UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of January 2007

Commission File Number 000-51122

pSivida Limited
(Translation of registrant's name into English)

Level 12 BGC Centre
28 The Esplanade
Perth WA 6000
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F).

Form 20-F ☒ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- ___.

The documents attached as Exhibits 99.1 through 99.5 to this Report on Form 6-K are hereby incorporated by reference herein and into the following registration statements: (i) the Registrant's Registration Statement on Form F-3, Registration No. 333-132776; (ii) the Registrant's Registration Statement on Form F-3, Registration No. 333-132777; and (iii) the Registrant's Registration Statement on Form F-3, Registration No. 333-135428.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant, pSivida Limited, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 3, 2007

pSivida Limited

By: /s/ Michael J. Soja

Michael J. Soja
Vice President of Finance and Chief Financial Officer

EXHIBIT INDEX

EXHIBIT 99.1:	Second Amendment Agreement, dated as of December 29, 2006 by and between pSivida Limited and Castlerigg Master Investments LTD
EXHIBIT 99.2	pSivida Limited Series C Warrants to Purchase ADRs
EXHIBIT 99.3	Form of pSivida Limited Series D Warrants to Purchase ADRs
EXHIBIT 99.4	Form of Second Amended and Restated Convertible Note
EXHIBIT 99.5	Press Release: pSivida Released From Loan Covenant

SECOND AMENDMENT AGREEMENT

SECOND AMENDMENT AGREEMENT (the "**Agreement**"), dated as of December 29, 2006, by and among pSivida Limited, an Australian corporation, with headquarters located at Level 12, BGC Centre, 28 The Esplanade, Perth, WA 6000 Australia (the "**Company**"), and Castlerigg Master Investments Ltd. (the "**Investor**").

WHEREAS:

A. The Company and the Investor are parties to that certain Securities Purchase Agreement, dated as of October 5, 2005 (as amended prior to the date hereof, the "**Existing Securities Purchase Agreement**"), pursuant to which, among other things, the Investor purchased from the Company (i) subordinated convertible notes, dated November 16, 2005 (the "**Original Notes**"), which are convertible in accordance with their terms into American Depositary Shares of the Company ("**ADSs**") each of which represents 10 ordinary shares of the Company (the "**Ordinary Shares**") and is evidenced by an American Depository Receipt ("**ADR**") and (ii) warrants (the "**Original Warrants**"), which are exercisable to purchase 633,803 ADSs (the "**Original Warrant Shares**").

B. On November 16, 2005, the Company and the Investors entered into a Registration Rights Agreement (the "**Original Registration Rights Agreement**"), pursuant to which the Company agreed to provide certain registration rights with respect to the Registrable Securities (as defined in the Original Registration Rights Agreement) under the Securities Act of 1933, as amended (the "**1933 Act**"), and the rules and regulations promulgated thereunder, and applicable state securities laws.

C. The Company and the Investor are also parties to that certain Amendment Agreement, dated as of July 28, 2006 (the "**Amendment Agreement**"), pursuant to which, among other things, on September 14, 2006, (i) the Company paid to the Investor the Amendment Payment Amount (as defined in the Amendment Agreement); (ii) the Company issued to the Investor amended and restated notes (the "**Existing Notes**"), convertible into ADSs, in accordance with the terms thereof; (iii) the Company issued to the Investor Series A Warrants (the "**Series A Warrants**") exercisable to purchase 5,700,000 ADSs (the "**Existing Series A Warrant Shares**"), in accordance with the terms thereof; (iv) the Company agreed to issue to the Investor warrants (the "**Series B Warrants**") from time to time in accordance with the terms of the Existing Notes, which shall be exercisable to purchase ADSs (the "**Existing Series B Warrant Shares**", and collectively with the Original Warrant Shares and the Existing Series A Warrant Shares, the "**Existing Warrant Shares**"), in accordance with the terms thereof; (v) the Company and the Investor entered into the Amended and Restated Registration Rights Agreement (the "**Existing Registration Rights Agreement**"), pursuant to which the Company has agreed to provide certain registration rights with respect to the Registrable Securities (as defined in the Existing Registration Rights Agreement) under the 1933 Act, and the rules and regulations promulgated thereunder, and applicable state securities laws; (vi) the Company redeemed $2.5 million in principal amount of the Original Notes.

D. In connection with that certain Letter Agreement, by and between the Company and the Investor, dated October 17, 2006 (the "**Letter Agreement**"), the Company

agreed to make certain payments to the Investor, and the Company and the Investor agreed (i) to amend certain of the provisions of the Existing Registration Rights Agreement in connection with the Registration Statement on Form F-3 (SEC File No. 333 132777) registering 12,737,139 ADSs issuable to the Investor and (ii) to pay the Investor US$800,000 pursuant to Section 3(a) of the Letter Agreement (the "**Letter Agreement Payment Amount**");

E. The Company and the Investor desire to enter into this Agreement, pursuant to which, among other things, in consideration of the Investor's waiver set forth in Section 2 below, (i) the Company and the Investor shall amend and restate the Existing Notes in the form attached hereto as Exhibit A (the "**Second Amended and Restated Notes**" and the ADSs into which it is convertible, the "**Second Amended and Restated Conversion Shares**"); (ii) the Company shall issue, upon the terms and conditions stated in this Agreement, Series C Warrants in the form attached hereto as Exhibit B (the "**Series C Warrants**") which shall be exercisable to purchase One Million and Five Hundred Thousand (1,500,000) ADSs (the "**Series C Warrant Shares**"), in accordance with the terms thereof; (iii) the Company shall issue, upon the terms and conditions stated in this Agreement, Series D Warrants in the form attached hereto as Exhibit C (the "**Series D Warrants**", and together with the Series C Warrants, the "**New Warrants**") which as of the date hereof is estimated to be exercisable to purchase Four Million (4,000,000) ADSs in accordance with the terms thereof (as estimated, the "**Estimated Series D Warrants**") and such number of ADSs issuable upon exercise of the Series D Warrants issued on the Closing Date in accordance with the terms thereof and after adjustment in accordance with Section 4(c) below are referred to herein as the "**Series D Warrant Shares**"; (iv) the parties hereto will further amend and restate the Existing Registration Rights Agreement in the form attached hereto as Exhibit D (the "**Second Amended and Restated Registration Rights Agreement**") and (v) the Company shall increase the principal amount of the Existing Notes by $306,391 (the "**Note Increase Amount**"), which shall constitute payment in full to the Investor of any accrued and unpaid interest on the Existing Note of the Investor, which is payable on or prior to January 2, 2007 under the terms of the Existing Note to the Investor (the "**Interest Payment Amount**").

F. The amendment and restatement of the Existing Notes and the issuance of the Series C Warrants and Series D Warrants is being made in reliance upon an exemption from registration under the 1933 Act.

G. On or prior to the Closing Date, the Company desires to (i) issue to Nordic Eyepharma K/S and/or one of its affiliates or designees (collectively, "**Nordic**") for a purchase price of up to Five Million Dollar (US$5,000,000) dollars (x) warrants (the "**Nordic Warrants**"), which shall be exercisable at an exercise price of $2.00 per share to purchase up to One Million (1,000,000) ADSs and (y) a convertible security, which shall be convertible at a conversion price of $2.00 per share into up to Two Million (2,000,000) ADSs (collectively, the "**Interim Financing Transaction**") and (ii) in a series of periodic investments, to issue to Nordic or such other Person (the "**Finance Party**") additional convertible or other securities in exchange for up to Twenty Two Million Dollars (US$22,000,000), in the aggregate, into the Company, an affiliate or a special purpose entity (the "**Financing Entity**"), into which the Company shall have assigned or transferred, as applicable or to which Financing Party the Company shall have granted a Lien (as defined in the Amended and Restated Note) in

(collectively, the "**Collateral Transfer**"), the intellectual property and assets related to the Company's Medidur and Mifepristone (RU486) product lines (the "**Collateral**") into the **Financing** Entity, which additional convertible securities shall be convertible at a conversion price of $2.00 per share into up to Eleven Million, Five Hundred Thousand (11,500,000) ADSs (the "**Secondary Financing**" and together with the Interim Financing Transaction, the "**Financing Transactions**").

H. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings ascribed to them in the Amended Securities Purchase Agreement (as defined below) and, if not defined therein, the Second Amended and Restated Notes.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises hereinafter set forth, the Company and the Investor hereby agree as follows:

1. AMENDMENT AND RESTATEMENT OF NOTES AND ISSUANCE OF NEW WARRANTS.

(a) Series C Warrants. As of the date hereof, as consideration for the Investor entering into this Agreement, the Company shall issue and deliver to the Investor the Series C Warrants, exercisable for One Million and Five Hundred Thousand (1,500,000) ADSs.

(b) Notes and Series D Warrants. Subject to satisfaction (or waiver) of the conditions set forth in Sections 5 and 6 below, at the closing contemplated by this Agreement (the "**Closing**"), (i) the Investor shall surrender to the Company its Existing Notes and the Company shall issue and deliver to the Investor the Amended and Restated Notes in a principal amount equal to the sum of (x) the principal amount of the Existing Notes being so amended and restated and (y) the Note Increase Amount, (ii) the Company shall issue and deliver to the Investor the Series D Warrants, exercisable for Four Million (4,000,000) ADSs and (iii) the Interest Payment Amount shall be deemed paid in full to the Investor.

(c) Letter Agreement. Section 3(a) of the Letter Agreement is hereby amended to replace each reference to "December 28, 2006" with the following:

> the earlier to occur of (x) the Closing Date (as defined in that certain Second Amendment Agreement, dated December 29, 2006, by and between the Company and the Holder (the "Second Amendment Agreement"), (y) the date of the consummation of the Secondary Financing (as defined in the Second Amendment Agreement) and (z) March 31, 2007

(d) Ratifications. Except as otherwise expressly provided herein, (i) the Existing Securities Purchase Agreement as amended hereby (the "**Amended Securities Purchase Agreement**"), the Original Warrants, the Series A Warrants and the Irrevocable Transfer Agent Instructions are, and shall continue to be, in full force and effect and are hereby ratified and confirmed in all respects, except that on and after the Closing Date (A) all references in the Existing Securities Purchase Agreement to "this Agreement", "hereto", "hereof", "hereunder" or words of like import referring to the Existing Securities Purchase Agreement shall mean the Amended Securities Purchase Agreement, (B) all references in the Transaction

Documents to "this Agreement", "hereto", "hereof", "hereunder" or words of like import referring to the Existing Registration Rights Agreement or the Original Registration Rights Agreement shall mean the Second Amended and Restated Registration Rights Agreement, (C) all references in the other Transaction Documents to the "Registration Rights Agreement", "Amended and Restated Registration Rights Agreement", "thereto", "thereof", "thereunder" or words of like import referring to the Existing Registration Rights Agreement or Original Registration Rights Agreement shall mean the Second Amended and Restated Registration Rights Agreement, (D) all references in the Securities Purchase Agreement and the other Transaction Documents to "Transaction Documents" shall also include this Agreement, the Second Amended and Restated Notes, the Series C Warrants and the Series D Warrants, (E) all references in the Securities Purchase Agreement and the other Transaction Documents to "Notes" or "Amended and Restated Notes" shall mean the Second Amended and Restated Notes, (F) all references in the Existing Securities Purchase Agreement and the other Transaction Documents to "Conversion Shares" or "Amended and Restated Conversion Shares" shall mean the Second Amended and Restated Conversion Shares, (G) all references in the existing Securities Purchase Agreement and the other Transaction Documents to "Warrants" shall be amended to include the New Warrants, and (H) all references in the Securities Purchase Agreement and the other Transaction Documents to "Warrant Shares" shall be amended to include Series C Warrant Shares and the Series D Warrant Shares in addition to the Existing Warrant Shares, and (ii) the execution, delivery and effectiveness of this Agreement shall not operate as an amendment of any right, power or remedy of the Investor under any Transaction Document, nor constitute an amendment of any provision of any Transaction Document.

(e) Closing Date. The date and time of the Closing (the "**Closing Date**") shall be 10:00 a.m., New York Time, as soon as practicable after notification of satisfaction (or waiver) of the conditions to the Closing set forth in Sections 5 and 6 below (or such other time and date as is mutually agreed to by the Company and the Investor). The Closing shall occur on the Closing Date at the offices of Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022.

(f) Closing. On the Closing Date, (i) the Company (A) shall issue and deliver to the Investor, the Second Amended and Restated Notes, duly executed on behalf of the Company and registered in the name of the Investor, and (C) shall issue and deliver to the Investor, the Series D Warrants, duly executed on behalf of the Company and registered in the name of the Investor, and (ii) the Investor shall deliver to the Company the Existing Notes for cancellation.

2. WAIVERS; STANDSTILL

(a) Net Cash Balance Waiver. Effective as of the Closing Date, until and including March 30, 2007, Section 15(e) of the Note is hereby waived in its entirety. From and after March 31, 2007, such waiver shall no longer be effective.

(b) Registration Delay Payments Waiver. Effective as of the Closing Date, the Investor hereby agrees to permanently waive its right to receive the Registration Delay Payments (as defined in the Existing Registration Rights Agreement) accrued as a result of the Company's failure to file the Additional Registration Statement on or prior to the Additional

Filing Deadline (as defined in the Existing Registration Rights Agreement), and unpaid to such Investor as of the date hereof through the tenth day following the earlier to occur of (A) the Closing Date, (B) the date of the consummation of the Secondary Financing and (C) March 31, 2007.

(c) Transaction Waiver. Effective as of the Closing Date, the Investor hereby agrees to waive any provision of the Second Amended and Restated Note, which would otherwise prohibit the Collateral Transfer to the Financing Entity in connection with the Secondary Financing.

(d) Standstill. The Investor hereby agrees to forbear from taking any remedial action, declaring any default and from accelerating and demanding any amounts due, in respect of the Existing Note, the Guaranty, the Existing Securities Purchase Agreement, and all other related documents, until the earlier of (the "**Forbearance Expiration Date**"): (i) 5:00 p.m. prevailing Boston, Massachusetts time on Wednesday, March 31, 2007, (ii) the Closing Date and (iii) the occurrence of an Event of Default described in either of Sections 4(a)(vi) or 4(a)(vii) of the Existing Note (but not including any involuntary bankruptcy or insolvency petition filed or joined by the Investor).

3. REPRESENTATIONS AND WARRANTIES

(a) Investor Bring Down. The Investor hereby represents and warrants to the Company as set forth in Section 2 of the Amended Securities Purchase Agreement as to this Agreement as if such representations and warranties were made as of the date hereof and set forth in their entirety in this Agreement. The Investor hereby represents and warrants to the Company with respect to itself only that it is not actually aware of any outstanding Events of Default. The Investor further represents and warrants to the Company that: (a) it is the sole holder of the Existing Notes; (b) that it has not transferred beneficial ownership thereof; and (c) this agreement shall constitute written consent of the Required Holders pursuant to Section 17 of the Existing Notes.

(b) Company Bring Down. The Company represents and warrants to the Investor as set forth in Section 3 of the Amended Securities Purchase Agreement as if such representations and warranties were made as of the date hereof and set forth in their entirety in this Agreement; provided that the Schedules to the Amended Securities Purchase Agreement are replaced in their entirety by the Schedules attached to this Agreement. Such representations and warranties in the Amended Securities Purchase Agreement to the transactions thereunder and the securities issued thereby are hereby deemed for purposes of this Agreement to be references to the transactions hereunder and the issuance of the securities hereby, and references therein to "**Closing Date**" being deemed references to the Closing Date as defined in Section 1(d) above. The Company represents and warrants to the Investor that it is not aware of any outstanding Events of Default other than those which have been specifically waived by the Investor pursuant to Section 2(b). The Company represents and warrants to the Investor that this Agreement, the terms of the Second Amended and Restated Notes, the terms of the Series C Warrants, the issue of the Series C Warrants, the terms of the Series D Warrants, the issue of the Series D Warrants and the agreement to issue shares or ADRs on exercise of the Second Amended and Restated Notes or Series C Warrants or Series D Warrants: (i) comply in all respects with the

Corporations Act 2001 (Cwth) and the Listing Rules of the Australian Stock Exchange Limited; and, (ii) do not require any approval from the Australian Stock Exchange Limited or shareholders of the Company. The Company will not challenge, and based on the facts in existence as of the date hereof, has no basis to disagree with, the Investor's position that the holding period of the Second Amended and Restated Notes and the Second Amended and Restated Conversion Shares may be tacked back to the date of issuance of the Existing Notes for purposes of Rule 144 promulgated under the 1933 Act (or a successor rule) and will not take any action which would be likely to adversely affect such tacking for the benefit of the Investor, including, without limitation, taking negative action with respect to the reliance by the Company's transfer agent on an opinion letter of the Investor's Legal Counsel.

4. CERTAIN COVENANTS AND AGREEMENTS; RELEASE

(a) Disclosure of Transactions and Other Material Information. On or before 10:30 a.m., New York Time, on the second Business Day following the date of this Agreement, the Company shall issue a press release (the "**Initial Press Release**") and shall file a Form 6-K describing the terms of the transactions contemplated by this Agreement in the form required by the 1934 Act and attaching the material Transaction Documents (including, without limitation, this Agreement (other than the schedules to this Agreement), the form of each of the Second Amended and Restated Notes, the Second Amended and Restated Registration Rights Agreement, the form of each of the Series C Warrants and the Series D Warrants) as exhibits to such submission (such submission including all attachments, the "**Initial 6-K Filing**"). On or before 8:30 a.m., New York Time, on the first Business Day following the Closing Date, the Company shall issue a press release (the "**Closing Press Release**") and shall file a Form 6-K describing the terms of the transactions contemplated by this Agreement in the form required by the 1934 Act and attaching any material transaction documents not previously filed as exhibits to such filing (including, without limitation, this Agreement (other than the schedules to this Agreement), the form of each of the Second Amended and Restated Notes, the Second Amended and Restated Registration Rights Agreement, the form of each of the Series C Warrants and the Series D Warrants) as exhibits to such submission (such submission including all attachments, the "**Closing 6-K Filing**", and together with the Initial 6-K Filing, the "**6-K Filings**"). The Initial Press Release and the Closing Press Release shall also indicate that the Company is seeking to raise additional funding. From and after the submission of the Closing 6-K Filing with the SEC, no Investor shall be in possession of any material, nonpublic information received from the Company, any of its Subsidiaries or any of its respective officers, directors, employees or agents, that is not disclosed in the 6-K Filings or in some other public filing or public disclosure. The Company shall not, and shall cause each of its Subsidiaries and its and each of their respective officers, directors, employees and agents, not to, provide the Investor with any material, nonpublic information regarding the Company or any of its Subsidiaries from and after the filing of the Closing 6-K Filing with the SEC without the express written consent of the Investor. In the event of a breach of the foregoing covenant by the Company, any of its Subsidiaries, or any of its or their respective officers, directors, employees and agents, in addition to any other remedy provided herein or in the Transaction Documents, the Investor shall have the right to require the Company to make promptly a public disclosure, in the form of a press release, public advertisement or otherwise, of such material, nonpublic information. Subject to the foregoing, neither the Company, its Subsidiaries nor the Investor shall issue any press releases or any other public statements with respect to the transactions contemplated hereby; provided, however, that

the Company shall be entitled, without the prior approval of the Investor, to make any press release or other public disclosure with respect to such transactions (i) in substantial conformity with the 6-K Filings and contemporaneously therewith and (ii) as is required by applicable law and regulations (provided that in the case of clause (i) the Investor shall be consulted by the Company in connection with any such press release or other public disclosure prior to its release).

(b) Fees and Expenses. The Company shall reimburse the Investor for its legal fees and expenses in connection with the preparation and negotiation of this Agreement by paying such amount to Schulte Roth & Zabel LLP as set forth in such firm's written invoice therefore (the "**Investor Counsel Expense**"). Except as otherwise set forth in this Agreement, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all stamp and other taxes and duties levied in connection with the issuance of the Second Amended and Restated Notes, Series C Warrants and Series D Warrants.

(c) Most Favored Nation. As of the date hereof, the Company and the Investor agree that the ratio of (i) the Black Scholes Value of the Series C Warrants and the Estimated Series D Warrants to be issued to Investor hereunder and (ii) the Black Scholes Value of the Nordic Warrants anticipated to be issued in the Interim Financing Transaction equals 5.5 (the "**Warrant Ratio**"). On the Closing Date, if either (x) the exercise price of the Nordic Warrants issued in the Interim Financing Transactions is less than $2.00 (a "**Dilutive Issuance Price**") or (y) such Nordic Warrants are exercisable to purchase more than One Million (1,000,000) ADSs (or their equivalent in ordinary shares), the Company shall issue such Series D Warrants to the Investor with an exercise price equal to such Dilutive Issuance Price (or if no Dilutive Issuance Price exists, the exercise price shall remain at $2.00) and the number of ADSs issuable upon exercise of such Series D Warrants (the "**Actual Series D Warrants**") shall be increased as necessary to ensure that (A) the Black Scholes Value of the Series C Warrants and the Actual Series D Warrants shall equal (B) the product of (I) the Warrant Ratio and (II) the Black Scholes Value of the Nordic Warrants issued in the Interim Financing Transaction; provided, that, notwithstanding the foregoing, if the Black Scholes Value of the Actual Series D Warrants is less than the Black Scholes Value of the Estimated Series D Warrants, the Estimated Series D Warrants shall be issued to the Investor on the Closing Date. For the purpose of this Agreement, "**Black Scholes Value**" of any warrant means the value of such warrant based on the Black and Scholes Option Pricing Model obtained from the "OV" function on Bloomberg determined as of the day immediately preceding such date of determination and reflecting (i) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of such warrant as of such date of request and (ii) an expected volatility equal to 60 percent.

(d) Schedules. The Company hereby agrees that the Schedules referred to in Section 3(b) and 4(a) shall be delivered to the Investor no later than the fifth (5th) Business Day after the date hereof.

5. CONDITIONS TO ComPANY'S OBLIGATIONs hereunder.

The obligations of the Company to the Investor hereunder are subject to the satisfaction of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion by providing the Investor with prior written notice thereof:

(a) The Investor shall have executed this Agreement and delivered the same to the Company.

