,928,999	Founders and Employees	6.01%
	104,071,001	Venture Capital Investors	78.84%
	20,000,000	Public	15.15%
Total	**132,000,000**		**100.0%**

Options	5,767,901	Founders, Employees & Consultants	45.18%
	2,000,000	Axis	15.66%
	5,000,000	Public	39.16%
Total	**12,767,895**		**100.0%**

A number of important rights attaching to the Shares and Options the subject of the Issue are summarised in Section 9 of this Prospectus.

The Founders and Venture Capital Investors, in respect of their existing Share holdings, have entered into restriction agreements under which they may not dispose of those holdings until the release of the Company's preliminary financial results for the financial year ending 30 June 2006, plus an additional three (3) months in respect of 25% of their Shares (except for the Shares of STA) in the case of the Venture Capital Investors and two (2) years in the case of the Founders (subject to any obligation to transfer Shares pursuant to existing call options over the Founders' Shares). These restriction agreements are summarised in Section 9 of the Prospectus.

The terms and conditions of the Existing Options on issue as at the date of this Prospectus, including vesting periods and performance hurdles, are also summarised in Section 9 of the Prospectus.

Details of The Issue

1.4 Dividend Policy

Dependent on the results of the Company, the Directors will consider the payment of dividends to shareholders. However, investors should note that it is the Directors' intention to utilise retained earnings and free cash flows to fund the ongoing growth of Portland in priority to the payment of dividends.

Intending investors should note that no guarantee is given as to the performance of the Company or as to the timing or amount of any dividend payment.

1.5 Risk Factors

A discussion of the key risk factors which may affect an investment in the Company, is set out in Section 4 of this Prospectus.

Prior to deciding to invest in Portland, potential investors should read the entire Prospectus.

1.6 Application for Shares and Options

This Prospectus may be viewed online by persons in Australia at **www.portland-orthopaedics.com** and at **www.axisfinancial.com.au**. A paper form of this Prospectus is available to persons receiving the electronic Prospectus within Australia. If you wish to subscribe for Shares and Options, you may either:

- complete and return the Application Form which is attached to a paper copy of this Prospectus; or
- print a copy of the online Prospectus and complete and return a copy of the Application Form.

Instructions for completing the Application Form are set out on the reverse of the Application Form.

Shares and Options will only be issued on receipt of an Application Form issued together with this Prospectus (whether in paper or electronic form).

Exposure Period

This Prospectus is subject to an exposure period of 7 days from the date of this Prospectus. This period may be extended by ASIC for a further 7 days. The purpose of the exposure period is to enable the Prospectus to be examined by market participants prior to the raising of funds. That examination may result in the identification of deficiencies in the Prospectus. In these circumstances, any Application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act. Therefore no Applications will be accepted until the exposure period has expired and no preference will be conferred on Applications received during the exposure period.

Details of The Issue

Offer Period

The Issue will open at 9:00am Sydney time on 16 November 2005 and will remain open until 5:00pm Sydney time on 9 December 2005, subject to the right of the Company and without prior notice, to close the Issue earlier or extend the Closing Date.

How to Apply

The minimum application is for 8,000 Shares paid to $0.25 ($2,000) and thereafter in multiples of 2,000 Shares ($500).

Applications must be accompanied by payment in Australian currency of $0.25 for each Share. Cheques should be made payable to "Portland Orthopaedics Limited – Share Issue Account" and crossed "Not Negotiable". No brokerage or stamp duty is payable by applicants. The amount payable on application will not vary during the period of the Issue. Application monies will be held in trust in a subscription account established and controlled by the Company until allotment has taken place.

You are not required to sign the Application Form.

Completed Application Forms should be delivered or posted to either:

Portland Orthopaedics Limited Share Issue

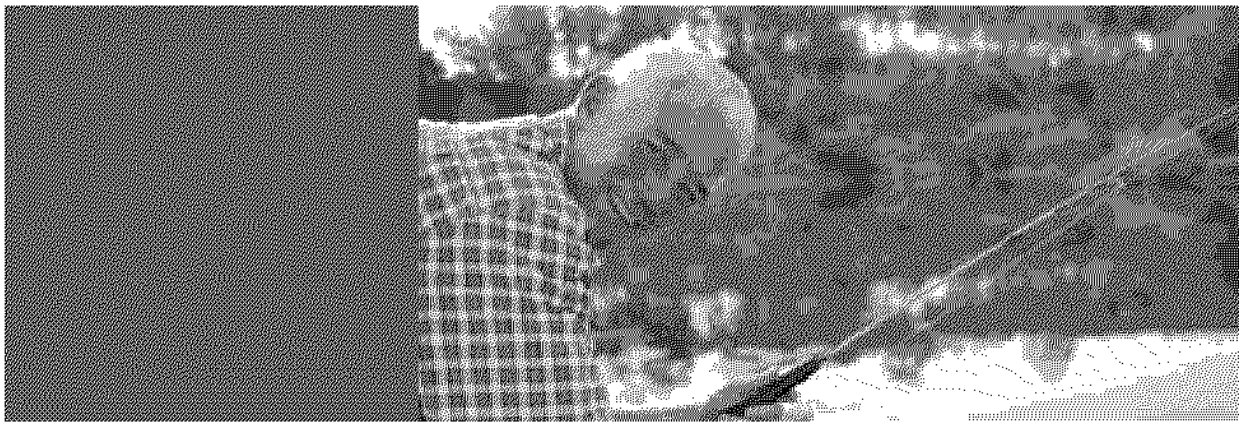
C/- Axis Financial Group (Australia) Limited
PO Box R1464
Royal Exchange NSW 1225
Level 24, 56 Pitt Street
SYDNEY NSW 2000

or

Portland Orthopaedics Limited Share Issue

C/- Computershare Investor Services Pty Limited
GPO Box 7115
Sydney NSW 2001
Level 3, 60 Carrington Street
SYDNEY NSW 2000

and must be received at the above address by 5.00 pm Sydney time on 9 December 2005. As stated above, the Issue may be closed before or extended beyond this date. Accordingly, investors are encouraged to submit their applications as early as possible.



"The minimum application is for 8,000 Shares paid to $0.25 ($2,000) and thereafter in multiples of 2,000 Shares ($500)."

An application for Shares and Options may not be withdrawn after lodgement unless the applicant is permitted to withdraw the Application Form in accordance with the Corporations Act.

1.7 Issue not Underwritten

The offer contained in this Prospectus is not underwritten.

1.8 Basis of Allocation

The Company reserves the right to allocate the Shares and Options in full on any Application or to allocate any lesser number of Shares and Options applied for or reject any Application. The Company has discretion with respect to the acceptance of Applications and the allocation of Shares and Options and reserves the right to allocate each applicant a lesser number of Shares and Options than the number for which the applicant applies. If the number of Shares and Options allocated is less than the number applied for, the surplus application money will be refunded to the applicant without interest. Holding statements will be dispatched as soon as possible after allotment.

It is the responsibility of Applicants to confirm the number of Shares and Options allotted to them prior to trading in the Shares or Options. Applicants who sell Shares or Options before they receive notification of the number of Shares and Options allocated to them do so at their own risk.

1.9 Brokerage and Handling Fees

Portland has an agreement with Axis to act as Financial Adviser and Broker to the Issue. Under the agreement (the terms of which are summarised in Section 9) Axis is to assist the Company to obtain subscriptions to the Issue.

Brokerage and/or handling fees on Applications for Shares and Options will be payable to member firms of the ASX or licensed investment advisers on such Application Forms bearing their stamp and accepted by the Company. Any such brokerage or handling fees will be paid by Axis out of its brokerage fee in accordance with the provisions of the Corporations Act.

1.10 ASX Listing

Application will be made to ASX within 7 days of the date of the Prospectus for the Company to be admitted to the official list of ASX and for quotation of the Shares and Options issued pursuant to the terms of this Prospectus, together with Shares already on issue. No application for quotation of the Existing Options will be made at this stage. If an application for admission of the Shares and Options to quotation is not made within 7 days of the date of this Prospectus or the Shares and Options are not admitted to quotation within the time specified in Section 723(3) of the Corporations Act, all application monies under this Issue will be refunded without interest in accordance with the Corporations Act. ASX accepts no responsibility for the contents of the Prospectus or the investment to which it relates. The fact that ASX may admit the Company to its official list is not to be taken in any way as an indication of the merits of the Company.

1.11 Chess

The Company will apply to ASX to participate in the Clearing House Electronic Subregister System (CHESS). Accordingly, Share and Option certificates will not be provided to successful applicants. Following allotment, the Company will provide Share and Option holders with holding statements that set out the number of Shares and Options allotted to each successful applicant in accordance with this Prospectus. That notice will also advise Share and Option

holders of their holder identification number and sponsoring issuer number. If there is a change in Share or Option holdings during a month, the relevant Share or Option holder will receive a statement to that effect at the end of that month. That person may also require the Company to provide a statement at other times subject to payment of an administration fee.

1.12 Overseas Distribution

The distribution of the Prospectus outside the Commonwealth of Australia may be restricted by law. Consequently, all persons who receive the Prospectus must inform themselves of all applicable laws and observe any such restrictions. The failure to comply with any applicable restrictions may constitute a violation of securities laws. This Prospectus is not intended to, and does not, constitute an offer of securities in any place in which, or to any person to whom, the making of such an offer would not be lawful under the laws of any jurisdiction outside Australia.

1.13 Investor Enquiries

Additional copies of the Prospectus or further advice on how to complete the Application Form can be obtained by telephoning or visiting:

Axis Financial Group (Australia) Limited
Level 24, 56 Pitt Street
SYDNEY NSW 2000

Telephone: (02) 9375 0100
Facsimile: (02) 9247 4844
Email: gregory.wood@axisfinancial.com.au
Contact: Gregory Wood

1.14 Privacy

When you apply to invest in the Company, you acknowledge and agree that:

a) you are required to provide the Company, the Broker to the Issue and the Share Registry with certain personal information to:

   i) facilitate the assessment of an Application;

   ii) enable the Company to assess the needs of applicants and provide appropriate facilities and services for applicants; and

   iii) carry out appropriate administration;

b) the Company may be required to disclose this information to:

   i) third parties who carry out functions on behalf of the Company, including but not limited to marketing and administration functions, on a confidential basis; and

   ii) third parties if that disclosure is required by law; and

c) related bodies corporate (as that term is defined in the Corporations Act) which carry out functions on behalf of the Company.

Under the Privacy Act 1988 (as amended), applicants may request access to their personal information held by (or on behalf of) the Company. Applicants may request access to personal information by telephoning or writing to the Company Secretary or the Share Registry.

1.15 Financial Forecasts

The Directors have considered the matters set out in ASIC Policy Statement 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that Portland's future prospects are dependent upon many factors, including the commercialisation of new products and continued success of its research and development program. Accordingly, any forecast or prospective financial information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

Profile of The Company its technology and markets

SECTION TWO

PORTLAND ORTHOPAEDICS

Profile of the Company

1,500

Portland DTC hip replacements to date in Australia, and the US

US$19 billion

Estimated Orthopaedics Industry sales 2004

US$8 billion

Estimated market for reconstructive implants 2004

13%

Forecast annual market growth over next 5 years

90%

Of hip and knee replacements in the US are caused by osteoarthritis

700,000

Approximate number of hip replacements performed worldwide in 2003

Profile of the Company

2.1. Company Overview

Portland is an innovative developer, manufacturer and distributor of a range of reconstructive orthopaedic devices, specifically focusing on joint replacement systems such as hips and knees.

Portland's business was established in 1991 to develop and then commercialise its first unique hip replacement system developed by Professor Ron Sekel, OAM. The Company implanted its first hip in Australia in 1997 and in the US in 2000. It is headquartered and has a manufacturing facility in Sydney, New South Wales, and a sales office in Michigan, US.

The DTC hip has been successfully used for more than seven years having received regulatory approval for sale in the US (FDA), Europe (CE Mark), Australia (TGA), New Zealand and Israel. Portland has established its own distribution network in the US and is preparing to launch into Asia and Europe.

Portland's proprietary hip and knee products primarily target the more challenging revision and difficult anatomy segments that benefit from the unique solutions characteristic of the Company's systems. Portland's proprietary products offer significant advantages over the competition in these segments.

Portland is in the process of expanding its business from a single product focus into a multi-product orthopaedics company. The Company has already received regulatory approval for its Equator Plus cup in the US and is expecting approval for a second complementary range of primary hip replacements, the M-COR stem system in the first quarter of 2006. A fourth product range for the Company, a total knee replacement system, is due for completion in mid 2006.

Relationships have been established with leading and reputable surgeons in the US to collect clinical data (including surgeons from the University of California, Los Angeles (UCLA), Cedars Sinai and Yale University).

Profile of the Company

Portland is, on an ongoing basis, negotiating distribution agreements with major manufacturers of hip and knee products, including Signal Medical Inc and CeramTec AG. This will give Portland the ability to offer a greater range to surgeons.

Key Strengths

Portland's key strengths:

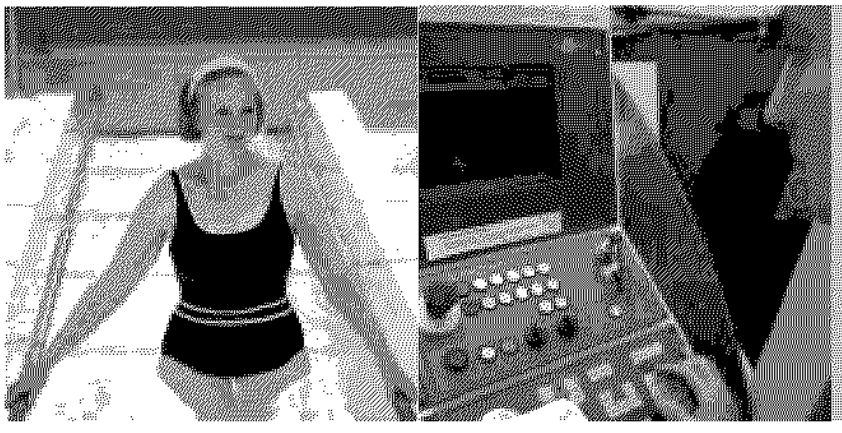
- A suite of proprietary products and technologies with distinct advantages in the primary, revision and oncology segments
- Considerable clinical history for its DTC hip
- A management team with extensive orthopaedic and device industry experience.

2.2. Corporate History and Group Structure

The business was founded in 1991 by Professor Ron Sekel, an orthopaedic surgeon with over 25 years experience in joint replacements. Professor Sekel conceived the idea of a new method of fixing an implant into bone that could solve many of the problems he and other surgeons had been experiencing with hip replacement surgery.

To date, Portland has achieved more than 1,500 implants of the DTC hip in the US and Australia.

The following table outlines Portland's development history.



"Portland is an innovative developer, manufacturer and distributor of a range of reconstructive orthopaedic devices..."

Profile of the Company

ITS TECHNOLOGY AND MARKETS – CONTINUED

1991	First patent application
1992	Prototypes of DTC hip
1995	TGA licence granted
1997–1999	One hundred Australian patients implanted with DTC hip
1998	**Winner, Australian Design Award for Engineering**
1999	Application for FDA
2000	Revision DTC hip developed and manufactured
	FDA 510k granted for the DTC hip and first implant inserted in a US patient
2000	**Manufacturing Innovation Excellence Award for Innovation in Engineering Design and Manufacture**
	Winner, Inaugural Australian Technology Showcase Patrons' Award for Outstanding Achievement in International Markets
2001	New manufacturing premises commissioned in Matraville, NSW
	Investment by GBS Venture Partners, Equity Partners and STA
2002	Development and patent application for Equator Plus cup
2003	Application for patent on Multi-Axis Taper for the Portland Knee Replacement System
	Design of DTC Asian Hip Series
	Patent applications for Portland Knee and other joints utilising the double threaded cone
	Portland Knee development commenced
	Commissioning of Portland clean room and packaging facilities
	CE Mark approval granted for European entry and sales
2003	**Biotechnology Innovation Fund Grant from AusIndustry and DSRD – $350,000 for Equator Plus cup development**
	START Grant from AusIndustry – $1.9 million for the development of a total knee replacement
2004	Release of the DTC Asian system
	Advanced designs of the Portland Knee developed and approved by Clinical Advisory Board
2005	Completion of design of the Equator Plus cup
	FDA approval granted for Equator Plus cup
	M-COR primary hip developed and application to be lodged for regulatory approval in the USA.

Portland Group Structure

Portland Orthopaedics Limited has seven subsidiaries, which operate individual parts of the business. All subsidiaries are 100% controlled by Portland Orthopaedics Limited. The subsidiaries are:

- Portland Orthopaedics Inc, which was incorporated in 2000 to manage marketing and distribution in the United States
- Portland Orthopaedics (Aust.) Pty Limited, which was incorporated in 2004 to manage marketing and distribution in Australia
- Portland Orthopaedics (UK) Limited, which was incorporated in 2002 to manage marketing and distribution in Europe
- Vimek Pty Limited is the manufacturer of the orthopaedic implants and also undertakes manufacturing on contract to third parties
- Portland Square Pty Limited holds the existing intellectual property
- Portland Square Manufacturing Pty Limited is now a dormant company
- Portland Orthopaedics IP Holdings Pty was formed to hold all future intellectual property of the group.

2.3. Industry Overview

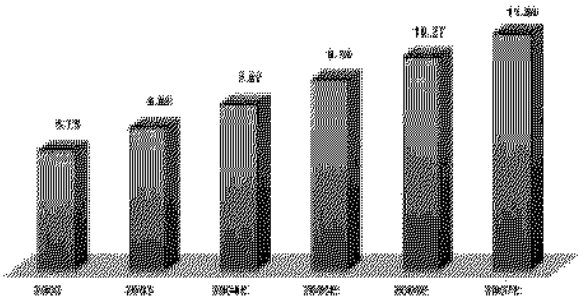
2.3.1. Market Growth

Joint pain is increasingly common as the populations age. For many people, the normal activities of life cause the soft tissues and cartilages that connect and protect weight-bearing joints to deteriorate. The result is the degenerative disorder known as osteoarthritis. Osteoarthritis is the most common cause for joint pain requiring reconstruction. About 90% of hip replacement procedures and nearly 100% of knee replacement procedures are a result of osteoarthritis. Osteoarthritis affects nearly 21 million people in the US.

Portland participates in the reconstructive implant market, which consists of devices to replace joints that are worn, damaged or diseased (for example, hips, knees and shoulders). The reconstructive implant market contributes more than 40% of all orthopaedic sector revenues.

Global product sales in the orthopaedics industry reached an estimated US$19 billion in 2004, a growth of 16% over the prior year. In 2004, the reconstructive implants sector grew by 16% to an estimated US$8 billion, up from US$6.87 billion in 2003. The market is forecast to approach US$11.4 billion by 2007, a five-year compound annual growth rate of 13%.

Reconstructive Industry Growth (US$bn)



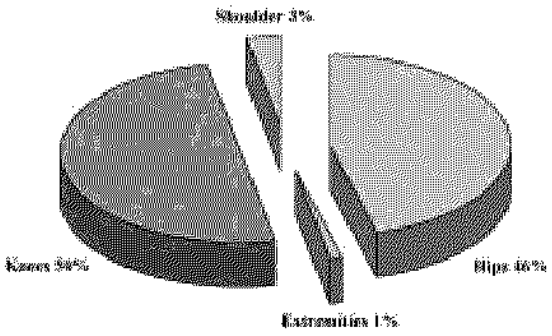
The Directors believe that the reconstructive implant market will continue to exhibit significant growth in the future. Demand for joint replacement products is increasing as access to healthcare improves and the population of the developed world ages. It is estimated that the incidence of hip fractures and other degenerative conditions is rising at the rate of 6-10% per annum, and approximately 1.6 million hip fractures occur globally each year.

The industry is characterised by attractive EBIT margins reflecting the profitability participants are able to enjoy.

2.3.2. Reconstruction Market

Hip and knee reconstructions represent the bulk of the reconstructive market (46% and 50% respectively). Portland's focus is the US market representing 60% of the global reconstructive implant market or 25% of the global orthopaedics sector.

Global Reconstructive Market



The reconstructive market is also divided into two segments: primary and revision. The market is split approximately 88% and 12% between the primary and revision segments respectively.

Primary hip replacement involves first time hip replacement. This market is highly competitive and is dominated by large multinational companies producing similar implants.

Revision hip replacements are performed where an existing hip replacement is removed due to failure through either wear or actual device failure and is replaced with a new implant. It is estimated that about 90-95% of hip implants are successful up to 10 years and are principally replaced due to osteolysis, a reaction in the bone caused by polyethylene particles escaping from the bearing surface. Revision surgery is more difficult than primary surgery and is usually undertaken by a specialist orthopaedist. The revision market, because of its complexity, is technology and solution driven and is therefore less price sensitive.

Portland's DTC hip and proprietary knee products target the revision segment.

2.3.3 Hip Replacement Market

Hip replacement, or arthroplasty, is a surgical procedure in which the diseased parts of the hip joint are removed and replaced with new artificial parts. These artificial parts are called prosthesis or implants. The goals of hip replacement surgery are to improve mobility by relieving pain and improve function of the hip joint.

The most common reason, representing 85-90% of all hip replacements, is the wearing down of the hip joint that results in osteoarthritis. The second most common (7%) reported cause of hip replacement is avascular necrosis, a disease that results from the temporary or permanent loss of the blood supply to the bones. Without blood, the bone tissue dies and causes the joint to collapse. Only about 3% of patients receive primary hip replacements due to fracture.

In 2003, approximately 700,000 hip replacements were performed worldwide. The rate of hip replacements globally rose approximately 12% from 2002 to 2003.

United States

Osteoarthritis is responsible for more than 90% of all primary hip and nearly 100% of knee replacement procedures in the US. The disease, a natural by-product of the ageing process, afflicts nearly 21 million people in the US and as much as 80% of the population over the age of 65. Nearly one-third of all adults are estimated to have radiographic evidence of osteoarthritis in their hands, feet, knees or hips.

In addition, more than 280,000 femoral neck (upper section of the femur) fractures are treated each year in the US, many with partial hip replacement implants. Most fractures occur in post-menopausal women who have

osteoporosis, a disease that afflicts around 28 million people in the US. More than 4,000 women enter menopause each day in the US and around one in every two women over the age of 50 will suffer an osteoporotic fracture in their lifetimes.

Europe

Europe is characterised by smaller companies focused on geographic areas and on key surgeon champions.