(b) If on or prior to March 31, 2007, the Interim Financing Transactions shall have been consummated; provided, that after March 31, 2007 this condition shall no longer be a condition to the Company's obligations hereunder.

(c) The representations and warranties of the Investor shall be true and correct in all material respects (except for those representations and warranties that are qualified by materiality or Material Adverse Effect, which shall be true and correct in all respects) as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date, which shall remain true and correct as of such specific date).

6. CONDITIONS TO INVESTOR'S OBLIGATIONS HEREUNDER.

The obligations of the Investor hereunder are subject to the satisfaction of each of the following conditions, provided that these conditions are for the Investor's sole benefit and may be waived by the Investor at any time in its sole discretion by providing the Company with prior written notice thereof:

(a) The Company shall have executed this Agreement and delivered the same to the Investor.

(b) The Company shall have executed and delivered to the Investor the Series C Warrants being issued to such Investor as of the date hereof.

(c) The Company shall have executed and delivered to the Investor the Second Amended and Restated Notes and the Series D Warrants being issued to such Investor at the Closing.

(d) The Company shall have delivered to the Company's transfer agent, with a copy to the Investors, a letter stating that the Irrevocable Transfer Agent Instructions dated October 5, 2005 shall also apply to the Second Amended and Restated Conversion Shares and the Second Amended and Restated Registration Rights Agreement.

(e) Such Investor shall have received the opinion of Curtis, Mallet-Prevost, Colt & Mosle LLP, the Company's outside U.S. counsel, and Blake Dawson Waldron, the Company's outside Australian counsel, each dated as of the Closing Date, similar in all material respects to the opinions delivered pursuant to the Amendment Agreement.

(f) The Company shall have delivered to the Investor a certificate, executed by the Secretary of the Company and dated as of the Closing Date, as to (i) the resolutions approving the transactions contemplated hereby as adopted by the Board in a form reasonably acceptable to the Investor, and (ii) the Constitution, each as in effect as of the Closing, similar in all material respects to the certificate executed by the Secretary of the Company delivered pursuant to the Amendment Agreement.

(g) The representations and warranties of the Company shall be true and correct in all material respects (except for those representations and warranties that are qualified by materiality or Material Adverse Effect, which shall be true and correct in all respects) as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date, which shall remain true and correct as of such specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by the Company at or prior to the Closing Date and no Default or Event of Default shall have occurred and be continuing on the date hereof either immediately before or after giving effect to this Agreement in accordance with its terms. The Investor shall have received a certificate, executed by the Chief Executive Officer of the Company, dated as of the Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Investor, similar in all material respects to the certificate executed by the Chief Executive Officer of the Company delivered pursuant to the Amendment Agreement.

(h) The ADRs (I) shall be designated for quotation or listed on the Principal Market and (II) shall not have been suspended, as of the Closing Date, by the SEC or the Principal Market from trading on the Principal Market nor shall suspension by the SEC or the Principal Market have been threatened, as of the Closing Date, either (A) in writing by the SEC or the Principal Market or (B) by falling below the minimum listing maintenance requirements of the Principal Market.

(i) The Company shall have obtained all governmental, regulatory or third party consents and approvals, if any, necessary for the issue and sale of the Securities, including, without limitation, any approvals or notifications required by the Principal Market.

(j) The Company shall have delivered to the Investor such Investor's Investor Counsel Expense by wire transfer of immediately available funds pursuant to the wire instructions provided by the Investor.

(k) The Company shall have delivered to the Investor such Investor's Letter Agreement Payment Amount by wire transfer of immediately available funds pursuant to the wire instructions provided by the Investor on or prior to the earlier to occur of (x) the Closing Date, (y) the date of the consummation of the Secondary Financing and (z) March 31, 2007.

(l) The Company shall have delivered duly executed and delivered copies of the transaction documents with respect to the Financing Transaction to the Investor, which shall be in form and substance reasonably satisfactory to the Investor and the Financing Transactions shall have been consummated.

(m) The Stockholder Approval (as defined below) shall have been obtained.

7. STOCKHOLDER APPROVAL

(a) Stockholder Approval. The Company shall provide each stockholder entitled to vote at a special or annual meeting of stockholders of the Company (the "**Stockholder Meeting**"), which shall be called and held not later than February 23, 2007 (the "**Stockholder Meeting Deadline**"), a proxy statement, substantially in the form which has been previously reviewed by the Buyers and Schulte Roth & Zabel LLP at the expense of the Company, soliciting each such stockholder's affirmative vote at the Stockholder Meeting for approval of resolutions (the "**Resolutions**") providing for the issuance of all of the Securities (as defined in the Amended Securities Purchase Agreement and any other ADSs issuable hereunder (such affirmative approval being referred to herein as the "**Stockholder Approval**" and the date such approval is obtained, the "**Stockholder Approval Date**"), and the Company shall use its reasonable best efforts to solicit its stockholders' approval of the Resolutions and to cause the Board of Directors of the Company to recommend to the stockholders that they approve the Resolutions. The Company shall be obligated to seek to obtain the Stockholder Approval by the Stockholder Meeting Deadline. If, despite the Company's reasonable best efforts the Stockholder Approval is not obtained on or prior to the Stockholder Meeting Deadline, the Company shall cause an additional Stockholder Meeting to be held each twelve month period thereafter until such Stockholder Approval is obtained; provided that if the Board of Directors of the Company does not recommend to the stockholders that they approve such resolutions at any such Stockholder Meeting and the Stockholder Approval is not obtained, the Company shall cause an additional Stockholder Meeting to be held each calendar quarter thereafter until such Stockholder Approval is obtained.

8. TERMINATION.

In the event that the Closing does not occur by April 2, 2007 (the "**Termination Date**"), due to the Company's or the Investors' failure to satisfy the conditions set forth in Sections 5 and 6 hereof (and the nonbreaching party's failure to waive such unsatisfied conditions(s)), the nonbreaching party shall have the option to terminate this Agreement at the close of business on such date without liability of any party to any other party; provided, however, this if this Agreement is terminated by the non-breaching Investor pursuant to this Section 8, the Company shall remain obligated to reimburse the Investor for the expenses described in Section 4(c) above. Upon such termination, the terms hereof shall be null and void and the parties shall continue to comply with all terms and conditions of the Transaction Documents, as in effect prior to the execution of this Agreement.

9. MISCELLANEOUS.

(a) Counterparts. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature shall be considered due execution and shall be binding

upon the signatory thereto with the same force and effect as if the signature were an original, not a facsimile signature.

(b) Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

(c) Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

(d) Governing Law; Jurisdiction; Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction. **EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.**

(e) No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

(f) Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(g) No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

(h) Entire Agreement; Effect on Prior Agreements; Amendments. Except for the Transaction Documents (to the extent any such Transaction Document is not amended by this Agreement), this Agreement supersedes all other prior oral or written agreements between the Investor, the Company, their affiliates and Persons acting on their behalf with respect to the matters discussed herein, and this Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Investor makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be amended other than by an instrument in writing signed by the Company and the Investor. No provision hereof may be waived other than by an instrument in writing signed by the party against whom enforcement is sought. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of the Transaction Documents unless the same consideration also is offered to all of the parties to the Transaction Documents, holders of Second Amended and Restated Notes or holders of the Series C Warrants or holders of the Series D Warrants, as the case may be. The Company has not, directly or indirectly, made any agreements with any of the Investors relating to the terms or conditions of the transactions contemplated by the Transaction Documents except as set forth in the Transaction Documents.

(i) Notices. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one Business Day after deposit with an overnight courier service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

pSivida Limited
400 Pleasant Street
Watertown, MA 02472
Telephone: +1 617 926 5000
Facsimile: +1 617 926 5050
Attention: General Counsel

with a copy (for informational purposes only) to:

Curtis, Mallet-Prevost, Colt & Mosle LLP
101 Park Avenue
New York, NY 10178

Telephone: 212-696-6000
Facsimile: 212-697-1559
Attention: Lawrence Goodman, Esq.

If to the Investor, to its address and facsimile number set forth in the Amended Securities Purchase Agreement, with copies to the Investor's representatives as set forth on the Amended Securities Purchase Agreement or on the signature page to this Agreement,

with a copy (for informational purposes only) to:

Schulte Roth & Zabel LLP
919 Third Avenue
New York, New York 10022
U.S.A.
Telephone: (212) 756-2000
Facsimile: (212) 593-5955
Attention: Eleazer N. Klein, Esq.

or to such other address and/or facsimile number and/or to the attention of such other Person as the recipient party has specified by written notice given to each other party five (5) days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent, waiver or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission or (C) provided by an overnight courier service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from an overnight courier service in accordance with clause (i), (ii) or (iii) above, respectively.

The Company hereby irrevocably appoints National Corporate Research, Ltd., of 225 West 34th Street, Suite 910, New York, N.Y. 10112, U.S.A. ("**NCR**") as its agent for the receipt of service of process in the United States. The Company agrees that any document may be effectively served on it in connection with any action, suit or proceeding in the United States by service on its agents. The Investor consents and agrees that the Company may, in its reasonable discretion, irrevocably appoint a substitute agent for the receipt of service of process located within the Untied States, and that upon such appointment, the appointment of NCR may be revoked.

Any document shall be deemed to have been duly served if marked for the attention of the agent at its address as set forth in Section 9(i) or such other address in the United States as may be notified to the party wishing to serve the document and (a) left at the specified address if its receipt is acknowledged in writing; or (b) sent to the specified address by post, registered mail return receipt requested. In the case of (a), the document will be deemed to have been duly served when it is left and signed for. In the case of (b), the document shall be deemed to have been duly served when received and acknowledged.

If the Company's agent at any time ceases for any reason to act as such, the Company shall appoint a replacement agent having an address for service in the United States and shall notify the Investor of the name and address of the replacement agent. Failing such

appointment and notification, the holders of Second Amended and Restated Notes representing not less than a majority of the aggregate principal amount of the then outstanding Second Amended and Restated Notes shall be entitled by notice to the Company to appoint a replacement agent to act on the Company's behalf. The provisions of this Section 9(i) applying to service on an agent apply equally to service on a replacement agent.

(j) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns in accordance with the terms of the Amended Securities Purchase Agreement.

(k) Survival. Unless this Agreement is terminated under Section 8, the representations and warranties of the Company and the Investor contained herein and the agreements and covenants set forth herein shall survive the Closing.

(l) Remedies. The Investor and each holder of the Securities shall have all rights and remedies set forth in the Transaction Documents and all rights and remedies which such holders have been granted at any time under any other agreement or contract and all of the rights which such holders have under any law. Any Person having any rights under any provision of this Agreement shall be entitled to enforce such rights specifically (without posting a bond or other security), to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights granted by law. Furthermore, the Company recognizes that in the event that it fails to perform, observe, or discharge any or all of its obligations under this Agreement, any remedy at law may prove to be inadequate relief to the Investor. The Company therefore agrees that the Investor shall be entitled to seek temporary and permanent injunctive relief in any such case without the necessity of proving actual damages and without posting a bond or other security.

[*Signature Page Follows.***]**

IN WITNESS WHEREOF, the Investor and the Company have caused their respective signature page to this Agreement to be duly executed as of the date first written above.

COMPANY:

PSIVIDA LIMITED

By: /s/ Michael J. Soja

Name: Michael J. Soja
Title: Vice President of Finance and Chief Financial Officer

IN WITNESS WHEREOF, the Investor and the Company have caused their respective signature page to this Agreement to be duly executed as of the date first written above.

INVESTOR: CASTLERIGG MASTER INVESTMENTS LTD.

BY: SANDELL ASSET MANAGEMENT CORP

By: Timothy O'Brien

Name: Timothy O'Brien
Title: Chief Financial Officer

SERIES C WARRANT

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR (B) AN OPINION OF COUNSEL, IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) IF SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT, SUCH DOCUMENTS, OPINIONS AND CERTIFICATES AS THE COMPANY MAY REASONABLY REQUIRE. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

PSIVIDA LIMITED

Series C Warrant To Purchase ADRS

Warrant No.: **Series C-1**
Number of ADRs: **1,500,000**
Date of Issuance: **December 29, 2006 (**"**Issuance Date**"**)**

PSIVIDA LIMITED, an Australian corporation (the "**Company**"), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, CASTLERIGG MASTER INVESTMENTS LTD., the registered holder hereof or its permitted assigns (the "**Holder**"), is entitled, subject to the terms set forth below, to purchase from the Company, at the Exercise Price (as defined below) then in effect, upon surrender of this Warrant to Purchase ADRs (as defined below) (including any Warrants to Purchase ADRs issued in exchange, transfer or replacement hereof, the "**Warrant**"), at any time or times on or after the date hereof, but not after 11:59 p.m., New York Time, on the Expiration Date (as defined below), representing up to One Million Five Hundred Thousand (1,500,000) fully paid nonassessable ADRs (as defined below) (the "**Warrant Shares**"). Except as otherwise defined herein, capitalized terms in this Warrant shall have the meanings set forth in Section 15. This Warrant is one of the Warrants to purchase Warrant Shares (the "**SPA Warrants**") issued pursuant to Section 1 of that certain Second Amendment Agreement, dated as of December 29, 2006 (the "**Subscription Date**"), by and among the Company and the investors (the "**Buyers**") referred to therein (the "**Amendment Agreement**").

1. EXERCISE OF WARRANT.

(a) Mechanics of Exercise. Subject to the terms and conditions hereof (including, without limitation, the limitations set forth in Section 1(f)), this Warrant may be exercised by the Holder on any day on or after the date hereof, in whole or in part, by (i) delivery of a written notice, in the form attached hereto as Exhibit A (the "**Exercise Notice**"), of the Holder's election to exercise this Warrant and (ii) payment to the Company of an amount equal to the applicable Exercise Price multiplied by the number of Warrant Shares as to which this Warrant is being exercised (the "**Aggregate Exercise Price**") in cash or wire transfer of immediately available funds. The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Exercise Notice with respect to less than all of the Warrant Shares shall have the same effect as cancellation of the original Warrant and issuance of a new Warrant evidencing the right to purchase the remaining number of Warrant Shares. On or before the second (2nd) Business Day following the date on which the Company has received each of the Exercise Notice and the Aggregate Exercise Price the "**Exercise Delivery Documents**"), the Company shall transmit by facsimile an acknowledgment of confirmation of receipt of the Exercise Delivery Documents to the Holder and the Company's transfer agent (the "**Transfer Agent**"). On or before the fifth (5th) Business Day following the date on which the Company has received all of the Exercise Delivery Documents (the "**Share Delivery Date**"), the Company shall (X) provided that the Transfer Agent is participating in The Depository Trust Company ("**DTC**") Fast Automated Securities Transfer Program, upon the request of the Holder, credit such aggregate number of Warrant Shares to which the Holder is entitled pursuant to such exercise to the Holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system, or (Y) if the Transfer Agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and dispatch by overnight courier to the address as specified in the Exercise Notice, a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of Warrant Shares to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Delivery Documents, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Ordinary Shares represented by the ADRs with respect to which this Warrant has been exercised, irrespective of the date of delivery of the certificates evidencing the ADRs. If this Warrant is submitted in connection with any exercise pursuant to this Section 1(a) and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the number of Warrant Shares being acquired upon an exercise, then the Company shall as soon as practicable and in no event later than three Business Days after any exercise and at its own expense, issue a new Warrant (in accordance with Section 7(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional Warrant Shares are to be issued upon the exercise of this Warrant, but, at the option of the Company, (i) the number of Warrant Shares to be issued shall be rounded up to the nearest whole number or (ii) in lieu of any fractional Warrant Shares to which the Holder would otherwise be entitled, the Company shall make a cash payment to the Holder equal to the Closing Sale Price on the date of exercise multiplied by such fraction. Upon exercise of this Warrant, the Company shall deposit the corresponding number of Ordinary Shares representing the American Depositary Shares ("**ADSs**") underlying the ADRs and pay by wire transfer to the Depositary's account the ADS issuance fee of $0.03 per ADS to be issued, together with all applicable taxes

and expenses otherwise payable under the terms of the Deposit Agreement for the deposit of Ordinary Shares and issuance of ADSs (including, without limitation, confirmation that any Australian stock transfer taxes in respect of such deposit (if any) have been paid by the Company), and the Company shall otherwise comply with and cause any other necessary party to comply with all the terms of the Deposit Agreement. The Company shall pay any and all taxes (excluding any taxes on the income of the Holder) which may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant. Appropriate and equitable adjustment to the terms and provisions of this Warrant shall be made in the event of any change to the ratio of Warrant Shares to Ordinary Shares represented thereby.

In the event that the Company's Board of Directors should determine that the Company shall transform itself (whether by re-incorporation in the United States or otherwise) from a foreign private issuer (as defined under the Securities Act of 1933, as amended) all references to ADRs or ADSs shall be deemed references to whatever shares are then issued by the re-domiciled Company and all other provisions of this Warrant shall be equitably adjusted by the parties hereto to the extent necessary or appropriate to reflect such new country of incorporation.

(b) Exercise Price. For purposes of this Warrant, "**Exercise Price**" means $2.00 per ADR (which is equivalent to $0.20 per Ordinary Share), subject to adjustment as provided herein.

(c) Company's Failure to Timely Deliver Securities. If the Company shall fail to issue to the Holder, the number of Warrant Shares to which the Holder is entitled upon the Holder's exercise of this Warrant and register such Warrant Shares on the Company's share register or to credit the Holder's balance account with DTC for such number of Warrant Shares to which the Holder is entitled upon the Holder's exercise of this Warrant on or prior to the date which is three (3) Business Days after receipt of the Exercise Delivery Documents (an "**Exercise Failure**"), then the Company shall pay damages in cash to the Holder for each date of such Exercise Failure in an amount equal to an interest rate equal to 10% per annum applied to the product of (X) the sum of the number of Warrant Shares not issued to the Holder on or prior to the Share Delivery Date and to which the Holder is entitled and (Y) the Closing Sale Price of the Warrant Shares on the Share Delivery Date. In addition to the foregoing, if within three (3) Trading Days after the Company's receipt of the facsimile copy of a Exercise Notice the Company shall fail to issue and deliver to the Holder and register such Warrant Shares on the Company's share register or credit the Holder's balance account with DTC for the number of Warrant Shares to which the Holder is entitled upon such holder's exercise hereunder, and if on or after such Trading Day the Holder purchases (in an open market transaction or otherwise) ADRs to deliver in satisfaction of a sale by the Holder of ADRs issuable upon such exercise that the Holder anticipated receiving from the Company (a "**Buy-In**"), then the Company shall, within three (3) Business Days after the Holder's request and in the Holder's discretion, either (i) pay cash to the Holder in an amount equal to the Holder's total purchase price (including brokerage commissions, if any) for the ADRs so purchased (the "**Buy-In Price**"), at which point the Company's obligation to deliver and issue such ADRs shall be deemed to have been satisfied and shall terminate, or (ii) promptly honor its obligation to deliver to the Holder a certificate or certificates representing such ADRs and pay cash to the Holder in an amount equal to the excess

(if any) of the Buy-In Price over the product of (A) such number of ADRs, times (B) the Closing Bid Price on the date of exercise.

(d) Registration Rights. Notwithstanding anything contained herein to the contrary, if a Registration Statement (as defined in the Registration Rights Agreement) covering the Warrant Shares that are the subject of the Exercise Notice (the "**Unavailable Warrant Shares**") is not available for resale of such Unavailable Warrant Shares then the Holder may elect to exercise this Warrant for Warrant Shares in the form of ADRs or in the form of the Ordinary Shares underlying the ADRs and in either case the Company must, contemporaneous with the issue of the Warrant Shares that are the subject of the Exercise Notice, lodge with the ASX Limited a notice complying with section 708A(5)(E) of the Corporations Act 2001 and the ASX Listing Rules ("**Cleansing Notice**") and notify the Holder that it has so lodged a Cleansing Notice, and upon the lodgement by the Company of the Cleansing Notice, the Holder is free to dispose of any Ordinary Shares or any interest in Ordinary Shares it holds on the Australian Stock Exchange Limited in the ordinary course of trading or otherwise in Australia to any person and the restrictions on sale in that certain Securities Purchase Agreement, dated as of October 5, 2005, by and among the Company and the buyers listed on the Schedule of Buyers attached thereto, as amended (the "**Securities Purchase Agreement**"), including without limitation in Section 2(j)(C) of the Securities Purchase Agreement, does not apply to any such disposal. Notwithstanding the foregoing, from after the second anniversary of the Issuance Date, in the event that the aggregate number of Ordinary Shares that trades on the ASX is less than either (i) an average of 50,000 Common Shares on each Trading Day during any two month period or (ii) a weighted average trading price of at least US$50,000 on average during each Trading Day during any two month period, then at the request of the Holder the Company as of the date of such request once again (each of (i) and (ii), a "**Registration Event**") shall be subject to the terms of the Registration Rights Agreement as to the Warrant Shares; provided, that the Holder makes such request within thirty (30) days of a Registration Event.

(e) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall issue to the Holder the number of Warrant Shares that are not disputed and resolve such dispute in accordance with Section 12.

(f) Limitations on Exercises.

(i) Beneficial Ownership. The Company shall not effect the exercise of this Warrant, and the Holder shall not have the right to exercise this Warrant, to the extent that after giving effect to such exercise, the Holder (together with affiliates) would beneficially own (directly or indirectly through Warrant Shares or otherwise) in excess of 4.99% (the "**Maximum Percentage**") of the Ordinary Shares outstanding immediately after giving effect to such exercise. For purposes of the foregoing sentence, the number of Ordinary Shares beneficially owned (directly or indirectly through Warrant Shares or otherwise) by the Holder and its affiliates shall include the number of Ordinary Shares underlying the Warrant Shares issuable upon exercise of this Warrant with respect to which the determination of such sentence is being made, but shall exclude the number of Ordinary Shares underlying Warrant Shares which would be issuable upon (i) exercise of the remaining, unexercised portion of this Warrant

beneficially owned by the Holder and its affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company beneficially owned by such Person and its affiliates (including, without limitation, any convertible notes or convertible preferred stock or warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this section, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. For purposes of this Warrant, in determining the number of outstanding Ordinary Shares, the Holder may rely on the number of outstanding Ordinary Shares as reflected in (1) the Company's most recent Form 20-F, Form 6-K or other public filing with the Securities and Exchange Commission, as the case may be, (2) a more recent public announcement by the Company or (3) any other notice by the Company or the Transfer Agent setting forth the number of Ordinary Shares outstanding. For any reason at any time, upon the written or oral request of the Holder, the Company shall within two (2) Business Days confirm orally and in writing to the Holder the number of Ordinary Shares then outstanding. In any case, the number of outstanding Ordinary Shares shall be determined after giving effect to the conversion or exercise of securities of the Company, including the SPA Securities and the SPA Warrants, by the Holder and its affiliates since the date as of which such number of outstanding Ordinary Shares was reported. By written notice to the Company, the Holder may increase or decrease the Maximum Percentage to any other percentage not in excess of 9.99% specified in such notice; provided that (i) any such increase will not be effective until the sixty-first (61^{st}) day after such notice is delivered to the Company, and (ii) any such increase or decrease will apply only to the Holder and not to any other holder of SPA Warrants.

(ii) Principal Market Regulation. The Company shall not be obligated to issue any ADRs upon exercise of this Warrant, and the Holder of this Warrant shall not have the right to receive upon conversion of this Warrant, any ADRs, if the issuance of such ADRs would exceed that number of ADRs which the Company may issue upon exercise of this Warrant (including, as applicable, any ADRs issued upon conversion of the SPA Securities) without breaching the Company's obligations under the rules or regulations of the Principal Market (or such other Eligible Market on which the ADRs or Ordinary Shares are listed) or the ASX (the "**Exchange Cap**"), except that such limitation shall not apply in the event that the Company obtains the approval of its stockholders as required by the applicable rules of the Principal Market and the ASX listing rules for issuances of ADRs in excess of such amount. Until such approval is obtained, no Buyer shall be issued, in the aggregate, upon exercise or conversion, as applicable, of any SPA Warrants or SPA Securities, any ADRs in an amount greater than the product of the Exchange Cap multiplied by a fraction, the numerator of which is the total number of ADRs underlying the SPA Warrants issued to such Buyer pursuant to the Amendment Agreement on the Subscription Date and the denominator of which is the aggregate number of ADRs underlying all the Warrants issued to the Buyers pursuant to the Amendment Agreement on the Subscription Date (with respect to each Buyer, the "**Exchange Cap Allocation**"). In the event that any Buyer shall sell or otherwise transfer any of such Buyer's SPA Warrants, the transferee shall be allocated a pro rata portion of such Buyer's Exchange Cap Allocation, and the restrictions of the prior sentence shall apply to such transferee with respect to the portion of the Exchange Cap Allocation allocated to such transferee. In the event that any holder of SPA Warrants shall exercise all of such holder's SPA Warrants into a number of ADRs

which, in the aggregate, is less than such holder's Exchange Cap Allocation, then the difference between such holder's Exchange Cap Allocation and the number of ADRs actually issued to such holder shall be allocated to the respective Exchange Cap Allocations of the remaining holders of SPA Warrants on a pro rata basis in proportion to the ADRs underlying the SPA Warrants then held by each such holder.

2. ADJUSTMENT OF EXERCISE PRICE.

(a) Adjustment in the Event of a Rights Offering. If the Company issues or gives the holders of Ordinary Shares in the Company the right, pro rata with existing holdings of Ordinary Shares, to subscribe for additional securities ("**Pro Rata Issue**"), the Exercise Price in respect of one underlying Ordinary Share shall be reduced in accordance with the following formula:

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

Where:

O' = the new Exercise Price in respect of an underlying Ordinary Share.

O = the original Exercise Price in respect of an underlying Ordinary Share.

E = the number of underlying Ordinary Shares to be issued on exercise of each Warrant.

P = the average market price per Ordinary Share (weighted by reference to volume) of the Ordinary Shares during the 5 trading days ending before the ex rights date or ex entitlements date.

S = the subscription price for an Ordinary Share under the Pro Rata Issue.

D = the dividend due but not paid on the existing Ordinary Shares (excluding those to be issued under the Pro Rata Issue).

N = the number of Ordinary Shares which must be held to receive one new Share in the Pro Rata Issue.

(b) Adjustment upon pro rata bonus issue of Ordinary Shares. If the Company makes a pro rata bonus issue of Ordinary Shares to its shareholders prior to the Warrant being exercised, and the Warrant is not exercised prior to the record date for the issue, the Warrant will, when exercised, entitle the Holder to the number of Warrant Shares that would ordinarily be received under Section 1, plus the number of bonus Ordinary Shares which would have been issued to the Holder if the Warrant had been exercised prior to the record date.

(c) Adjustment upon Subdivision or Combination of Ordinary Shares. If the Company at any time on or after the Subscription Date subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding ADRs (or Ordinary Shares underlying such ADRs) into a greater number of ADRs (or Ordinary Shares), the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of Warrant Shares (or Ordinary Shares underlying such Warrant Shares) will be proportionately increased. If the Company at any time on or after the Subscription Date combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding ADRs (or Ordinary Shares underlying such ADRs) into a smaller number of ADRs (or Ordinary Shares underlying such ADRs), the Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of Warrant Shares (or Ordinary Shares underlying such Warrant Shares) will be proportionately decreased. Any adjustment under this Section 2(c) shall be subject to (and will be correspondingly reorganized in a manner which is permissible under, or necessary to comply with) the ASX Listing Rules or the rules of any Recognized Exchange in force at the relevant time and shall become effective at the close of business on the date the subdivision or combination becomes effective.

(d) Other Events. If any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of Warrant Shares so as to protect the rights of the Holder; provided that such adjustment is made in accordance with the ASX Listing Rules. No such adjustment pursuant to this Section 2(d) will increase the Exercise Price or decrease the number of Warrant Shares as otherwise determined pursuant to this Section 2, unless in accordance with any ASX Listing Rule.

(e) Other Capital Reorganizations. Notwithstanding any other provision contained in this Warrant, the rights of a warrant holder will be changed to the extent necessary to comply with the listing rules applying to a reorganization of capital at the time of reorganization. Subject to the above, if there is a reorganization of the capital of the Company, the number of Warrant Shares applicable to the Warrant and/or Exercise Price of the Warrant will be reorganized as follows: (i) if the Company returns capital on its Ordinary Shares, the number of Warrant Shares applicable to the Warrant will remain the same, and the Exercise Price of each Warrant will be reduced by the same amount as the amount returned in relation to each Ordinary Share; (ii) if the Company returns capital on its Ordinary Shares by a cancellation of capital that is lost or not represented by available assets, the number of Warrant Shares applicable to the Warrant and the Exercise Price is unaltered; (iii) if the Company reduces its issued Ordinary Shares on a pro rata basis, the number of Warrant Shares applicable to the Warrant will be reduced in the same ratio as the Ordinary Shares and the Exercise Price will be amended in inverse proportion to that ratio; and (iv) if the Company reorganizes its issued Ordinary Shares in any way not otherwise contemplated by the preceding paragraphs, the number of Warrant Shares applicable to the Warrant or the Exercise Price or both will be reorganized so that the Warrant Holder will not receive a benefit that holders of Ordinary Shares do not receive. The Company shall give notice to Warrant Holders of any adjustments to the number of Warrant Shares applicable to the Warrant or the number of Ordinary Shares which are to be issued on exercise of

a Warrant or to the Exercise Price. Before a Warrant is exercised, all adjustment calculations are to be carried out including all fractions (in relation to each of the number of Warrant Shares applicable to the Warrant, the number of Ordinary Shares and the Exercise Price), but on exercise the number of Warrant Shares or Ordinary Shares issued is rounded down to the next lower whole number and the Exercise Price rounded up to the next higher cent.

3. FUNDAMENTAL TRANSACTIONS. The Company shall not enter into or be party to a Fundamental Transaction unless, and shall use its best endeavors to procure that, (i) the Successor Entity (if other than the Company) assumes in writing all of the obligations of the Company under this Warrant and the other Transaction Documents in accordance with the provisions of this Section (4)(b) pursuant to written agreements in form and substance reasonably satisfactory to the Required Holders and approved by the Required Holders prior to such Fundamental Transaction, including agreements to deliver to each holder of Warrants in exchange for such Warrants a security of such Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant, including, without limitation, an adjusted exercise price equal to the value for the Ordinary Shares reflected by the terms of such Fundamental Transaction, and exercisable for a corresponding number of shares of capital stock equivalent to the Ordinary Shares underlying the Warrant Shares acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and reasonably satisfactory to the Required Holders and (ii) such Successor Entity is a publicly traded corporation whose common shares (or whose American Depositary Shares) are quoted on or listed for trading on an Eligible Market. Upon the occurrence of any Fundamental Transaction, such Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant referring to the "Company" shall refer instead to such Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant with the same effect as if such Successor Entity had been named as the Company herein. Upon consummation of the Fundamental Transaction, such Successor Entity shall deliver to the Holder confirmation that there shall be issued upon exercise of this Warrant at any time after the consummation of the Fundamental Transaction, in lieu of the Warrant Shares (or other securities, cash, assets or other property) purchasable upon the exercise of the Warrant prior to such Fundamental Transaction, such shares of the publicly traded common stock (or their equivalent) of the Successor Entity (including its Parent Entity), as adjusted in accordance with the provisions of this Warrant. In addition to and not in substitution for any other rights hereunder, prior to the consummation of any Fundamental Transaction pursuant to which holders of Ordinary Shares (directly or indirectly through Warrant Shares or otherwise) are entitled to receive securities or other assets with respect to or in exchange for Ordinary Shares (a "Corporate Event"), the Company shall make appropriate provision, to the extent not prohibited by applicable law, to insure that the Holder will thereafter have the right to receive upon an exercise of this Warrant at any time after the consummation of the Fundamental Transaction but prior to the Expiration Date, in lieu of the Warrant Shares purchasable upon the exercise of the Warrant prior to such Fundamental Transaction, such, securities or other, assets which the Holder would have been entitled to receive upon the happening of such Fundamental Transaction had the Warrant been exercised immediately prior to such Fundamental Transaction. The provisions of this Section shall apply similarly and

equally to successive Fundamental Transactions and Corporate Events and shall be applied without regard to any limitations on the exercise of this Warrant.

4. NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Constitution or Bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any Ordinary Shares underlying the Warrant Shares receivable upon the exercise of this Warrant above the Exercise Price then in effect and (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant.

5. WARRANT HOLDER NOT DEEMED A STOCKHOLDER. Except as otherwise specifically provided herein, the Holder, solely in such Person's capacity as a holder of this Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, solely in such Person's capacity as the Holder of this Warrant, any of the rights of a shareholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant Shares which such Person is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a shareholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 6, the Company shall provide the Holder with copies of the same notices and other information given to the shareholders of the Company generally, contemporaneously with the giving thereof to the shareholders.

6. REISSUANCE OF WARRANTS.

(a) Transfer of Warrant. If this Warrant is to be transferred, the Holder shall surrender this Warrant to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Warrant (in accordance with Section 7(d)), registered as the Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Holder and, if less then the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 7(d)) to the Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and

cancellation of this Warrant, the Company shall execute and deliver to the Holder a new Warrant (in accordance with Section 7(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 7(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Holder at the time of such surrender; provided, however, that no Warrants for fractional Warrant Shares shall be given.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 7(a) or Section 7(c), the Warrant Shares designated by the Holder which, when added to the number of Warrant Shares underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

7. NOTICES; CURRENCY.

(a) Notices. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with Section 9(f) of the Securities Purchase Agreement. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Warrant, including in reasonable detail a description of such action and the reason therefore. Without limiting the generality of the foregoing, the Company will give written notice to the Holder (i) immediately upon any adjustment of the Exercise Price, setting forth in reasonable detail, and certifying, the calculation of such adjustment and (ii) at least fifteen days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Ordinary Shares or Warrant Shares, (B) with respect to any grants, issuances or sales of any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property to holders of Ordinary Shares or Warrant Shares or (C) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder.

(b) Currency. Unless otherwise indicated, all dollar amounts referred to in this Warrant are in United States Dollars.

8. AMENDMENT AND WAIVER. The provisions of this Warrant may be amended by the Company and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the

written consent of the Required Holders and approval from the holders of Ordinary Shares at a shareholders meeting held in accordance with the ASX Listing Rules and *Corporations Act 2001* (Cth) or if otherwise permitted by the ASX Listing Rules. Notwithstanding any provision of this Warrant, , a term of this Warrant which has the effect of reducing the exercise price, increasing the period for exercise or increasing the number of Warrant Shares or Ordinary Shares received on exercise is prohibited if it would result in a breach of the ASX Listing Rules. Notwithstanding the above, no change may increase the exercise price of any SPA Warrant or decrease the number of Warrant Shares or class of stock obtainable upon exercise of any SPA Warrant without the written consent of the Holder, unless otherwise provided in the ASX Listing Rules. A change which has the effect of reducing the purchase price, increasing the period for exercise or increasing the number of securities received cannot be made. In addition, subject to the ASX Listing Rules, no such amendment shall be effective to the extent that it applies to less than all of the holders of the SPA Warrants then outstanding.

9. SEVERABILITY. If any provision of this Warrant or the application thereof becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of the terms of this Warrant will continue in full force and effect.

10. GOVERNING LAW. This Warrant shall be governed by and construed and enforced in accor-dance with, and all questions concerning the construction, validity, interpretation and performance of this Warrant shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York.

11. CONSTRUCTION; HEADINGS. This Warrant shall be deemed to be jointly drafted by the Company and all the Buyers and shall not be construed against any person as the drafter hereof. The headings of this Warrant are for convenience of reference and shall not form part of, or affect the interpretation of, this Warrant.

12. DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Exercise Price or the calculation of the Warrant Shares, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two (2) Business Days of receipt of the Exercise Notice giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation within three (3) Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two Business Days submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder or (b) the disputed arithmetic calculation of the Warrant Shares to the Company's independent, outside accountant. The Company at the Company's expense, shall cause the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

13. REMEDIES, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The remedies provided in this Warrant shall be cumulative and in addition to all other remedies available under this Warrant and the other Transaction Documents, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the right of the Holder right to pursue actual damages for any failure by the Company to comply with the terms of this Warrant. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the holder of this Warrant shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

14. TRANSFER. This Warrant may be offered for sale, sold, transferred or assigned without the consent of the Company, except as may otherwise be required by Section 2(f) of the Securities Purchase Agreement.

15. CERTAIN DEFINITIONS. For purposes of this Warrant, the following terms shall have the following meanings:

(a) "**ADRs**" means the American Depositary Receipts of the Company evidencing the American Depositary Shares of the Company which each represent ten (10) Ordinary Shares.

(b) "**ASX**" means the Australian Stock Exchange.

(c) "**Bloomberg**" means Bloomberg Financial Markets.

(d) "**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York, State of New York, U.S.A. or Perth, Australia are authorized or required by law to remain closed.

(e) "**Closing Bid Price**" and "**Closing Sale Price**" means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or last trade price, respectively, of such security prior to 4:00:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 12. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(f) "**Convertible Securities**" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for ADRs or Ordinary Shares.

(g) "**Deposit Agreement**" means that certain Deposit Agreement, dated as of January 24, 2005 by and among the Company, the Depositary and the holders and beneficial owners from time to time of ADSs evidenced by ADRs issued pursuant to such agreement.

(h) "**Depositary**" means Citibank, N.A., acting in such capacity under the Deposit Agreement.

(i) "**Eligible Market**" means the Principal Market, The New York Stock Exchange, Inc., the American Stock Exchange or The Nasdaq Capital Market.

(j) "**Expiration Date**" means the date that is sixty months after the Issuance Date or, if such date falls on a day other than a Business Day or on which trading does not take place on the Principal Market (a "**Holiday**"), the next date that is not a Holiday.

(k) "**Fundamental Transaction**" means that the Company shall, directly or indirectly, in one or more related transactions, (i) consolidate or merge with or into (whether or not the Company is the surviving corporation) another Person, or (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company to another Person, or (iii) allow another Person to make a purchase, tender or exchange offer that is accepted by the holders of more than the 50% of either the outstanding Ordinary Shares (not including any Ordinary Shares held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (iv) consummate a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than the 50% of the outstanding Ordinary Shares (not including any Ordinary Shares held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock purchase agreement or other business combination), or (v) reorganize, recapitalize or reclassify its Ordinary Shares.

(l) "**Options**" means any rights, warrants or options to subscribe for or purchase ADRs, Ordinary Shares or Convertible Securities.

(m) "**Ordinary Shares**" means (i) the Company's ordinary shares of common stock, no par value per share, and (ii) any share capital into which such Ordinary Shares shall have been changed or any share capital resulting from a reclassification of such Ordinary Shares.

(n) "**Parent Entity**" of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

(o) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(p) "**Principal Market**" means the Nasdaq Global Market.

(q) "**Registration Rights Agreement**" means that certain Second Amended and Restated Registration Rights Agreement by and among the Company and the Buyers, as such agreement may be amended from time to time.

(r) "**Required Holders**" means the holders of the SPA Warrants representing at least a majority of Warrant Shares underlying the SPA Warrants then outstanding.

(s) "**SPA Securities**" means the Notes issued pursuant to the Amendment Agreement.

(t) "**Successor Entity**" means the Person, which may be the Company, formed by, resulting from or surviving any Fundamental Transaction or the Person with which such Fundamental Transaction shall have been made, provided that if such Person is not a publicly traded entity whose common stock or equivalent equity security is quoted or listed for trading on an Eligible Market, Successor Entity shall mean such Person's Parent Entity.

(u) "**Trading Day**" means any day on which the ADRs are traded on the Principal Market, or, if the Principal Market is not the principal trading market for the ADRs, then on the principal securities exchange or securities market on which the ADRs are then traded; provided that "Trading Day" shall not include any day on which the ADRs are scheduled to trade on such exchange or market for less than 4.5 hours or any day that the ADRs are suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York Time).

(v) "**Transaction Documents**" has the meaning set forth in the Securities Purchase Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Warrant to Purchase ADRs to be duly executed as of the Issuance Date set out above.

PSIVIDA LIMITED

By: Michael J. Soja

Name: Michael J. Soja
Title: Vice President of Finance and Chief Financial Officer

EXHIBIT A

EXERCISE NOTICE
TO BE EXECUTED BY THE REGISTERED HOLDER TO EXERCISE THIS
WARRANT TO PURCHASE ADRS

PSIVIDA LIMITED

The undersigned holder hereby exercises the right to purchase _____ of the ADRs, each of which representing ten (10) ordinary shares ("**Ordinary Shares**") of pSivida Limited, an Australian corporation (the "**Company**"), evidenced by the attached Warrant to Purchase ADRs (the "**Warrant**"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Payment of Exercise Price. The undersigned holder shall pay the Aggregate Exercise Price in the sum of $_____ to the Company in accordance with the terms of the Warrant.

2. Delivery of ADRs. The Company shall deliver to the holder _____ ADRs in accordance with the terms of the Warrant.

Date: _____ __, _____

_____
Name of Registered Holder

By: _____
Name:
Title:

ACKNOWLEDGMENT

The Company hereby acknowledges this Exercise Notice and hereby directs Citibank, N.A. to issue the above indicated number of Ordinary Shares in accordance with the Transfer Agent Instructions dated December **[__]**, 2006 from the Company and acknowledged and agreed to by Citibank, N.A.

PSIVIDA LIMITED

By: _____

Name:
Title:

FORM OF SERIES D WARRANT

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR (B) AN OPINION OF COUNSEL, IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) IF SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT, SUCH DOCUMENTS, OPINIONS AND CERTIFICATES AS THE COMPANY MAY REASONABLY REQUIRE. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

PSIVIDA LIMITED

Series [C][D] Warrant To Purchase ADRS

Warrant No.: **Series [ ]**

Number of ADRs: **[ ]**[1]

Date of Issuance: [ ]**(**"**Issuance Date**"**)**

PSIVIDA LIMITED, an Australian corporation (the "**Company**"), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, CASTLERIGG MASTER INVESTMENTS LTD., the registered holder hereof or its permitted assigns (the "**Holder**"), is entitled, subject to the terms set forth below, to purchase from the Company, at the Exercise Price (as defined below) then in effect, upon surrender of this Warrant to Purchase ADRs (as defined below) (including any Warrants to Purchase ADRs issued in exchange, transfer or replacement hereof, the "**Warrant**"), at any time or times on or after the date hereof, but not after 11:59 p.m., New York Time, on the Expiration Date (as defined below), representing up to [ ] ([ ]) fully paid nonassessable ADRs (as defined below) (the "**Warrant Shares**"). Except as otherwise defined herein, capitalized terms in this Warrant shall have the meanings set forth in Section 15. This Warrant is one of the Warrants to purchase Warrant Shares (the "**SPA Warrants**") issued pursuant to Section 1 of that certain Second Amendment Agreement, dated as of December 29, 2006 (the "**Subscription Date**"), by and among the Company and the investors (the "**Buyers**") referred to therein (the "**Amendment Agreement**").

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1 Insert for Series C Warrants: 1.5 million ADRs. Insert for Series D Warrants: 4 million ADRs.