Hip procedures by country in the European market are broadly in line with population size with France, Germany and Italy representing 61% of the market by volume.

Australia

There were approximately 29,100 hip replacements in Australia in the 12 months to 30 June 2004, an increase of 4.8% over the prior year. An estimated 87% of these hips were primary procedures and 13% were revision hips.

Asia

The total orthopaedics market in Asia is estimated at US$1.1 billion. Product sales are well established at high prices compared to other markets. Portland has prioritised its entry to the Japanese market due to high profit margins.

2.3.4 Knee Replacement Market

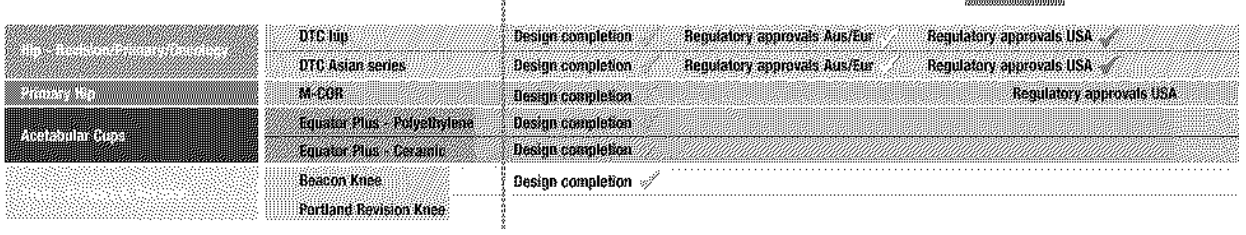
The knee is the largest joint in the body and has a hinge-like function which is subjected to constant pounding, bending and twisting from everyday activities. Total Knee Replacement (TKR) is most commonly performed for knee joint failure caused by osteoarthritis. Osteoarthritis accounts for 98% of knee implants with other indications, particularly rheumatoid arthritis accounting for 2% of implants.

Patients usually have radiographic evidence of joint damage and moderate to severe persistent pain despite nonsurgical management. The aims of TKR are relief from pain and improvement in function for these patients. Obesity increases the need for joint replacement, particularly at the knee as this joint bears the added weight.

The reconstructive market is uniquely positioned to capitalise on demographic trends and patient lifestyles. In the orthopaedic patient population the overweight and inactive are at increased risk for requiring reconstructive surgery. Indeed, obesity is a major contributing factor to joint replacement as individuals who are more than 4kgs overweight have a high risk for arthritis especially in weight bearing joints such as the knee. But individuals who are more active are also at risk for joint replacement as high levels of activity causes wear and risk of damage to joints.

Globally in 2003 approximately 732,000 knee replacements were performed, an increase of 13% over the prior year. The US accounted for 59% of procedures. The average selling price for

Portland Product development timeline



a TKR is US$4,700. There were about 29,900 knee replacements in Australia in the 12 months to 30 June 2004, an increase of 6.8% over 2003.

2.3.5 Competition

The global orthopaedics industry is a competitive industry with evidence of consolidation as the larger companies acquire the technology based smaller players. There are estimated to be over 100 companies in this sector. These include, Johnson & Johnson, Smith & Nephew, Medtronic Synthes-Stratec, Biomet, Stryker and Zimmer/Centrepulse. Smaller companies, like Portland, are either focused on geographic regions or niche applications.

Portland is able to compete against larger companies because of the design advantages of its developed products compared to competitor products. Orthopaedic surgeons are conservative and expect long term clinical data on implants. This is partly because of problems with new implant systems during the 1980's when there was a spate of premature revision surgery associated with new technologies. However, it appears that there is a greater willingness, especially by younger surgeons, to assess and implant new technologies.

Portland has patented and developed its new technology and has an established research, manufacturing and distribution infrastructure.

These assets strengthen the Company's competitive position.

2.4 Product Overview

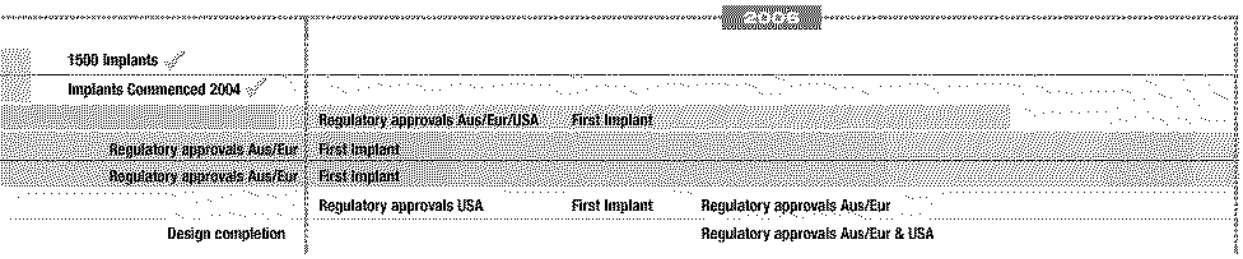
HIPS	Cups	Knee	Future Products
M-COR	Equator Plus	Primary	Shoulder
DTC		Revision	Ankle/other joints

2.4.1 The DTC Revision Hip

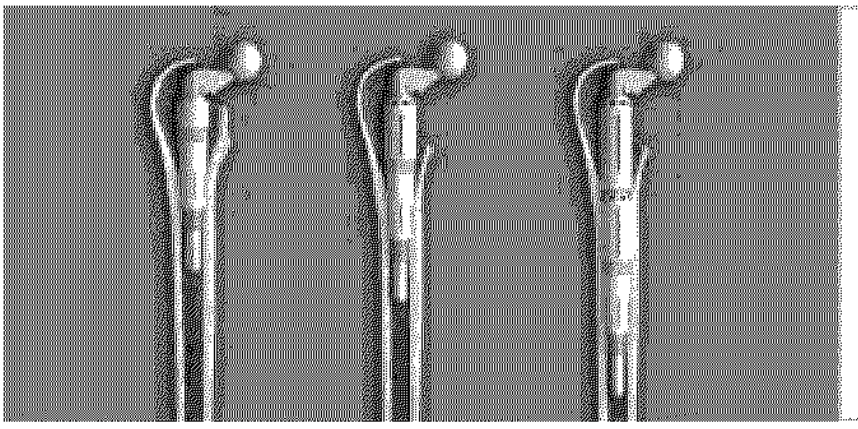
Portland's first product was the DTC hip. The DTC hip is based on the patented technology of the double threaded cone (DTC). The advantages of this patented technology allow the DTC hip to be used for revision hip replacement and oncology surgery. The threading system of the DTC hip used in revision, oncology and difficult primary anatomy solidly fixes into bone using a rotational principle, compared to the traditional hammer and nail-like approach used by all other products.

DTC
DOUBLE THREADED CONE SYSTEM

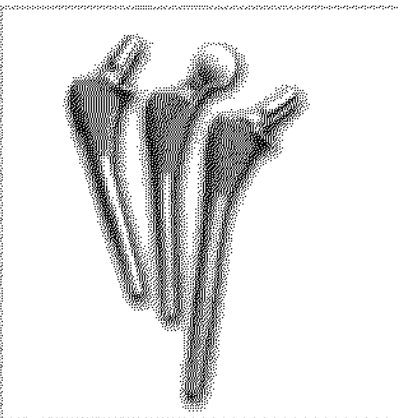
One of its main advantages is that it is fully adjustable at the end of stem preparation, and thus addresses the frequent challenges faced by surgeons when confronted with different anatomies and varying degrees of bone decay. The DTC hip provides surgeons with a more adaptable and effective implant (manufactured in cobalt chrome which is an extremely strong implant material) and offers improved longevity in revision surgery.



Profile of the Company



Portland's DTC hip - modular neck and fixation at various positions



Traditional Hip Implant

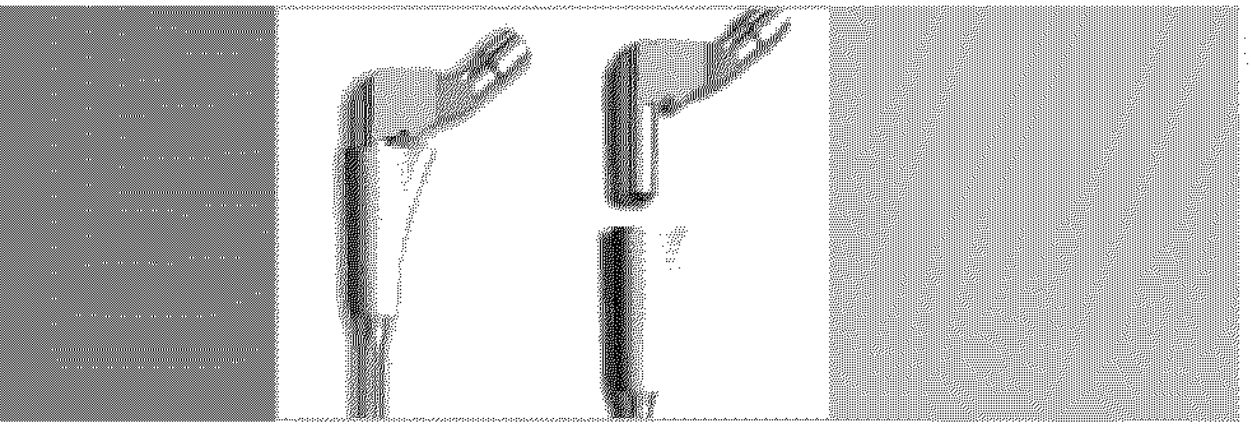
The DTC hip is a modular prosthesis consisting of:

- A tapering cone stem with two different speed external threads and longitudinal de-rotation columns, giving immediate and long term stability in the upper or lower bone of the femur
- An adjustable modular neck component which allows full four vector correction at the end of stem insertion

The DTC hip provides three standout benefits:

- **Fixation:** The DTC hip is more versatile and simpler in revision surgery for the surgeon to insert, requiring less complicated carpentry skills. Traditional hip systems use a 'hammer and nail' approach to fix the implant into the bone. However, in certain cases (particularly revision hip replacements and oncology cases) the lack of proximal bone makes fixation more difficult and using a traditional wedge implant has major limitations. The DTC hip uses a double screw mechanism for fixation in good bone that may be located further down the femur (see diagram above). Hence, in difficult cases where there has been substantial bone loss, the DTC hip offers significant advantages over more proximal locking hip systems.
- **Alignment:** Accurately aligning the hip implant with the cup in the pelvis is crucial to minimising wear and failure. The DTC hip has a modular neck to allow the surgeon increased scope in setting the correct alignment, including final adjustments at the end of the procedure.
- **Strength:** Manufactured in colbalt chrome, the DTC hip can achieve greater strength for a given diameter than competitors. This is a major advantage in small Asian populations, now resident in all countries and also in traditional Asian markets, where patients generally have much smaller femora in which to insert the implant.

These advantages could offer better surgical outcomes, with longer device life and improved patient function in revision as well as small and difficult anatomy cases. Issues of hip dislocation, leg length inequality, fracture and thigh pain are significantly elevated in revision surgery, and the DTC hip modularity aids the surgeon in addressing these problems.



Portland's M-COR Modular Primary Hip System

2.4.2. The Asian Hip Series

In early 2004 Portland released its new Asian Hip Series. The DTC Asian Hip Series includes the patented double-threaded cone, yet is significantly smaller. The clinical results to date have been promising.

The Asian market is an important one for Portland's growth strategy. The DTC Asian Hip Series is specially designed to suit the Asian population's smaller femoral. Portland plans to use a Japanese partner as the Asian base for marketing.

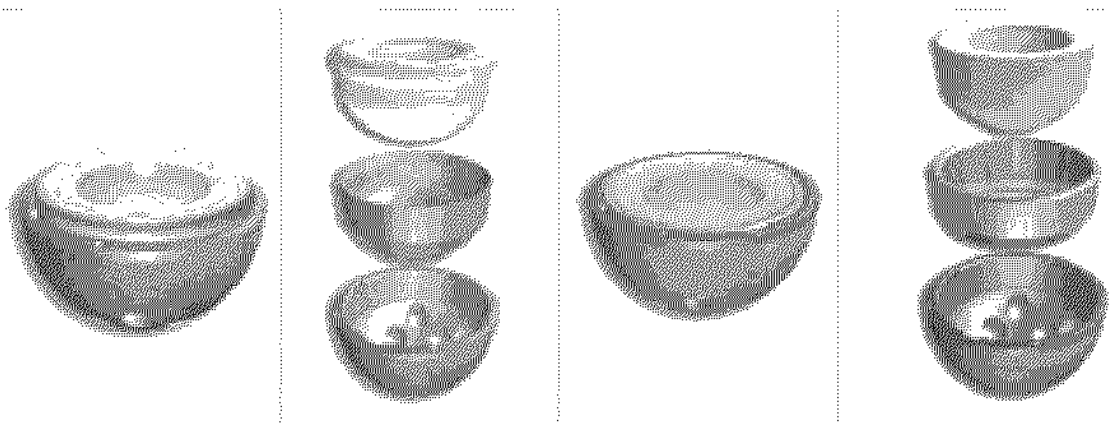
2.4.3 The M-COR Modular Primary Hip System

To compliment the revision and difficult anatomy systems offered with the DTC, Portland has developed a modern and innovative primary hip system in its M-COR range, to provide surgeon users with a more complete suite of options in hip replacement. The M-COR system utilises the proven DTC modularity and neck components and combines them with a more familiar hammer and nail type stem component to fulfil the surgeons' suite of product offerings.

M-COR
MODULAR CENTER ROTATION HIP SYSTEM

The M-COR design has several unique points of difference against competitors. At the same time M-COR is familiar enough to surgeons to enable easy and rapid adoption.

Dr Dan Oates of University of Southern California is assisting Portland with development and instrument design for the M-COR. The M-COR range will be lodged for FDA approval in November, which is expected to be granted in early 2006. Portland expects that M-COR will be first implanted by a US surgeon in early 2006.



Portland's Equator Plus cup, with full metal backing on the polyethylene and with a ceramic liner

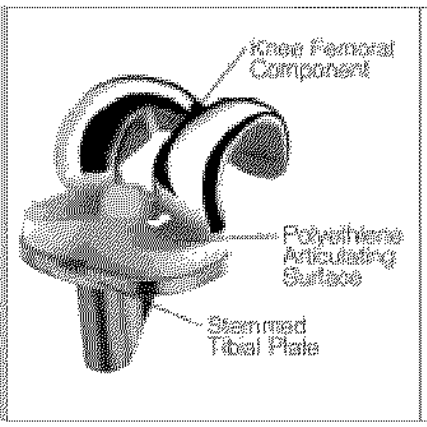
2.4.4 The Equator Plus Cup

To date, Portland has used a competitor's generic cup to complement its DTC hip implant. However, Portland has now been granted FDA approval for its own proprietary cup, and expects that the product will be available for sale in early 2006. It has been shown that 93% of surgeons use the same company for a hip and a cup. There are advantages in the Equator Plus system over the generic cups offered by the competition.

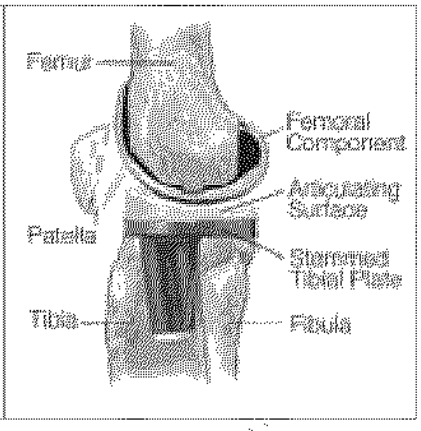
In a traditional cup, polyethylene back wear remains an unsolved problem. The Equator Plus does not allow back wear due to its unique design. In the traditional cup, a metal cup liner is press fit or screwed into the pelvis. A polyethylene liner is then inserted into the metal cup liner and the ball of the hip implant rotates on this polyethylene cup insert. The friction of the hip implant against the polyethylene, and movement between the metal liner and the polyethylene insert create wear particles. Some of these particles escape through the back of the metal shell via the screw holes. These polyethylene wear particles are mildly toxic to the surrounding bone and over a long period of time contribute to bone loss and undermining the hip implant.

The Equator Plus cup has the advantage that the polyethylene cup insert has a solid metal backing, which totally prevents wear particles from escaping through the screw holes at the back of the cup. Hence Portland's product is expected to reduce the bone's exposure to wear particles and increase the life of the implant.

As an alternative bearing surface to polyethylene, surgeons may also select ceramic. Ceramic is only approved for use in the United States after a fully and supervised study and is not readily available to all companies. Portland is currently negotiating a licensing arrangement with Ceramtec for the sale of ceramic in the US by utilising Ceramtec's IDE Study data. This will allow Portland to offer a choice of bearing surfaces adding to our list of benefits to a surgeon. Approval of the PMA in the US is expected in 2006. For use in Australia and Europe, approval is expected in early 2006.



Knee Implant System



Knee Implant System

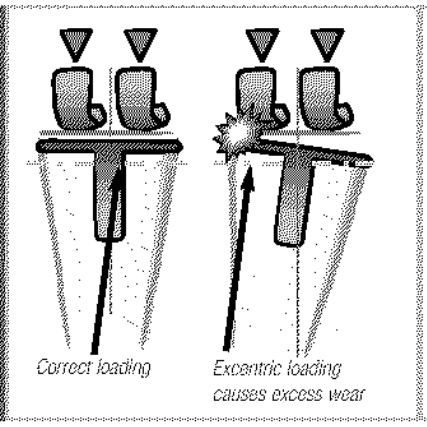
2.4.5 The DTC Knee Replacement System

Portland has received a $1.9M grant from AusIndustry to develop a unique Revision Knee System. To date, the Company has received $1.4M and there is approximately $0.5M left to claim. In addition to the revision knee project, Portland has licensed a Primary Knee from Signal Orthopaedics in Michigan USA. The Beacon knee will be offered for sale by Portland under the license as the Beacon primary knee. The Beacon knee will also be used as the platform from which to base Portland's proprietary knee, to form the patented Portland revision knee. TGA applications for the proprietary revision knee element are expected to be lodged in mid 2006.

Malalignment between the anatomical and mechanical axes causes rapid wear and tear of the traditional knee system. Portland's proprietary and patented revision knee system has a unique modular 5 axis taper, allowing improved alignment of both the femoral and tibial components with the articulating surface, as depicted in the diagrams below.

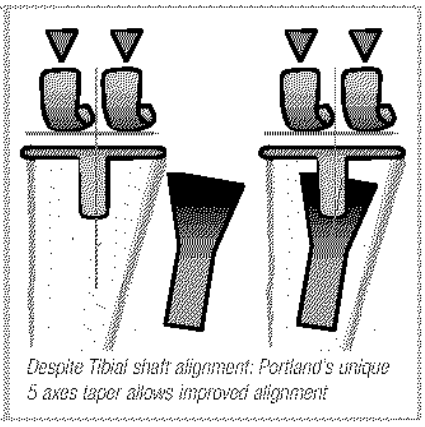
This will be the only system of its kind available in the global market.

Primary knee sales in the US are expected to commence in early calendar 2006. Many



Correct loading

Excentric loading causes excess wear



Despite Tibial shaft alignment: Portland's unique 5 axes taper allows improved alignment

surgeons, who perform hip procedures using the DTC hip, also perform total knee procedures. This will enable efficient and low cost marketing and distribution of the Portland Knee.

Certain outcomes from research and development of the Portland Revision Knee are expected to be able to be applied to the ankle, shoulder and other joints. Although these joints represent a small component of the current reconstructive market (<4%), **the Directors believe this to be primarily due to the absence to date of effective implants and that, with the release of an effective product, the market for replacement of these joints would expand considerably.**

2.5 Intellectual Property

Portland currently possesses a number of United States, Australian and other national patents. Portland also has formal documentation covering all other key aspects of its intellectual property. In total, there are more than four separate processes or designs within Portland's intellectual property portfolio, including two current patents and two patent applications. Portland believes that its continued in-house research and development will provide an on-going source of competitive advantage.

2.6 Manufacturing and Quality Control

Portland manufactures its products at its engineering plant in Sydney, New South Wales. The plant is situated near Sydney Airport and the University of NSW.

Manufacturing satisfies all Australian, US and European standards. Portland has received Quality Accreditation to EN13485 and is fully compliant with the Medical Device Directive. The EN13485 accredited production process is supported by a sophisticated quality assurance system and documentation.

Portland has an automated stock tracking system to track movements of inventory from manufacturing, to point of sale, distributors and hospitals.

Portland's plant is equipped with the latest computerised numerical control machines backed up by a state-of-the-art 3D modelling system allowing fast design and prototype changes to occur. Quality assured sub-contractors undertake other processes such as plasma coating of the stems and sterilisation.

2.7 Business Model

The key elements of Portland's business model and marketing strategy include:

- Develop differentiated and unique, high quality products to attract distributors and surgeons
- Focus on revision and oncology surgery with the price premiums available in these segments
- Focus initially on US markets
- Target senior opinion leaders
- Build a proprietary distribution network to sell Portland's products
- Growth and development of product range

These are described in greater detail below:

Product differentiation

Portland believes that as a niche player in the market, it is imperative to offer specialised, innovative and high-quality products that provide technological advantages for both patients and surgeons. These products, combined with the strength of distributor relationships, will maximise cross selling of a broader range of products.

Profile of the Company

Specific focus on revision and oncology surgery

Portland's marketing strategy focuses primarily in the markets of revision, oncology (cancer) and difficult and small anatomy. Margins in the revision and oncology markets are generally higher and technical superiority is more important. Portland will not try to compete directly with the major competitors in the sale of generic products. However, by offering the surgeon a range of complementary products (i.e. primary hips and knees) in addition to the revision components, the Company will be able to target the majority of cases performed by a surgeon.