1. EXERCISE OF WARRANT.

(a) Mechanics of Exercise. Subject to the terms and conditions hereof (including, without limitation, the limitations set forth in Section 1(f)), this Warrant may be exercised by the Holder on any day on or after the date hereof, in whole or in part, by (i) delivery of a written notice, in the form attached hereto as Exhibit A (the "**Exercise Notice**"), of the Holder's election to exercise this Warrant and (ii) payment to the Company of an amount equal to the applicable Exercise Price multiplied by the number of Warrant Shares as to which this Warrant is being exercised (the "**Aggregate Exercise Price**") in cash or wire transfer of immediately available funds. The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Exercise Notice with respect to less than all of the Warrant Shares shall have the same effect as cancellation of the original Warrant and issuance of a new Warrant evidencing the right to purchase the remaining number of Warrant Shares. On or before the second (2nd) Business Day following the date on which the Company has received each of the Exercise Notice and the Aggregate Exercise Price the "**Exercise Delivery Documents**"), the Company shall transmit by facsimile an acknowledgment of confirmation of receipt of the Exercise Delivery Documents to the Holder and the Company's transfer agent (the "**Transfer Agent**"). On or before the fifth (5th) Business Day following the date on which the Company has received all of the Exercise Delivery Documents (the "**Share Delivery Date**"), the Company shall (X) provided that the Transfer Agent is participating in The Depository Trust Company ("**DTC**") Fast Automated Securities Transfer Program, upon the request of the Holder, credit such aggregate number of Warrant Shares to which the Holder is entitled pursuant to such exercise to the Holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system, or (Y) if the Transfer Agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and dispatch by overnight courier to the address as specified in the Exercise Notice, a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of Warrant Shares to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Delivery Documents, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Ordinary Shares represented by the ADRs with respect to which this Warrant has been exercised, irrespective of the date of delivery of the certificates evidencing the ADRs. If this Warrant is submitted in connection with any exercise pursuant to this Section 1(a) and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the number of Warrant Shares being acquired upon an exercise, then the Company shall as soon as practicable and in no event later than three Business Days after any exercise and at its own expense, issue a new Warrant (in accordance with Section 7(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional Warrant Shares are to be issued upon the exercise of this Warrant, but, at the option of the Company, (i) the number of Warrant Shares to be issued shall be rounded up to the nearest whole number or (ii) in lieu of any fractional Warrant Shares to which the Holder would otherwise be entitled, the Company shall make a cash payment to the Holder equal to the Closing Sale Price on the date of exercise multiplied by such fraction. Upon exercise of this Warrant, the Company shall deposit the corresponding number of Ordinary Shares representing the American Depositary Shares ("**ADSs**") underlying the ADRs and pay by wire transfer to the Depositary's account the ADS issuance fee of $0.03 per ADS to be issued, together with all applicable taxes and expenses otherwise payable under the terms of the Deposit Agreement for the deposit of

Ordinary Shares and issuance of ADSs (including, without limitation, confirmation that any Australian stock transfer taxes in respect of such deposit (if any) have been paid by the Company), and the Company shall otherwise comply with and cause any other necessary party to comply with all the terms of the Deposit Agreement. The Company shall pay any and all taxes (excluding any taxes on the income of the Holder) which may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant. Appropriate and equitable adjustment to the terms and provisions of this Warrant shall be made in the event of any change to the ratio of Warrant Shares to Ordinary Shares represented thereby.

In the event that the Company's Board of Directors should determine that the Company shall transform itself (whether by re-incorporation in the United States or otherwise) from a foreign private issuer (as defined under the Securities Act of 1933, as amended) all references to ADRs or ADSs shall be deemed references to whatever shares are then issued by the re-domiciled Company and all other provisions of this Warrant shall be equitably adjusted by the parties hereto to the extent necessary or appropriate to reflect such new country of incorporation.

(b) Exercise Price. For purposes of this Warrant, "**Exercise Price**" means $[ ][2] per ADR (which is equivalent to $[ ] per Ordinary Share), subject to adjustment as provided herein.

(c) Company's Failure to Timely Deliver Securities. If the Company shall fail to issue to the Holder, the number of Warrant Shares to which the Holder is entitled upon the Holder's exercise of this Warrant and register such Warrant Shares on the Company's share register or to credit the Holder's balance account with DTC for such number of Warrant Shares to which the Holder is entitled upon the Holder's exercise of this Warrant on or prior to the date which is three (3) Business Days after receipt of the Exercise Delivery Documents (an "**Exercise Failure**"), then the Company shall pay damages in cash to the Holder for each date of such Exercise Failure in an amount equal to an interest rate equal to 10% per annum applied to the product of (X) the sum of the number of Warrant Shares not issued to the Holder on or prior to the Share Delivery Date and to which the Holder is entitled and (Y) the Closing Sale Price of the Warrant Shares on the Share Delivery Date. In addition to the foregoing, if within three (3) Trading Days after the Company's receipt of the facsimile copy of a Exercise Notice the Company shall fail to issue and deliver to the Holder and register such Warrant Shares on the Company's share register or credit the Holder's balance account with DTC for the number of Warrant Shares to which the Holder is entitled upon such holder's exercise hereunder, and if on or after such Trading Day the Holder purchases (in an open market transaction or otherwise) ADRs to deliver in satisfaction of a sale by the Holder of ADRs issuable upon such exercise that the Holder anticipated receiving from the Company (a "**Buy-In**"), then the Company shall, within three (3) Business Days after the Holder's request and in the Holder's discretion, either (i) pay cash to the Holder in an amount equal to the Holder's total purchase price (including brokerage commissions, if any) for the ADRs so purchased (the "**Buy-In Price**"), at which point the Company's obligation to deliver and issue such ADRs shall be deemed to have been satisfied and shall terminate, or (ii) promptly honor its obligation to deliver to the Holder a certificate or

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2 Insert for Series C Warrants: $2.00. Insert for Series D Warrants: The lower of (x) $2.00 and (y) the lowest exercise price or conversion price per ADR (or its equivalent) issued to Nordic (as defined in the Amendment Agreement) in connection with any of the Nordic Transactions (as defined in the Amendment Agreement).

certificates representing such ADRs and pay cash to the Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of ADRs, times (B) the Closing Bid Price on the date of exercise.

(d) Registration Rights. Notwithstanding anything contained herein to the contrary, if a Registration Statement (as defined in the Registration Rights Agreement) covering the Warrant Shares that are the subject of the Exercise Notice (the "**Unavailable Warrant Shares**") is not available for resale of such Unavailable Warrant Shares then the Holder may elect to exercise this Warrant for Warrant Shares in the form of ADRs or in the form of the Ordinary Shares underlying the ADRs and in either case the Company must, contemporaneous with the issue of the Warrant Shares that are the subject of the Exercise Notice, lodge with the ASX Limited a notice complying with section 708A(5)(E) of the Corporations Act 2001 and the ASX Listing Rules ("**Cleansing Notice**") and notify the Holder that it has so lodged a Cleansing Notice, and upon the lodgement by the Company of the Cleansing Notice, the Holder is free to dispose of any Ordinary Shares or any interest in Ordinary Shares it holds on the Australian Stock Exchange Limited in the ordinary course of trading or otherwise in Australia to any person and the restrictions on sale in that certain Securities Purchase Agreement, dated as of October 5, 2005, by and among the Company and the buyers listed on the Schedule of Buyers attached thereto, as amended (the "**Securities Purchase Agreement**"), including without limitation in Section 2(j)(C) of the Securities Purchase Agreement, does not apply to any such disposal. Notwithstanding the foregoing, from after the second anniversary of the Issuance Date, in the event that the aggregate number of Ordinary Shares that trades on the ASX is less than either (i) an average of 50,000 Common Shares on each Trading Day during any two month period or (ii) a weighted average trading price of at least US$50,000 on average during each Trading Day during any two month period, then at the request of the Holder the Company as of the date of such request once again (each of (i) and (ii), a "**Registration Event**") shall be subject to the terms of the Registration Rights Agreement as to the Warrant Shares; provided, that the Holder makes such request within thirty (30) days of a Registration Event.

(e) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall issue to the Holder the number of Warrant Shares that are not disputed and resolve such dispute in accordance with Section 12.

(f) Limitations on Exercises.

(i) Beneficial Ownership. The Company shall not effect the exercise of this Warrant, and the Holder shall not have the right to exercise this Warrant, to the extent that after giving effect to such exercise, the Holder (together with affiliates) would beneficially own (directly or indirectly through Warrant Shares or otherwise) in excess of 4.99% (the "**Maximum Percentage**") of the Ordinary Shares outstanding immediately after giving effect to such exercise. For purposes of the foregoing sentence, the number of Ordinary Shares beneficially owned (directly or indirectly through Warrant Shares or otherwise) by the Holder and its affiliates shall include the number of Ordinary Shares underlying the Warrant Shares issuable upon exercise of this Warrant with respect to which the determination of such sentence is being made, but shall exclude the number of Ordinary Shares underlying Warrant Shares which would be issuable upon (i) exercise of the remaining, unexercised portion of this Warrant

beneficially owned by the Holder and its affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company beneficially owned by such Person and its affiliates (including, without limitation, any convertible notes or convertible preferred stock or warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this section, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. For purposes of this Warrant, in determining the number of outstanding Ordinary Shares, the Holder may rely on the number of outstanding Ordinary Shares as reflected in (1) the Company's most recent Form 20-F, Form 6-K or other public filing with the Securities and Exchange Commission, as the case may be, (2) a more recent public announcement by the Company or (3) any other notice by the Company or the Transfer Agent setting forth the number of Ordinary Shares outstanding. For any reason at any time, upon the written or oral request of the Holder, the Company shall within two (2) Business Days confirm orally and in writing to the Holder the number of Ordinary Shares then outstanding. In any case, the number of outstanding Ordinary Shares shall be determined after giving effect to the conversion or exercise of securities of the Company, including the SPA Securities and the SPA Warrants, by the Holder and its affiliates since the date as of which such number of outstanding Ordinary Shares was reported. By written notice to the Company, the Holder may increase or decrease the Maximum Percentage to any other percentage not in excess of 9.99% specified in such notice; provided that (i) any such increase will not be effective until the sixty-first (61^{st}) day after such notice is delivered to the Company, and (ii) any such increase or decrease will apply only to the Holder and not to any other holder of SPA Warrants.

(ii) Principal Market Regulation. The Company shall not be obligated to issue any ADRs upon exercise of this Warrant, and the Holder of this Warrant shall not have the right to receive upon conversion of this Warrant, any ADRs, if the issuance of such ADRs would exceed that number of ADRs which the Company may issue upon exercise of this Warrant (including, as applicable, any ADRs issued upon conversion of the SPA Securities) without breaching the Company's obligations under the rules or regulations of the Principal Market (or such other Eligible Market on which the ADRs or Ordinary Shares are listed) or the ASX (the "**Exchange Cap**"), except that such limitation shall not apply in the event that the Company obtains the approval of its stockholders as required by the applicable rules of the Principal Market and the ASX listing rules for issuances of ADRs in excess of such amount. Until such approval is obtained, no Buyer shall be issued, in the aggregate, upon exercise or conversion, as applicable, of any SPA Warrants or SPA Securities, any ADRs in an amount greater than the product of the Exchange Cap multiplied by a fraction, the numerator of which is the total number of ADRs underlying the SPA Warrants issued to such Buyer pursuant to the Amendment Agreement on the Subscription Date and the denominator of which is the aggregate number of ADRs underlying all the Warrants issued to the Buyers pursuant to the Amendment Agreement on the Subscription Date (with respect to each Buyer, the "**Exchange Cap Allocation**"). In the event that any Buyer shall sell or otherwise transfer any of such Buyer's SPA Warrants, the transferee shall be allocated a pro rata portion of such Buyer's Exchange Cap Allocation, and the restrictions of the prior sentence shall apply to such transferee with respect to the portion of the Exchange Cap Allocation allocated to such transferee. In the event that any holder of SPA Warrants shall exercise all of such holder's SPA Warrants into a number of ADRs which, in the aggregate, is less than such holder's Exchange Cap Allocation, then the difference

between such holder's Exchange Cap Allocation and the number of ADRs actually issued to such holder shall be allocated to the respective Exchange Cap Allocations of the remaining holders of SPA Warrants on a pro rata basis in proportion to the ADRs underlying the SPA Warrants then held by each such holder.

2. ADJUSTMENT OF EXERCISE PRICE.

(a) Adjustment in the Event of a Rights Offering. If the Company issues or gives the holders of Ordinary Shares in the Company the right, pro rata with existing holdings of Ordinary Shares, to subscribe for additional securities ("**Pro Rata Issue**"), the Exercise Price in respect of one underlying Ordinary Share shall be reduced in accordance with the following formula:

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

Where:

O' = the new Exercise Price in respect of an underlying Ordinary Share.

O = the original Exercise Price in respect of an underlying Ordinary Share.

E = the number of underlying Ordinary Shares to be issued on exercise of each Warrant.

P = the average market price per Ordinary Share (weighted by reference to volume) of the Ordinary Shares during the 5 trading days ending before the ex rights date or ex entitlements date.

S = the subscription price for an Ordinary Share under the Pro Rata Issue.

D = the dividend due but not paid on the existing Ordinary Shares (excluding those to be issued under the Pro Rata Issue).

N = the number of Ordinary Shares which must be held to receive one new Share in the Pro Rata Issue.

(b) Adjustment upon pro rata bonus issue of Ordinary Shares. If the Company makes a pro rata bonus issue of Ordinary Shares to its shareholders prior to the Warrant being exercised, and the Warrant is not exercised prior to the record date for the issue, the Warrant will, when exercised, entitle the Holder to the number of Warrant Shares that would ordinarily be received under Section 1, plus the number of bonus Ordinary Shares which would have been issued to the Holder if the Warrant had been exercised prior to the record date.

(c) Adjustment upon Subdivision or Combination of Ordinary Shares. If the Company at any time on or after the Subscription Date subdivides (by any stock split, stock

dividend, recapitalization or otherwise) one or more classes of its outstanding ADRs (or Ordinary Shares underlying such ADRs) into a greater number of ADRs (or Ordinary Shares), the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of Warrant Shares (or Ordinary Shares underlying such Warrant Shares) will be proportionately increased. If the Company at any time on or after the Subscription Date combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding ADRs (or Ordinary Shares underlying such ADRs) into a smaller number of ADRs (or Ordinary Shares underlying such ADRs), the Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of Warrant Shares (or Ordinary Shares underlying such Warrant Shares) will be proportionately decreased. Any adjustment under this Section 2(c) shall be subject to (and will be correspondingly reorganized in a manner which is permissible under, or necessary to comply with) the ASX Listing Rules or the rules of any Recognized Exchange in force at the relevant time and shall become effective at the close of business on the date the subdivision or combination becomes effective.

(d) Other Events. If any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of Warrant Shares so as to protect the rights of the Holder; provided that such adjustment is made in accordance with the ASX Listing Rules. No such adjustment pursuant to this Section 2(d) will increase the Exercise Price or decrease the number of Warrant Shares as otherwise determined pursuant to this Section 2, unless in accordance with any ASX Listing Rule.

(e) Other Capital Reorganizations. Notwithstanding any other provision contained in this Warrant, the rights of a warrant holder will be changed to the extent necessary to comply with the listing rules applying to a reorganization of capital at the time of reorganization. Subject to the above, if there is a reorganization of the capital of the Company, the number of Warrant Shares applicable to the Warrant and/or Exercise Price of the Warrant will be reorganized as follows: (i) if the Company returns capital on its Ordinary Shares, the number of Warrant Shares applicable to the Warrant will remain the same, and the Exercise Price of each Warrant will be reduced by the same amount as the amount returned in relation to each Ordinary Share; (ii) if the Company returns capital on its Ordinary Shares by a cancellation of capital that is lost or not represented by available assets, the number of Warrant Shares applicable to the Warrant and the Exercise Price is unaltered; (iii) if the Company reduces its issued Ordinary Shares on a pro rata basis, the number of Warrant Shares applicable to the Warrant will be reduced in the same ratio as the Ordinary Shares and the Exercise Price will be amended in inverse proportion to that ratio; and (iv) if the Company reorganizes its issued Ordinary Shares in any way not otherwise contemplated by the preceding paragraphs, the number of Warrant Shares applicable to the Warrant or the Exercise Price or both will be reorganized so that the Warrant Holder will not receive a benefit that holders of Ordinary Shares do not receive. The Company shall give notice to Warrant Holders of any adjustments to the number of Warrant Shares applicable to the Warrant or the number of Ordinary Shares which are to be issued on exercise of a Warrant or to the Exercise Price. Before a Warrant is exercised, all adjustment calculations are to be carried out including all fractions (in relation to each of the number of Warrant Shares

applicable to the Warrant, the number of Ordinary Shares and the Exercise Price), but on exercise the number of Warrant Shares or Ordinary Shares issued is rounded down to the next lower whole number and the Exercise Price rounded up to the next higher cent.

3. FUNDAMENTAL TRANSACTIONS. The Company shall not enter into or be party to a Fundamental Transaction unless, and shall use its best endeavors to procure that, (i) the Successor Entity (if other than the Company) assumes in writing all of the obligations of the Company under this Warrant and the other Transaction Documents in accordance with the provisions of this Section (4)(b) pursuant to written agreements in form and substance reasonably satisfactory to the Required Holders and approved by the Required Holders prior to such Fundamental Transaction, including agreements to deliver to each holder of Warrants in exchange for such Warrants a security of such Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant, including, without limitation, an adjusted exercise price equal to the value for the Ordinary Shares reflected by the terms of such Fundamental Transaction, and exercisable for a corresponding number of shares of capital stock equivalent to the Ordinary Shares underlying the Warrant Shares acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and reasonably satisfactory to the Required Holders and (ii) such Successor Entity is a publicly traded corporation whose common shares (or whose American Depositary Shares) are quoted on or listed for trading on an Eligible Market. Upon the occurrence of any Fundamental Transaction, such Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant referring to the "Company" shall refer instead to such Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant with the same effect as if such Successor Entity had been named as the Company herein. Upon consummation of the Fundamental Transaction, such Successor Entity shall deliver to the Holder confirmation that there shall be issued upon exercise of this Warrant at any time after the consummation of the Fundamental Transaction, in lieu of the Warrant Shares (or other securities, cash, assets or other property) purchasable upon the exercise of the Warrant prior to such Fundamental Transaction, such shares of the publicly traded common stock (or their equivalent) of the Successor Entity (including its Parent Entity), as adjusted in accordance with the provisions of this Warrant. In addition to and not in substitution for any other rights hereunder, prior to the consummation of any Fundamental Transaction pursuant to which holders of Ordinary Shares (directly or indirectly through Warrant Shares or otherwise) are entitled to receive securities or other assets with respect to or in exchange for Ordinary Shares (a "Corporate Event"), the Company shall make appropriate provision, to the extent not prohibited by applicable law, to insure that the Holder will thereafter have the right to receive upon an exercise of this Warrant at any time after the consummation of the Fundamental Transaction but prior to the Expiration Date, in lieu of the Warrant Shares purchasable upon the exercise of the Warrant prior to such Fundamental Transaction, such, securities or other, assets which the Holder would have been entitled to receive upon the happening of such Fundamental Transaction had the Warrant been exercised immediately prior to such Fundamental Transaction. The provisions of this Section shall apply similarly and equally to successive Fundamental Transactions and Corporate Events and shall be applied without regard to any limitations on the exercise of this Warrant.

4. NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Constitution or Bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all

the provisions of this Warrant and take all action as may be required to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any Ordinary Shares underlying the Warrant Shares receivable upon the exercise of this Warrant above the Exercise Price then in effect and (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant.

5. WARRANT HOLDER NOT DEEMED A STOCKHOLDER. Except as otherwise specifically provided herein, the Holder, solely in such Person's capacity as a holder of this Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, solely in such Person's capacity as the Holder of this Warrant, any of the rights of a shareholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant Shares which such Person is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a shareholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 6, the Company shall provide the Holder with copies of the same notices and other information given to the shareholders of the Company generally, contemporaneously with the giving thereof to the shareholders.

6. REISSUANCE OF WARRANTS.

(a) Transfer of Warrant. If this Warrant is to be transferred, the Holder shall surrender this Warrant to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Warrant (in accordance with Section 7(d)), registered as the Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Holder and, if less then the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 7(d)) to the Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Holder a new Warrant (in accordance with Section 7(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 7(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the

Holder at the time of such surrender; provided, however, that no Warrants for fractional Warrant Shares shall be given.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 7(a) or Section 7(c), the Warrant Shares designated by the Holder which, when added to the number of Warrant Shares underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

7. NOTICES; CURRENCY.

(a) Notices. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with Section 9(f) of the Securities Purchase Agreement. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Warrant, including in reasonable detail a description of such action and the reason therefore. Without limiting the generality of the foregoing, the Company will give written notice to the Holder (i) immediately upon any adjustment of the Exercise Price, setting forth in reasonable detail, and certifying, the calculation of such adjustment and (ii) at least fifteen days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Ordinary Shares or Warrant Shares, (B) with respect to any grants, issuances or sales of any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property to holders of Ordinary Shares or Warrant Shares or (C) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder.

(b) Currency. Unless otherwise indicated, all dollar amounts referred to in this Warrant are in United States Dollars.

8. AMENDMENT AND WAIVER. The provisions of this Warrant may be amended by the Company and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Required Holders and approval from the holders of Ordinary Shares at a shareholders meeting held in accordance with the ASX Listing Rules and *Corporations Act 2001* (Cth) or if otherwise permitted by the ASX Listing Rules. Notwithstanding any provision of this Warrant, , a term of this Warrant which has the effect of reducing the exercise price, increasing the period for exercise or increasing the number of Warrant Shares or Ordinary Shares received on exercise is prohibited if it would result in a breach of the ASX Listing Rules. Notwithstanding the above, no change may increase the exercise price of any SPA Warrant or decrease the number of Warrant Shares or class of stock obtainable upon exercise of any SPA Warrant without the written consent of the Holder, unless otherwise provided in the ASX Listing Rules. A change which has the effect of reducing the purchase price, increasing the period for

exercise or increasing the number of securities received cannot be made. In addition, subject to the ASX Listing Rules, no such amendment shall be effective to the extent that it applies to less than all of the holders of the SPA Warrants then outstanding.

9. SEVERABILITY. If any provision of this Warrant or the application thereof becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of the terms of this Warrant will continue in full force and effect.

10. GOVERNING LAW. This Warrant shall be governed by and construed and enforced in accor-dance with, and all questions concerning the construction, validity, interpretation and performance of this Warrant shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York.

11. CONSTRUCTION; HEADINGS. This Warrant shall be deemed to be jointly drafted by the Company and all the Buyers and shall not be construed against any person as the drafter hereof. The headings of this Warrant are for convenience of reference and shall not form part of, or affect the interpretation of, this Warrant.

12. DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Exercise Price or the calculation of the Warrant Shares, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two (2) Business Days of receipt of the Exercise Notice giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation within three (3) Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two Business Days submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder or (b) the disputed arithmetic calculation of the Warrant Shares to the Company's independent, outside accountant. The Company at the Company's expense, shall cause the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

13. REMEDIES, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The remedies provided in this Warrant shall be cumulative and in addition to all other remedies available under this Warrant and the other Transaction Documents, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the right of the Holder right to pursue actual damages for any failure by the Company to comply with the terms of this Warrant. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the holder of this Warrant shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

14. TRANSFER. This Warrant may be offered for sale, sold, transferred or assigned without the consent of the Company, except as may otherwise be required by Section 2(f) of the Securities Purchase Agreement.

15. CERTAIN DEFINITIONS. For purposes of this Warrant, the following terms shall have the following meanings:

(a) "**ADRs**" means the American Depositary Receipts of the Company evidencing the American Depositary Shares of the Company which each represent ten (10) Ordinary Shares.

(b) "**ASX**" means the Australian Stock Exchange.

(c) "**Bloomberg**" means Bloomberg Financial Markets.

(d) "**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York, State of New York, U.S.A. or Perth, Australia are authorized or required by law to remain closed.

(e) "**Closing Bid Price**" and "**Closing Sale Price**" means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or last trade price, respectively, of such security prior to 4:00:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 12. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(f) "**Convertible Securities**" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for ADRs or Ordinary Shares.

(g) "**Deposit Agreement**" means that certain Deposit Agreement, dated as of January 24, 2005 by and among the Company, the Depositary and the holders and beneficial owners from time to time of ADSs evidenced by ADRs issued pursuant to such agreement.

(h) "**Depositary**" means Citibank, N.A., acting in such capacity under the Deposit Agreement.

(i) "**Eligible Market**" means the Principal Market, The New York Stock Exchange, Inc., the American Stock Exchange or The Nasdaq Capital Market.

(j) "**Expiration Date**" means the date that is sixty months after the Issuance Date or, if such date falls on a day other than a Business Day or on which trading does not take place on the Principal Market (a "**Holiday**"), the next date that is not a Holiday.

(k) "**Fundamental Transaction**" means that the Company shall, directly or indirectly, in one or more related transactions, (i) consolidate or merge with or into (whether or not the Company is the surviving corporation) another Person, or (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company to another Person, or (iii) allow another Person to make a purchase, tender or exchange offer that is accepted by the holders of more than the 50% of either the outstanding Ordinary Shares (not including any Ordinary Shares held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (iv) consummate a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than the 50% of the outstanding Ordinary Shares (not including any Ordinary Shares held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock purchase agreement or other business combination), or (v) reorganize, recapitalize or reclassify its Ordinary Shares.

(l) "**Options**" means any rights, warrants or options to subscribe for or purchase ADRs, Ordinary Shares or Convertible Securities.

(m) "**Ordinary Shares**" means (i) the Company's ordinary shares of common stock, no par value per share, and (ii) any share capital into which such Ordinary Shares shall have been changed or any share capital resulting from a reclassification of such Ordinary Shares.

(n) "**Parent Entity**" of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

(o) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(p) "**Principal Market**" means the Nasdaq Global Market.

(q) "**Registration Rights Agreement**" means that certain Second Amended and Restated Registration Rights Agreement by and among the Company and the Buyers, as such agreement may be amended from time to time.

(r) "**Required Holders**" means the holders of the SPA Warrants representing at least a majority of Warrant Shares underlying the SPA Warrants then outstanding.

(s) "**SPA Securities**" means the Notes issued pursuant to the Amendment Agreement.

(t) "**Successor Entity**" means the Person, which may be the Company, formed by, resulting from or surviving any Fundamental Transaction or the Person with which such Fundamental Transaction shall have been made, provided that if such Person is not a publicly traded entity whose common stock or equivalent equity security is quoted or listed for trading on an Eligible Market, Successor Entity shall mean such Person's Parent Entity.

(u) "**Trading Day**" means any day on which the ADRs are traded on the Principal Market, or, if the Principal Market is not the principal trading market for the ADRs, then on the principal securities exchange or securities market on which the ADRs are then traded; provided that "Trading Day" shall not include any day on which the ADRs are scheduled to trade on such exchange or market for less than 4.5 hours or any day that the ADRs are suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York Time).

(v) "**Transaction Documents**" has the meaning set forth in the Securities Purchase Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Warrant to Purchase ADRs to be duly executed as of the Issuance Date set out above.

PSIVIDA LIMITED

By: _____

Name:
Title:

EXHIBIT A

EXERCISE NOTICE
TO BE EXECUTED BY THE REGISTERED HOLDER TO EXERCISE THIS
WARRANT TO PURCHASE ADRS

PSIVIDA LIMITED

The undersigned holder hereby exercises the right to purchase _____ of the ADRs, each of which representing ten (10) ordinary shares ("**Ordinary Shares**") of pSivida Limited, an Australian corporation (the "**Company**"), evidenced by the attached Warrant to Purchase ADRs (the "**Warrant**"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Payment of Exercise Price. The undersigned holder shall pay the Aggregate Exercise Price in the sum of $_____ to the Company in accordance with the terms of the Warrant.

2. Delivery of ADRs. The Company shall deliver to the holder _____ ADRs in accordance with the terms of the Warrant.

Date: _____ __, _____

_____
Name of Registered Holder

By: _____
Name:
Title:

ACKNOWLEDGMENT

The Company hereby acknowledges this Exercise Notice and hereby directs Citibank, N.A. to issue the above indicated number of Ordinary Shares in accordance with the Transfer Agent Instructions dated December **[__]**, 2006 from the Company and acknowledged and agreed to by Citibank, N.A.

PSIVIDA LIMITED

By: _____

Name:
Title:

FORM OF SECOND AMENDED AND RESTATED CONVERTIBLE NOTE

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR (B) AN OPINION OF COUNSEL, IN A FORM REASONABLY ACCEPTABLE TO THE COMPANY, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) IF SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT, SUCH DOCUMENTS, OPINIONS AND CERTIFICATES AS THE COMPANY MAY REASONABLY REQUIRE. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES. ANY TRANSFEREE OF THIS NOTE SHOULD CAREFULLY REVIEW THE TERMS OF THIS NOTE, INCLUDING SECTIONS 3(c)(iii) AND 19(a) HEREOF. THE PRINCIPAL AMOUNT REPRESENTED BY THIS NOTE AND, ACCORDINGLY, THE SECURITIES ISSUABLE UPON CONVERSION HEREOF MAY BE LESS THAN THE AMOUNTS SET FORTH ON THE FACE HEREOF PURSUANT TO SECTION 3(c)(iii) OF THIS NOTE.

pSivida Limited

Second Amended and Restated Convertible Note

Issuance Date: November 16, 2005

Principal: U.S. $[12,257,319.68][1]

FOR VALUE RECEIVED, pSivida Limited, an Australian corporation (the "**Company**"), hereby promises to pay to the order of **CASTLERIGG MASTER INVESTMENTS LTD.** or registered assigns ("**Holder**") the amount set out above as the Principal (as reduced pursuant to the terms hereof pursuant to redemption, conversion or otherwise, the "**Principal**") when due, whether upon the Maturity Date (as defined below), acceleration, redemption or otherwise (in each case in accordance with the terms hereof) and to pay interest ("**Interest**") on any outstanding Principal at the Interest Rate, from the date set out above as the Issuance Date (the "**Issuance Date**") until the same becomes due and payable, whether upon an Interest Date (as defined below), the Maturity Date, acceleration, conversion, redemption or otherwise (in each case in accordance with the terms hereof). This Subordinated Convertible Note (including all Convertible Notes issued in exchange, transfer or replacement hereof, this "**Note**") amends, supplements, modifies and completely restates and supersedes the Amended and Restated Convertible Note, dated November 16. 2005, as amended by that certain

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1 Plus accrued and unpaid interest through the Closing Date (as defined in the Second Amendment Agreement, dated as of December 29, 2006).

Letter Agreement (the "**Letter Agreement**"), dated as of October 17, 2006 (the "**Existing Note**"), which amends, supplements, modifies and completely restates and supersedes the Subordinated Convertible Note, dated as of November 16, 2005 (the "**Original Note**") issued by the Company to the order of the Holder in the principal amount of $15,000,000, but shall not, except as specifically amended hereby or as set forth in the Second Amendment Agreement (as defined below), constitute a release, satisfaction or novation of any of the obligations under the Existing Note, the Original Note or any other Transaction Document (as defined in the Securities Purchase Agreement, defined below). This Note is one of an issue of Subordinated Convertible Notes issued pursuant to the Second Amendment Agreement (the "**Second Amendment Agreement**") dated as of December **[__]**, 2006 (collectively, the "**Notes**" and such other Convertible Notes, the "**Other Notes**" and the holders of the Other Notes, the "**Other Holders**")). Certain capitalized terms used herein are defined in Section 29.

(1) MATURITY. On the Maturity Date, the Holder shall surrender this Note to the Company and the Company shall pay to the Holder an amount in cash representing all outstanding Principal, accrued and unpaid Interest and accrued and unpaid Late Charges, if any. The "**Maturity Date**" shall be the date which is three (3) years after the Issuance Date, as may be extended at the option of the Holder (i) in the event that, and for so long as, an Event of Default (as defined in Section 4(a)) pursuant to clause (i), (ii) or (iii) of Section 4(a) shall have occurred and be continuing or any event shall have occurred and be continuing which with the passage of time and the failure to cure would result in an Event of Default pursuant to clause (i), (ii) or (iii) of Section 4(a) and (ii) through the date that is ten (10) Business Days after the consummation of a Change of Control in the event that a Change of Control is publicly announced or a Change of Control Notice (as defined in Section 5) is delivered prior to the Maturity Date.

(2) INTEREST; INTEREST RATE. Interest on this Note shall commence accruing on the Issuance Date and shall be computed on the basis of a 365-day year and actual days elapsed and shall be payable in arrears for each Calendar Quarter on the first (1st) day of the succeeding Calendar Quarter during the period beginning on the Issuance Date and ending on, and including, the Maturity Date (each, an "**Interest Date**") with the first Interest Date being January 1, 2006. Interest shall be payable on each Interest Date, to the record holder of this Note on the applicable Interest Date, in ADRs ("**Interest Shares**"), or, at the option of the Company, in cash ("**Cash Interest**"), or a combination thereof. On or prior to the fifth (5^{th}) Trading Day prior to each Interest Date (each, an "**Interest Notice Due Date**"**)**, the Company shall deliver written notice (each, an "**Interest Election Notice**") to the Holder confirming that the Equity Conditions have been satisfied as of such Interest Notice Due Date and specifying the amount of Interest that shall be paid as Cash Interest and the amount of Interest that shall be paid in Interest Shares. Notwithstanding the foregoing, unless otherwise waived or consented to in writing by the Holder, the Company will not be permitted to issue on any Interest Date a number of Interest Shares (and must pay any excess in Cash Interest) which exceeds the Maximum Interest Share Amount. Interest to be paid on an Interest Date in Interest Shares shall be paid in a number of fully paid and nonassessable (rounded to the nearest whole share in accordance with Section 3(a)) ADRs equal to the quotient of (a) the amount of Interest payable on such Interest Date less any Cash Interest paid and (b) the Interest Conversion Price in effect on the applicable Interest Date. If any Interest Shares are to be paid on an Interest Date, then the Company shall (X) provided that the Company's transfer agent (the "**Transfer Agent**") is participating in the

Depository Trust Company ("**DTC**") Fast Automated Securities Transfer Program, credit such aggregate number of Interest Shares to which the Holder shall be entitled to the Holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system, or (Y) if the foregoing shall not apply, issue and deliver on the applicable Interest Date, to the address set forth in the register maintained by the Company for such purpose pursuant to the Securities Purchase Agreement or to such address as specified by the Holder in writing to the Company at least two (2) Business Days prior to the applicable Interest Date, a certificate, registered in the name of the Holder or its designee, for the number of Interest Shares to which the Holder shall be entitled. In addition, upon payment of any Interest Shares, the Company shall deposit the corresponding number of Ordinary Shares representing the number of American Depositary Shares ("**ADSs**") underlying the ADRs and pay by wire transfer to the Depositary's account the ADS issuance fee of $0.04 per ADS to be issued, together with all applicable taxes and expenses otherwise payable under the terms of the Deposit Agreement for the deposit of Ordinary Shares and issuance of ADSs (including, without limitation, confirmation that any Australian stock transfer taxes in respect of such deposit (if any) have been paid by the Company), and the Company shall otherwise comply with and cause any other necessary party to comply with all the terms of the Deposit Agreement. Notwithstanding the foregoing, the Company shall not be entitled to pay Interest in Interest Shares and shall be required to pay such Interest in cash as Cash Interest on the applicable Interest Date if, unless consented to in writing by the Holder, during the period commencing on the applicable Interest Notice Due Date through the applicable Interest Date the Equity Conditions have not been satisfied. Prior to the payment of Interest on an Interest Date, Interest on this Note shall accrue at the Interest Rate and be payable by way of inclusion of the Interest in the Conversion Amount in accordance with Section 3(b)(i). Upon the occurrence and during the continuance of an Event of Default, the Interest Rate shall be increased to ten percent (10%). In the event that such Event of Default is subsequently cured, the adjustment referred to in the preceding sentence shall cease to be effective as of the date of such cure; provided that the Interest as calculated and unpaid at such increased rate during the continuance of such Event of Default shall continue to apply to the extent relating to the days after the occurrence of such Event of Default through and including the date of cure of such Event of Default. The Company's obligation to pay any taxes in respect of the issuance and delivery of Interest Shares, or to pay to the Holder any additional amounts associated with such taxes, shall be determined under Section 4(o) of the Securities Purchase Agreement.

(3) CONVERSION OF NOTES. This Note shall be convertible into the Company's ADRs, on the terms and conditions set forth in this Section 3.

(a) Conversion Right. Subject to the provisions of Section 3(d), at any time or times on or after the Issuance Date, the Holder shall be entitled to convert any portion of the outstanding and unpaid Conversion Amount (as defined below) into fully paid and nonassessable ADRs in accordance with Section 3(c), at the Conversion Rate (as defined below). The Company shall not issue any fraction of an ADR upon any conversion. If any conversion would result in the issuance of a fraction of an ADR, the Company shall round such fraction of an ADR up to the nearest whole share. The Company's obligation to pay any taxes in respect of the issuance and delivery of ADRs or Ordinary Shares, or to pay to the Holder any additional amounts associated with such taxes, shall be determined under Section 4(o) of the Securities Purchase Agreement.

In the event that the Company's Board of Directors should determine that the Company shall transform itself (whether by re-incorporation in the United States or otherwise) from a foreign private issuer (as defined under the Securities Act of 1933, as amended), all references to ADRs or ADSs shall be deemed references to whatever shares are then issued by the re-domiciled Company and all other provisions of this Agreement shall be equitably adjusted by the parties hereto to the extent necessary or appropriate to reflect such new country of incorporation.

(b) Conversion Rate. The number of ADRs issuable upon conversion of any Conversion Amount pursuant to Section 3(a) shall be determined by dividing (x) such Conversion Amount by (y) the Conversion Price (the "**Conversion Rate**").

(i) "**Conversion Amount**" means the sum of (A) the portion of the Principal to be converted, redeemed or otherwise with respect to which this (or any other) determination is being made, (B) accrued and unpaid Interest with respect to such Principal and (C) accrued and unpaid Late Charges with respect to such Principal and Interest.

(ii) "**Conversion Price**" means, as of any Conversion Date (as defined below) or other date of determination, $2.00 per ADR (which is equivalent to $0.20 per Ordinary Share), subject to adjustment as provided herein.

(c) Mechanics of Conversion.

(i) Optional Conversion. To convert any Conversion Amount into ADRs on any date (a "**Conversion Date**"), the Holder shall (A) transmit by facsimile (or otherwise deliver), for receipt on or prior to 11:59 p.m., New York Time, on such date, a copy of an executed notice of conversion in the form attached hereto as Exhibit I (the "**Conversion Notice**") to the Company and (B) if required by Section 3(c)(iii), surrender this Note to a common carrier for delivery to the Company as soon as practicable on or following such date (or an indemnification undertaking with respect to this Note in the case of its loss, theft or destruction). On or before the second (2^{nd}) Business Day following the date of receipt of a Conversion Notice, the Company shall transmit by facsimile a confirmation of receipt of such Conversion Notice to the Holder and the Transfer Agent. On or before the fifth (5^{th}) Business Day following the date of receipt of a Conversion Notice (the "**Share Delivery Date**"), the Company shall (X) provided that the Transfer Agent is participating in the DTC Fast Automated Securities Transfer Program, credit such aggregate number of ADRs to which the Holder shall be entitled to the Holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system or (Y) if the foregoing shall not apply, issue and deliver to the address as specified in the Conversion Notice, a certificate, registered in the name of the Holder or its designee, for the number of ADRs to which the Holder shall be entitled. If this Note is physically surrendered for conversion as required by Section 3(c)(iii) and the outstanding Principal of this Note is greater than the Principal portion of the Conversion Amount being converted, then the Company shall as soon as practicable and in no event later than three (3) Business Days after receipt of this Note and at its own expense, issue and deliver to the holder a new Note (in accordance with Section 19(d)) representing the outstanding Principal not converted. The Person or Persons entitled to receive the ADRs issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such ADRs on the

Conversion Date. Upon conversion of this Note, the Company shall deposit the corresponding number of Ordinary Shares representing the number of ADSs underlying the ADRs and pay by wire transfer to the Depositary's account the ADS issuance fee of $0.04 per ADS to be issued, together with all applicable taxes and expenses otherwise payable under the terms of the Deposit Agreement for the deposit of Ordinary Shares and issuance of ADSs (including, without limitation, confirmation that any Australian stock transfer taxes in respect of such deposit (if any) have been paid by the Company), and the Company shall otherwise comply with and cause any other necessary party to comply with all the terms of the Deposit Agreement.

(ii) Company's Failure to Timely Convert. If the Company shall fail to issue a certificate to the Holder or credit the Holder's balance account with DTC for the number of ADRs to which the Holder is entitled upon conversion of any Conversion Amount on or prior to the date which is five (5) Business Days after the Conversion Date (a "**Conversion Failure**"), then (A) the Company shall pay damages in cash to the Holder for each date of such Conversion Failure in an amount equal to an interest rate equal to 10% per annum applied to the product of (I) the sum of the number of ADRs not issued to the Holder on or prior to the Share Delivery Date and to which the Holder is entitled, and (II) the Closing Sale Price of the ADRs on the Share Delivery Date and (B) the Holder, upon written notice to the Company, may void its Conversion Notice with respect to, and retain or have returned, as the case may be, any portion of this Note that has not been converted pursuant to such Conversion Notice; provided that the voiding of a Conversion Notice shall not affect the Company's obligations to make any payments which have accrued prior to the date of such notice pursuant to this Section 3(c)(ii) or otherwise. In addition to the foregoing, if within three (3) Trading Days after the Company's receipt of the facsimile copy of a Conversion Notice the Company shall fail to issue and deliver a certificate to the Holder or credit the Holder's balance account with DTC for the number of ADRs to which the Holder is entitled upon such holder's conversion of any Conversion Amount, and if on or after such Trading Day the Holder purchases (in an open market transaction or otherwise) ADRs to deliver in satisfaction of a sale by the Holder of ADRs issuable upon such conversion that the Holder anticipated receiving from the Company (a "**Buy-In**"), then the Company shall, within three (3) Business Days after the Holder's request and in the Holder's discretion, either (i) pay cash to the Holder in an amount equal to the Holder's total purchase price (including brokerage commissions, if any) for the ADRs so purchased (the "**Buy-In Price**"), at which point the Company's obligation to deliver such certificate (and to issue such ADRs) shall be deemed to have been satisfied and shall terminate, or (ii) promptly honor its obligation to deliver to the Holder a certificate or certificates representing such ADRs and pay cash to the Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of ADRs, times (B) the Closing Bid Price on the Conversion Date.

(iii) Book-Entry. Notwithstanding anything to the contrary set forth herein, upon conversion of any portion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Company unless (A) the full Conversion Amount represented by this Note is being converted or (B) the Holder has provided the Company with prior written notice (which notice may be included in a Conversion Notice) requesting reissuance of this Note upon physical surrender of this Note. The Holder and the Company shall maintain records showing the Principal, Interest and Late Charges converted and

the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Company, so as not to require physical surrender of this Note upon conversion.

(iv) Pro Rata Conversion; Disputes. In the event that the Company receives a Conversion Notice from more than one holder of Notes for the same Conversion Date and the Company can convert some, but not all, of such portions of the Notes submitted for conversion, the Company, subject to Section 3(d), shall convert from each holder of Notes electing to have Notes converted on such date a pro rata amount of such holder's portion of its Notes submitted for conversion based on the principal amount of Notes submitted for conversion on such date by such holder relative to the aggregate principal amount of all Notes submitted for conversion on such date. In the event of a dispute as to the number of ADRs issuable to the Holder in connection with a conversion of this Note, the Company shall issue to the Holder the number of ADRs not in dispute and resolve such dispute in accordance with Section 24.

(d) Limitations on Conversions

(i) Beneficial Ownership. The Company shall not effect any conversion of this Note, and the Holder of this Note shall not have the right to convert any portion of this Note pursuant to Section 3(a), to the extent that after giving effect to such conversion, the Holder (together with the Holder's affiliates) would beneficially own (directly or indirectly) in excess of 4.99% (the "**Maximum Percentage**") of the number of Ordinary Shares outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentence, the number of Ordinary Shares beneficially owned (directly or indirectly) by the Holder and its affiliates shall include the number of Ordinary Shares represented by the ADRs issuable upon conversion of this Note with respect to which the determination of such sentence is being made, but shall exclude the number of Ordinary Shares represented by the ADRs or otherwise which would be issuable upon (A) conversion of the remaining, nonconverted portion of this Note beneficially owned by the Holder or any of its affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company beneficially owned by the Holder or any of its affiliates (including, without limitation, any Other Notes or warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this Section 3(d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. For purposes of this Section 3(d), in determining the number of outstanding Ordinary Shares, the Holder may rely on the number of outstanding Ordinary Shares as reflected in (x) the Company's most recent Form 20-F, Form 6-K or other public filing with the Securities and Exchange Commission, as the case may be (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Transfer Agent setting forth the number of Ordinary Shares outstanding. For any reason at any time, upon the written or oral request of the Holder, the Company shall within two (2) Business Days confirm orally and in writing to the Holder the number of Ordinary Shares then outstanding. In any case, the number of outstanding Ordinary Shares shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Note, by the Holder and its affiliates since the date as of which such number of outstanding Ordinary Shares was reported. By written notice to the Company, the Holder may increase or decrease the Maximum

Percentage to any other percentage not in excess of 9.99% specified in such notice; provided that (i) any such increase will not be effective until the sixty-first (61^{st}) day after such notice is delivered to the Company, and (ii) any such increase or decrease will apply only to the Holder and not to any other holder of Notes.