US focus

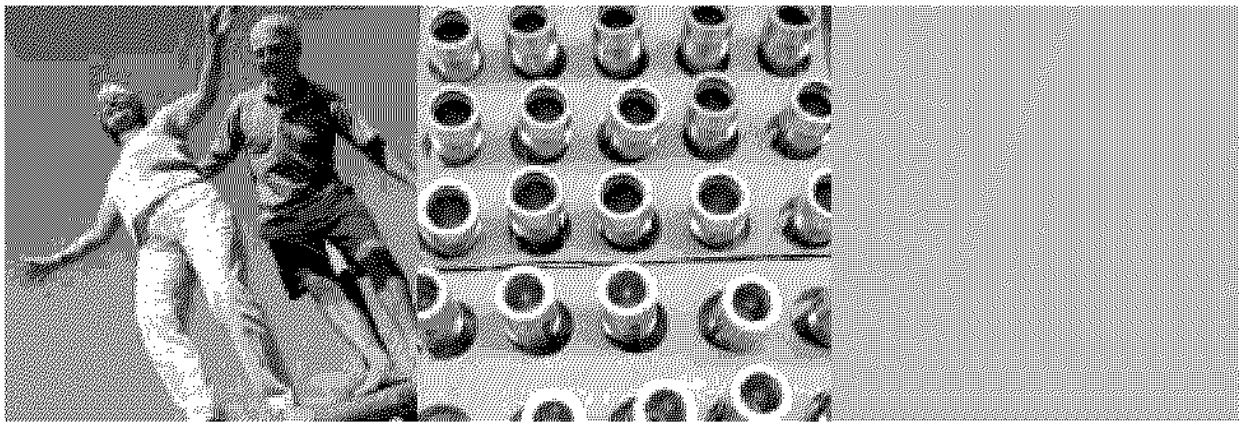
The US is the largest global market and accounts for about 60% of global revenue from joint replacements. Accordingly Portland's primary focus will be on the US market. Portland has already established a sales force in the US with independent distributor relationships and has established several relationships with leading surgeons. Success in the US will allow for easier penetration of other markets.

Target opinion leaders

The opinions of high-profile surgeons and institutions are vital to winning the allegiances of large numbers of surgeons. Most surgeons follow the recommendations of leaders on decisions on using new and different products. Portland has addressed this issue through three initiatives:

1. Portland has established a high-calibre Clinical Advisory Board comprising eminent people within the industry. These people are opinion leaders and are instrumental in securing support from other high-profile surgeons and institutions.
2. Portland has established consulting relationships in the US at respected institutions. The relationships provide Portland with an educational site as well as a distribution network across the US. These include surgeons from:
   - Yale University, New Haven, Connecticut
   - University of California Los Angeles, Los Angeles, California (UCLA)
   - Cedars Sinai Hospital, Los Angeles, California
   - Tampa General Hospital, Tampa, Florida
   - University of Mississippi, Jackson, Mississippi
   - University of California San Diego, San Diego, California

> A number of experienced and reputable surgeons use Portland's products and will publish results.



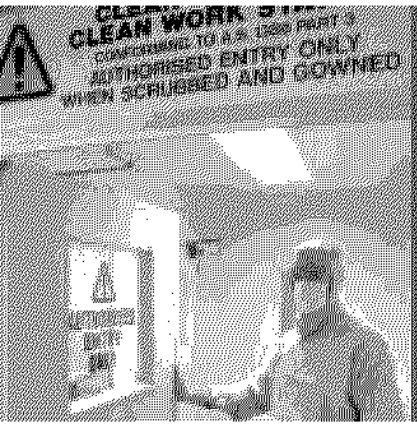
3. A number of experienced and reputable surgeons use Portland's products and will publish results. Significantly, these surgeons have strong podium presence, are opinion leaders and undertake new surgeon user training. They oversee registrar development (education and fellowship programs) and deliver papers at targeted meetings.

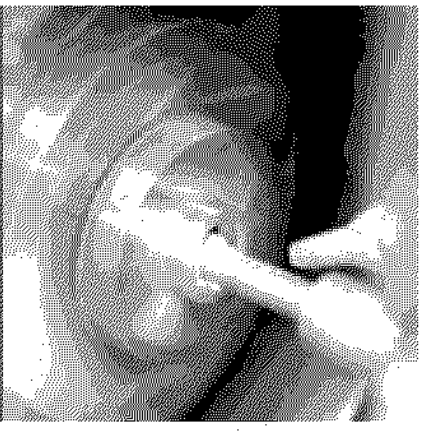
The results from the high-profile surgeons and institutions will be important in influencing other surgeons about the benefits of Portland's products. In orthopaedics, data on the performance of implants over 5 and 10 years is the 'standard' for establishing the credentials of a new product. Portland believes that the uptake of its products will accelerate as the survival data accumulates.

Establishment of distributor relationships

Distributors play a key role in sales due to their close relationships with surgeons. In the US, for example, distributor representatives usually attend major joint surgery operations. Distributors usually work with the surgeon prior to the surgery on the planning, sizing and templating of the radiographic films and during the procedure advise on correct surgical technique and component selection.

Securing good distributors is therefore vital to an orthopaedic company's ability to penetrate markets. Companies like Portland with innovative and differentiated products are able to attract high-quality distributors. Innovative products allow distributors to approach new surgeons with a unique offering that will help the surgeons solve more difficult cases. Once the relationship is established, the distributor is able to sell a broad range of products, including generic and undifferentiated products.





Portland has devoted considerable resources building its distribution network, particularly in the US. The Company has used its relationships with clinical institutions to develop distributor relationships and has engaged direct sales staff.

A hybrid sales force model has been established, where regional managers are direct employees of Portland but the general field sales force comprises independent distributors. This model is a proven strategy adopted by a number of US mid-tier orthopaedic companies.

Portland sales model

The regional managers are responsible for recruiting, training and managing the independent distributors as well as helping the distributors make sales to surgeons. Currently Portland has a Vice President of Sales based in Michigan and 12 distributors in the US. These distributors act on a consignment basis and receive a commission on each sale.

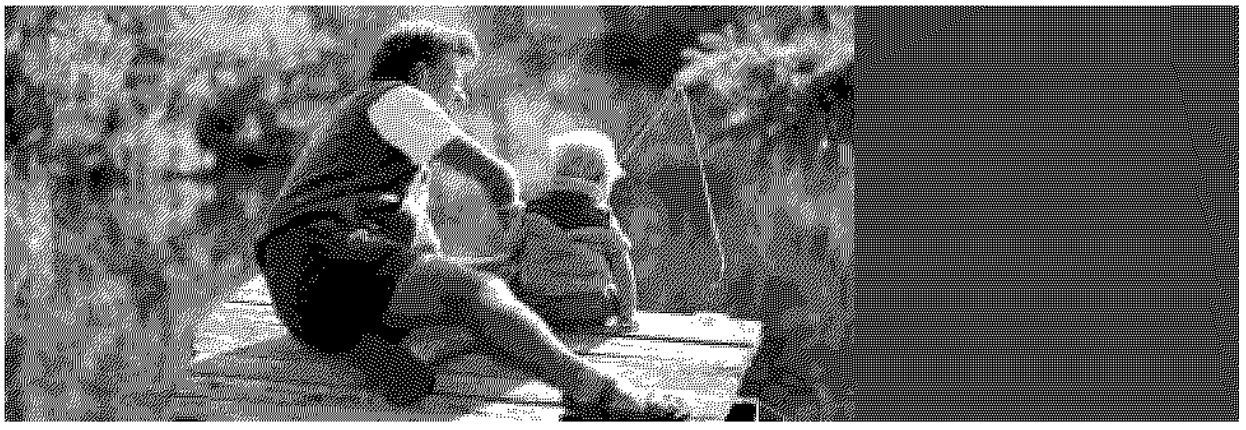
Portland plans to expand its distribution network in the US by employing this hybrid model. It will aim to recruit more regional managers who have experience with the large orthopaedic companies. The regional managers in turn will expand the number of distributors selling Portland's products. In other markets, such as Europe, Portland will seek to partner with distribution companies with large product bases. Portland may also seek opportunities to partner in the US with a larger orthopaedic company for the exclusive distribution of one or all of its products.

Growth and development of product range

Portland intends to migrate from a single product focus into a multi-product orthopaedic company. Portland is positioned to place new products into its existing hip range without the need to recreate new infrastructure or distribution channels.

Profile of the Company

> "Portland's products have generally sold at premium prices due to their modularity and uniqueness."



Growth opportunities exist for Portland through new launches:

- The M-COR primary hip range in both uncemented and cemented form
- The Equator Plus cup
- The Portland Knee range in both primary and revision
- The Asian Hip series into the Asian markets.

2.8 Pricing

Portland's products have generally sold at premium prices due to their modularity and uniqueness. For example, Portland's Primary Hip is priced depending on configuration and hospital in the US. The average selling price for a Portland revision hip is US$6,140, the average for a Portland primary is US$3,500. This is price competitive compared with products of similar basic functional specifications. A larger premium is achievable in the revision hip and knee markets as these markets are driven by technical superiority.

Pricing in Australia is negotiated with the health funds biannually and is presently at a higher reimbursement level than that received in the US.

The Equator Plus cup is intended to be sold at a reimbursement level similar to that of our major competitors utilising existing reimbursement codes.

Directors and Management

SECTION THREE

PORTLAND ORTHOPAEDICS

Directors and Management

The Board of Portland comprises:

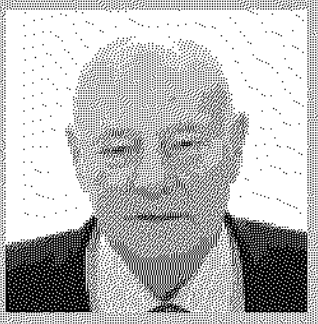
Mr Ronald Rowland AM
Non Executive Chairman

Mr David Sekel
Managing Director

Prof Ron Sekel OAM
Executive Director

Dr Richard Gregson
Non Executive Director

Mr John Robert Lee
Non Executive Director



Mr Ronald Rowland AM

David Ford Sekel

Ronald Rowland AM

Non-Executive Chairman - Age: 69

Ronald J. Rowland served as the Group Managing Director and CEO of Australian Pharmaceutical Industries from October 1978 until December 2000. Ron is the past Global Chairman of the International Federation of Pharmaceutical Wholesalers, on which he has served 14 years and was the longest serving chairman of 5 years.

Over a 22–year time frame, Ron changed API Ltd from a low profit co–operative into a dynamic and successful publicly listed company, with current sales exceeding $3.5 billion per annum. During his time, profits rose 4000% plus.

In January 1999, Ron was honoured as a Member of the Order of Australia by Her Majesty the Queen for services to the pharmaceutical industry and to the community. That same year in May, Ronald was ranked among the 'Best CEO's in Australia'. In the 1990's he also served as Chairman of the Western Sydney Area Health Services.

2001 saw Ron listed with eight other CEO's in the Bulletin Honour Role in November and accepting the Distinguished Medallion Award by the Pharmacy Guild of Australia. Mr Rowland has been rated in the Top 20 CEO's in Australia by the Financial Review, based on "return on investment over a 5 year period"

Prior to joining API in 1978, Ron had served as CEO and director of Burns Philip South Sea Ltd, a conglomerate; as CEO of Fitzpatrick Far East Ltd., a Malaysia food supplier; and as divisional manager of Woolworths Ltd, in charge of supermarkets and department stores.

Ronald Rowland is a Foundation Fellow of the Australian Institute of Company Directors and is an international conference speaker.

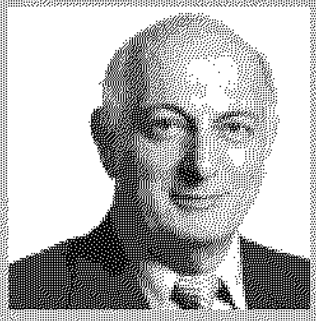
David Ford Sekel BEco Dip Law

Managing Director - Age: 37

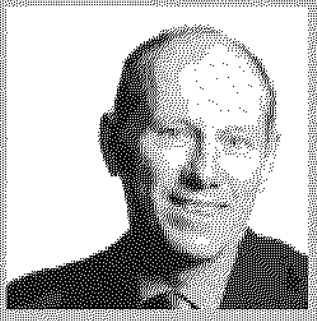
David Sekel is a qualified lawyer and accountant who began practice in 1989 as a management accountant and then later for 8 years practiced in Sydney as a corporate lawyer in a medium sized firm.

His specific expertise in business and finance management has been used to develop the systems of administrative and financial control for Portland and he is its Chief Executive Officer. David has been responsible for Portland attaining all registrations including FDA, TGA and CE Mark as well as for establishing and maintaining Portland's distribution throughout the US, the Middle East and Australia.

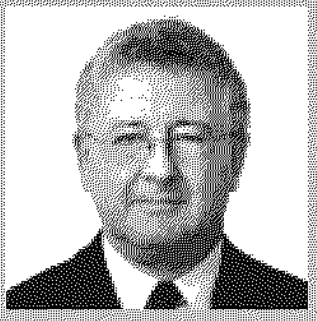
Directors and Management



Professor Ronald Sekel OAM



Dr. Richard Gregson



John Robert Lee

In 2003, David became Deputy Chair of the National Steering Committee for the Medical Device Network and he is a regular speaker at seminars on start up to commercialisation. He is a member of the Strategic Industry Leaders Group appointed for the Medical Device Action Agenda run by the Commonwealth Department of Industry.

After over seven years of involvement in Portland, David has developed a strong network of affiliations in the US within the orthopaedics industry in manufacturing, supply and sales. With a considerable part of his time spent in the US he has remained focused on developing the sales and commercialisation of Portland's existing and future product lines.

Professor Ronald Sekel OAM
MBBS, FRACS(orth), FRCSE

Executive Director - Age: 64

Professor Sekel has been practising as a consultant orthopaedic surgeon for over 25 years. He is an Affiliate Professor of Engineering at the University of New South Wales, a former Director of the NSW Bone Bank and has represented the Australian Orthopaedic Association on the federal government committee of prosthesis listing. Professor Sekel has had 10 years of management experience at a Sydney based regional commuter and charter aircraft company and 30 years in the orthopaedic and academic worlds. He has a long and esteemed research and development track record in hip replacement and medical research.

Dr Richard Gregson BSc DPhil MBA

Non-Executive Director - Age: 55

Dr Gregson is Managing Director of Equity Partners, a private equity fund management group that manages funds on behalf of institutional investors. Equity Partners invested in Portland in October 2001. He has served as a non-executive director on the boards of a number of private companies and prior to entering the private equity industry he was involved in the healthcare industry. He brings substantial business development, finance and commercial expertise to the Board.

John Robert Lee BCom BEdu MBA FAICD

Non-Executive Director - Age: 58

John Lee, most recently Chairman of listed Panbio Limited, is a former director and Chairman of listed companies; Online Advantage Limited and EcoAir Limited, and a director of Crescent Gold Mining Limited, Richard Oliver International Pty Ltd. and Guild Insurance Limited. Mr Lee is currently a director of TMG International Pty Limited.

Mr Lee, as a director and chairman of listed and unlisted companies has had experience in capital raisings, corporate governance, strategic reviews, in development of enhanced financial reporting procedures, industrial relations strategies and senior management succession.

Mr Lee, through his corporate consultancy Stockholder Relations, has advised clients on financial structuring, capital raising, mergers, acquisitions and disposals. Mr Lee has held various senior executive roles including Chief General Manager, Corporate Services, Woolworths Limited and General Manager, Personnel & Corporate Relations Elders IXL Limited. These roles, and experience, together with listed company governance participation, have given him an excellent base from which to offer the Company.

3.2 Corporate governance

The main corporate governance practices proposed by the Company are summarised below.

3.2.1 Board Composition

The Board will comprise both executive and non-executive Directors, initially with 3 non-executive and 2 executive.

The full Board is responsible for setting the strategic direction of Portland within the context of the aim to increase shareholder value. Its responsibilities include:

- Reviewing Portland's long term goals and strategic plans to achieve these goals.
- Reviewing and approving annual budgets and Portland's statutory reporting.
- Monitoring the effective and responsible conduct of the business.
- Ensuring that risk management practices are in place to protect shareholder value as represented by Portland's assets.
- Establishing the criteria for Board membership, reviewing its composition and identifying and nominating Directors.

3.2.2 Independent professional advice

In fulfilling their duties, the Directors may obtain independent professional advice at the Company's expense.

3.2.3 Audit Committee

An audit committee is established with at least three members and a majority of non-executive directors.

3.2.4 Remuneration Committee

A remuneration committee is to be established with at least three members and a majority of non-executive directors.

3.3 Management Team

The Portland Management team consists of:

John Green, Vice-President Sales: Former Managing Director and Head of Sales of Ebos Health, 25 years joint replacement experience.

David Edwards, Chief Financial Officer and Company Secretary: extensive experience as a senior finance executive of listed corporations in the UK. David has an honours degree in Economics and is a chartered accountant.

Roy Anlezark, Consultant Director of Marketing: former Country Director, Australia & New Zealand for Boston Scientific. Prior to that he held a US-based role as Group Marketing Manager, Director of Marketing – Cardiovascular, Inter-Continental, also former Director of Sales and Marketing for Schneider Australia.

Directors and Management

Yaron Eshel, HR and Operations. Yaron (Ronnie) has been a valued member of the Portland team for more than two years. Ronnie brought with him expertise in HR and project management strengthened through his qualifications in BSc (Psychology) and an MBA.

Ronnie has led the R&D and production components of Portland and is responsible for managing staff in quality assurance, manufacturing and regulatory affairs.

3.4 Clinical Advisory Board

Portland has a strong US presence, driven by an experienced US Clinical Advisory Board:

- **Dr Bert Thomas MD**
  Head Joint Replacement Surgery – UCLA
- **Dr David Gibson MD**
  Orthopaedics – Yale University Professor
- **Dr Louis Kwong MD**
  Director of Research and Education
  UCLA – Harbour CA
- **Dr Seth Grenwald, DPhil (Oxon)**
  President of Orthopaedic Research Laboratories, Cleveland Clinic and President Current Concepts in Joint Replacement Institute.

3.5 Employee Share Option Plan

The Directors of Portland believe that employee equity ownership provides significant benefits to shareholders through promoting increased corporate knowledge by employees, aligning employee and shareholder rewards and the increased productivity associated with such employee ownership. The Board has an employee option plan to enable employees and Directors to participate in the ownership of Portland. A copy of the Option Plan Rules is available for inspection during office hours at the registered office of the Company until the Closing Date.

Details of the plan are set out in Section 9 of the Prospectus.

Risk factors

SECTION FOUR

Risk factors

The Directors strongly recommend investors examine the contents of this Prospectus and consult their professional advisers before deciding whether to apply for the Shares and Options offered pursuant to this Prospectus. In addition, investors should be aware that there are economic and business risks associated with an investment in the Company. There are numerous widespread risks associated with investing in any form of business and with investing in the share market generally. There is also a range of specific risks associated with the Company's business, which are largely beyond the control of the Company and the Directors because of the nature of the Company's business. Therefore the securities offered pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of the securities.

While it is impossible to identify all risks, the risks and other factors which may affect the value of the Company's assets and the market value of its Shares and Options, include the following:

Risks Specific to Portland

(i) Business Risks

The earnings may be affected by a number of factors including the general commercial and economic risks faced by all businesses, including but not limited to the risk of industrial disruption, the loss of a major customer, litigation, interruption to the supply of product or its pricing and terms, the success or otherwise of any marketing and advertising campaign, an increase in interest rates and other events that unforeseeably and unpredictably could interrupt normal commercial activity.

(ii) Investment Risks

Approval will be sought for the Shares and Options in the Company offered under this Prospectus to be granted quotation by ASX. Investors should be aware that owning Shares and Options listed on ASX carries risks associated with general stock market returns as well as performance of the Company. The price at which the Shares and Options trade on ASX may be higher or lower than the Issue Price.

(iii) Marketing

Investors should be aware of the potentially long lead times involved in bringing products to market. The future success of Portland lies in its ability to get its products accepted in the international marketplace. Thus, timing represents a major risk factor in regard to Portland's marketing success overseas.

(iv) Market acceptance

The commercial success of Portland's product range will depend on several factors including the demand for more innovative products than are currently offered by competitors and the establishment of the advantages of Portland's products. There may be a reluctance by surgeons to use products they have not previously utilised.

(v) Competition

Portland's current and future potential competitors include companies with substantially greater resources. Whilst the Directors are confident about the quality, technical and cost advantages of Portland's products and proposed products, and the intellectual property protecting them, there is no assurance that it will be able to win market share from its competitors

and that its competitors will not succeed in developing products that are more effective or economic than Portland's products. Competitive factors consist primarily of product features and design, innovation, service, the ability to maintain new product flow, relationships with key orthopaedic surgeons and hospitals, strength of distribution network and price.

(vi) Risk of Product Liability and Uninsured Risk

Portland's business exposes it to potential product liability risks that are inherent in the research and development, manufacturing, marketing and use of its products. It will be necessary for Portland to secure sufficient levels of insurance to cover potential product liability risks in the course of maintaining its business.

There can be no assurance that adequate or necessary insurance coverage will be available at an acceptable cost or in sufficient quantum, if at all, or that product liability or other claims would not materially and adversely affect the business or financial condition of Portland.

(vii) Need for research and development; risk of rapid technology change

The orthopaedic implant industry is subject to rapid technological change and in order for the Company to remain competitive and to retain market share, it must continually develop new products as well as improve its existing ones. Accordingly, the Company must devote substantial resources to research and development. There can be no assurance that the Company will be successful in developing competitive new products and/or improving existing products so that such products remain competitive and avoid obsolescence. There can be no assurance that any or all of the Company's research and development projects for new products will result in commercial products, or that, if such products are successfully designed and launched, they will be profitable.

(viii) Funding

While Portland believes it will have sufficient funds after completion of the Issue to meet all of its growth and capital requirements as stated in this Prospectus, some opportunities may require that it raise additional capital from equity or debt sources, or seek other sources of funds. There can be no assurance that Portland will be able to raise such capital or access funds on favourable terms or at all. If Portland is unable to obtain such additional capital, it may not be able to exploit such opportunities or bring products to market in accordance with the Company's expected timetable or budgeted cost.

(ix) Patents

The costs of enforcing existing and potential patent rights against infringers or defending infringement charges by other patent holders may be significant. In addition, no assurances can be given that the patent applications currently pending by Portland will be granted. Further, all patents have a limited life and some of Portland's patents may expire before Portland is able to fully exploit the exclusivity arising from these patents. In addition, the granting of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop technology to avoid the patented technology. Thus the Directors of Portland must warn potential investors of the vagaries of patents pending and patents currently granted on Portland products. For further information please refer to Section 8 of this Prospectus.

Risk factors

(x) Effect of Government Regulation

The development, testing, labeling, distribution, marketing and manufacture of medical devices, including reconstructive implant products, are subject to extensive and rigorous regulation in the United States and certain other countries. The primary regulatory authority in the United States is the United States Food and Drug Administration (FDA). The process of obtaining approval of clearance from the FDA and other regulators for the sale and marketing of new products is time-consuming, expensive and uncertain. In addition, regulatory approval or clearance of products can subsequently be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial marketing. Regulators have the power to ban products manufactured or distributed by the Company as well as to require the recall, repair, or replacement of or refund for such products. A significant recall of one or more of its products could have a material adverse effect on the Company.