(ii) Principal Market Regulation. The Company shall not be obligated to issue any ADRs upon conversion of this Note, and the Holder of this Note shall not have the right to receive upon conversion of this Note any ADRs, if the issuance of such ADRs would exceed the aggregate number of ADRs which the Company may issue upon conversion or exercise, as applicable, of the Notes and Warrants or otherwise without breaching the Company's obligations under the rules or regulations of the Principal Market (or such other Eligible Market on which the ADRs or Ordinary Shares are listed) and the ASX (the "**Exchange Cap**"), except that such limitation shall not apply in the event that the Company obtains the approval of its shareholders as required by the applicable rules of the Principal Market and the ASX listing rules for issuances in excess of such amount. Until such approval is obtained, no purchaser of the Notes pursuant to the Securities Purchase Agreement (the "**Purchasers**") shall be issued in the aggregate, upon conversion or exercise, as applicable, of Notes or Warrants, or otherwise any ADRs in an amount greater than the product of the Exchange Cap multiplied by a fraction, the numerator of which is the principal amount of Notes issued to the applicable Purchaser pursuant to the Securities Purchase Agreement on the Closing Date and the denominator of which is the aggregate principal amount of all Notes issued to the Purchasers pursuant to the Securities Purchase Agreement on the Closing Date (with respect to each Purchaser, the "**Exchange Cap Allocation**"). In the event that any Purchaser shall sell or otherwise transfer any of such Purchaser's Notes, the transferee shall be allocated a pro rata portion of such Purchaser's Exchange Cap Allocation, and the restrictions of the prior sentence shall apply to such transferee with respect to the portion of the Exchange Cap Allocation allocated to such transferee. In the event that any holder of Notes shall convert all of such holder's Notes into a number of ADRs which, in the aggregate, is less than such holder's Exchange Cap Allocation, then the difference between such holder's Exchange Cap Allocation and the number of ADRs actually issued to such holder shall be allocated to the respective Exchange Cap Allocations of the remaining holders of Notes on a pro rata basis in proportion to the aggregate principal amount of the Notes then held by each such holder.

(4) RIGHTS UPON EVENT OF DEFAULT.

(a) Event of Default. Each of the following events shall constitute an "**Event of Default**":

(i) the failure of the applicable Registration Statement required to be filed pursuant to the Registration Rights Agreement to be declared effective by the SEC on or prior to the date that is sixty (60) days after the applicable Effectiveness Deadline (as defined in the Registration Rights Agreement), or, while the applicable Registration Statement is required to be maintained effective pursuant to the terms of the Registration Rights Agreement, the effectiveness of the applicable Registration Statement lapses for any reason (including, without limitation, the issuance of a stop order) or is unavailable to any holder of the Notes for sale of all of such holder's Registrable Securities (as defined in the Registration Rights Agreement) in accordance with the terms of the Registration Rights Agreement, and such lapse

or unavailability continues for a period of ten (10) consecutive days or for more than an aggregate of thirty (30) days in any 365-day period (other than days during an Allowable Grace Period (as defined in the Registration Rights Agreement));

(ii) the suspension from trading or failure of the ADRs to be listed on an Eligible Market for a period of five (5) consecutive days or for more than an aggregate of ten (10) days in any 365-day period;

(iii) the Company's (A) failure to cure a Conversion Failure by delivery of the required number of ADRs within twelve (12) Business Days after the applicable Conversion Date or (B) notice, written or oral, to any holder of the Notes, including by way of public announcement or through any of its agents, at any time, of its intention not to comply with a request for conversion of any Notes into ADRs that is tendered in accordance with the provisions of the Notes;

(iv) the Company's failure to pay to the Holder any amount of Principal when and as due or any Interest, Late Charges or other amounts within three Business Days of the date when and as due under this Note (including, without limitation, the Company's failure to pay any redemption payments) or any other Transaction Document (as defined in the Securities Purchase Agreement) or any other agreement, document, certificate or other instrument delivered in connection with the transactions contemplated hereby and thereby to which the Holder is a party;

(v) any Indebtedness, the aggregate of which obligation(s) exceed(s) US$250,000.00 (or the equivalent in one or more other currencies) individually or in the aggregate is declared to be or otherwise becomes due and payable prior to its specified maturity (other than as a result of a mandatory prepayment not attributable to an event of default) or with respect to which the Company or any of its Subsidiaries fails to make any payment at the maturity date as and when due;

(vi) the Company or any of its Material Subsidiaries (as such term is defined under Regulation S-K under the Securities and Exchange Act of 1933, as amended), pursuant to or within the meaning of Title 11, U.S. Code, or any similar Federal, foreign or state law for the relief of debtors (collectively, "**Bankruptcy Law**"), (A) commences a voluntary case, (B) consents to the entry of an order for relief against it in an involuntary case, (C) consents to the appointment of a receiver, trustee, assignee, liquidator or similar official (a "**Custodian**"), (D) makes a general assignment for the benefit of its creditors or (E) admits in writing that it is generally unable to pay its debts as they become due;

(vii) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against the Company or any of its Material Subsidiaries in an involuntary case, (B) appoints a Custodian of the Company or any of its Material Subsidiaries or (C) orders the liquidation of the Company or any of its Material Subsidiaries;

(viii) a final judgment or judgments for the payment of money aggregating in excess of $2,500,000 are rendered against the Company or any of its Subsidiaries

and which judgments are not, within sixty (60) days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within sixty (60) days after the expiration of such stay; provided, however, that any such judgment shall not give rise to an Event of Default under this subsection (viii) if and for so long as (A) the amount of such judgment is covered by a valid and binding policy of insurance between the defendant and the insurer covering full payment thereof and (B) such insurer has been notified, and has not disputed the claim made for payment, of the amount of such judgment;

(ix) the Company breaches any material representation, warranty, covenant or other term or condition of any Transaction Document in any material respect, except, in the case of a breach of a covenant which is curable, only if such breach continues for a period of at least ten (10) consecutive Business Days after notice from any Holder or the Company becomes or reasonably should be expected to have become aware of such breach;

(x) any material breach or failure in any respect to comply with either of Sections 8 or 15 of this Note; or

(xi) any Event of Default (as defined in the Other Notes) occurs with respect to any Other Notes.

(b) Redemption Right. Promptly after the occurrence of an Event of Default with respect to this Note or any Other Note, the Company shall deliver written notice thereof via facsimile and overnight courier (an "**Event of Default Notice**") to the Holder. At any time after the earlier of the Holder's receipt of an Event of Default Notice and the Holder becoming aware of an Event of Default and until 30 days after such Event of Default has been cured, the Holder may require the Company to redeem all or any portion of this Note by delivering written notice thereof (the "**Event of Default Redemption Notice**") to the Company, which Event of Default Redemption Notice shall indicate the portion of this Note the Holder is electing to redeem. Each portion of this Note subject to redemption by the Company pursuant to this Section 4(b) shall be redeemed by the Company at a price equal to the greater of (i) the product of (x) the Conversion Amount to be redeemed and (y) the Redemption Premium and (ii) the product of (A) the Conversion Rate with respect to such Conversion Amount in effect at such time as the Holder delivers an Event of Default Redemption Notice and (B) the Closing Sale Price of the ADRs on the date immediately preceding such Event of Default (the "**Event of Default Redemption Price**"). Redemptions required by this Section 4(b) shall be made in accordance with the provisions of Section 13.

(5) RIGHTS UPON FUNDAMENTAL TRANSACTION AND CHANGE OF CONTROL.

(a) Assumption. The Company shall not enter into or be party to a Fundamental Transaction unless, and shall use its best endeavors to procure that, (i) the Successor Entity (if other than the Company) assumes in writing all of the obligations of the Company under this Note and the other Transaction Documents in accordance with the provisions of this Section 5(a) pursuant to written agreements in form and substance reasonably satisfactory to the Required Holders and approved by the Required Holders prior to such

Fundamental Transaction, including agreements to deliver to each holder of Notes in exchange for such Notes a security of such Successor Entity evidenced by a written instrument substantially similar in form and substance to the Notes, including, without limitation, having a principal amount and interest rate equal to the principal amounts and the interest rates of the Notes held by such holder and having similar ranking to the Notes, and reasonably satisfactory to the Required Holders and (ii) the Successor Entity is a publicly traded corporation whose common shares (or whose American Depositary Shares) are quoted on or listed for trading on an Eligible Market. Upon the occurrence of any Fundamental Transaction, such Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Note referring to the "Company" shall refer instead to such Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Note with the same effect as if such Successor Entity had been named as the Company herein. Upon consummation of the Fundamental Transaction, such Successor Entity shall deliver to the Holder confirmation that there shall be issued upon conversion or redemption of this Note at any time after the consummation of the Fundamental Transaction, in lieu of the ADRs (or other securities, cash, assets or other property) purchasable upon the conversion or redemption of the Notes prior to such Fundamental Transaction, such publicly traded common shares (or their equivalent) of the Successor Entity (including its Parent Entity), as adjusted in accordance with the provisions of this Note. The provisions of this Section shall apply similarly and equally to successive Fundamental Transactions and shall be applied without regard to any limitations on the conversion or redemption of this Note.

(b) Redemption Right. No sooner than thirty (30) days nor later than ten (10) days prior to the consummation of a Change of Control, the Company shall deliver written notice thereof via facsimile and overnight courier to the Holder (a "**Change of Control Notice**"); provided that in no case shall the Company deliver or be required to deliver such Change of Control Notice prior to the public announcement of such Change of Control. At any time during the period beginning after the Holder's receipt of a Change of Control Notice and ending on the date of the consummation of such Change of Control (or, in the event a Change of Control Notice is not delivered at least ten (10) days prior to a Change of Control, at any time on or after the date which is ten (10) days prior to a Change of Control and ending ten (10) days after the consummation of such Change of Control), the Holder may require the Company to redeem all or any portion of this Note by delivering written notice thereof ("**Change of Control Redemption Notice**") to the Company, which Change of Control Redemption Notice shall indicate the Conversion Amount the Holder is electing to redeem. The portion of this Note subject to redemption pursuant to this Section 5 shall be redeemed by the Company at a price equal to the greater of (i) the product of (x) the Conversion Amount being redeemed and (y) the quotient determined by dividing (A) the Closing Sale Price of the ADRs immediately following the public announcement of such proposed Change of Control by (B) the Conversion Price and (ii) the product of Change of Control Premium and the Conversion Amount being redeemed (the "**Change of Control Redemption Price**"). Redemptions required by this Section 5 shall be made in accordance with the provisions of Section 13 and shall have priority to payments to shareholders in connection with a Change of Control.

(6) RIGHTS UPON ISSUANCE OF PURCHASE RIGHTS AND OTHER CORPORATE EVENTS.

(a) Purchase Rights. If at any time the Company, directly or indirectly, grants, issues or sells any Options, Convertible Securities or rights to purchase shares, warrants, securities or other property pro rata to the record holders of any class of Ordinary Shares (the "**Purchase Rights**"), then the Holder will be entitled to acquire, to the extent permitted by applicable Law, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of Ordinary Shares underlying the ADRs acquirable upon complete conversion of this Note (without taking into account any limitations or restrictions on the convertibility of this Note) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Ordinary Shares are to be determined for the grant, issue or sale of such Purchase Rights.

(b) Other Corporate Events. In addition to and not in substitution for any other rights hereunder, prior to the consummation of any Fundamental Transaction pursuant to which holders of ADRs or Ordinary Shares are entitled to receive securities or other assets with respect to or in exchange for ADRs or Ordinary Shares (a "**Corporate Event**"), the Company shall make appropriate provision, to the extent not prohibited by applicable law, to insure that the Holder will thereafter have the right to receive upon a conversion of this Note, (i) in addition to the ADRs receivable upon such conversion, such securities or other assets to which the Holder would have been entitled with respect to such ADRs had such ADRs been held by the Holder upon the consummation of such Corporate Event (without taking into account any limitations or restrictions on the convertibility of this Note) or (ii) in lieu of the ADRs otherwise receivable upon such conversion, such securities or other assets received by the holders of ADRs or Ordinary Shares in connection with the consummation of such Corporate Event in such amounts as the Holder would have been entitled to receive had this Note initially been issued with conversion rights for the form of such consideration (as opposed to ADRs) at a conversion rate for such consideration commensurate with the Conversion Rate. Provision made pursuant to the preceding sentence shall be in a form and substance satisfactory to the Required Holders. The provisions of this Section shall apply similarly and equally to successive Corporate Events and shall be applied without regard to any limitations on the conversion or redemption of this Note.

(7) RIGHTS UPON ISSUANCE OF OTHER SECURITIES.

(a) Adjustment of Conversion Price upon Issuance of Ordinary Shares. If and whenever on or after the Subscription Date, the Company issues or sells, or in accordance with this Section 7(a) is deemed to have issued or sold, any Ordinary Shares (including those underlying any ADRs and the issuance or sale of Ordinary Shares owned or held by or for the account of the Company, but excluding Ordinary Shares deemed to have been issued or sold by the Company in connection with any Excluded Security) for a consideration per Ordinary Share (the "**New Issuance Price**") less than a price (the "**Applicable Price**") equal to (i) one-tenth (1/10th) of the Conversion Price (in the case of ADRs) or (ii) the Conversion Price (in the case that the Conversion Price is determined by reference to the Ordinary Shares) in effect immediately prior to such issue or sale (the foregoing a "**Dilutive Issuance**"), then immediately after such Dilutive Issuance, the Conversion Price then in effect shall be reduced to an amount

equal to the New Issuance Price. Appropriate and equitable adjustment to the terms and provisions of this Note shall be made in the event of any change to the ratio of ADRs to Ordinary Shares represented thereby. For purposes of determining the adjusted Conversion Price under this Section 7(a), the following shall be applicable:

(i) Issuance of Options. If the Company in any manner grants or sells any Options and the lowest price per share for which one Ordinary Share is issuable upon the exercise of any such Option or upon conversion or exchange or exercise of any Convertible Securities issuable upon exercise of such Option is less than the Applicable Price, then such Ordinary Share shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the granting or sale of such Option for such price per share. For purposes of this Section 7(a)(i), the "lowest price per share for which one Ordinary Share is issuable upon the exercise of any such Option or upon conversion or exchange or exercise of any Convertible Securities issuable upon exercise of such Option" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one Ordinary Share upon granting or sale of the Option, upon exercise of the Option and upon conversion or exchange or exercise of any Convertible Security issuable upon exercise of such Option. No further adjustment of the Conversion Price shall be made upon the actual issuance of such Ordinary Shares or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such Ordinary Shares upon conversion or exchange or exercise of such Convertible Securities.

(ii) Issuance of Convertible Securities. If the Company in any manner issues or sells any Convertible Securities and the lowest price per share for which one Ordinary Share is issuable upon such conversion or exchange or exercise thereof is less than the Applicable Price, then such Ordinary Share shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the issuance of sale of such Convertible Securities for such price per share. For the purposes of this Section 7(a)(ii), the "price per share for which one Ordinary Share is issuable upon such conversion or exchange or exercise" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one Ordinary Share upon the issuance or sale of the Convertible Security and upon the conversion or exchange or exercise of such Convertible Security. No further adjustment of the Conversion Price shall be made upon the actual issuance of such Ordinary Shares upon conversion or exchange or exercise of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of the Conversion Price had been or are to be made pursuant to other provisions of this Section 7(a), no further adjustment of the Conversion Price shall be made by reason of such issue or sale.

(iii) Change in Option Price or Rate of Conversion. If the purchase price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exchange or exercise of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exchangeable or exercisable for Ordinary Shares changes at any time, the Conversion Price in effect at the time of such change shall be adjusted to the Conversion Price which would have been in effect at

such time had such Options or Convertible Securities provided for such changed purchase price, additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold. For purposes of this Section 7(a)(iii), if the terms of any Option or Convertible Security that was outstanding as of the Subscription Date are changed in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the Ordinary Shares deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such change. No adjustment shall be made if such adjustment would result in an increase of the Conversion Price then in effect.

(iv) Calculation of Consideration Received. In case any Option is issued in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Options will be deemed to have been issued for a consideration of $.01. If any Ordinary Shares, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor will be deemed to be the gross amount paid by the purchaser therefor. If any Ordinary Shares, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company will be the fair value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Company will be the Closing Sale Price of such securities on the date of receipt. If any Ordinary Shares, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Company is the surviving entity, the amount of consideration therefor will be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such Ordinary Shares, Options or Convertible Securities, as the case may be. The fair value of any consideration other than cash or securities will be determined in good faith by the Board of Directors of the Company.

(v) Record Date. If the Company takes a record of the holders of Ordinary Shares for the purpose of entitling them (A) to receive a dividend or other distribution payable in Ordinary Shares, Options or in Convertible Securities or (B) to subscribe for or purchase Ordinary Shares, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the Ordinary Shares deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(b) Adjustment of Conversion Price upon Pro Rata Bonus Issue of Ordinary Shares. If the Company makes a pro rata bonus issue of Ordinary Shares to its shareholders prior to conversion of the Note, and the Note is not converted prior to the record date for the issue, the Note will, when converted, entitle the holder to the number of ADRs that would ordinarily be received under Section 3, plus the number of bonus Ordinary Shares which would have been issued to the Holder if the Note had been converted prior to the record date.

(c) Adjustment of Conversion Price upon Subdivision or Combination of Ordinary Shares. If the Company at any time on or after the Subscription Date subdivides (by any share split, share dividend, recapitalization or otherwise) one or more classes of its outstanding ADRs (or Ordinary Shares underlying such ADRs) into a greater number of ADRs (or Ordinary Shares), the Conversion Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company at any time on or after the Subscription Date combines (by combination, reverse share split or otherwise) one or more classes of its outstanding ADRs (or Ordinary Shares) into a smaller number of ADRs (or Ordinary Shares), the Conversion Price in effect immediately prior to such combination will be proportionately increased. Any adjustment under this Section 7(d) shall be subject to (and will be correspondingly reorganised in a manner which is permissible under, or necessary to comply with) the ASX Listing Rules or the rules of any Eligible Market in force at the relevant time and shall become effective at the close of business on the date the subdivision or combination becomes effective.

(d) Capital reorganizations. If there is a reorganisation of the capital of the Company, the number of ADRs applicable to the Note and/or the Conversion Price of the Note will be correspondingly reorganised in a manner, which is permissible under, or necessary to comply, with the ASX Listing Rules or the rules of any other Eligible Market in force at the relevant time. Subject to the above, if there is a reorganisation of the capital of the Company, the number of ADRs applicable to the Note or the Conversion Price or both will be reorganised so that the Holder of the Note will not receive a benefit that holders of Ordinary Shares do not receive. The Company shall give notice to the Holder of the Note of any adjustments to the number of ADRs which are to be issued on conversion of the Note or to the Conversion Price. Before a Note is converted, all adjustment calculations are to be carried out including all fractions (in relation to each of the number of ADRs applicable to the Note and the Conversion Price), but on conversion the number of ADRs issued is rounded down to the next lower whole number and the Conversion Price rounded up to the next higher cent.

(e) Other Events. If any event occurs of the type contemplated by the provisions of this Section 7 but not expressly provided for by such provisions (including, without limitation, the granting of share appreciation rights, phantom share rights or other rights with equity features), then the Company's Board of Directors will make an appropriate adjustment in the Conversion Price so as to protect the rights of the Holder under this Note; provided that no such adjustment will increase the Conversion Price as otherwise determined pursuant to this Section 7.

(f) Adjustment. If on April 30, 2007, the Subsequent Conversion Price is less than the then applicable Conversion Price, then the Conversion Price shall be reset to the Subsequent Conversion Price.

(8) HOLDER'S RIGHT OF OPTIONAL REDEMPTION. On each Holder Optional Redemption Date, the Holder shall have the right, in its sole discretion, to require that the Company redeem (each a "**Holder Optional Redemption**") up to $6,250,000 in Principal amount of the Note plus accrued and unpaid Interest with respect to such Principal and accrued and unpaid Late Charges with respect to such principal and Interest (the "**Optional Redemption Amount**") by delivering written notice thereof (a "**Holder Optional Redemption Notice**" and,

collectively with the Event of Default Redemption Notice and the Change of Control Redemption Notice, the "**Redemption Notices**" and each a "**Redemption Notice**") to the Company no later than ten (10) Business Days after the applicable Holder Optional Redemption Date. The Holder Optional Redemption Notice shall indicate the amount of the applicable Optional Redemption Amount the Holder is electing to have redeemed on such Optional Redemption Exercise Date (the "**Holder Optional Redemption Amount**") and the date of such redemption (the "**Optional Redemption Exercise Date**"); provided, however, that (a) such Holder Optional Redemption Amount indicated shall not exceed the Optional Redemption Amount and (b) such Optional Redemption Exercise Date shall not be less than ten (10) Business Days after the date of delivery of such Holder Optional Redemption Notice. The portion of this Note subject to redemption pursuant to this Section 8 shall be redeemed by the Company in cash on the applicable Holder Optional Redemption Date at a price equal to the Holder Optional Redemption Amount being redeemed (the "**Holder Optional Redemption Price**" and, collectively with the Event of Default Redemption Price and the Change of Control Redemption Price, the "**Redemption Prices**" and, each a "**Redemption Price**").

Such Holder covenants that it will comply with Section 2(j) of the Securities Purchase Agreement.

(9) COMPANY'S RIGHT OF MANDATORY CONVERSION.