(xi) Uncertainty Relating To Third-Party Reimbursement

Health care providers, including hospitals and physicians, that purchase the Company's products, generally rely on third-party payers, particularly private health insurance plans, to pay for all or a portion of the cost of joint reconstructive procedures, including the cost of the Company's products utilised in such procedures. There can be no assurance that third-party reimbursement for the Company's products will continue to be available.

(xii) Need To Maintain Substantial Inventory Levels

Because orthopaedic surgeons require immediate access to a broad range of sizes and types of reconstructive implant products, the Company is required to maintain substantial levels of inventory. The maintenance of relatively high levels of inventory requires the Company to incur significant expenditures of its resources. There can be no assurance that the Company will be able to maintain the levels of inventory of such products necessary to support the expansion of its business. The failure by the Company to maintain required levels of inventory could have a material adverse effect on the Company's expansion.

(xiii) Loss of Key Management

The Company's performance is substantially dependent on its senior management and key technical personnel to continue to develop and manage the Company's products and services. The loss of key management could have a material adverse effect on the business and consequently its financial performance.

It is noted that key personnel in senior positions have entered into formal employment contracts with the Company (see Section 9.5.6 for details).

The future success of the Company is also dependent on its ability to attract and retain highly qualified technical and managerial personnel. The inability to attract such personnel may result in a material adverse effect on the business.

(xiv) Management of Growth

Portland's anticipated growth may place a significant strain on its managerial, operational and financial resources. To manage its potential

growth, Portland must further develop its operational and financial systems. There can be no assurance that Portland will be able to effectively manage the expansion of its operations, that its facilities, systems, procedures or controls will be adequate to support its operations or that it will be able to achieve the expansion necessary to fully exploit the market opportunities for the Portland systems. Any inability to manage growth effectively could have a material adverse effect on Portland's business, results of operations and financial condition.

(xv) Customers Loss or Default

Default by or disputes with major clients could create difficulties and cause a reduction in earnings or cash flow of Portland. Disputes with third parties may also indirectly impact upon Portland.

(xvi) Foreign Currency Exchange Rate Fluctuations

Changes in foreign currency exchange rates can affect the value of Portland's assets and liabilities, revenues and costs. Portland may in appropriate circumstances in the future, use hedging transactions to reduce its exposure to these risks. The results of Portland may therefore be affected as a result of exchange rate fluctuations.

(xvi) Changes in Government Policies

Changes in law, government policies or other factors may adversely affect the earnings of the Company.

(xviii) Taxation

Portland's business could be materially affected by changes to federal, state and local government policies and tax regimes.

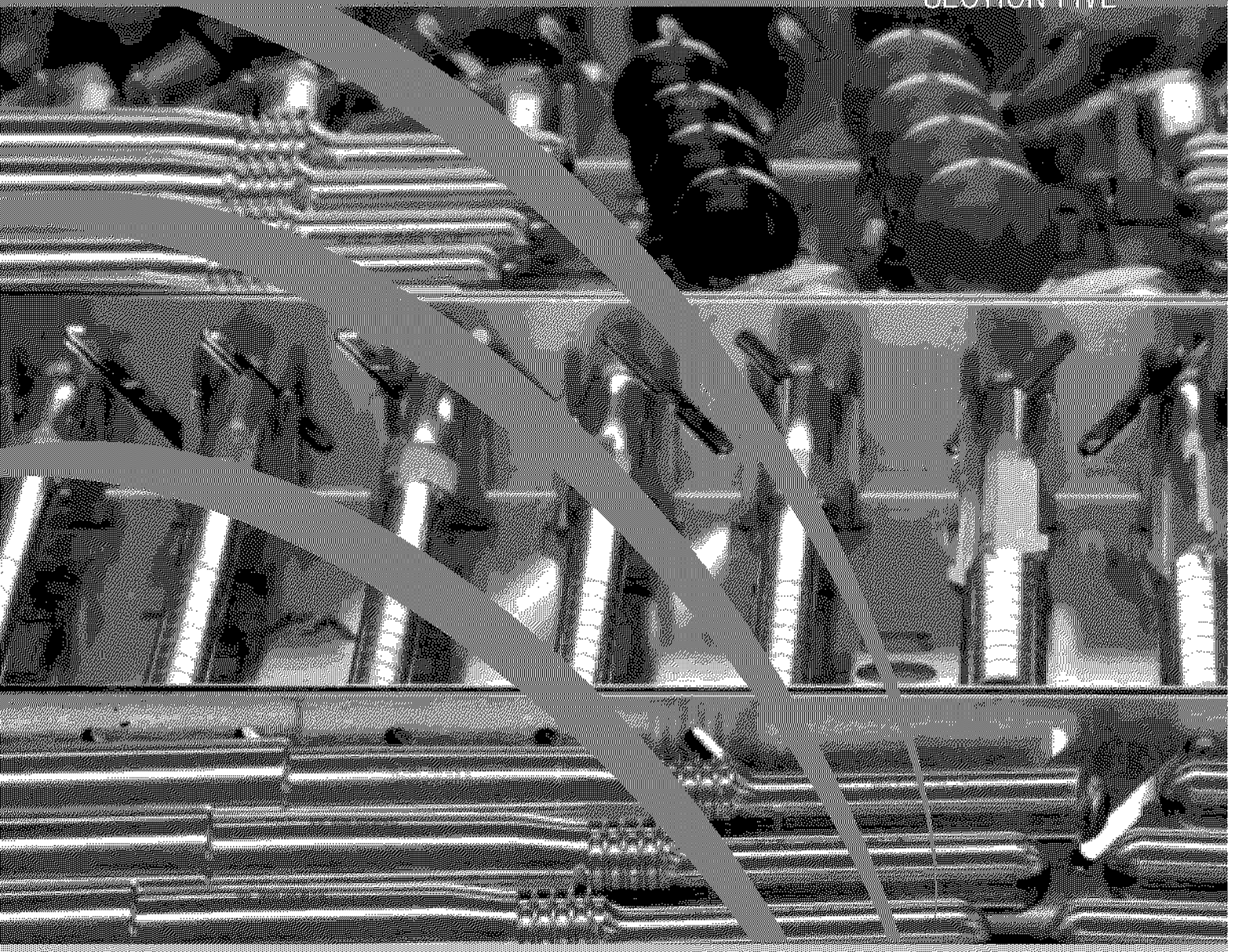
General Investment Risks

There is a risk that the price of Shares and Options and returns to shareholders may be affected by changes in:

- Local and world economic conditions.
- Interest rates.
- Levels of tax, taxation law and accounting practice.
- Government legislation or intervention.
- Inflation or inflationary expectations.
- Natural disasters, social upheaval or war in Australia or overseas.

Financial Information

SECTION FIVE



PORTLAND ORTHOPAEDICS

Financial Information

Introduction

The financial information presented in this Section should be read in conjunction with the risk factors in Section 4, and the Independent Accountants' Report in Section 6.

Portland's audited consolidated Statements of Financial Performance and audited consolidated Statement of Cashflows for each of the years ended 30 June 2003, 2004 and 2005 respectively and the audited consolidated Statement of Financial Position as at 30 June 2005 and the pro forma consolidated Statement of Financial Position as at 30 June 2005 are summarised on the following pages.

The audited Statements of Financial Performance for each of the years ended 30 June 2003, 2004 and 2005 respectively do not include any costs associated with operating as a publicly listed company.

5.2 Selected Financial Data

The following tables set out selected key financial data for Portland and its controlled entities for the years ended 30 June 2003, 2004 and 2005 respectively. The following information should be read in conjunction with the related notes within this Section and the Historical and Pro forma Consolidated Statement of Financial Position as at 30 June 2005 in Section 5.2.2.

The Independent Accountant's Report on the historical financial information is set out in Section 6.

5.2.1 Consolidated Historical Statements of Financial Performance

	Actual for the year ended 30 June 2003 Audited (i) $	Actual for the year ended 30 June 2004 Audited (ii) $	Actual for the year ended 30 June 2005 Audited (iii) $
Revenue from ordinary activities			
Revenue from ordinary activities			
Sale of goods	2,132,455	1,916,087	2,572,413
Government grants	88,377	772,800	410,772
R&D tax concession	-	-	409,700
Sale of non-current assets	10,909	-	-
Other	33,291	17,500	26,251
	2,265,032	**2,706,387**	**3,419,136**
EBITDA (iv)	**(2,921,617)**	**(3,733,461)**	**(2,490,891)**
Depreciation expense	(254,414)	(319,753)	(340,497)
Amortisation expense	(7,657)	(18,709)	(35,212)
EBIT (v)	**(3,183,688)**	**(4,071,922)**	**(2,866,600)**
Net interest expense	(37,647)	20,806	(127,041)
Loss before income tax expense	**(3,221,335)**	**(4,051,116)**	**(2,993,641)**
Income tax expense	-	-	-
Loss after income tax expense	**(3,221,335)**	**(4,051,116)**	**(2,993,641)**
Loss attributable to minority interest	39,000	-	-
Loss attributable to members of Portland Orthopaedics Limited	**(3,182,335)**	**(4,051,116)**	**(2,993,641)**

i) The historical financial information in respect of the year ended 30 June 2003 has been extracted from the consolidated financial statements of the Company audited by PricewaterhouseCoopers who issued an unqualified audit opinion on the financial statements.

ii) The historical financial information in respect of the year ended 30 June 2004 has been extracted from the consolidated financial statements of the Company audited by PricewaterhouseCoopers. The audit opinion contained an inherent uncertainty relating to the Company continuing as a going concern.

iii) The historical financial information in respect of the year ended 30 June 2005 has been extracted from the consolidated financial statements of the Company audited by Grant Thornton NSW. The audit opinion contained an inherent uncertainty relating to the Company continuing as a going concern which is dependent upon the successful completion of the Issue or an alternative fund raising event. In the opinion of the Directors this inherent uncertainty will be eliminated on completion of the Issue as outlined in this Prospectus.

iv) "EBITDA" – Earnings before Interest, Tax, Depreciation and Amortisation.

v) "EBIT" – Earnings before Interest and Tax.

Financial Information

Revenue

(AUD)	Actual for the year ended 30 June 2003 Audited $	Actual for the year ended 30 June 2004 Audited $	Actual for the year ended 30 June 2005 Audited $
Revenue from operating activities			
Sale of medical devices	1,849,396	1,814,960	2,540,762
Contract engineering	283,059	101,127	31,651
	2,132,455	**1,916,087**	**2,572,413**
Government grants	88,377	772,800	410,772
R&D Tax Concession	-	-	409,700
Other revenue	44,200	17,500	26,251
Revenue from ordinary activities	**2,265,032**	**2,706,387**	**3,419,136**

	$	$	$
Revenue by geographical segment			
Australia	906,254	535,128	1,218,182
United States	1,118,255	1,376,888	1,222,004
Rest of the World	107,946	4,071	132,227
Revenue from operating activities	**2,132,455**	**1,916,087**	**2,572,413**

Comparison of 2004 to 2003

Revenue from ordinary activities increased by $441,355 (19%) to $2,706,387.

The increase in revenue is analysed as follows:

- Unit sales in the United States increased by 59% in 2004 resulting in an increase in revenue of US$328,727 to US$983,018. As a result of an increase in the Australian dollar relative to the United States dollar in 2004 this increase in revenue translated to an increase in Australian dollars from $1,118,255 to $1,376,888 an increase of 23%.
- This increase in revenue in the United States was countered by a reduction in sales to stocking distributors in Australia and Israel resulting in an overall decrease in revenue from the sale of medical devices of $34,436 or 2%. Until 30 June 2004 sales in Australia and Israel were made through stocking distributors who sell the product to the end user. Sales to the stocking distributors fluctuate according to the distributors inventory of various sizes of the product and do not necessarily correlate to unit sales.
- The Company does not pursue contract engineering as a core business operation and performs external contractual work, provided capacity exists within the manufacturing facility. There was significant activity in 2003 as a result of manufacturing machine parts being used in the treatment of the SARS virus. This contractual work did not continue in 2004 and as a result revenues from contract engineering decreased by $181,932 to $101,127.

Comparison of 2005 to 2004

Revenue from ordinary activities for the year ended 30 June 2005 increased by 26% to $3,419,136.

The increase in revenue is analysed as follows:

- On 1 July 2004 the Company changed its distribution strategy from a stocking distribution arrangement to a consignment distribution agreement employing direct sales staff. The purpose of the change in strategy was to develop a more direct relationship with the surgeon user. Unit sales in Australia in 2005 were consistent with 2004 as the Company transitioned from the stocking distribution arrangement, however as a result of increased sales prices by selling directly to the customer, revenues increased by $631,152.
- In July 2004 the Company gained exclusive distribution rights for the MicroAire CTRS System, a medical device used for the treatment of Carpal Tunnel Release Syndrome. The Company achieved sales of $121,378 in its first year as a distributor.

EBITDA

Comparison of 2004 to 2003

The loss before interest, tax, depreciation and amortisation (EBITDA) increased by 28% from $2,921,617 to $3,733,461. The Company's costs increased by $1,008,866 to $5,497,647. This increase in costs was primarily attributable to:

- The Company increased its research and development activity by recruiting experienced engineering staff and developing prototypes of the Equator Plus cup and the Portland Knee. This additional activity resulted in an increase in R&D expenditure of $572,701 to $682,832.
- The Company incurred exceptional costs in 2004 as a result of fund raising activities resulting in an increase in professional fees of $443,121.

Comparison of 2005 to 2004

The EBITDA loss decreased by 33% from $3,733,461 in 2004 to $2,490,891 in 2005. In addition to the increase in revenue described above, the reduction in the loss in 2005 was a result of a decrease in overall costs of $345,290 to $5,152,357 in 2005. The reduction in costs arose primarily as a result of:

- The strengthening of the Australian dollar relative to the US dollar in 2005 contributed to a decrease in US payroll costs resulting in a decrease in employee costs of $215,840.
- Professional fees decreased in 2005 as a result of the exceptional non-recurring fees outlined above which were incurred in 2004 relating to external fund raising activities.

5.2.2 Consolidated Historical and Pro forma Statements of Financial Position

The following table sets out the Pro forma Statement of Financial Position which has been derived from the Audited Consolidated Statement of Financial Position as at 30 June 2005 adjusted to reflect the proposed new capital structure that will be in place on completion of the transactions contemplated by this Prospectus, as if they were in place as at 30 June 2005.

Financial Information

Consolidated Historical and Pro Forma Statement of Financial Position

	Notes	Actual as at 30 June 2005 Audited $	Minimum Pro Forma as at 30 June 2005 Unaudited $	Maximum Pro Forma as at 30 June 2005 Unaudited $
Current assets				
Cash assets	2	559,037	4,603,037	5,548,037
Receivables	3	355,601	355,601	355,601
Inventories	4	2,387,162	2,387,162	2,387,162
Other	5	65,619	65,619	65,619
Total current assets		**3,367,419**	**7,411,419**	**8,356,419**
Non-current assets				
Property, plant and equipment	6	936,353	936,353	936,353
Intangible assets	7	2,446,739	2,446,739	2,446,739
Total non-current assets		**3,383,092**	**3,383,092**	**3,383,092**
Total assets		**6,750,511**	**10,794,511**	**11,739,511**
Current liabilities				
Payables	8	908,482	908,482	908,482
Provisions	9	173,491	173,491	173,491
Interest bearing liabilities	10	168,192	168,192	168,192
Total current liabilities		**1,250,165**	**1,250,165**	**1,250,165**
Non-current liabilities				
Interest bearing liabilities	10	249,398	249,398	249,398
Non current liabilities other	11	50,000	-	-
Total non-current liabilities		**299,398**	**249,398**	**249,398**
Total liabilities		**1,549,563**	**1,499,563**	**1,499,563**
Net assets		**5,200,948**	**9,294,948**	**10,239,948**
Equity				
Contributed equity	12	16,789,902	20,883,902	21,828,902
Accumulated losses		(11,588,954)	(11,588,954)	(11,588,954)
Total equity		**5,200,948**	**9,294,948**	**10,239,948**

Financial Information

Pro Forma adjustments

The Pro Forma Consolidated Statement of Financial Position has been prepared on the basis that the following significant transactions had occurred as at 30 June 2005.

Pro Forma adjustments

Minimum subscription

- The Company issued 857,142 new preference shares resulting in proceeds of $750,000 between the 5 August 2005 and 25 October 2005.
- Repayment of a Related Party loan due to the Sekel Superannuation Fund amounting to $50,000.
- The issue of 16 million new ordinary shares and 4 million attaching Options and receipt of proceeds of $4 million.
- Costs of the Issue amounting to $656,000.

Maximum subscription

- The Company issued 857,142 new preference shares resulting in proceeds of $750,000 between the 5 August 2005 and 25 October 2005.
- Repayment of a Related Party loan due to the Sekel Superannuation Fund amounting to $50,000.
- The issue of 20 million new ordinary shares and 5 million attaching Options and receipt of proceeds of $5 million.
- Costs of the Issue amounting to $711,000.

5.2.3 Consolidated Historical Statements of Cash Flows

	Actual for the year ended 30 June 2003 Audited $	Actual for the year ended 30 June 2004 Audited $	Actual for the year ended 30 June 2005 Audited $
Cashflows from operating activities			
Receipts from customers (inclusive of GST)	2,004,256	2,364,313	2,785,195
Payments to suppliers and employees (inclusive of GST)	(4,791,209)	(6,417,138)	(7,268,687)
Borrowing costs	(59,958)	(37,237)	(16,587)
Interest received	22,311	58,028	18,547
Interest paid	-	-	(34,121)
Other Revenue	121,668	790,300	841,951
Net cash outflow from operating activities	**(2,702,932)**	**(3,241,734)**	**(3,673,702)**
Cash flows from investing activities			
Payments for property, plant and equipment	(53,102)	(176,098)	(18,310)
Proceeds from sale of property, plant and equipment	10,909	-	-
Payments for increased share in controlled entity	(78,096)	-	-
Payments for patents and trademarks	(46,974)	(81,378)	(100,387)
Net cash outflow from investing activities	**(167,263)**	**(257,476)**	**(118,697)**
Cash flows from financing activities			
Loans to related parties	-	(4,286)	-
Proceeds from issue of shares	4,500,000	2,500,000	3,850,000
Proceed from issue of convertible notes	-	750,000	-
Share transaction costs	-	(40,000)	(58,796)
Repayment of borrowings	(642,375)	(118,684)	(121,509)
Net cash inflows from financing activities	**3,857,625**	**3,087,030**	**3,669,695**
Net increase/ (decrease) in cash held	**987,430**	**(412,180)**	**(122,704)**
Cash at the beginning of the financial year	106,491	1,093,921	681,741
Cash the end of the financial year	**1,093,921**	**681,741**	**559,037**

Reconciliation of loss from ordinary activities after income tax to net cash outflow from operating activities:

	Actual for the year ended 30 June 2003 Audited $	Actual for the year ended 30 June 2004 Audited $	Actual for the year ended 30 June 2005 Audited $
Operating loss after tax and outside equity interest	(3,182,335)	(4,051,116)	(2,993,641)
Depreciation expense	254,414	319,753	340,497
Amortisation expense	7,657	18,709	35,212
(Increase)/ Decrease in trade and other debtors	(239,903)	12,932	62,683
(Decrease)/ Increase in inventories	186,244	(746,832)	(75,129)
Increase in trade and other creditors	387,374	1,024,467	(1,099,557)
Increase/(Decrease) in provision for employee entitlements	(23,802)	172,368	(10,906)
Write down of obsolete assets	90,000	7,985	-
Interest paid satisfied by the issue of preference shares	-	-	67,139
Loss on disposal of property, plant and equipment	47	-	-
Decrease in outside equity	(182,628)	-	-
Cash outflow from operating activities	**(2,702,932)**	**(3,241,734)**	**(3,673,702)**

5.3 Notes to the Financial Information

Note 1. Summary of key accounting policies

The selected financial data in Section 5 has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group Consensus Views. It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting polices adopted are consistent for all of the previous years.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Portland as at 30 June 2005 and the results of all entities for the year then ended. Portland and its controlled entities are together referred to in this financial information as the Consolidated Entity. The effects of all transactions within the Consolidated Entity have been eliminated in full.

(b) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Foreign Currency Translation

i) Transactions and balances

Transactions denominated in a foreign currency are converted into Australian currency at the exchange rate at the date of the transaction. At balance date, foreign currency payables and receivables are translated to Australian currency at exchange rates current at that date. Resultant exchange gains and losses are brought to account in determining the profit or loss for the year.

ii) Functional and presentation currency

The functional currency of all entities is measured using the currency of the primary economic environment in which that entity operates. The Consolidated Financial Statements are presented in Australian dollars which is the parent entity's functional and presentational currency.

iii) Foreign Operations

The activities undertaken in United States of America (USA) are integrated with the related Australian activities. The assets, liabilities and equity of the USA operations are translated into Australian currency using the temporal method of translation whereby non-monetary assets and liabilities and equity items, including revenue and expenses are translated using historic rates of exchange, and monetary assets and liabilities are translated using rates of exchange current at the reporting date. Any resultant exchange differences are recorded as revenue or expense.

(d) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their fair value as at the acquisition date based on the best available evidence of the price at which the instruments could be exchanged between knowledgeable, willing parties in an arm's length transaction. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

(e) Revenue Recognition

Revenue is recognised as follows:

(i) Stocking distributor

A sale is recorded when goods have been passed to the distributor pursuant to a sales order and the associated risks have passed to the carrier or distributor.

(ii) Consignment distributor

Revenue is recognised on completion of the surgical procedure.

(iii) Grant income

Grant income is recognised during the year in which the income is received.

(f) Receivables

Trade accounts receivable are generally settled within 60 days and are carried at amounts due. Collectibility of trade debtors is reviewed on an ongoing basis. A provision is raised for any doubtful debt based on a review of all outstanding amounts at the balance sheet date. Bad debts are written off in the period in which they are identified.

(g) Inventories

Finished goods, raw materials and work in progress are stated at the lower of cost and net realisable value. Cost comprises the cost of purchases including costs of bringing the inventories to location. In the case of manufactured goods, direct labour costs,

variable overhead and a portion of fixed overhead costs allocated on the basis of normal operating capacity are included.

(h) Investments

Investments in associates are accounted for using the equity method. Under this method, the Company's share of the post-acquisition profits or losses of associates is recognised in the statement of financial performance, and its share of post-acquisition movements in reserves is recognised in reserves. Controlled entities are accounted for in the consolidated financial statements as set out in note (a).

(i) Depreciation of property, plant and equipment

Property, plant and equipment, are depreciated over their expected useful lives, using the reducing balance method.

The expected useful lives are as follows:

Manufacturing Equipment	2-6 years
Motor Vehicles	4 years
Office Equipment	2-5 years
Fixtures and Fittings	2-5 years

Instruments sets are depreciated on a straight line basis. The expected useful life of instrument sets is between 2 and 5 years.

(j) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current -assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

Lease assets are amortised in accordance with the expected useful life of the asset in accordance with note (i) above.

Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(k) Goodwill

Goodwill purchased is shown in the financial statements at cost less amounts written off. Goodwill is amortised on a straight-line basis over the period of expected benefit, which has been assessed as 20 years.

(l) Patents and trademarks

Significant costs associated with patents are deferred and amortised on a straight-line basis over the periods of their expected benefit, which vary from 3 to 5 years.

Trademarks and intellectual property are valued at cost. The Directors have considered the legal and commercial factors likely to impact on the useful lives of the trademarks and intellectual property and consider that they have infinite lives. Accordingly, no amortisation has been provided against the carrying amount.

(m) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year, which remain unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(n) Interest bearing liabilities

Loans are carried at their principal amounts, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

On issue of convertible notes, the fair value of the liability component, being the obligation to make future payments of principal and interest to note holders, is calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the fair value of the conversion option, is included in equity as other equity securities with no recognition of any change in the value of the option in subsequent periods.

(o) Maintenance and repairs

The consolidated entity's plant is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated. Other routine operating maintenance, repair and minor renewal costs are also charged as expenses as incurred.

(p) Web site costs

Costs in relation to web sites controlled by the Company are charged, as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over their period of expected benefit.

(q) Employee Benefits

i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

iii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax and superannuation, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(r) Borrowings

Borrowings are recorded at their principal amounts and interest is accrued and recorded as part of other creditors over the period it becomes due.

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest on bank overdrafts and on related party loans.

Financial Information

(s) Cash

For the purpose of the statements of cash flows, cash includes deposits at call, which are readily convertible to cash on hand and are subject to insignificant risk of changes in value, net of bank overdrafts.

(t) Recoverable amount of non-current assets

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

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period, which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a risk-adjusted discount rate.

(u) Research and development

Costs incurred on research and development are charged as expenses in the period in which they are incurred.

(v) Non-current assets constructed by the consolidated entity

The cost of non-current assets constructed by the Consolidated Entity includes the cost of all materials used in construction, direct labour and an appropriate proportion of directly attributable variable and fixed overheads.

(w) Adoption of Australian Equivalents to International Financial Reporting Standards

The Company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (A-IFRS) effective for financial years commencing 1 January 2005. The adoption of A-IFRS will be reflected in the Consolidated Entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of A-IFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the A-IFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The Company's management, in consultation with its auditors, has assessed the significance of these changes and are preparing for their implementation. The Audit Committee will oversee and manage the Company's transition to A-IFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key differences in the Company's accounting policies on conversion to A-IFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard setters to the current A-IFRS or interpretation of the A-IFRS requirements changes from the continuing work of the Company's audit committee.

Financial Information

Impairment of Assets

The Company currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy. However, no impairments have been identified on first time adoption.

Goodwill on Consolidation

Under AASB 3: Business Combinations, goodwill is to be capitalised in the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is to be prohibited. Current accounting policy of the entity is to amortise goodwill on a straight line basis over the period of 20 years. The Company has elected under AASB 1: Business Combinations, First Time Adoption of Australian Equivalents to International Financial Reporting Standards not to restate any prior business acquisitions, as such on opening balances, the net book value of goodwill will be the company's deemed costs. For a quantification of the financial impact, refer to the reconciliation below.

Income Tax

Currently, the Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 1020: Income Taxes, the Company will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit. The Company has not been impacted in respect of income tax on first time adoption of A-IFRS.

Share Based Remuneration

Currently, Options over unissued shares provided to executives as part of their remuneration are not expensed through the statement of financial performance. With the introduction of AASB 2: Share Based Payment, the economic entity will be required to expense the fair value of the Options granted as remuneration over the period that the Options vest. For a quantification of the financial impact, refer to the reconciliation below.

The financial impact of the adoption of A-IFRS, on the consolidated financial statements of the Company for the year ended 30 June 2005 will be as follows.

Reconciliation of net profit	**Consolidated Year ended 30 June 2005**
Net loss reported under existing Australian Accounting Standards	(2,993,641)
Transitional adjustments:	
Expense employee benefits	(3,945)
Amortisation of goodwill on consolidation	35,212
Total transitional adjustments	**31,267**
Adjusted net loss under A-IFRS	**(2,962,374)**

Reconciliation of equity	**Consolidated as at 30 June 2005**
Equity reported under existing Australian Accounting Standards	5,200,948
Decrease in current year loss due to transitional adjustments to A-IFRS	31,267
Increase in associated equity remuneration reserve	3,945
Adjusted equity under A-IFRS	**5,236,160**

	Pro Forma as at 30 June 2005 Minimum $	Pro Forma as at 30 June 2005 Maximum $
Note 2. Current Assets - Cash assets		
Cash at bank and on hand	559,037	559,037
Issue of preference shares between August 5 2005 and 25 October 2005	750,000	750,000
Repayment of Related Party loan	(50,000)	(50,000)
Cash receipts	4,000,000	5,000,000
Costs of the Issue	(656,000)	(711,000)
Pro forma cash at bank and on hand	**4,603,037**	**5,548,037**

	Actual as at 30 June 2005 Audited $
Note 3. Current Assets - Receivables	
Trade debtors	335,195
Other debtors	16,284
Loans to Directors	4,122
	355,601

	Actual as at 30 June 2005 Audited $
Note 4. Current Assets - Inventories	
Raw Materials (at cost)	93,126
Work in progress (at cost)	142,556
Finished goods (at cost)	2,151,480
	2,387,162

Actual as at	30 June 2005 Audited $
Note 5. Current Assets - Other	
Prepayments	65,619
	65,619

	Actual as at 30 June 2005 Audited $
Note 6. Non-current assets - Property, Plant and Equipment	
Instruments	
At cost	638,886
Less: Accumulated depreciation	(402,237)
	236,649
Office Equipment	
At cost	168,971
Less: Accumulated depreciation	(108,517)
	60,454
Furniture & Fittings	
At cost	54,623
Less: Accumulated depreciation	(31,726)
	22,897
Motor Vehicles	
At cost	168,681
Less: Accumulated depreciation	(107,394)
	61,287
Manufacturing Equipment	
At cost	1,006,766
Less: Accumulated depreciation	(451,700)
	555,066
Total written down amount	**936,353**

Financial Information

	Actual as at 30 June 2005 Audited $
Note 7. Non-current assets - Intangible assets	
Goodwill	110,368
Less: Accumulated amortisation	(12,000)
	98,368
Patents	193,243
Less: Accumulated amortisation	(54,547)
	138,696
Trademarks/Intellectual Property	2,209,675
Total written down amount	**2,446,739**

	Actual as at 30 June 2005 Audited $
Note 8 Current liabilities - Payables	
Trade creditors	451,565
Other creditors	456,917
	908,482

	Actual as at 30 June 2005 Audited $
Note 9. Liabilities - Provisions	
Employee entitlements - current	147,866
Employee entitlements - non-current	25,625
	173,491

	Actual as at 30 June 2005 Audited $
Note 10. Liabilities - Interest bearing liabilities	
Lease Liabilities - less than one year	168,192
Lease Liabilities - greater than one year	249,398
	417,590

	Pro Forma as at 30 June 2005 Minimum $	Pro Forma as at 30 June 2005 Maximum $
Note 11. Non-Current Liabilities - Other		
Loans from related parties (see note 13)	50,000	50,000
Loan repaid	(50,000)	(50,000)
Pro Forma non current liabilities - other	-	-

	Minimum Pro Forma as at 30 June 2005 Shares	Minimum Pro Forma as at 30 June 2005 $	Maximum Pro Forma as at 30 June 2005 Shares	Maximum Pro Forma as at 30 June 2005 $
Note 12. Contributed Equity				
(a) Ordinary Shares - Fully Paid				
At 30 June 2005	17,000,000	2,227,010	17,000,000	2,227,010
Share consolidation	(16,988,800)	-	(16,988,800)	-
Conversion of preference shares	111,988,800	15,312,892	111,988,800	15,312,892
Shares issued under the offer	16,000,000	4,000,000	20,000,000	5,000,000
Costs of the offer	-	(656,000)	-	(711,000)
Pro Forma at 30 June 2005	**128,000,000**	**20,883,902**	**132,000,000**	**21,828,902**
(b) Preference Shares - Fully Paid				
At 30 June 2005	18,191,016	14,562,892	18,191,016	14,562,892
Issued between 5 August and 25 October 2005	857,142	750,000	857,142	750,000
Conversion of preference shares	(19,048,158)	(15,312,892)	(19,048,158)	(15,312,892)
Pro Forma at 30 June 2005	-	-	-	-

(c) Options

The Company has issued 767,901 Options under its Executive and Staff Option Plan as at 30 June 2005. In addition 5,000,000 Options are to be issued to the Founders and employees (refer section 9.4.3).

Options to be issued under the Prospectus are set out in Section 1.3.

	Actual as at 30 June 2005 Audited $
Note 13. Related parties	
Unsecured loan to D F Sekel	4,122
Unsecured loan from Sekel Superannuation Fund (see note 11)	50,000

	Country of incorporation	Class of shares	Equity holding 2005
Note 14. Investments in controlled entities			
Portland Orthopaedics Inc	United States	Ordinary	100%
Portland Square Pty Limited	Australia	Ordinary	100%
Portland Square Manufacturing Pty Limited	Australia	Ordinary	100%
Portland Orthopaedics (Aust.) Pty Limited	Australia	Ordinary	100%
Vimek Pty Limited	Australia	Ordinary	46%
Portland Orthopaedics (UK)Limited	United Kingdom	Ordinary	100%
Entities controlled by Portland Square Manufacturing Pty Limited			
Vimek Pty Limited	Australia	Ordinary	54%

	Actual as at 30 June 2005 Audited $
Note 15. Commitments for Expenditure	
Lease Commitments	
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities payable:	
Within one year	113,811
Later than one year but not later than 5 years	206,019
	319,830
Representing	
Non-cancellable operating leases	236,124
Future finance charges on finance leases	83,706
	319,830
Operating Leases	
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	
Within one year	
Later than one year but not later than 5 years	78,708
Later than 5 years	157,416
Commitments not recognised in the financial statements	**236,124**
Finance leases	
Commitments in relation to finance leases are payable as follows:	
Within one year	
Later than one year but not later than 5 years	203,292
Later than 5 years	298,009
Minimum lease payments	501,301
Less: future finance charges	83,706
Total lease liability	**417,595**
Current (Note 10)	168,192
Non-Current (Note 10)	249,398
	417,590

Note 16. Contingent liabilities

Government grants

To date, the Consolidated Entity has received various grants from the Federal and State Government to assist on a dollar for dollar basis with the commercialisation of new products and to also assist with the funding of specific projects. There are certain circumstances in accordance with the grant deed that certain amounts of these grants, together with interest, may be repayable. These circumstances include the project not being commercialised within its prescribed timeframe, the Company breaching the agreement, or an insolvency event occurring. The Directors consider these events extremely unlikely. Total grants received for the year to 30 June 2005 were $410,772 (2004: $772,800). Please refer to Section 9.5.4 for further details.

Independent Accountant's Report

Grant Thornton Corporate Finance

Grant Thornton

The Directors
Portland Orthopaedics Limited
Unit 3
44 McCauley Street
Matraville NSW 2036

1 November 2005

Dear Directors

INDEPENDENT ACCOUNTANT'S REPORT ON AUDITED HISTORICAL FINANCIAL INFORMATION

1. Introduction

We have prepared this Independent Accountant's Report ("report") on the audited historical consolidated financial information of Portland Orthopaedics Limited ("Portland" or "the Company") for inclusion in a prospectus to be dated on or about 1 November 2005 ("the Prospectus") relating to the issue of between 16,000,000 and 20,000,000 new ordinary shares at an issue price of $0.25 per share and between 4,000,000 and 5,000,000 attaching options to raise between $4 million and $5 million ("the Offer").

The Company proposes to apply for admission to the Official List of the Australian Stock Exchange Limited ("ASX").

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

2. Scope

You have requested Grant Thornton Corporate (NSW) Pty Limited ("Grant Thornton Corporate Finance") to prepare a report covering the following information:

(a) The audited historical financial performance of the Company for the years ended 30 June 2003, 30 June 2004 and 30 June 2005 respectively;

(b) The audited historical cash flow statement of the Company for the years ended 30 June 2003, 30 June 2004 and 30 June 2005 respectively;

(c) The audited consolidated statement of financial position of the Company at 30 June 2005; and

(d) Pro-forma consolidated statement of financial position of the Company at 30 June 2005, which assumes completion of the contemplated transactions described in the Prospectus ("the pro forma transactions").

(collectively referred to as "the historical financial information")

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T +61 2 8297 2400
F +61 2 9299 4445
E info@gtnsw.com.au
W www.grantthornton.com.au

Grant Thornton Corporate (NSW) Pty Ltd
ABN 59 003 265 987

Holder of Australian Financial Services Licence No: 247140

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Member of Grant Thornton Association Inc.
Member of Grant Thornton International

Independent Accountant's Report

Grant Thornton

The historical financial information set out in Section 5 of the Prospectus has been extracted from the audited consolidated financial statements of the Company for the years ended 30 June 2003, 30 June 2004 and 30 June 2005 respectively. The Directors have presented the historical financial information in a format consistent with and in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements (but not all disclosure requirements) and accounting policies adopted by the Company disclosed in Section 5 of the Prospectus.

The Directors have prepared and are responsible for the historical and pro-forma financial information, including determination of the adjustments as set out in Section 5 of the Prospectus in accordance with Australian Generally Accepted Accounting Principles ("AGAAP") and Australian Equivalents to International Financial Reporting Standards ("AIFRS").

In accordance with the terms of our engagement, this report does not address the future prospects or forecasts of the Company, nor risks associated with an investment in the Company.

We disclaim any responsibility for any reliance on this Report or on the financial information to which it relates for any purpose other than for which it was prepared. This Report should be read in conjunction with the full Prospectus.

PricewaterhouseCoopers has audited the financial report of Portland for the years ended 30 June 2003 and 30 June 2004 respectively. The audit opinion issued in respect of the year ended 30 June 2004 contained an inherent uncertainty relating to Portland continuing as a going concern.

Grant Thornton NSW has audited the financial report of Portland for the year ended 30 June 2005. The audit opinion was unqualified but contained an inherent uncertainty relating to Portland continuing as a going concern dependent upon the successful completion of the Offer outlined in the Prospectus or an alternative fundraising event.

2.1 Review of historical financial information

We have conducted an independent review of the historical financial information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that the historical financial information is not presented fairly in accordance with the measurement and recognition requirements (but not all disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements.

We have conducted our review of the historical financial information in accordance with Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports" which has been limited to analytical procedures applied to the financial data, enquiry of Directors and management and certain limited verification procedures.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit on the historical financial information and, accordingly, we do not express an audit opinion on the pro-forma historical financial information.

Grant Thornton

2.2 Review of pro forma statement of financial position

We have conducted an independent review of the pro-forma consolidated statement of financial position of the Company at 30 June 2005 in accordance with Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports" in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that the pro-forma consolidated statement of financial position of the Company at 30 June 2005 is not presented fairly in accordance with the measurement and recognition requirements (but not all disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro-forma transactions set out in Section 5 of the Prospectus had occurred at 30 June 2005.

Our review has been limited to the reading of relevant contracts and other appropriate legal documents, analytical procedures applied to the financial data and enquiry of Directors and management. We have also assessed whether the pro-forma transactions form a reasonable basis for the preparation of the pro-forma consolidated statement of financial position of the Company at 30 June 2005.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit on the pro-forma statement of financial position and, accordingly, we do not express an audit opinion on the pro-forma statement of financial position.

2.3 AIFRS financial information

The AIFRS financial information contained in Section 5 of the Prospectus sets out the impact on the consolidated statement of financial performance for the year ended 30 June 2005 and the consolidated statement of financial position as at 30 June 2005 of the Company on adoption of AIFRS (the "AIFRS financial information").

We have reviewed the AIFRS financial information contained in Section 5 of the Prospectus in order to state whether anything has come to our attention which causes us to believe that the AIFRS financial information has not been prepared in accordance with the recognition and measurement principles prescribed in AIFRS effective at the date of this Report relevant to the Company.

The Directors of the Company have determined the impact of transitioning to AIFRS. The disclosures set out in Section 5 of the Prospectus reflect elections the Directors have made in considering the first time adoption of AIFRS. We note, the Directors may, at any time until completion of the first AIFRS compliant financial report, elect to revisit, and where necessary, revise the accounting policies and disclosures to be applied arising from the transition to AIFRS. Accordingly the Company's first AIFRS compliant financial report may differ from the disclosure (including the 30 June 2005 comparative year) set out in Section 5 of the Prospectus.

Grant Thornton

3. Conclusions

3.1 Review statement on the historical financial information

Based on our review, which is not an audit, nothing has come to our attention, which causes us to believe that the historical financial information, as set out in Section 5 of the Prospectus does not present fairly the historical financial information of the Company for the years ended 30 June 2003, 30 June 2004 and 30 June 2005 respectively.

3.2 Review statement on the pro forma statement of financial position

Based on our review, which is not an audit, nothing has come to our attention, which causes us to believe that the pro-forma statement of financial position of the Company at 30 June 2005, as set out in Section 5 of the Prospectus does not present fairly the financial position of the Company as at 30 June 2005 in accordance with the measurement and recognition requirements (but not all disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro-forma transactions set out in Section 5 of the Prospectus had occurred at 30 June 2005.

3.3 Review statement on AIFRS financial information

Based on our review, which is not an audit nothing has come to our attention, which causes us to believe that the AIFRS financial information contained in Section 5 of the Prospectus has not been prepared in accordance with the recognition and measurement principles prescribed in AIFRS effective at the date of this Report relevant to the Company.

4. Subsequent events

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief, no material transactions or events outside of the ordinary business of the Company subsequent to 30 June 2005 have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

5. Disclosure

Grant Thornton Corporate Finance does not have any interest in the outcome of this Offer other than normal professional fees that will be received for the preparation of this Report.

Grant Thornton NSW is the auditor of Portland.

The Company has agreed to indemnify and hold harmless Grant Thornton Corporate Finance and its employees from any claims arising out of misstatement or omission in any material or information supplied by the Directors for the purpose of this Report.

Grant Thornton

Consent to the inclusion of this Independent Accountants Report in the Prospectus in the form and context in which it appears has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully
GRANT THORNTON CORPORATE (NSW) PTY LTD

ST GRIFFIN
Director

Independent Regulatory Expert Report

Brandwood *Biomed* PTY LTD
ABN: 622 562 205 29
Technical and Regulatory Solutions
for the Medical Technology Innovator

14 Richter Close, Fadden
ACT 2904
Tel/Fax: (02) 6291 3850
Mobile: 0411 285 207
Arthur.Brandwood@brandwood-biomed.com.au
http://www.brandwood-biomed.com.au

1 November 2005

The Directors
Portland Orthopaedics Limited
3/44 McCauley Street
Matraville NSW 2036

SHARE OFFER – PORTLAND ORTHOPAEDICS LIMITED: MEDICAL DEVICE REGULATORY REQUIREMENTS FOR CURRENT AND PLANNED PRODUCT LINES

Introduction – regulatory requirements for medical devices

This report is provided for inclusion in a prospectus to be issued by Portland Orthopaedics Limited (Portland) on or about the date of this report.

Portland's products are subject to government regulation as medical devices. This regulation includes three aspects:

- premarket approval – based upon assessment of the product design and of results of preclinical and clinical testing
- auditing of manufacturing quality assurance systems and
- a requirement for the manufacturer to conduct post market monitoring of product performance for continued safe performance.

Although administrative mechanisms vary between jurisdictions, there is growing international consensus on the technical basis of regulation, with the underlying design and testing assessment being based upon international standards such as those published by ISO. Manufacturing quality assurance is audited to specialised quality systems requirements which are based on the approaches taken in the well known ISO 9001 standards but with additional specific requirements developed for medical device manufacture.

Independent Regulatory Expert Report

International harmonisation of regulatory requirements is allowing the development of Mutual Recognition Agreements (MRAs) between agencies which allow for assessment by a single agency for multiple markets. Of particular relevance to Portland, the Australian Therapeutic Goods Administration (TGA) is able to make assessment, under MRA with Europe, of Australian manufacturers for CE mark which provides regulatory approval for Europe. As the European and Australian regulations are essentially identical, this assessment is based on the same Technical File and manufacturing inspections as are required for Australian approval.

Current product approvals

Portland currently supplies the Margron Hip and associated accessories in Australia, New Zealand, the USA, Europe and Israel and the MicroAire Carpel Tunnel Release System in Australia. Both of these products have current regulatory approvals in all markets supplied. There are no special or non standard conditions or qualifications attached to any of the current approvals.

Current regulatory approvals are summarised in Table 1. The details of individual approvals are as follows.

Australia

Australian approvals for supply of the Margron Hip Prosthesis, and associated accessories was granted under TGA listing regulations in October 1995. This approval was originally granted under the name of Portland Square Pty Ltd and transferred to Portland Orthopaedics (Aust) Pty Ltd as part of a corporate restructure in January 2003.

Approval for supply of the MicroAire Carpel Tunnel Release System was granted by TGA in February 2005 under the new TGA regulations. As a Class I (low risk) device, this product was approved under self assessment and declaration.

New Zealand

There are no formal premarket assessments required for medical devices by New Zealand, although administrative entry onto a national register of products supplied in New Zealand is required. There are current preparations for establishment by July 2006 of a joint Australian – New Zealand regulatory agency for therapeutic goods which is expected to use the current internationally harmonised system that applies in Australia. Current Australian approvals are expected to be applicable in New Zealand under the joint agency.