(a) Mandatory Conversion. If at any time from and after the sixtieth (60^{th}) day after the Additional Effective Date (as defined in the Registration Statement) (the "**Mandatory Conversion Eligibility Date**"), (i) the Weighted Average Price of the ADRs exceed for each of any twenty (20) out of twenty-five (25) consecutive Trading Days following the Mandatory Conversion Eligibility Date (the "**Mandatory Conversion Measuring Period**"), 200% of the applicable Conversion Price (subject to appropriate adjustments for share splits, share dividends, share combinations and other similar transactions after the Subscription Date) and (ii) the Equity Conditions shall have been satisfied (or waived in writing by the Holder), during the period commencing on the Mandatory Conversion Notice Date through the applicable Mandatory Conversion Date (each, as defined below), the Company shall have the right to require the Holder to convert all, or any portion, of the Conversion Amount then remaining under this Note as designated in the Mandatory Conversion Notice into fully paid, validly issued and nonassessable ADRs in accordance with Section 3(c) hereof at the Conversion Rate as of the Mandatory Conversion Date (a "**Mandatory Conversion**"). The Company may exercise its right to require conversion under this Section 9(a) by delivering within not more than three (3) Business Days following the end of any such Mandatory Conversion Measuring Period a written notice thereof by facsimile and overnight courier to all, but not less than all, of the holders of Notes and the Transfer Agent (the "**Mandatory Conversion Notice**" and the date all of the holders received such notice is referred to as the "**Mandatory Conversion Notice Date**"). The Mandatory Conversion Notice shall be irrevocable. The Mandatory Conversion Notice shall state (i) the Business Day selected for the Mandatory Conversion in accordance with this Section 9(a), which Business Day shall be at least twenty (20) Business Days but not more than sixty (60) Business Days following the Mandatory Conversion Notice Date (the "**Mandatory Conversion Date**"), (ii) the aggregate Conversion Amount of the Notes subject to mandatory conversion from all of the holders of the Notes pursuant to this Section 9 (and analogous

provisions under the Other Notes) and (iii) the number of ADRs to be issued to such Holder on the Mandatory Conversion Date.

(b) Pro Rata Conversion Requirement. If the Company elects to cause a conversion of any Conversion Amount of this Note pursuant to Section 9(a), then it must simultaneously take the same action in the same proportion with respect to the Other Notes. All Conversion Amounts converted by the Holder after the Mandatory Conversion Notice Date shall reduce the Conversion Amount of this Note required to be converted on the Mandatory Conversion Date. If the Company has elected a Mandatory Conversion, the mechanics of conversion set forth in Section 3(c) shall apply, to the extent applicable, as if the Company and the Transfer Agent had received from the Holder on the Mandatory Conversion Date a Conversion Notice with respect to the Conversion Amount being converted pursuant to the Mandatory Conversion.

(10) COMPANY'S RIGHT OF OPTIONAL REDEMPTION.

(a) Company Optional Redemption. At any time after the Issuance Date, the Company shall have the right to redeem all or any portion of the Conversion Amount then remaining under this Note (a "**Company Optional Redemption**"). The portion of this Note subject to redemption pursuant to this Section 10 shall be redeemed by the Company in cash at a price equal to 108% of the Conversion Amount being redeemed (the "**Company Optional Redemption Price**"). The Company may exercise its redemption right under this Section 10 by delivering a written notice thereof by confirmed facsimile and overnight courier to all, but not less than all, of the holders of Notes and the Transfer Agent (the "**Company Optional Redemption Notice**" and the date such notice is delivered to all the holders is referred to as the "**Company Optional Redemption Notice Date**"). The Company Optional Redemption Notice shall be irrevocable. The Company Optional Redemption Notice shall state (A) the date on which the Company Optional Redemption shall occur (the "**Company Optional Redemption Date**") which date shall be not less than thirty (30) days nor more than sixty (60) days after the Company Optional Redemption Notice Date, (B) the aggregate Principal amount (the "**Company Optional Redemption Amount**") of the Notes which the Company has elected to be subject to Optional Redemption from all of the holders of the Notes pursuant to this Section 10 (and analogous provisions under the Other Notes) on the Company Optional Redemption Date, (C) that in connection with the Company Optional Redemption the Company shall issue to the Holder Series B Warrants and (D) the number of ADSs for which such Series B Warrants shall become exercisable shall be equal to the quotient of (1) 30% of the Conversion Amount being redeemed and (2) the then applicable Conversion Price. The Company will make a public announcement containing the information set forth in the Company Optional Redemption Notice on or before the Company Optional Redemption Notice Date. The Company may not effect more than one (1) Company Optional Redemption during any consecutive thirty (30) Trading Day period. Notwithstanding anything to the contrary in this Section 10, until the Company Optional Redemption Price is paid, in full, the Company Optional Redemption Amount may be converted, in whole or in part, by the holders of Notes into ADSs pursuant to Section 3. All Conversion Amounts converted by the Holder after the Company Optional Redemption Notice Date shall reduce the Conversion Amount of this Note required to be redeemed on the Company Optional Redemption Date. Redemptions made pursuant to this Section 10 shall be made in accordance with Section 13.

(b) Pro Rata Redemption Requirement. If the Company elects to cause a Company Optional Redemption pursuant to Section 10(a), then it must simultaneously take the same action with respect to the Other Notes. If the Company elects to cause a Company Optional Redemption pursuant to Section 10(a) (or similar provisions under the Other Notes) with respect to less than all of the principal amount of the Notes then outstanding, then the Company shall require redemption of a Principal amount from the Holder and each holder of the Other Notes equal to the product of (i) the aggregate principal amount of Notes which the Company has elected to cause to be redeemed pursuant to Section 8(a), multiplied by (ii) the fraction, the numerator of which is the sum of the initial principal amount of Notes purchased by such holder and the denominator of which is the initial principal amounts of Notes purchased by all holders holding outstanding Notes (such fraction with respect to each holder is referred to as its "**Redemption Allocation Percentage**", and such amount with respect to each holder is referred to as its "**Pro Rata Redemption Amount**"); provided that in the event that the initial holder of any Notes has sold or otherwise transferred any of such holder's Notes, the transferee shall be allocated a pro rata portion of such holder's Redemption Allocation Percentage and Pro Rata Redemption Amount.

(11) NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Constitution, Bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Note, and will at all times in good faith carry out all of the provisions of this Note and take all action as may be required to protect the rights of the Holder of this Note. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any Ordinary Shares underlying the Conversion Shares receivable upon the conversion of this Note above the Conversion Price then in effect and (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Conversion Shares upon the conversion of this Note.

(12) SUBORDINATION TO PERMITTED SENIOR INDEBTEDNESS; SECURITY.

(a) Subordination. Subject to the final sentence of Section (12)(g) hereof, the indebtedness represented by this Note and the payment of any Principal, Interest, Late Charges, redemption amount, liquidated damages, fees, expenses or any other amounts in respect of this Note (collectively, the "**Subordinated Indebtedness**") is hereby expressly made subordinate and junior and subject in right of payment, only to the extent expressly set forth in Section (12)(b) hereof, to the prior payment in full of all Permitted Senior Indebtedness of the Company hereinafter incurred.

(b) Payment upon Dissolution, Etc. In the event of any bankruptcy, insolvency, reorganization, receivership, composition, assignment for benefit of creditors or other similar proceeding initiated by or against the Company or any dissolution or winding up or total or partial liquidation or reorganization in bankruptcy of the Company (each, a "**Proceeding**"), all principal, interest and other obligations due upon any Permitted Senior Indebtedness shall first be paid in full or fully cash collateralized before the Holder shall be entitled to receive or, if received, to retain any payment or distribution on account of this Note

and, during the continuance of any such Proceeding, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holder would be entitled with respect to any Subordinated Indebtedness but for the provisions of this Section 12 shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Holder who shall have received such payment or distribution, directly to the holders of the Permitted Senior Indebtedness (pro rata to each such holder on the basis of the respective amounts of such Permitted Senior Indebtedness held by such holder) or their representatives to the extent necessary to pay all such Permitted Senior Indebtedness in full after giving effect to any concurrent payment or distribution to or for the holders of such Permitted Senior Indebtedness, before any payment or distribution is made to the Holder or any holders of the Notes; provided, however, that notwithstanding anything to the contrary, in any event the Holder shall be entitled to receive and retain any and all Junior Securities (as defined below), and shall be ranked first with respect to the proceeds of the Collateral.

(c) Certain Rights. Nothing contained in this Section 12 or elsewhere in this Note or any other Transaction Document, is intended to or shall impair, as among the Company, its creditors including the holders of Permitted Senior Indebtedness and the Holder, the right, which is absolute and unconditional, of the Holder to convert this Note in accordance herewith.

(d) Rights of Holder Unimpaired. The provisions of this Section 12 are and are intended solely for the purposes of defining the relative rights of the Holder and the holders of Permitted Senior Indebtedness and nothing in this Section 12 shall impair, as between the Company and the Holder, the obligation of the Company, which is unconditional and absolute, to pay to the Holder the Principal hereof (and premium, if any), accrued Interest hereon and all other Subordinated Indebtedness payable hereunder, all in accordance with the terms of this Note.

(e) Junior Securities. As used herein, "**Junior Securities**" means debt or equity securities of the Company as reorganized or readjusted, or debt or equity securities of the Company or any other Person provided for by a plan of reorganization or readjustment authorized by an order or decree of a court of competent jurisdiction in a Proceeding under any applicable law, so long as in the case of debt securities, such Junior Securities are subordinated in right of payment to all Permitted Senior Indebtedness and to whatever is issued to the holders of the Permitted Senior Indebtedness on account of the Permitted Senior Indebtedness, to the same extent as, or to a greater extent than, the Subordinated Indebtedness is so subordinated as provided for herein.

(f) Intercreditor Arrangements. In the event that a holder of Permitted Senior Indebtedness shall require the holders of the Notes to enter into any intercreditor or subordination agreement or any similar arrangements, the Company shall reimburse the Holder for any reasonable expenses incurred in connection with the negotiation, execution and delivery of any such agreement (and any related documents), including without limitation, reasonable legal fees and expenses.

(g) Lien Subordination. Any Lien of Holder, whether now or hereafter existing in connection with the amounts due under this Note, on any assets or property of Company or any proceeds or revenues therefrom which Holder may have at any time as security for any amounts due and obligations under this Note shall be subordinate to all Liens hereafter granted to a holder of Permitted Senior Indebtedness by Company or by law, notwithstanding the date, order or method of attachment or perfection of any such Lien or the provisions of any applicable law. The foregoing sentence shall not apply with respect to the Holder's security interest set forth in the Security Documents.

(13) REDEMPTIONS.

(a) Mechanics. The Company shall deliver the applicable Event of Default Redemption Price to the Holder within ten (10) Business Days after the Company's receipt of the Holder's Event of Default Redemption Notice. If the Holder has submitted a Change of Control Redemption Notice in accordance with Section 5(b), the Company shall deliver the applicable Change of Control Redemption Price to the Holder on the later of (i) concurrently with the consummation of such Change of Control or (ii) within ten (10) Business Days after the Company's receipt of such notice. The Company shall deliver (A) the Holder Optional Redemption Price to the Holder on the Holder Optional Redemption Date, (B) the Company Optional Redemption Price to the Holder on the Company Optional Redemption Date and (C) the Asset Sale Redemption Price to the Holder on the Asset Sale Redemption Date. In the event of a redemption of less than all of the Conversion Amount of this Note, the Company shall promptly cause to be issued and delivered to the Holder a new Note (in accordance with Section 19(d)) representing the outstanding Principal which has not been redeemed. In the event that the Company does not pay the applicable Redemption Price to the Holder within the time period required, at any time thereafter and until the Company pays such unpaid Redemption Price in full, the Holder shall have the option, in lieu of redemption, to require the Company to promptly return to the Holder all or any portion of this Note representing the Conversion Amount that was submitted for redemption and for which the applicable Redemption Price (together with any Late Charges thereon) has not been paid. Upon the Company's receipt of such notice, (x) the Redemption Notice shall be null and void with respect to such Conversion Amount, (y) the Company shall immediately return this Note, or issue a new Note (in accordance with Section 19(d)) to the Holder representing such Conversion Amount and (z) the Conversion Price of this Note or such new Notes shall be adjusted to the lesser of (A) the Conversion Price as in effect on the date on which the Redemption Notice is voided and (B) the lowest Closing Bid Price of the ADRs during the period beginning on and including the date on which the Redemption Notice is delivered to the Company and ending on and including the date on which the Redemption Notice is voided. The Holder's delivery of a notice voiding a Redemption Notice and exercise of its rights following such notice shall not affect the Company's obligations to make any payments of Late Charges which have accrued prior to the date of such notice with respect to the Conversion Amount subject to such notice.

(b) Redemption by Other Holders. Upon the Company's receipt of notice from any of the holders of the Other Notes for redemption or repayment as a result of an event or occurrence substantially similar to the events or occurrences described in Sections 4(b), Section 5(b) or Section 8 (each, an "**Other Redemption Notice**"), the Company shall immediately forward to the Holder by facsimile a copy of such notice. If the Company receives a Redemption

Notice and one or more Other Redemption Notices, during the seven (7) Business Day period beginning on and including the date which is three (3) Business Days prior to the Company's receipt of the Holder's Redemption Notice and ending on and including the date which is three (3) Business Days after the Company's receipt of the Holder's Redemption Notice and the Company is unable to redeem all principal, interest and other amounts designated in such Redemption Notice and such Other Redemption Notices received during such seven (7) Business Day period, then the Company shall redeem a pro rata amount from each holder of the Notes (including the Holder) based on the principal amount of the Notes submitted for redemption pursuant to such Redemption Notice and such Other Redemption Notices received by the Company during such seven (7) Business Day period.

(14) VOTING RIGHTS. The Holder shall have no voting rights as the holder of this Note, except as required by law, the *Corporations Act* 2001 (Cth) and as expressly provided in this Note, or any other Transaction Documents.

(15) COVENANTS.

(a) Rank. All payments due under this Note (a) shall rank *pari passu* with all Other Notes and all Permitted Indebtedness (other than Permitted Senior Indebtedness and Permitted Indebtedness described in clause (B) of the definition thereof) and (b) shall be senior to all other Indebtedness of the Company and its Subsidiaries other than Permitted Senior Indebtedness.

(b) Incurrence of Indebtedness. So long as this Note is outstanding, the Company shall not, and the Company shall not permit any of its Subsidiaries to, directly or indirectly, incur or guarantee, assume or suffer to exist any Indebtedness, other than (i) the Indebtedness evidenced by this Note and the Other Notes and (ii) Permitted Indebtedness.

(c) Existence of Liens. So long as this Note is outstanding, the Company shall not, and the Company shall not permit any of its Subsidiaries to, directly or indirectly, allow or suffer to exist any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by the Company or any of its Subsidiaries (collectively, "**Liens**") other than Permitted Liens.

(d) Restricted Payments. The Company shall not, and the Company shall not permit any of its Subsidiaries to, directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any Permitted Indebtedness whether by way of payment in respect of principal of (or premium, if any) or interest on such Indebtedness if at the time such payment is due or is otherwise made or, after giving effect to such payment, an event constituting, or that with the passage of time and without being cured would constitute, an Event of Default has occurred and is continuing.

(e) Net Cash Balance. So long as this Note is outstanding, from and after March 31, 2007, the Company shall at all times maintain a Net Cash Balance in excess of 30% of the aggregate remaining unamortized or un-converted Principal amount of Notes then

outstanding (the "**Net Cash Balance Test**"); provided, however, that upon the occurrence of the later of (i) the consummation of one or more Subsequent Placements (as defined in the Securities Purchase Agreement) in any nine-month period for which the Company receives aggregate gross proceeds equal to or greater than $16,000,000 or (ii) the effectiveness of the Initial Registration Statement (as defined in the Registration Rights Agreement), the Company shall no longer be required to satisfy the Net Cash Balance Test. On March 31, 2007, the Company shall (i) provide to the Holder a certification certifying whether the Net Cash Balance Test has been satisfied and (ii) to the extent such certification contains non-public material information, publicly disclose (on a Current Report on Form 6-K or otherwise) such material non-public information. Promptly on any date after March 31, 2007 on which the Net Cash Balance Test is not satisfied (a "**Failure Date**"), and to the extent such failure constitutes non-public material information, the Company shall publicly disclose (on a Current Report on Form 6-K or otherwise) such material non-public information and provide to the Holder a certification as to the amount of the Net Cash Balance as of the Failure Date.

(f) Asset Sales. Promptly after the occurrence of an Asset Sale, the Company shall deliver written notice thereof via facsimile and overnight courier (an "**Asset Sale Notice**") to the Holder. Within sixty (60) Trading Days of such notice, the Holder may require the Company to redeem (an "**Asset Sale Redemption**"), with the Available Cash Proceeds of such Asset Sale, all or any portion of the Conversion Amount of this Note by delivering written notice thereof (the "**Asset Sale Redemption Notice**") to the Company, which Asset Sale Redemption Notice shall indicate the portion of this Note the Holder is electing to redeem; provided that if the aggregate principal amount of this Note and Other Notes to be redeemed with the cash proceeds of an Asset Sale exceed the amount of Available Cash Proceeds from such Asset Sale, the Company shall redeem this Note and Other Notes on a pro rata basis with such proceeds. In connection with the consummation of such Asset Sale Redemption, the Company shall issue to the Holder Series B Warrants, which warrants shall be exercisable for a number of ADSs equal to the quotient of (1) 30% of the Conversion Amount being redeemed and (2) the then applicable Conversion Price. Each portion of this Note subject to redemption by the Company pursuant to this Section 15(f) shall be redeemed by the Company at a price equal to 110% of the Conversion Amount being redeemed (the "**Asset Sale Redemption Price**"). The Company shall effect such Asset Sale Redemption including issuing such warrant on a date ("**Asset Sale Redemption Date**") not later than two (2) business days after receipt of such Asset Sale Redemption Notice. Upon the consummation of the Asset Sale, the Holder shall take any action required pursuant to the terms of the Security Documents to release any security interest on such Collateral subject to such Asset Sale. The Company and the Holder shall reasonably cooperate to coordinate the release of the Holder's security interest and any Asset Sale Redemption to facilitate an Asset Sale. Redemptions required by this Section 15(f) shall be made in accordance with the provisions of Section 13.

(16) PARTICIPATION. The Holder, as the holder of this Note, shall be entitled to receive such dividends paid (other than cash dividends) and distributions made to the holders of ADRs or Ordinary Shares to the same extent as if the Holder had converted this Note into ADRs (without regard to any limitations on conversion herein or elsewhere) and had held such ADRs on the record date for such dividends and distributions. Payments under the preceding sentence shall be made concurrently with the dividend or distribution to the holders of ADRs or Ordinary Shares.

(17) VOTE TO ISSUE, OR CHANGE THE TERMS OF, NOTES. The affirmative vote at a meeting duly called for such purpose or the written consent without a meeting of the Required Holders shall be required for any change or amendment to this Note or the Other Notes.

(18) TRANSFER. This Note and any ADRs issued upon conversion of this Note may be offered, sold, assigned or transferred by the Holder without the consent of the Company, subject only to the provisions of Section 2(f) of the Securities Purchase Agreement.

(19) REISSUANCE OF THIS NOTE.

(a) Transfer. If this Note is to be transferred, the Holder shall surrender this Note to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Note (in accordance with Section 19(d)), registered as the Holder may request, representing the outstanding Principal being transferred by the Holder and, if less then the entire outstanding Principal is being transferred, a new Note (in accordance with Section 19(d)) to the Holder representing the outstanding Principal not being transferred. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of Section 3(c)(iii) following conversion or redemption of any portion of this Note, the outstanding Principal represented by this Note may be less than the Principal stated on the face of this Note.

(b) Lost, Stolen or Mutilated Note. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Note, the Company shall execute and deliver to the Holder a new Note (in accordance with Section 19(d)) representing the outstanding Principal.

(c) Note Exchangeable for Different Denominations. This Note is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Note or Notes (in accordance with Section 19(d) and in principal amounts of at least $100,000) representing in the aggregate the outstanding Principal of this Note, and each such new Note will represent such portion of such outstanding Principal as is designated by the Holder at the time of such surrender.

(d) Issuance of New Notes. Whenever the Company is required to issue a new Note pursuant to the terms of this Note, such new Note (i) shall be of like tenor with this Note, (ii) shall represent, as indicated on the face of such new Note, the Principal remaining outstanding (or in the case of a new Note being issued pursuant to Section 19(a) or Section 19(c), the Principal designated by the Holder which, when added to the principal represented by the other new Notes issued in connection with such issuance, does not exceed the Principal remaining outstanding under this Note immediately prior to such issuance of new Notes), (iii) shall have an issuance date, as indicated on the face of such new Note, which is the same as the Issuance Date of this Note, (iv) shall have the same rights and conditions as this Note, and (v) shall represent accrued and unpaid Interest and Late Charges on the Principal and Interest of this Note, from the Issuance Date.

(20) REMEDIES, CHARACTERIZATIONS, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note and any of the other Transaction Documents at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the Holder's right to pursue actual and consequential damages for any failure by the Company to comply with the terms of this Note. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by the Holder and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof). The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Holder shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

(21) PAYMENT OF COLLECTION, ENFORCEMENT AND OTHER COSTS. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note or (b) there occurs any bankruptcy, reorganization, receivership of the Company or other proceedings affecting Company creditors' rights and involving a claim under this Note, then the Company shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, attorneys' fees and disbursements.

(22) CONSTRUCTION; HEADINGS. This Note shall be deemed to be jointly drafted by the Company and all the Purchasers and shall not be construed against any person as the drafter hereof. The headings of this Note are for convenience of reference and shall not form part of, or affect the interpretation of, this Note.

(23) FAILURE OR INDULGENCE NOT WAIVER. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

(24) DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Closing Bid Price, the Closing Sale Price or the Weighted Average Price or the arithmetic calculation of the Conversion Rate or the Redemption Price, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two (2) Business Days of receipt, or deemed receipt, of the Conversion Notice or Redemption Notice or other event giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation within two (2) Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two Business Days submit via facsimile (a) the disputed determination of the Closing Bid Price, the Closing Sale Price or the Weighted Average Price to an independent, reputable investment bank selected by the Company and approved by the Holder or (b) the

disputed arithmetic calculation of the Conversion Rate or the Redemption Price to the Company's independent, outside accountant. The Company, at the Company's expense, shall cause the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than seven (7) Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

(25) NOTICES; CURRENCY; PAYMENTS.