Europe

TGA is empowered under a Mutual Recognition Agreement with Europe to make an assessment for the European Community. Approval to affix the CE Mark for supply of the Margron Hip in Europe was granted in December 2002 following TGA audit and assessment.

US

Approval for supply of the Margron Hip in the USA was granted by the US Food and Drug Administration (US FDA) in January 2000 under the 510(k) process.

510(k) approval for supply of the Equator polyethylene lined acetabular cup was granted by the US Food and Drug Administration (US FDA) in October 2005.

Independent Regulatory Expert Report

Israel

Israel's Ministry of Health recognises a number of international approvals including those of Australia, Europe and the US. Approval for supply of the Margron Hip in Israel was granted in July 2000 based upon the prior approval by the US FDA.

Future product approvals

Australia and Europe

Australia is currently in transition to a new regulatory framework. The transition period ends on 4 October 2007, by which time all existing listings are required to be re-assessed by the TGA under the new regulations. The Margron Hip will require such re-assessment. Since the Margron Hip has already been approved by the TGA for CE marking, and the CE mark requirements are essentially identical to those for approval under the new Australian regulations, approval is expected to be very straightforward. Furthermore, as future regulatory assessments of Portland by TGA will be conducted concurrently with MRA assessments for CE marking, these combined assessments will result in simultaneous Australian approval and European CE marking.

The Australian and European systems allow for approval for supply of classes of products (such as hip or knee implants) which is based upon assessment and approval of the manufacturers own internal design and production controls. Once approval is obtained, new products in the same class may be introduced without further premarket assessment, providing that no significant new processes or technologies – such as new coating techniques or sterilisation processes – are involved. This is the case for the planned product introductions by Portland. An application is currently under assessment by TGA for hip prostheses. This assessment is expected to be completed by the end of 2005 and an extension of scope application to include knee prostheses is scheduled for submission to TGA in March 2006, with anticipated approval by July 2006. Once these applications are completed, Portland will be able to introduce additional hip and knee prostheses into the Australian and European markets without further premarket regulatory assessment.

Regulatory charges for TGA assessment are approximately $30,000 for initial assessment for combined European and Australian approvals, $10,000 for extension of scope to include knee prostheses, plus ongoing combined annual audit and registration costs for of approximately $8,000.

USA

In the US, premarket approvals may be obtained by either a full premarket approval (PMA) which involves an assessment of product test and clinical trial data, or by the 510(k) route, in which performance and safety data are presented to demonstrate substantial equivalence to existing marketed devices. PMA assessments are only required for higher risk or new technologies (such as ceramic lined acetabular cups) and generally require 6 - 12 months for assessment by FDA. 510(k) applications are generally assessed and approved in about 3 months.

The equator ceramic lined acetabular cup will require PMA assessment for approval for use in combination with Portland hip prostheses. As this liner has already been approved by FDA in combination with similar products from other manufacturers, and the application will be based on existing clinical data to be provided by the original manufacturer of the liner, assessment by

Independent Regulatory Expert Report

FDA is expected to be straightforward and to take approximately 6 months. Submission of the PMA for the Equator ceramic lined cup is scheduled for early 2006 with approval anticipated by July 2006.

FDA waives assessment fees for first time PMA applicants and Portland will qualify for this exemption. Therefore no FDA fees will be payable for the Ceramic lined Equator cup.

Applications for 510(k) approval of the Margron Knee, Portland primary knee prosthesis, Portland Modular Knee Revision Prosthesis, and the M-COR hip prosthesis are all scheduled for first quarter of calendar 2006, with anticipated approval for these products by July 2006.

FDA assessment fees for each 510(k) application would be approximately $4,500 per application at current exchange rates.

Israel

Applications for supply in Israel would follow and be contingent on prior US or TGA approvals and are estimated to require 6 months following the prior US or TGA approval.

Plans for future regulatory approvals are summarised in Table 1.

Manufacturing Quality Systems Audits

The Matraville manufacturing facility was successfully audited and licensed by TGA in 1995 and has been periodically re-audited, most recently in November 2003 as part of the surveillance assessment for CE marking. A further re-audit is expected before end of 2005 in conjunction with current conformity assessment applications for hip and knee product groups.

The Matraville facility is also registered with the US FDA. FDA facility registrations do not require pre-inspection, but may involve audit by FDA at some future date. The current quality assurance system of the Matraville facility is compliant with current Australian and European requirements and with current FDA requirements. No audit has yet been conducted by the US FDA and the date of any future FDA audit is not known.

Continuation of the regulatory approvals in all markets supplied is subject to satisfactory outcomes of routine periodic surveillance audits by TGA and FDA.

Postmarket monitoring

Portland have advised that there have been no significant adverse events associated with the current Margron family of hips and that devices have performed as expected.

Independent Regulatory Expert Report

Table 1 – Summary of Current and planned regulatory approvals.

Country	Australia		Europe	US	Israel
Agency	TGA (Listing)	TGA (New Regulations)	CE Mark[1]	FDA 510(k)	Ministry of Health
Margron DTC hip Prosthesis[2]	October 1995	December 2005[2]	December 2002	January 2002	July 2002
MicroAire Carpel Tunnel Release System	—	February 2005	—	—	—
Equator Plus Cup – polyethylene lined[3]	—	December 2005	December 2005	October 2005	June 2006
Equator Plus Cup – Ceramic lined[3,4]	—	December 2005	December 2005	July 2006	June 2006
M-COR Hip[3,4]	—	December 2005	December 2005	July 2006	December 2006
Margron Knee[3,4]	—	July 2006	July 2006	July 2006	December 2006
Primary Knee Replacement[3,4]	—	July 2006	July 2006	July 2006	December 2006
Revision Modular Knee Replacement[3,4]	—	July 2006	July 2006	July 2006	December 2006

1. Assessment by TGA under Mutual Recognition Agreement with Europe.

2. Submissions are currently under consideration by TGA

3. Scope extension submission programmed for lodgement with TGA first quarter calendar 2006.

4. Submissions programmed for lodgement with FDA first quarter calendar 2006.

Additional Markets

Expansion into Japan is under active consideration by Portland. This will require additional premarket approvals by the Japanese authorities. For supply in Japan the manufacturer or the importer must obtain a premarket approval of the product plus an import license. Japan has recently revised its Pharmaceutical Affairs Law to harmonise with international practices and requirements and approvals are now based upon similar technical and manufacturing audit requirements to those for Europe and Australia. Japanese regulatory approvals are best expedited through a local agent in Japan. Portland advises that it intends to conduct its expansion into Japan through a Japanese agent and distributor. Given the very recent changes in Japanese regulations it is not possible to predict likely application processing times.

Independent Regulatory Expert Report

Summary

- Regulatory approvals for all current markets supplied (Australia, New Zealand, USA, Europe and Israel) have been granted and are current at this date. These approvals will remain in place subject to payment of applicable annual renewal fees, absence of significant regulatory changes, satisfactory routine re-audits of the manufacturing facilities and absence of significant adverse events associated with the products.
- Continuation of Australian approval for the Margron Hip will require re-assessment under new Australian regulations. This approval is expected to be very straightforward as it essentially is a repeat of the existing CE assessment already conducted by TGA.
- Introduction of new product lines will require similar regulatory approvals to those already achieved for the Margron Hip. If the regulatory applications are unremarkable (as was the case for the Margron hip) then the required new approvals are achievable within the product development time scales stated in Table 1.

This report has been prepared based on inspections of regulatory reports and certifications issued by applicable authorities and from advice from Portland Orthopaedics (Aust) Pty Ltd as to planned regulatory submissions. Because of the complex technical assessments involved in regulatory processes and the frequent changes in national regulations, no guarantees can be given about regulatory application processing times or continuation of existing approvals. No assessment of the design or manufacture of existing or new product lines has been made in the preparation of this report and no opinion is expressed about their suitability for regulatory approval.

Qualifications

Brandwood Biomed Pty Ltd provides specialist technical and regulatory advisory services to medical device manufacturers. The author of this report has extensive experience of medical device development and regulatory affairs including as a former Director of Device Registration and Assessment at the Therapeutic Goods Administration.

Independent Regulatory Expert Report

Independence or Disclosure of Interest

Brandwood Biomed Pty Ltd has provided regulatory and technical advisory services to Portland and may do so in the future. Brandwood Biomed Pty Ltd does not have any interest in the outcome of this issue other than the preparation of this Report for which normal professional fees will be received.

Arthur Brandwood BSc PhD MIMMM CEng

Patent Attorney's Report

WALSH & ASSOCIATES
AUSTRALIAN AND NEW ZEALAND PATENT AND TRADE MARK ATTORNEYS

Portland Orthopaedics Ltd
Unit 3
44 McCauley Street
Matraville
NSW 2036

Attention: Mr David Sekel 1 November 2005

Dear David,

Re: Portland Orthopaedics Ltd
INTELLECTUAL PROPERTY REPORT
(Patents and Patent Applications: Trade Marks and Trade Mark Applications)

This is a report detailing Australian and foreign patents, patent applications, trade mark registrations and applications and is prepared for inclusion in a prospectus to be issued by Portland Orthopaedics Limited ('Portland').

Walsh & Associates (hereinafter referred to as the firm') practices in the Intellectual Property field and is a firm of Australian and New Zealand Patent and Trademark Attorneys.

The firm practises in a range of technologies including a variety of medical devices and biotechnologies. The firm has a network of associates throughout the world with whom it works closely on behalf of clients in securing global Intellectual Property protection for inventions and trade marks.

71 ST JOHNS ROAD GLEBE, SYDNEY, NSW 2037 AUSTRALIA
Mailing address: Locked Bag 2011 Glebe Post Office, Glebe 2037 Sydney NSW AUSTRALIA
TELEPHONE: 02 95522155 (local) 61 2 95522155 (Int) FAX: 02 95522894 (local) 61 2 95522894 (Int)
Email: walship@bigpond.net.au

IN ASSOCIATION WITH PENDMARK INTERNATIONAL PTY LTD (ABN 27 108 970 936)
Incorporating
GLOBE TRACK SEARCH SERVICES REMARK RENEWAL SERVICES

Patent Attorney's Report

Intellectual Property

Intellectual property is a term describing property originating from the intellect and in which may subsist legal rights which may allow various monopolies in relation to products, processes, devices, methods, names, designs and drawings in industry science or commerce. Patent rights constitute an important component of intellectual property, and provide protection for novel, non-obvious and useful inventions for a limited period (in most countries approximately 20 years). Patents may be granted in respect of a wide range of technologies including new or improved medical implantation devices and prostheses.

Novelty and Obviousness

In order to protect an invention, a patent must be obtained in each country where such protection is required. A fundamental requirement of the patent system is that the invention be 'new' and non obvious at the time of lodging a patent application. Newness in this sense is judged in relation to what was publicly known or used at the date of the application anywhere in the world. To be enforceable a patent must be valid. This requires that the claimed invention is both novel and involves an inventive step; i.e. the claimed invention must be non obvious to a person skilled in the art.

Patent Applications

Patent rights are obtained by filing a patent application, which comprises:

1. a patent specification that includes a description of the invention;
2. claims which define the specific invention and monopoly sought; and
3. where appropriate representations showing a preferred embodiment of the invention.

Patent applications may be filed under the International Paris Convention for the protection of Intellectual Property. Filing a patent application establishes a priority date for the invention in Australia and all other countries which are party to this Convention, including most major countries.

The usual first step in obtaining a patent in Australia and other countries in respect of an invention is filing a provisional application accompanied by a provisional specification. This sets a 12 months convention period running within which the applicant must, to keep the application alive, file a CAP ("complete after provisional") application. In order to obtain patent protection in other countries, the applicant may file a Patent Cooperation Treaty international application designating up to approximately 90 countries. This is not a patent application as such but an interim step towards obtaining patent protection.

Alternatively, separate applications may be filed in individual countries. In both regimes, the applications may be filed under the Paris Convention in order to claim priority of the provisional filing date.

Patent Attorney's Report

European Community Patent Application

A European application may be filed directly or via the PCT route and designate any one or all countries which are party to the European Patent Convention. These countries currently include:

Austria,	Ireland,	Liechtenstein,	Spain,
Germany,	Denmark,	Luxembourg,	Sweden,
Belgium,	Italy,	Monaco,	Switzerland
Greece,	Finland,	Netherlands,	United Kingdom,
Cyprus,	France,	Portugal,	

A granted European patent application may also be extended to certain other jurisdictions including those which are not full signatories to the European Patent Convention. The European patent application is processed in Munich in English and if granted following examination, may be validated in one or more of the designated countries within prescribed time limits.

Duration of Patents

In Australia and most other countries, patent rights may be maintained in force for a period of 20 years from the date of filing of the complete application on which the patent is granted, and while the patent is in force the owner has the exclusive right to exploit the invention.

Maintenance Fees

All of the patents and patent application and trade mark properties set out in Schedules A, B, C and D are currently in force. Some properties as indicated in the Schedules are subject to the payment of annual fees in order to maintain them in force.

Validity

In most countries, a patent application is subjected to examination for novelty and obviousness before a patent is granted. There is no guarantee that any of the granted patents or patents which may be granted on the pending applications will be valid and enforceable. Furthermore, there can be no guarantee that each of the patent applications set out in Schedules A-D will result in the grant of a patent, or that the scope of protection provided by any patent which is granted will be identical to the scope of the application as originally filed. To the best of our knowledge, to date, there has been no third party challenge to the validity of any of the patents or patent applications set out in Schedules A-D. The grant of a patent does not guarantee validity of that patent since it may be revoked on the grounds of invalidity at any time during its life. If none of the claims of a granted patent are valid then the patent is unenforceable. For example, relevant prior disclosures may be discovered which may limit the scope of patent protection sought, perhaps to a very narrow field. As a general principle, a patent is prima facie valid until proven otherwise.

Patent Attorney's Report

Scope of Patent Protection

The scope of patent protection obtained in respect of the inventions for which patents have been granted will depend upon the scope of the granted claims. The scope of patent protection obtained in respect of the inventions for which patents have not been granted will depend upon the scope of any claims granted in each national or regional patent.

Enforceability

We cannot guarantee that any of the already granted patents, or any new patent granted on any of the applications noted in the schedules below will be valid or enforceable in the particular country in which a patent is or may be granted. There is no guarantee that the scope of protection provided by any granted patent will be identical to the scope of:

(a) the invention disclosed in the application as filed, or
(b) claims granted in a corresponding application in a different jurisdiction.

Infringement (Freedom to use).

There can be no guarantee that practise of any aspect of the Portland patents or patent applications in any jurisdiction will not infringe the patent rights of third parties who may have:

(a) prior patents to the Portland products or methods, or

(b) patents that cover a part or all of the production processes that Portland or its licensees deem most advantageous to employ in manufacturing patented products.

PCT Applications

Patent Co-operation Treaty ('international applications') designating Australia together with other member States (countries and regions) of the Treaty have been filed. This treaty presently covers over 100 countries including Australia and the majority of the developed or industrialised countries. Filing an international application allows the final due date for filing patent applications in individual countries and regions (referred to as entering the 'national phase'), and the associated cost, to be deferred for a period of up to 30 or 31 months (depending upon the country concerned) from the date of filing of the first priority application for the invention that is the subject of the international application. After an international application is filed, an international search is conducted by the International Searching Authority (which, in this case, is the Australian Patent Office). Each of the PCT applications filed in respect of the inventions noted in the Schedules A - D have been filed as national phase entries out of a corresponding parent PCT International Patent Application.

Each international application underwent its own preliminary examination before the Australian Patent Office in its capacity as an International Preliminary Examining Authority, after which that office reported on the results providing the applicant with a guide as to the prospects for grant of a patent on each invention. The reports indicate potentially patentable subject matter in the applications with the form of allowable claims yet to be determined. Reports issued by the Australian Patent Office as PCT receiving

office are non-binding on member countries of the Patent Cooperation Treaty. We are not aware at this stage of any prior disclosures which we believe would preclude patentability of the subject matter of the inventions described albeit in a form yet to be determined.

National Phase Processing

At the end of either 20 or 30 months from the earliest priority date, the applicant must file national (or regional, in the case of the European Patent Office and other regional patent offices) patent applications in some or all of those designated countries. Alternatively, or additionally, patent applications may be filed directly in a country of interest within 12 months of the priority date. Under the Paris Convention of 1883, member countries honour a foreign patent application by recognising the priority date that corresponds to its priority date in its home country.

A patent application is examined by the patent office of each country (or region) in which it was filed. Subject to the results of the examination, a patent may be granted. Common requirements for obtaining a patent around the world include that the invention be

(1) useful or industrially applicable,
(2) novel, and
(3) not obvious such that an inventive step was involved in its conception.

Such requirements are generally judged as at the application's filing date. Novelty in the patent sense is determined with reference to what was known, used or "on sale" on the date the application was filed. United States patent law (unlike most countries) provides a one year grace period for public disclosure prior to the filing date. Inventive step or non obviousness, generally requires a distinct advance over what was previously known. As a consequence, patent protection may not be obtained for trivial or obvious improvements or modifications. Because of differences in the patent laws and examination procedures around the world, the same patent application may result in the granting of different claims in various jurisdictions. In the medical field, certain countries' laws do not permit patenting methods to treat the human body or methods of diagnosis that are carried out within the body, although alternative claiming strategies may be available to obtain effective patent protection for such uses. Medical devices such as those which appear in the application schedules A-C below are potentially patentable. Also, the order in which various claims appear in a patent or application has no bearing on their commercial importance or enforceability. The actual patent claims already granted, or those that may be granted, in each national jurisdiction could vary depending on individual differences in patent laws and regulations and the results of examination.

Patent Attorney's Report

Independence of Walsh & Associates

Walsh & Associates acting as Patent Attorneys for Portland will be paid its normal professional rate for preparation of this report. The report is prepared solely for use in a prospectus to be issued by Portland Orthopaedics Ltd.

The firm has been associated with Portland products and acted for Portland since its date of incorporation 23 March 1999. Professional staff of the firm involved in patent matters are Fellows of the Institute of Patent and Trademark Attorneys of Australia. Walsh & Associates is independent and apart from receiving its professional fees has no commercial interests in the promotion of the products of Portland Orthopaedics Ltd.

Change of Corporate Name

Portland Orthopaedics Ltd changed it name from Portland Orthopaedics Pty Limited in 2003. This change of name remains to be formally recorded in respect of the relevant patents, patent applications, trade mark applications and registrations which are owned by Portland Orthopaedics Ltd. An application to record the name change may be made at any time at the election of Portland Orthopaedics Limited.

DTC™ HIP

Patents relating to this invention are identified in Schedule D below. The invention relates to a stem for use in a hip prosthesis and having spaced apart threads which cooperate to induce a compression in a femoral medullary cavity upon insertion of the stem.

A freedom to use search on the subject invention has been conducted through a search of the United States Patent Office records. The search did not reveal any document on the US records disclosing subject matter either identical or similar to the claimed invention embodied in the [DTC™ hip] prosthesis patents.

Considering that the Double thread hip technology is now about 16 years old it is most unlikely that a US patent which might have potentially been infringed by the double threaded cone, would come to light at this late stage in the life of the relevant patents.

Patent Attorney's Report

CURRENT ORTHOPAEDIC TECHNOLOGIES (Portland Orthopaedics Ltd)

Set out below is a tabulated summary of the particulars of Portland Orthopaedics Ltd technologies which are currently the subject of pending patent applications.

SCHEDULE A

1. Equator Plus Acetabular Cup

PCT International application PCT/AU02/00509 has now entered the national phase in the following countries:

Title – ACETABULAR PROSTHESIS ASSEMBLY

Country	Application No.	Status	Renewal
AUSTRALIA	2002248998	Examination requested	26/4/2007
JAPAN	2002-584830	Examination requested	After Grant
CANADA	2,445,279	Awaiting filing Request for examination	26/4/2006
EUROPE (18 countries) .	02717871.4	Awaiting examination	30/4/2006
NEW ZEALAND	529709	Under Examination	After Grant
UNITED STATES	10/475,948	Awaiting examination	After Grant

Examination of each application will take place on a country by country basis over the next 12 months. Current indications from the results of the PCT preliminary examination are that there is patentable subject matter in the application. We have not to date carried out any freedom to use searches in any jurisdiction. Freedom to use searches are a major undertaking as it involves conducting infringement searches in relevant jurisdictions. We are aware of cited prior art from the PCT International Preliminary examination which provides a guide as to the prior art.

SCHEDULE B

2. Universal Prosthesis (Double Threaded Cone)

This application seeks a monopoly for the double threaded hip prosthesis identified in Schedule D below but applied in joints other than the hip such as, but not limited to the finger, shoulder, ankle knee, thumb elbow. The nearest prior art relating to this application known to the Applicant is the [DTC™ Hip] patents (Schedule D). The patents in Schedule D were not cited following preliminary examination. The indications are that there remains despite citations patentable subject matter in the application of this application. The preliminary examination authority appears to have drawn a distinction between a prior art hip prothesis (Schedule D) and the use of the double threaded stem / cone in joints other than the hip. The New Zealand application has been allowed by the New Zealand Patent Office for grant of patent (provided there is no third party opposition).

PCT International application No. PCT/AU02/00841 has entered the national phase in the following countries:

TITLE: UNIVERSAL PROSTHESIS

PROPRIETOR: Portland Orthopaedics Pty Ltd

Country	Application No.	Status	Renewal
AUSTRALIA	2002311097	Examination requested	28/6/2007
JAPAN	2003/508281	Exam requested	After Grant
CANADA	2451834	Pending awaiting examination	28/6/2006
EUROPE (18 countries)	02734915.8	Awaiting examination	30/6/2006
NEW ZEALAND	530620	Accepted for Grant	After Grant
UNITED STATES	10/482602	Awaiting Examination	After Grant

We have not, carried out any freedom to use searches in any jurisdiction. We are aware of cited prior art from the PCT International Preliminary examination which provides a guide as to existing prior art.

SCHEDULE C

3. Modular Prosthesis Assembly Including Tapered Adjustments (Portland Revision Knee)

This case is an attempt to obtain a monopoly for the knee prosthesis with tapered adjustments which allow fine adjustment for alignment of the prosthesis. The current indications are that there remains despite some prior art citations, patentable subject matter in the application.

PCT Application No. PCT/AU2003/00122 entered the national phase in the following countries:

TITLE: MODULAR PROSTHESIS ASSEMBLY INCLUDING TAPERED ADJUSTMENTS

Country	Application No.	Status	Renewal
AUSTRALIA	2003202312	Awaiting instructions to request Examination deadline 4th FEBRUARY 2006.	7/2/2008
JAPAN	2005-516673	Awaiting instructions to request examination	After Grant
CANADA	2,475,008	Awaiting executed assignment Awaiting instructions to request Examination.	2006
EUROPE (18 countries) .	03700708.5	Awaiting examination	2006
NEW ZEALAND	535163	Under Examination	After Grant
UNITED STATES	10/503,731	Awaiting examination	After Grant

We have not to date carried out any freedom to use searches in any jurisdiction for the above invention. We are aware of cited prior art from the PCT International Preliminary examination which provides a guide as to the existing prior art.

SCHEDULE D

4. PORTLAND Double Threaded Cone (DTC) HIP TECHNOLOGY

OWNER: Portland Square Pty Ltd

SCHEDULE OF PATENTS / PATENT APPLICATIONS

TITLE: HIP PROSTHESIS

Country	Patent/Patent Appln No.	Status	Renewal Due
Australia	660146	Granted	6/6/2006
Canada	2084762	Granted	6/6/2006
United States	5,580,352	Granted	3/6/2008
Japan	510502/91	Granted	24/5/2006
France	0532617 [91 911 061.9]	Granted	30/6/2006
Germany	DE 691 25 712 T2	Granted	30/6/2006
United Kingdom	0532617	Granted	30/6/2006

We currently hold on our files a copy of an assignment dated 1 September 2001 from Ronald Sekel to Portland Square Pty Ltd transferring ownership in the patents listed in Schedule D. The above properties are currently owned by Portland Square Pty Ltd which is wholly owned by Portland Orthopaedics Limited but the assignment has not been recorded in any of the above jurisdictions. This action may be performed at any time and we have instructions to take the necessary steps to record the necessary documents which transfer ownership so that the above patents will proceed in the name of Portland Orthopaedics Limited. The above patents will expire in June 2011 at the end of their 20 year term

NEW PORTLAND TECHNOLOGIES

a) Stem having radially disposed tapered locating ridges.

This invention relates to an implantable stem which includes tapered radially disposed ridges which have a geometry which allows controlled rotational adjustment during insertion of the stem into a medullary cavity. The controlled adjustment may increase or decrease during insertion depending on the selected geometry of the tapered radial ridges. Limited prior art investigations have been conducted and the indications are that a tapered array of ridges on the length stem and which allow a gradual rather than abrupt decrease in rotational ability during insertion of a stem is not taught in the prior art. Gradual rotational control is provided during stem insertion. A provisional specification to accompany a provisional patent application is under preparation.

b) Tool assembly for providing resistance to axial travel of stem. [Portland M-COR Technology]

An assembly is proposed including a slap hammer which will engage a stem to allow controlled resistance to unwanted descent of a fitted stem while a neck is fixed to the stem. Limited prior art investigations have been conducted and the indications are that a slap hammer which is used in an insertion phase to prevent unwanted axial travel downwards of an implanted stem is not taught in the prior art. A provisional specification to accompany a provisional application is under preparation.

SCHEDULE E

SCHEDULE OF TRADE MARKS

OWNER: PORTLAND ORTHOPAEDICS PTY LTD

Trade Mark	Country	Applic/ Registration No	Class	Status	Renewal
EQUATOR PLUS	United States	76/405848	10	Under Opposition Settlement pending	After regn
EQUATOR PLUS	Australia	892495	10	Registered	18/10/2011
EQUATOR PLUS	Community	002655314	10	Registered	15/4/2012
DTC	Australia	1024335	10	Registered	11/10/2014
Globe and Rings Device	United States	2,986,764	10	Registered	10/10/2010
Globe and Rings Device	Australia	912815	10	Registered	13/5/2012
Globe & Rings Device	EU Community	002931327	6,10,42	Registered	not yet available
GLOBE Device and Rings	Japan	4696785	10	Registered	1/8/2008
MMIS	Australia	930973	10	Registered	16/10/2012
PIN IN BONE	Australia	878337	10	Registered	7/6/2011
SMART JOINT	Community	002650315	9,10	Registered	10/4/2012
SWEET SPOT	Australia	877882	10	Registered	4/6/2011
SWEET SPOT	Community	002488054	10,42	Registered	4/12/2011
SWEET SPOT	New Zealand	649631	10	Registered	4/6/2008
SWEET SPOT	Japan	4579932	10	Registered	21/6/2012
M-COR	Australia	Not yet available	10	Pending Application	After Registration

OWNER: Portland Square Pty Ltd

Trade Mark	Country	Applic/ Registration No.	Class	Status	Renewal
DTC	Australia	768687	10	Registered	29/7/08
DTC	Canada	1.019,108	10	Registered	17/9/2016
DTC	Japan	4428394	10	Registered	28/4/2010
DTC	Europe	001206242	10	Registered	14/6/2009
DTC	United States	75/756669	10	Registered	25/5/2009

Patent Attorney's Report

We currently hold on our files a copy of an assignment dated 1 September 2001 from Ronald Sekel to Portland Square Pty Ltd transferring ownership in the Margron trade marks listed above. The above Margron trade mark properties are currently owned by Portland Square Pty Ltd which is wholly owned by Portland Orthopaedics Limited but the assignment has not been recorded in any of the above jurisdictions. This action may be performed at any time and we have instructions to take the necessary steps to record the necessary documents which transfer ownership so that the above trade marks will proceed in the name of Portland Orthopaedics Limited.

JOHN WALSH

WALSH & ASSOCIATES

Additional Information

Incorporation

The Company is a public company limited by shares incorporated under the Corporations Act on 23 March 1999 and is taken to be registered in New South Wales.

9.2 Balance Date

The Company's balance date for the preparation of accounts is 30 June.

9.3 Constitution & Rights Attaching To Shares

The existing issued share capital of the Company upon completion of the Issue will comprise fully paid ordinary shares. The Shares offered under this Prospectus are ordinary shares with an issue price of $0.25. The rights attaching to ownership of the Shares arise from a combination of the Company's constitution, statute and general law. A copy of the constitution can be inspected during office hours at the registered office of Portland until the Closing Date.

Immediately after issue and allotment, the Shares will be fully paid Shares. There will be no liability on the part of shareholders for any calls and the Shares will rank pari passu with Shares currently on issue.

The detailed provisions relating to the rights attaching to Shares under the constitution and the Corporations Act are summarised below. This summary is not intended to be exhaustive and must be read subject to the full text of the constitution:

9.3.1 Voting

Members are entitled to notice of, and to attend and vote at, general meetings. Subject to any shares which may in the future be issued with special or preferential rights (at present there are none), every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands, and on a poll, one vote for each fully paid ordinary share. In the case of an equality of votes, the Chairman of the meeting shall not have a second or casting vote.

9.3.2 General Meetings

Subject to the Corporations Act providing for a shorter minimum period of notice, each shareholder is entitled to receive at least 28 days notice of and to attend general meetings of the Company and to receive all notices, accounts and other documents required to be sent to shareholders under the constitution, the Corporations Act and the Listing Rules.

9.3.3 Dividends

Subject to any shares which may in the future be issued with special or preferential rights, the Directors may determine that a dividend is payable and fix the amount, time for payment and the method of payment. The Directors may set aside out of the profits of the Company such amounts as they determine as reserves to be applied at the discretion of the Directors for any purpose for which the profits of the Company may be properly applied.

9.3.4 Capitalisation of Profits and Conversion of Shares

The Company may capitalise and distribute any undivided profits of the Company. The Company in general meeting may convert all or any of its shares into a larger or smaller number of shares by resolution.

9.3.5 Rights on Winding Up

The liquidator in a winding up may, with the sanction of a special resolution of members, divide among the members the whole or any part of the property of the Company and determine how the division is to be carried out as between the members or different classes of members.

9.3.6 Offer of Shares

Without prejudice to any special rights conferred on the holders of any Shares or class of shares and subject to the constitution, the Corporations Act and the Listing Rules, the Directors may issue shares and options to subscribe for shares on such terms and conditions as the Directors think fit.

9.3.7 Transfer of Shares

Subject to the constitution, the Corporations Act, the Listing Rules and the ASTC Settlement Rules, the Shares are freely transferable. A member may transfer Shares by a market transfer in accordance with any manner required or permitted by the Listing Rules, the Corporations Act or the ASTC Settlement Rules. Shares may also be transferred by an instrument in writing in any usual or common form or in such other form as the Directors approve or in such form as is required by the ASTC Settlement Rules.

9.3.8 Unmarketable Parcels

The constitution provides that the Directors may cause the Company to sell a member's shares if that member holds less than a marketable parcel of shares, provided that the procedures set out in the constitution are followed. A non marketable parcel of shares is defined in the ASX market rules and is, generally, a holding of shares with a market value less than $500.

9.3.9 Partial Takeovers

The constitution contains provisions which prohibit the registration of any transfer of voting shares giving effect to an offer made under a proportional takeover scheme (that is, an offer for some but not all the shares in the Company) until the members holding the shares in the class for which the offer is made under the takeover have passed a resolution approving it. To remain effective, these provisions must be renewed by the Company in general meeting every three years.

9.3.10 ASX Listing Rules

While the Company is admitted to the official list of ASX, notwithstanding anything in the constitution, if the Listing Rules prohibit an act being done, the act must not be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done, and if the Listing Rules require a provision to be included in the constitution, the constitution will be treated as containing that provision. If any provision of the constitution becomes inconsistent with the Listing Rules, the constitution will not be treated as containing that provision to the extent of the inconsistency.

9.3.11 Variation of Rights

The Company may only modify or vary the rights attaching to any class of shares with the consent in writing of the shareholders with at least 75% of the votes in the class or the sanction of a special resolution passed at a meeting of the holders of the issued shares of that class.

9.3.12 Directors

The minimum number of Directors is three and the maximum is nine unless the Company in a general meeting determines otherwise. Unless a share qualification is fixed by the Company in general meeting, a Director is not required to hold any shares. At the Company's annual general meeting, one-third of all Directors (excluding the Managing Director) shall retire from office.

Additional Information

9.3.13 Directors' Resolutions

The Directors may pass a resolution in a meeting by a majority of the votes cast by the Directors entitled to vote on the resolution or without a Directors' meeting being held if a majority of the Directors entitled to vote on the resolution, except a Director absent from Australia who has not left contact details at which he or she may be given notice, sign a document containing a statement that they are in favour of the resolution set out in the document.

9.3.14 Directors' Indemnity and Insurance

To the extent permitted by the Corporations Act, the Company may indemnify every person who is or has been an officer of the Company and, where the Board considers it appropriate, any person who is or has been an officer of a related body corporate of the Company against any liability incurred in his or her capacity as an officer of the Company or a related body corporate. Except to the extent prevented by the Corporations Act, the Company may pay, or agree to pay, a premium for a contract insuring an officer of the Company or a related body corporate of the Company against any liability incurred by the person in that capacity, except a liability (other than one for legal costs) arising out of:

- conduct involving a wilful breach of duty in relation to the Company; or
- a contravention of sections 182 or 183 of the Corporations Act.

9.3.15 Alteration to the Constitution

The Corporations Act provides that the constitution can only be amended by a special resolution passed by at least 75% of the votes cast by members entitled to vote on the resolution.

9.4 Terms and Conditions of Options

9.4.1 Options

One Option will be issued for every four Shares issued under this Prospectus. The Options will be issued on the following summarised terms and conditions. This summary is not intended to be exhaustive and must be read subject to the full terms and conditions of the Options, which are available for inspection at the registered office of the Company until the Closing Date.

Exercise Period and Expiry Date

The Options are exercisable at any time before 5.00pm Sydney time on 30 November 2008. Options not exercised by that date will lapse.

Exercise Price

Each Option entitles the holder to acquire one fully paid ordinary share in the capital of the Company on payment of the sum of 25 cents per Option to the Company.

Notice of Exercise

Each Option may be exercised by notice in writing to the Company at any time before their date of expiry. Any notice of exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt.

Quotation of Options and Shares on Exercise

Application will be made to the ASX for quotation of the Options. Application will be made for quotation of the Shares issued upon exercise of Options. The Options are transferable as the holder thinks fit.

Participation Rights or Entitlements

There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of securities offered to shareholders during the currency

of the Options. However, the Company will ensure that, for the purpose of determining entitlements to any such issue, the record date will be at least 10 Business Days after the issue is announced so as to give holders the opportunity to exercise their Options before the date for determining entitlements to participate in any issue.

Participation Rights or Entitlements on Shares Issued on Exercise of Options

Shares allotted pursuant to the exercise of Options will be allotted following receipt of all the relevant documents and payments and will rank equally with the then issued Shares.

Reconstruction of Capital

In the event of a reconstruction (including consolidation, subdivision, reduction, or return) of the issued capital of the Company, all rights of the Optionholder shall be reconstructed in accordance with the Listing Rules.

Participation Rights or Entitlements on Pro-rata Issues

If, from time to time, before the expiry of the Options, the Company makes a pro-rata issue of Shares to the shareholders for no consideration, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the holder would have received if the Option had been exercised before the date for calculating entitlements to the pro-rata issue.

9.4.2 Axis Options

Options to be issued to Axis (or other Australian Financial Services Licensees who also lodge Applications through Axis) pursuant to its engagement as Financial Adviser and Broker to the Issuer Agreement as described in Section 9.5.7 shall be on the same terms as the Options set out above.

9.4.3 Existing Options and Executive and Staff Option Plan

The Company has issued 5,767,901 Existing Options to its current and former employees, Directors and consultants. Existing Options issued to employees and Directors have been issued pursuant to its Executive and Staff Option Plan (ESOP). The Existing Options issued to consultants are issued on substantially the same terms as the Existing Options issued under the ESOP. The number of Existing Options, exercise price, expiry date, number of vested Existing Options capable of exercise and the date of vesting of unvested Existing Options in each class is set out in the following table:

Number of Options	Issue Price	Exercise Price	Vesting and Expiry Dates
305,664	Nil	$1.63	All Options have vested and expire on dates between 31 December 2012 and 2 March 2018.
427,523	Nil	$0.20	All Options have vested and expire on dates between 1 January 2010 and 1 October 2010*.
34,714	Nil	$1.63	Options to vest on dates between the date of this Prospectus and 2 March 2008 and expire on dates between 1 November 2015 and 2 March 2018.
2,500,000 2,500,000	Nil Nil	$0.30 $0.35	Options to vest during the three year period commencing 12 months after admission of the Company to the official list of ASX and expiring 10 years after their vesting date.

* At the date of this Prospectus these Options have an exercise price of $0.01. These Existing Options will be converted to Options with an exercise price of $0.20 and the number increased to 427,523 Options (or otherwise the holders will recieve a cash payment) prior to admission of the Company to the official list of ASX.

Additional Information

The following is a summary of the other terms of the Existing Options and the ESOP.

Issue of Options

In accordance with the terms of the ESOP, the Board may offer Options to executives (including any Director or employee as determined by the Board) of the group. The Board will determine the eligibility of persons, their entitlement and vesting date of Options. The Board may delegate to the Managing Director of the Company, the authority to issue Options under the ESOP. Options will be issued for no consideration unless the Board determines otherwise.

Each Option is to subscribe for one fully paid ordinary share in the Company.

The aggregate number of Shares which would be issued on exercise of Options on issue must not at any time exceed 10% of the total number of Shares on issue at that time.

Exercise price

The exercise price per Share for the Options is determined by the Board in its absolute discretion at the time of issue of the Options.

Exercise of Options

Provided that an optionholder is an employee of the Company, the Options held by that optionholder will vest and become exercisable on the dates determined by the Board. The Options will be exercisable in accordance with their terms of issue during the exercise period determined by the Board and either:

- when a current disclosure document in respect of the Shares to be issued upon exercise of the Options is on issue; or
- after a period of 12 months has elapsed following the listing of the Shares on ASX.

If the Company disposes of all or substantially all of its assets or business or all of the shareholders sell all of their Shares, all unvested Options will vest and become capable of exercise at any time during the 60 day period commencing on the date optionholders are given notice of the transaction.

Lapse of Options

Subject to the absolute discretion of the Board, Options lapse on the earlier of:

- expiry of the exercise period as determined by the Board; or
- 30 days from the date upon which the optionholder ceases to be employed by the Company.

Transfer of Options

Options may not be transferred or encumbered except with the prior written consent of the Board. However, Options may be exercised by the estate of a deceased optionholder as follows:

- Options which were not vested at the date of death will automatically lapse; and
- Options which were vested and exercisable at the date of death will expire after 12 months from the date of the optionholder's death.

Reorganisation

In the event of a reorganisation of the capital of the Company, subject to the Listing Rules (if applicable), the number of Shares to be issued upon the exercise of each Option or the exercise price of the Options (or both) will be adjusted as the Board deems appropriate, so that the benefits conferred on optionholders after the reorganisation are the same as the benefits conferred on the optionholders prior to the reorganisation.

Additional Information

Rights issues

If the Shares are traded on ASX or another stock exchange and there is a pro rata issue, there will be a change in the exercise price of the Options or a change in the number of underlying securities over which Options can be exercised, in accordance with the Listing Rules.

Bonus issues

In the event that the Company makes a bonus issue of Shares to ordinary shareholders, each Optionholder is entitled to receive upon exercise of each Option, such number of Shares as they would have received had they participated in the bonus issue as the holder of the Shares that would have been issued to them if they had exercised their options prior to the record date for the bonus issue.

Listing Rules

If while the Shares are traded on ASX or other stock exchange, there is any inconsistency between the terms of the ESOP and the Listing Rules, the Listing Rules will prevail.

Quotation

The Company does not intend to apply for quotation of the Existing Options on ASX.

9.5 Summary Of Material Contracts

Set out below is a brief summary of certain contracts which have been or are intended to be entered into by the Company which have been identified as material and relevant to an investor. To fully understand all rights and obligations of a material contract, it would be necessary to review it in full and these summaries should be read in that light.

9.5.1 Agreements Relating to Existing Shareholders

The agreements discussed below were entered into primarily to accommodate the requirements of the Investors when they initially acquired shares in the Company in October 2001.

Subscription Agreements

The Company, Venture Capital Investors and Founders entered into a series of four agreements (in 31 October 2001, 2 September 2002, 28 April 2003, 30 October 2003, 23 December 2004 and 31 August 2005) (Subscription Agreements) under which the Venture Capital Investors subscribed for preference shares in the Company. These shares were issued in several tranches and the agreements deal with various issues including:

- Conditions precedent to the subscriptions;
- Adjustments to the Venture Capital Investors' holdings in certain events; and
- Various warranties and indemnities in favour of the Venture Capital Investors from the Company and Founders in relation to the assets, liabilities and activities of the Company.

Shareholders' Agreement

On 3 October 2001, the Company, Venture Capital Investors and Founders also entered into a shareholders' agreement (Shareholders' Agreement) which governed their respective rights and obligations as shareholders of the Company covering such issues as:

- Dividend policy;
- Pre-emptive rights on issues and transfers of shares in the Company;
- Management of the Company; and
- Meetings of the Directors and shareholders.

Additional Information

Under the terms of the Subscription Agreements, Shareholders' Agreement and a further Deed between the Company, Venture Capital Investors and Founders executed on or about the date of this Prospectus (intended to clarify the position of the respective parties under the Subscription Agreements and Shareholders' Agreement), the Offer will have a number of implications for these agreements. In particular, should the Issue succeed and the Company be granted admission to the official list of the ASX:

- the Shareholders' Agreement will terminate;
- each preference share will convert into fully paid ordinary shares in the Company;
- the Company shall be released from any claim which the Investors may have had at any time against the Company under the Subscription Agreements, Shareholders' Agreement or otherwise.

In other words, if the Issue succeeds the Investors will have the same rights as any other Shareholder and the Subscription Agreements and Shareholders' Agreement will cease to have any significance for the Company and its other Shareholders. On the other hand, if the Issue is not successful, then the above agreements will remain on foot and the status of the preference shares will remain unchanged. However, in those circumstances, while the Company would continue to be subject to those terms, investors would receive a refund of their application monies.

9.5.2 Signal Licence Agreement

The Company has entered into a worldwide non-exclusive licence agreement dated 13 December 2004 with Signal Medical Corporation (Signal) to use, manufacture and sell Signal's metal and polyethylene knee components (femur, tibia, poly inserts in three styles) and patella, known as the "Beacon Knee System". The Beacon Knee System may be used as part of the Portland's knee products. Portland pays royalties to Signal based on the net sales revenue from its Portland knee product. The agreement has a 20 year term, unless terminated earlier in accordance with its terms.

Signal warrants to Portland that it is the owner of the intellectual property in the Beacon Knee System, but does not make any representation as to the operability or fitness for any use of the products. Portland indemnifies Signal against liabilities incurred under the licence, including injury or death to patients.

9.5.3 MicroAire Product Distribution, Agreement

MicroAire Surgical Instruments LLC (MicroAire) has granted Portland the exclusive right to distribute, market and sell MicroAire's CTRS product in Australia and New Zealand. The CTRS is used in carpal tunnel surgery, providing a minimally invasive approach which provides significant benefits to patients.

The Company is required to meet minimum purchase order obligations during each year of the agreement and is required to spend not less than 4% of the Company's gross sales of the CTRS for the advertising and promotion of the product.

MicroAire provides certain warranties in relation to specification and quality of the CTRS products.

The agreement expires on 1 July 2007 but may be extended for successive one-year periods upon mutual agreement of both parties.

MicroAire may terminate the agreement in the event of a change of control of the Company provided that it seriously affects the sale and distribution of the CTRS.

9.5.4 Research and Development Grant

Portland has received and is entitled to receive governmental financial assistance of a maximum amount of $1,900,000 between 1 May 2003 and 13 April 2006 from the Industry Research and Development Board of the Commonwealth Government of Australia (IRDB) under the R & D START Program for the development of the Margron Knee, pursuant to a deed dated 13 August 2003. To date $1,400,000 has been received under this grant.

The IRDB grant in relation to the Margron Knee is provided on the basis that the Company will spend $1,900,000 on the project and that the money provided under the grant must not exceed 50% of the total expenditure by the Company on the project. The agreement also specifies milestones, the remaining one being the manufacture of a late implant prototype for clinical trials, and completion of in vivo clinical trials by 13 April 2006.

The Company is required to use its best endeavours to exploit the Margron Knee in a manner that will benefit the Australian economy to the satisfaction of the IRDB.

If the Company assigns or grants any right to the intellectual property in the project to another person without the consent of the IRDB, or in the reasonable opinion of the IRDB:

- the Company is not carrying out its obligations to exploit the results of the project or the commercialisation is not delivering the expected national benefit; or
- there is a change of control of the Company,

the IRDB may require the Company to repay some or all of the grant, plus interest at a rate of 5.09% per annum from the date of receipt of the funds. The IRDB may also terminate the deed and require repayment with interest if, among other things:

- a breach of the agreement (including failure to meet a milestone) has not been remedied by the Company within 21 days of notice being given to the Company;
- the Company breaches a warranty under the deed or becomes insolvent; or
- the Company is otherwise in breach of the deed.

9.5.5 Collaboration Agreement with the University of South Australia

The Collaborative Research Agreement – Linkage Projects 2003 dated 30 September 2003 between the Company and the University of South Australia (University) sets out the terms and conditions on which the University will conduct and exploit in collaboration with the Company, the project entitled "Immobilisation of Bisphosphonates and Electrical Stimulation for Improved Implant Fixation".

Any project intellectual property developed will be owned by the parties in equal shares as tenants in common. The Company has an exclusive worldwide licence to commercialise the project intellectual property within the field of arthroplasty. That exclusivity will be lost if the Company fails to commercialise the project within 6 months of completion of the project. The party who commercialises the project intellectual property is liable to pay royalties to the other party upon terms to be negotiated between the parties.

Additional Information

9.5.6 Executive Service Agreements

Mr David Sekel, Managing Director

Pursuant to an executive services agreement between Portland and Mr David Sekel, Mr Sekel has been appointed as the Managing Director of the Company. The term of the agreement expires in November 2006. The current remuneration payable to Mr Sekel is $241,000 per annum (including superannuation and exclusive of bonuses) which is to be paid annually.

In his executive services agreement, Mr Sekel agrees to transfer and assign to the Company all intellectual property rights created, developed, discovered, designed or invented by him during and pursuant to the Agreement.

The agreement may be terminated by Portland prior to expiration of the agreement in the case of serious misconduct and provides that for a period of twelve months after termination of his employment Mr Sekel will not compete with Portland.

Professor Ronald Sekel, Executive Director

Portland and Professor Ronald Sekel have entered into an executive services agreement on substantially the same terms as that between Mr David Sekel and the Company other than in relation to remuneration. The remuneration payable to Professor Sekel is $168,000 per annum (including superannuation and exclusive of bonuses) which is to be reviewed annually.

9.5.7 Axis Agreement

Portland has an agreement with Axis to act as Financial Adviser and Broker to the Issue.

A financial advisory fee of $105,000 will be paid to Axis as well as a fee of 5.5% of the total subscription amount.

In addition, Portland will issue to Axis (or other Australian Financial Services Licensees who lodge Applications through Axis) a minimum of 1,600,000 Options (if Minimum Subscription is achieved), up to 2,000,000 Options (if Maximum Subscription achieved). The Options to be issued to Axis under this arrangement are on the same terms and conditions as the Options offered under this Prospectus, a summary of which is set forth in Section 9.4.1.

In the event the Company accepts Applications exceeding the Minimum Subscription amount ($4.0 million) but less than the Maximum Subscription amount ($5.0 million) the number of Options issued shall be adjusted on a pro rata basis. The Company has been advised that the Options will have an aggregate value of A$80,000 in the event of a Minimum Subscription and A$100,000 in the event of a Maximum Subscription.

Fees in this Section do not include GST.

9.5.8 Restriction Agreements

The existing shareholders of the Company, in respect of their Share holdings, have entered into voluntary restriction agreements under which they may not dispose of any interest in or grant any security over those holdings for:

- in the case of the Founders, 2 years after listing; and
- in the case of the Venture Capital Investors, until the release of the Company's preliminary financial results for the financial year ending 30 June 2006. 25% of their Shares will then be escrowed for an additional 3 months (other than the Shares of STA).

These restrictions will not preclude any existing Shareholder from accepting a takeover offer provided holders of not less than 50% of the remaining Shares then on issue have accepted the takeover offer or the transfer or cancellation of the Shares pursuant to a scheme or arrangement. The restrictions do not affect the voting rights attached to the Shares the subject of the agreements unless the holder is in breach of the agreement.

Additional Information

ASX may also classify some or all of the Shares and Existing Options held by the Venture Capital Investors, Founders, current and former employees and consultants as restricted securities and require them to be escrowed.

9.6 Litigation

As at the date of this Prospectus, there is no litigation of any nature pending or threatened which may significantly affect the operations of the Company. Having regard to the nature of the Company's business, it may be involved in litigation from time to time.

9.7 Directors' Shareholdings And Other Interests

Directors are not required under the Company's constitution to hold any Shares.

Other than as set out in this Prospectus:

(a) no Director or other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus (Adviser), or promoter of the Company has had in the 2 years before the date of this Prospectus, any interest in the Issue, in the formation or promotion of the Company or in any property of or proposed to be acquired by the Company in connection with the formation or promotion of the Company or the Issue;

(b) no amount, whether in cash or securities or otherwise, has been paid or agreed to be paid, or any benefit given or agreed to be given, to any Director to induce him or her to become, or to qualify him or her as, a Director; and

(c) no amount, whether in cash or securities or otherwise, has been paid or agreed to be paid, or any benefit given or agreed to be given, for the services provided by a Director, Adviser or promoter of the Company in connection with the formation or promotion of the Company or the Issue.

Directors' Share and Option holdings

No Director as at the date of this Prospectus is the beneficial holder of any Shares or Options in the Company other than as set out below:

Director	No of Shares[1]	No of Options[1]
Mr Ronald Rowland	Nil	Nil
Mr David Sekel	3,360	4,000,000[2]
Prof. Ron Sekel	7,925,639	
Dr Richard Gregson	Nil[3]	Nil
Mr John Lee	Nil	Nil

Notes:

1. The Directors may acquire shares offered for subscription pursuant to this Prospectus. The number of Shares set out represents the number that will be held by the Directors upon admission of the Company to the official list of ASX, other than those which may be subscribed for under the Prospectus.

2. 4,000,000 Options will be issued to Mr David Sekel and Professor Ronald Sekel or entities associated with them, in proportions yet to be agreed under the Company's Executive and Staff Option Plan, upon admission of the Company to the official list of ASX.

3. Dr Richard Gregson is the Managing Director of Equity Partners Management Pty Limited (Equity Partners Management) and a director of Equity Partners Two Pty Limited. Equity Partners, as trustee of the Equity Partners 2 Trust will be the holder of 41,940,562 Shares (being 33% of the issued Shares) upon completion of the Issue. Equity Partners Management is entitled to be paid management fees based on the total amount of funds invested in the various trusts managed by it, and an incentive fee based upon the overall performance of the portfolios.

Additional Information

Directors Fees & Expenses

The Company's constitution provides that the non-executive Directors are entitled to be paid fees for their services as Directors, as determined by the Board, but the total amount paid to non-executive Directors for their services must not exceed in aggregate in any year, the amount fixed by the Company in general meetings from time to time. This amount has been fixed by the Company at $300,000. The total remuneration to be paid to non-executive Directors is currently $110,000 per annum.

In the normal course of business, the Directors are entitled to be reimbursed for reasonable travelling, hotel and other expenses incurred by them in the performance of their duties as Directors. Directors may also be paid such additional or special remuneration as the Board determines is appropriate where a Director performs extra services for the Company.

Refer to Section 9.5.6 for information in relation to the Executive Directors remuneration.

Directors Indemnity and Insurance

The Company has entered into deeds of access, indemnity and insurance with each of the Directors, under which the Company has agreed to:

- continue to provide the Directors with access to certain relevant information after they cease to be Directors;
- to the extent permitted by law, indemnify the Directors against liabilities incurred in their capacity as directors of the Company and its subsidiaries; and
- maintain certain Directors' liability insurance in respect of the Directors, both during and after the period they are Directors.

9.8 Summary Of Issue Costs

The costs of the Issue and listing on ASX are estimated to be as follows:

	Minimum Subscriptions $000	Maximum Subscriptions $000
Financial advisory fees	105	105
Brokerage fees	220	275
Legal fees	90	90
Accountant's fees	56	56
Independent Regulatory Expert Report	3	3
Patent Attorney's Report	3	3
ASX and ASIC fees	55	55
Share Registry	15	15
Printing, Marketing and Distribution	109	109
TOTAL	**656**	**711**

9.9 Consents And Disclaimers

Each of the parties referred to in this Section:

- has not caused or authorised the issue of this Prospectus;
- does not make, or purport to make, any statement in this Prospectus other than those (if any) referred to in this section; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and (if applicable) a statement included in this Prospectus with the consent of that party as specified in this Section.

Axis Financial Group (Australia) Limited has given its written consent to be named in this Prospectus as Financial Adviser and Broker to the Issue in the form and context in which it is named and has not withdrawn that consent prior to lodgement of this Prospectus with the ASIC.

Grant Thornton Corporate (NSW) Pty Limited has given its written consent to the inclusion in this Prospectus of the Independent Accountant's Report in Section 6 in the form and context in which it is included and to be named in this Prospectus as the Independent Accountant in the form and context in which it is named and have not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Grant Thornton NSW Chartered Accountants have given their written consent to be named in this Prospectus as auditor to the Company in the form and context in which they are named and has not withdrawn that consent prior to lodgement of this Prospectus with the ASIC.

Deacons have given their written consent to be named in this Prospectus as legal advisers to the Company in the form and context in which they are named and have not withdrawn that consent prior to lodgement of this Prospectus with the ASIC.

Brandwood Biomed Pty Limited (Brandwood Biomed) has given its written consent to the inclusion in this Prospectus of the Independent Regulatory Expert Report in Section 7 in the form and context in which it is included and to be named in this Prospectus as the Independent Regulatory Expert in the form and context in which he is named and has not withdrawn that consent prior to lodgement of this Prospectus with the ASIC.

Walsh & Associates have given their written consent to the inclusion in this Prospectus of the Patent Attorney's Report in Section 8 in the form and context in which it is included and to be named in this Prospectus as the Patent Attorney in the form and context in which they are named and have not withdrawn that consent prior to lodgement of this Prospectus with the ASIC.

PricewaterhouseCoopers have given their written consent to be named in this Prospectus as auditor to the Company in relation to the Company's 2003 and 2004 financial years in the form and context in which they are named and have not withdrawn that consent prior to lodgement of this Prospectus with the ASIC.

Computershare Investor Services Pty Limited (Computershare) has given its written consent to be named in this Prospectus as Share Registry in the form and context in which it is named and has not withdrawn that consent prior to lodgement of this Prospectus with the ASIC. Computershare has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registrar.

9.10 Interests of Experts And Advisers

Axis Financial Group (Australia) Limited has acted as Financial Adviser and Broker to the Issue. For these services, the Company has agreed to pay the fees set out in section 9.5.7.

Grant Thornton Corporate (NSW) Pty Limited (Grant Thornton) has acted as the Independent Accountant in relation to the Issue. As the Independent Accountant, Grant Thornton has been involved in undertaking due diligence in relation to financial and certain taxation matters and has prepared an Independent Accountant's Report which has been included in this Prospectus. In respect of this work, the Company has agreed to pay Grant Thornton a total of $56,000 up to the date of this Prospectus. Grant Thornton may receive further payments in accordance with their normal time based charges.

Deacons have acted as solicitors to the Company in relation to the Issue and in that capacity, Deacons have been involved in

undertaking due diligence enquiries in relation to legal matters and providing legal advice to the Company in relation to the Issue. In respect of this work, the Company has agreed to pay Deacons $90,000 up to the date of this Prospectus. Deacons may receive further payments in accordance with their normal time based charges.

Brandwood Biomed Pty Limited has prepared the Independent Regulatory Expert Report which has been included in this Prospectus. In respect of this work the Company has agreed to pay Brandwood Biomed $3,000.

Walsh & Associates have prepared the Patent Attorney's Report which has been included in this Prospectus. In respect of this work the Company has agreed to pay Walsh & Associates $3,000.

9.11 Related Party Disclosure

9.11.1 Acquisition of Portland Square Pty Limited from Professor Ronald Sekel

On 17 October 2001, Professor Ronald Sekel was issued 7,151,480 Shares in consideration of the sale of all the shares in Portland Square Pty Limited (Portland Square) to the Company. Portland Square is the subsidiary of the Company which owns some of the patents and some of the other intellectual property of the group.

9.11.2 Loan from Ronald Sekel Superannuation Fund

The Company currently has an unsecured interest free loan of $50,000 from a superannuation fund associated with Professor Ronald Sekel which is repayable at call.

9.12 Documents Available For Inspection

Copies of the following documents will be available for inspection during normal office hours free of charge at the registered office of the Company until the Closing Date:

- the constitution of the Company;
- the full terms of the Options to be issued under this Prospectus; and
- the terms and conditions of the ESOP described in Section 9.4.3.

9.13 Governing Law

This Prospectus and the contracts that arise from the acceptance of Applications are governed by the laws applicable in New South Wales and each applicant submits to the exclusive jurisdiction of the courts of New South Wales and of the Commonwealth of Australia.

9.14 Authorisation of Prospectus

Each director of the Company has given, and has not withdrawn as at the date of this Prospectus, their consent to the lodgement of the Prospectus in accordance with section 720 of the Corporations Act.

Glossary

"$"	means all dollar amounts are in Australian dollars, unless otherwise stated.
"Application"	means a valid application made to acquire or subscribe for a specified number of Shares pursuant to this Prospectus.
"Application Form"	means the form attached to this Prospectus through which an Application can be made.
"ASIC"	means the Australian Securities and Investments Commission.
"ASTC Settlement Rules"	means the settlement rules of ASX Settlement and Transfer Corporation Pty Limited as amended from time to time.
"ASX"	means the Australian Stock Exchange Limited ACN 008 624 691.
"Axis"	means Axis Financial Group (Australia) Limited ABN 32 006 711 995.
"Board"	means the board of directors of the Company.
"Broker to the Issue"	means Axis.
"Business Day"	means any day other than a Saturday, Sunday, bank holiday or public holiday or day the Company's bank is closed for business in Sydney.
"CE Mark"	means the approval given by an authorised body as a precondition for the sale of products within the European Union.
"Closing Date"	means the date on which the Application list is expected to close, being 9 December 2005, unless the Company varies that date.
"Company" or "Portland"	means Portland Orthopaedics Limited ACN 086 839 992.
"Corporations Act"	means the Corporations Act 2001.
"Directors"	means the directors of the Company.
"DTC"	means double threaded cone.
"EBIT"	means earnings before interest and tax.
"Equity Partners"	means Equity Partners Two Pty Limited.
"Existing Options"	means the Options issued by the Company before the date of this Prospectus.
"FDA"	means the US Food and Drug Administration.
"Founders"	means Professor Ronald Sekel, Andrew Sekel as trustee of the David Sekel Trust and Bucknell Pty Limited as trustee of the Margaret Sekel Trust.
"GBS Venture Partners"	means GBS Venture Partners Limited.
"Grant Thornton NSW"	means Grant Thornton NSW Chartered Accountants.

Glossary

"Issue"	means the issue of Shares and Options under this Prospectus.
"Issue Price"	means $0.25.
"Listing Rules"	means the Official Listing Rules of the ASX.
"M-COR"	means modular centre of rotation
"Minimum Subscription"	means 16 million Shares at an issue price of $0.25 per share, payable in full upon Application.
"Option"	means an option to subscribe for a Share in the Company.
"PMA"	means pre-market approval.
"PricewaterhouseCoopers"	means PricewaterhouseCoopers ABN 52 780 433 757.
"Prospectus"	means this prospectus dated 1 November 2005.
"Share"	means an ordinary share in the Company.
"Share Registry"	means Computershare Investor Services Pty Limited.
"STA"	means Superannuation Trust of Australia.
"TGA"	means the Australian Therapeutic Goods Administration.
"TKR"	means total knee replacement.
"Venture Capital Investors"	means Perpetual Trustees Nominees Limited in its capacity as trustee of the Australian Bioscience Trust, GBS Venture Partners in its capacity as trustee of GBS BioVentures II, Equity Partners in its capacity as trustee of Equity Partners 2 Trust and Savings Australia Pty Limited in its capacity as trustee of Superannuation Trust of Australia.

PORTLAND ORTHOPAEDICS

PORTLAND ORTHOPAEDICS LIMITED ABN 92 086 839 992
(Company)

Share Registry Use Only

Broker Reference - Stamp Only

Application Form

This Application Form relates to the Prospectus issued by the Company dated 1 November 2005 for the offer of fully paid ordinary Shares at $0.25 per Share with attaching Options (Prospectus). The Prospectus, which contains information about investing in the securities, expires on 30 November 2006. If you are in doubt as to how to deal with it, please contact your professional adviser. You should read the entire Prospectus carefully before completing this form. This Application Form must not be distributed unless included in, or accompanied by, the Prospectus.

Broker Code

Adviser Code

A **I/we apply for**

B **I/we lodge full Application Money**

A$.

Shares in Portland Orthopaedics Limited at $0.25 per Share or such lesser number of Shares which may be allocated to me/us.
Minimum Application 8,000 Shares and multiples of 2,000 Shares thereafter.

C **Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)**

Title or Company Name | Given Name(s) | Surname

ACN

Joint Applicant 2 or Account Designation

Joint Applicant 3 or Account Designation

D **Enter your postal address - Include State and Postcode**

Unit | Street Number | Street Name or PO Box /Other Information

City / Suburb / Town | State | Postcode

E **Enter your contact details**

Contact Name

Telephone Number - Business Hours ( )

Telephone Number - After Hours ( )

F **CHESS Participant**

Holder Identification Number (HIN)

X

Please note that if you supply a CHESS HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESS, your Application will be deemed to be made without the CHESS HIN, and any securities issued as a result of the issue will be held on the Issuer Sponsored subregister.

Cheque details - Make your cheque or bank draft payable to Portland Orthopaedics Limited-Share Issue Account.

G

Drawer	Cheque Number	BSB Number	Account Number	Amount of cheque
				A$
				A$

By submitting this Application Form, I/we declare that this Application is completed and lodged according to the Prospectus and the declarations/statements on the reverse of this Application Form, declare that all details and statements made by me/us (including the declaration on the reverse of this Application Form) are complete and accurate, was /were given access to an electronic copy of the Prospectus together with the Application Form (if relevant) and authorise the Directors to complete or amend the Application Form where necessary to correct any errors or omissions. I/we agree to be bound by the Constitution of the Company.

See back of form for completion guidelines

How to complete this form

PORTLAND ORTHOPAEDICS

A Shares Applied for

Enter the number of Shares you wish to apply for. The Application must be for a minimum of 8,000 Shares. Applications for greater than 8,000 Shares must be in multiples of 2,000 Shares.

B Application Monies

Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares by the price per Share.

C Applicant Name(s)

Enter the full name you wish to appear on the statement of share holding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHESS) participants should complete their name identically to that presently registered in the CHESS system.

D Postal Address

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

E Contact Details

Enter your contact details. These are not compulsory but will assist us if we need to contact you.

F CHESS

Portland Orthopaedics Limited (the Company) will apply to the ASX to participate in CHESS, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Stock Exchange Limited. In CHESS, the Company will operate an electronic CHESS Subregister of security holdings and an electronic Issuer Sponsored Subregister of security holdings. Together the two Subregisters will make up the Companys principal register of securities. The Company will not be issuing certificates to applicants in respect of Shares and Options allotted. If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold Shares and Options allotted to you under this Application on the CHESS Subregister, enter your CHESS HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

G Payment

Make your cheque or bank draft payable to Portland Orthopaedics Limited - Share Issue Account in Australian currency and cross it Not Negotiable. Your cheque or bank draft must be drawn on an Australian Bank.

Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B.

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected. Pin (do not staple) your cheque(s) to the Application Form where indicated. Cash will not be accepted. Receipt for payment will not be forwarded.

Before completing the Application Form the applicant(s) should read this Prospectus to which this application relates. By lodging the Application Form, the applicant agrees that this Application for Shares in Portland Orthopaedics Limited is made upon and subject to the terms of the Prospectus and the Constitution of Portland Orthopaedics Limited, agrees to take any number of Shares and Options that may be allotted to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Application

Application Forms must be received by no later than 5:00pm Sydney time on 9 December 2005. Return the Application Form with cheque(s) attached to:

Portland Orthopaedics Limited Share Issue
C/- Axis Financial Group (Australia) Limited
PO Box R1464 Royal Exchange NSW 1225
OR Level 24, 56 Pitt Street Sydney NSW 2000

OR

Portland Orthopaedics Limited Share Issue
C/- Computershare Investor Services Pty Limited
GPO Box 7115 Sydney NSW 2001
OR Level 3, 60 Carrington Street, Sydney NSW 2000

Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited ("CIS"), as registrar for the Company, for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or E-mail privacy@computershare.com.au

If you have any enquiries concerning your Application, please contact Axis Financial Group (Australia) Limited on 02 9375 0100.

Correct forms of registrable title(s)

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

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual - Use given name(s) in full, not initials	Mr John Alfred Smith	J.A. Smith
Joint - Use given name(s) in full, not initials	Mr John Alfred Smith & Mrs Janet Marie Smith	John Alfred & Janet Marie Smith
Company - Use company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
Trusts - Use trustee(s) personal name(s) - Do not use the name of the trust	Ms Penny Smith <Penny Smith FamilyA/C>	Penny Smith Family Trust
Deceased Estates - Use executor(s) personal name(s) - Do not use the name of the deceased	Mr Michael Smith <Est John SmithA/C>	Estate of Late John Smith
Minor (a person under the age of 18) - Use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter SmithA/C>	Peter Smith
Partnerships - Use partners personal name(s) - Do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith & SonA/C>	John Smith & Son
Clubs/Unincorporated Bodies/Business Names - Use office bearer(s) personal name(s) - Do not use the name of the club etc	Mrs Janet Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds - Use the name of trustee of the fund - Do not use the name of the fund	John Smith Pty Ltd <Super Fund A/C>	John Smith Pty Ltd Superannuation Fund

PORTLAND ORTHOPAEDICS

PORTLAND ORTHOPAEDICS LIMITED ABN 92 086 839 992
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Joint Applicant 2 or Account Designation

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PORTLAND ORTHOPAEDICS

THE FREEDOM OF AN ACTIVE LIFESTYLE

Unit 3, 44 McCauley Street
Matraville, NSW 2036
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Fax: +61 2 9666 8544
Email: info@portland-orthopaedics.com
Web: **www.portland-orthopaedics.com**

PORTLAND ORTHOPAEDICS