(a) Notices. Whenever notice is required to be given under this Note, unless otherwise provided herein, such notice shall be given in accordance with Section 9(f) of the Securities Purchase Agreement as such section was modified by the Letter Agreement. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Note, including in reasonable detail a description of such action and the reason therefore. Without limiting the generality of the foregoing, the Company will give written notice to the Holder (i) immediately upon any adjustment of the Conversion Price, setting forth in reasonable detail, and certifying, the calculation of such adjustment and (ii) at least twenty (20) days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the ADRs or Ordinary Shares, (B) with respect to any pro rata subscription offer to holders of ADRs or Ordinary Shares or (C) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder.

(b) Currency. Unless otherwise indicated, all dollar amounts referred to in this Note are in United States Dollars.

(c) Payments. Whenever any payment of cash is to be made by the Company to any Person pursuant to this Note, such payment shall be made in lawful money of the United States of America by a check drawn on the account of the Company and sent via overnight courier service to such Person at such address as previously provided to the Company in writing (which address, in the case of each of the Purchasers, shall initially be as set forth on the Schedule of Buyers attached to the Securities Purchase Agreement); provided that the Holder may elect to receive a payment of cash via wire transfer of immediately available funds by providing the Company with prior written notice setting out such request and the Holder's wire transfer instructions. Whenever any amount expressed to be due by the terms of this Note is due on any day which is not a Business Day, the same shall instead be due on the next succeeding day which is a Business Day and, in the case of any Interest Date which is not the date on which this Note is paid in full, the extension of the due date thereof shall not be taken into account for purposes of determining the amount of Interest due on such date. Any amount of Principal or other amounts due under the Transaction Documents, other than Interest, which is not paid when due shall result in a late charge being incurred and payable by the Company in an amount equal to interest on such amount at the rate of ten percent (10%) per annum from the date such amount was due until the same is paid in full ("**Late Charge**").

(26) CANCELLATION. After all Principal, accrued Interest and other amounts at any time owed on this Note have been paid in full, this Note shall automatically be deemed canceled, shall be surrendered to the Company for cancellation and shall not be reissued.

(27) WAIVER OF NOTICE. To the extent permitted by law, the Company hereby waives demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note and the Securities Purchase Agreement.

(28) GOVERNING LAW. This Note shall be construed and enforced in accor-dance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York.

(29) CERTAIN DEFINITIONS. For purposes of this Note, the following terms shall have the following meanings:

(a) "**ADRs**" means the American Depositary Receipts of the Company evidencing the American Depositary Shares of the Company which each represent ten (10) Ordinary Shares or any successor securities. Appropriate and equitable adjustment to the terms and provisions of this Notes shall be made in the event of any change to the ratio of ADRs to Ordinary Shares.

(b) "**Applicable Asset Sale Amount**" means the net cash proceeds from the Asset Sale causing the calculation.

(c) "**Approved Stock Plan**" means any employee benefit plan which has been approved by the Board of Directors of the Company, pursuant to which the Company's securities may be issued to any employee, officer, director or consultant for services provided to the Company.

(d) "**Asset Sale**" means the sale, lease, conveyance or other disposition of any assets or rights that constitute Collateral.

(e) "**ASX**" means the Australian Stock Exchange.

(f) "**Available Amount**" means $7,500,000 less the aggregate principal amount of this Note previously redeemed pursuant to Section 15(f).

(g) "**Available Cash Proceeds**" of any Asset Sale means:

(i) If both the Applicable Asset Sale Amount and the Cumulative Asset Sale Amount are less than $7,500,000, 100% of the gross proceeds of such Asset Sale;

(ii) if the Applicable Asset Sale Amount is less than $7,500,000 but the Cumulative Asset Sale Amount is greater than $7,500,000, the lesser of (I) 100% of the net cash proceeds of such Asset Sale and (II) the sum of (x) the Available Amount and (y) the Excess Asset Sale Amount; or

(iii) if the Applicable Asset Sale Amount is greater than $7,500,000, the lesser of (I) $7,500,000 and (II) the sum of (x) the Available Amount and (y) the Excess Asset Sale Amount;

provided, however, that if such Available Cash Proceeds of an Asset Sale is not a positive number, no cash proceeds of such Asset Sale shall be Available Cash Proceeds.

(h) "**Bloomberg**" means Bloomberg Financial Markets.

(i) "**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York, State of New York, U.S.A. or Perth, Australia are authorized or required by law to remain closed.

(j) "**Calendar Quarter**" means each of: the period beginning on and including January 1 and ending on and including March 31; the period beginning on and including April 1 and ending on and including June 30; the period beginning on and including July 1 and ending on and including September 30; and the period beginning on and including October 1 and ending on and including December 31.

(k) "**Cash Equivalents**" means (i) securities issued, or directly and fully guaranteed or insured, by the government of the United States, Australia or the United Kingdom or any agency or instrumentality thereof having maturities of not more than one year from the date of the acquisition by a Person, (ii) demand deposits and time deposits and certificates of deposit, having maturities of not more than one year from the date of acquisition, of any domestic commercial bank which has, or the holding company of which has, a commercial paper rating meeting the requirements specified in clause (iv) below, (iii) repurchase obligations with a term of not more than 270 days for underlying securities of the types described in clauses (i) and (ii) entered into with any financial institution meeting the qualifications specified in clause (ii) above, and (iv) commercial paper rated at least A-2 or the equivalent thereof by Standard & Poor's Ratings Group or P-2 or the equivalent thereof by Moody's Investors Service, Inc. and in either case maturing within one year after the date of acquisition.

(l) "**Change of Control**" means any Fundamental Transaction other than (i) any consolidation, merger, combination, or any reorganization, recapitalization or reclassification of the Ordinary Shares pursuant to, which holders of the Company's voting power immediately prior to such consolidation, merger, combination, reorganization, recapitalization or reclassification continue after such consolidation, merger, combination, reorganization, recapitalization or reclassification to hold publicly traded securities and, directly or indirectly, the voting power of the surviving entity or entities necessary to elect a majority of the members of the board of directors (or their equivalent if other than a corporation) of such entity or entities, or (ii) pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company.

(m) "**Change of Control Premium**" means (i) until the 12-month anniversary of the Issuance Date, 120%, (ii) from and after the 12-month anniversary of the Issuance Date until the 24-month anniversary of the Issuance Date, 115%, (iii) from and after the 24-month anniversary of the Issuance Date until the 30-month anniversary of the Issuance Date, 110%, and (iv) after the 30-month anniversary of the Issuance Date, 105%.

(n) "**Closing Bid Price**" and "**Closing Sale Price**" means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or last trade price, respectively, of such security prior to 4:00:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 24. All such determinations to be appropriately adjusted for any share dividend, share split, share combination or other similar transaction during the applicable calculation period.

(o) "**Closing Date**" shall have the meaning set forth in the Securities Purchase Agreement, which date is the date the Company initially issued Notes pursuant to the terms of the Securities Purchase Agreement.

(p) "**Collateral**" has the meaning ascribed to such term in the Security Documents.

(q) "**Consolidated Total Indebtedness**" means, with respect to any Person at any date, all Indebtedness of such Person determined on a consolidated basis in accordance with GAAP, including, in any event, with respect to the Company and its Subsidiaries, the outstanding principal amount of the Notes.

(r) "**Consolidated Total Indebtedness to Market Capitalization Ratio**" means the ratio of Consolidated Total Indebtedness to Market Capitalization.

(s) "**Convertible Securities**" means any shares or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Ordinary Shares.

(t) "**Cumulative Asset Sale Amount**" means the aggregate net cash proceeds received by the Company from all Asset Sales after the Issuance Date (including the Asset Sale that is causing the applicable calculation).

(u) "**Deposit Agreement**" means that certain Deposit Agreement, dated as of January 24, 2005, by and among the Company, the Depositary and the holders and beneficial owners from time to time of ADSs evidenced by ADRs issued pursuant to such agreement.

(v) "**Depositary**" means Citibank, N.A. acting in such capacity under the Deposit Agreement.

(w) "**Eligible Market**" means the Principal Market, The New York Stock Exchange, Inc., the American Stock Exchange, or The Nasdaq Capital Market.

(x) "**Equity Conditions**" means: (i) on each day during the period beginning on the date which is the later of (x) the earlier of (A) the Initial Effectiveness Deadline (as defined in the Registration Rights Agreement) and (B) the Initial Effective Date (as defined in the Registration Rights Agreement) and (y) one (1) month prior to the applicable date of determination and ending on and including the applicable date of determination (the "**Equity Conditions Measuring Period**"), either (x) the Registration Statement filed pursuant to the Registration Rights Agreement shall be effective and available for the resale of all remaining Registrable Securities in accordance with the terms of the Registration Rights Agreement and there shall not have been any Grace Periods (as defined in the Registration Rights Agreement) or (y) all ADRs issuable upon conversion of the Notes and exercise of the Warrants shall be eligible for sale without restriction and without the need for registration under any applicable federal or state securities laws; (ii) on each day during the Equity Conditions Measuring Period, the ADRs are designated for quotation on the Principal Market or an Eligible Market and shall not have been suspended from trading on such exchange or market (other than suspensions of not more than two (2) days and occurring prior to the applicable date of determination due to business announcements by the Company) nor shall delisting or suspension by such exchange or market been threatened or pending either (A) in writing by such exchange or market or (B) by falling below the minimum listing maintenance requirements of such exchange or market; (iii) during the Equity Conditions Measuring Period the Company shall have delivered Conversion Shares upon conversion of the Notes and ADRs upon exercise of the Warrants to the holders on a timely basis as set forth herein hereof (and analogous provisions under the Other Notes) and the Warrants; (iv) any applicable ADRs to be issued in connection with the event requiring determination may be issued in full without violating Section 3(d) hereof and the rules or regulations of the Principal Market or any applicable Eligible Market; (v) during the Equity Conditions Measuring Period, the Company shall not have failed to timely make any payments within five (5) Business Days of when such payment is due pursuant to any Transaction Document; (vi) during the Equity Conditions Measuring Period, there shall not have occurred either (A) the public announcement of a pending, proposed or intended Fundamental Transaction which has not been abandoned, terminated or consummated or (B) an Event of Default or an event that with the passage of time or giving of notice would constitute an Event of Default; (vii) the Company shall have no knowledge of any fact that would cause (x) the Registration Statements required pursuant to the Registration Rights Agreement not to be effective and available for the resale of all remaining Registrable Securities in accordance with the terms of the Registration Rights Agreement or (y) any ADRs issuable upon conversion of the Notes and ADRs issuable upon exercise of the Warrants not to be eligible for sale without restriction pursuant to Rule 144(k) and any applicable state securities laws; and (viii) during the Equity Conditions Measuring Period, the Company otherwise shall have been in material compliance with and shall not have materially breached or be in material breach of any material provision, covenant, representation or warranty of any Transaction Document.

(y) "**Excess Asset Sale Amount**" means solely in the event that the Cumulative Asset Sale Amount is in excess of $15,000,000, 50% of such net cash proceeds in excess of $15,000,000.

(z) "**Excluded Securities**" means any Ordinary Shares issued or issuable: (i) in connection with any Approved Stock Plan; (ii) upon conversion of the Notes or the exercise of the Warrants; (iii) pursuant to a bona fide firm commitment underwritten public offering with a nationally recognized underwriter which generates gross proceeds to the Company in excess of $25,000,000 (other than an "at-the-market offering" as defined in Rule 415(a)(4) under the 1933 Act and "equity lines"); (iv) in connection with the payment of any Interest Shares on the Notes; (v) in connection with any acquisition by the Company, whether through an acquisition of shares or a merger of any business, assets or technologies the primary purpose of which is not to raise equity capital; (vi) upon conversion of any Options or Convertible Securities which are outstanding on the day immediately preceding the Subscription Date; provided that the terms of such Options or Convertible Securities are not amended, modified or changed on or after the Subscription Date; (vii) in replacement of outstanding Ordinary Shares as a result of the re-incorporation of the Company into the United States; (viii) in connection with any rights offering to all holders of Ordinary Shares generally; and (ix) in connection with a Strategic Financing.

(aa) "**Fundamental Transaction**" means that the Company shall, directly or indirectly, in one or more related transactions, (i) consolidate or merge with or into (whether or not the Company is the surviving corporation) another Person, or (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company to another Person, or (iii) allow another Person to make a purchase, tender or exchange offer that is accepted by the holders of more than the 50% of the outstanding Ordinary Shares (not including any Ordinary Shares held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (iv) consummate a share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than the 50% of the outstanding Ordinary Shares (not including any Ordinary Shares held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such share purchase agreement or other business combination), or (v) reorganize, recapitalize or reclassify its Ordinary Shares.

(bb) "**GAAP**" means United States generally accepted accounting principles, consistently applied.

(cc) "**Holder Optional Redemption Date**" means each of July 31, 2007 and January 31, 2008.

(dd) "**Holder Pro Rata Amount**" means a fraction (i) the numerator of which is the Principal amount of this Note on the Closing Date and (ii) the denominator of which is the aggregate principal amount of the Notes issued to the initial purchasers pursuant to the Securities Purchase Agreement on the Closing Date of all then outstanding Notes.

(ee) "**Indebtedness**" has the meaning ascribed to such term in the Securities Purchase Agreement.

(ff) "**Interest Conversion Price**" means, with respect to any Interest Date, that price which shall be computed as 85% of the arithmetic average of the Weighted Average Price of the ADRs on each of the ten (10) consecutive Trading Days ending on the Trading Day immediately preceding the applicable Interest Date (each, an "**Interest Measuring Period**"). All such determinations to be appropriately adjusted for any share split, share dividend, share combination or other similar transaction during such period.

(gg) "**Interest Rate**" means eight percent (8.0%) per annum.

(hh) "**Market Capitalization**" of the Company means the amount determined by multiplying the total number of Ordinary Shares issued and outstanding (as reflected in the Company's latest Form 20-F or other publicly filed report) times the arithmetic average of the Weighted Average Price of the Ordinary Shares for the ten (10) consecutive Trading Days preceding the date of measurement.

(ii) "**Maximum Interest Share Amount**" means the Holder Pro Rata Amount of the quotient determined by dividing (A) the product of (x) 15% and (y) the sum of the Trading Dollar Volume of the ADRs for the twenty (20) Trading Days ending on the Trading Day immediately preceding the applicable Interest Date by (B) the applicable Interest Conversion Price.

(jj) "**Net Cash Balance**" means, at any date, the difference between (i) aggregate amount of all cash and Cash Equivalents and Short and Long Term Investments reflected on the Company's balance sheet as at such date, *minus* (ii) the unpaid principal balance of the Permitted Indebtedness (not including amounts owed under the Notes, any accounts payable or Indebtedness described in Section 29(oo)(B)) on such date.

(kk) "**Optional Redemption Date**" means any of a Company Redemption Date, an Asset Sale Redemption Date and a Holder Redemption Date.

(ll) "**Options**" means any rights, warrants or options to subscribe for or purchase Ordinary Shares or Convertible Securities.

(mm) "**Ordinary Shares**" means (i) the Company's ordinary shares, no par value per share, and (ii) any share capital into which such Ordinary Shares shall have been changed or any share capital resulting from a reclassification of such Ordinary Shares.

(nn) "**Parent Entity**" of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common shares or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

(oo) "**Permitted Indebtedness**" means (A) Permitted Senior Indebtedness, (B) Indebtedness incurred by the Company that is made expressly subordinate in right of payment to the Indebtedness evidenced by this Note, as reflected in a written agreement acceptable to the Holder and approved by the Holder in writing, and which Indebtedness does not provide at any time for (1) the payment, prepayment, repayment, repurchase or defeasance, directly or indirectly, of any principal or premium, if any, thereon until ninety-one (91) days after the Maturity Date or later and (2) total interest and fees at a rate in excess of eight percent (8%) per annum, (C) Indebtedness secured by Permitted Liens, (D) Indebtedness to trade creditors incurred in the ordinary course of business, and (E) Indebtedness of any entity acquired by or merged with the Company not for capital raising purposes and existing at the date of such acquisition or merger, (F) Indebtedness not covered by (A) through (E) above which is incurred by the Company in an amount not to exceed an aggregate of $10 million dollars; provided that such Indebtedness is not in any way convertible into, exchangeable for or in any way payable in equity securities of the Company and; provided further that such Indebtedness shall only be incurred to the extent that the Consolidated Total Indebtedness to Market Capitalization Ratio does not exceed .15 at the time of incurrence of such Indebtedness, (G) extensions, refinancings and renewals of any items of Permitted Indebtedness; provided that the principal amount is not increased or the terms modified to impose more burdensome terms upon the Company or its Subsidiary, as the case may be and (H) Indebtedness evidenced by this Note and the Other Notes.

(pp) "**Permitted Liens**" means (i) any Lien for taxes not yet due or delinquent or being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, (ii) any statutory Lien arising in the ordinary course of business by operation of law with respect to a liability that is not yet due or delinquent, (iii) any Lien created by operation of law, such as materialmen's liens, mechanics' liens and other similar liens, arising in the ordinary course of business with respect to a liability that is not yet due or delinquent or that are being contested in good faith by appropriate proceedings, (iv) Liens (A) upon or in any equipment acquired or held by the Company or any of its Subsidiaries to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing the acquisition or lease of such equipment, or (B) existing on such equipment at the time of its acquisition; provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment, (v) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (i) and (iv) above; provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the Indebtedness being extended, renewed or refinanced does not increase, (vi) leases or subleases and licenses and sublicenses granted to others in the ordinary course of the Company's business, not interfering in any material respect with the business of the Company and its Subsidiaries taken as a whole, (vii) Liens in favor of customs and revenue authorities arising as a matter of law to secure payments of custom duties in connection with the importation of goods, (viii) Liens on any assets of any entity acquired by or merged with the Company not for capital raising purposes and existing at the date of such acquisition or merger, (ix) Liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default under Section 4(a)(viii) and (x) Liens securing the obligations under this Note and the Other Notes.

(qq) "**Permitted Senior Indebtedness**" means the principal of (and premium, if any), interest on, and all fees and other amounts (including, without limitation, any reasonable out-of-pocket costs, enforcement expenses (including reasonable out-of-pocket legal fees and disbursements), collateral protection expenses and other reimbursement or indemnity obligations relating thereto) payable by Company and/or its Subsidiaries under or in connection with any credit facility to be entered into by the Company and/or its Subsidiaries with one or more financial institutions together with any amendments, restatements, renewals, refundings, refinancings or other extensions thereof); provided, however, that the aggregate outstanding amount of such Permitted Senior Indebtedness (taking into account the maximum amounts which may be advanced under the loan documents evidencing such Permitted Senior Indebtedness) does not as of the date on which any such Permitted Senior Indebtedness is incurred exceed $10,000,000, with respect to the unpaid principal balance of loans thereunder and, provided further that such Permitted Senior Indebtedness shall only be incurred to the extent that the Consolidated Total Indebtedness to Market Capitalization Ratio does not exceed .15 at the time of incurrence of such Permitted Senior Indebtedness.

(rr) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(ss) "**Principal Market**" means the Nasdaq Global Market.

(tt) "**Redemption Notices**" means, collectively, the Event of Default Redemption Notice, the Change of Control Redemption Notice, the Holder Optional Redemption Notice, the Company Optional Redemption Notice and the Asset Sale Redemption Notice, each of the foregoing, individually, a Redemption Notice.

(uu) "**Redemption Premium**" means (i) in the case of the Events of Default described in Section 4(a)(i) - (v) and (viii) - (xi), 110% or (ii) in the case of the Events of Default described in Section 4(a)(vi) - (vii), 100%.

(vv) "**Redemption Prices**" means, collectively, the Event of Default Redemption Price, Change of Control Redemption Price, the Holder Optional Redemption Price, the Company Optional Redemption Price and the Asset Sale Redemption Price, each of the foregoing, individually, a Redemption Price.

(ww) "**Registration Rights Agreement**" means that certain Second Amended and Restated Registration Rights Agreement, dated as of December **[__]**, 2006 by and between the Company and the Holder relating to, among other things, the registration of the resale of the ADSs issuable upon conversion of the Notes, payment of interest under the Notes, and exercise of warrants issued to the Holder, as such agreement may be amended, restated, supplemented or otherwise modified.

(xx) "**Required Holders**" means the holders of Notes representing at least a majority of the aggregate principal amount of the Notes then outstanding.

(yy) "**SEC**" means the United States Securities and Exchange Commission.

(zz) "**Securities Purchase Agreement**" means that certain securities purchase agreement dated as of the Subscription Date by and among the Company and the initial holders of the Notes pursuant to which the Company issued the Notes, as amended by the Amendment Agreement, dated July 28, 2006, between the Holder and the Company, the Letter Agreement, and the Second Amendment Agreement, as the same may be further amended, restated, supplemented or otherwise modified.

(aaa) "**Security Documents**" has the meaning ascribed to such term in the Securities Purchase Agreement.

(bbb) "**Series B Warrants**" has the meaning ascribed to such term in the Securities Purchase Agreement, and shall include all warrants issued in exchange therefor or replacement thereof.

(ccc) "**Strategic Financing**" means the issuance, directly or indirectly, of Ordinary Shares or warrants to purchase Ordinary Shares at a purchase price or an exercise price, as the case may be, that is not less than the market price of the Ordinary Shares on the date of issuance of such Ordinary Shares or warrant, in connection with any strategic investor, vendor, lease or similar arrangement (the primary purpose of which is not to raise equity capital); provided that the aggregate number of shares of Ordinary Shares which the Company may issue pursuant to this definition shall not exceed ten percent (10%) of the outstanding Ordinary Shares at the time of issuance (subject to adjustment for stock splits, stock dividends, stock combination and similar transactions)

(ddd) "**Subscription Date**" means October 5, 2005.

(eee) "**Subsequent Conversion Price**" means 108% of the arithmetic average of the Weighted Average Price of the ADRs for the ten (10) consecutive Trading Days ending on the Trading Day immediately preceding April 30, 2007. All such determinations to be appropriately adjusted for any share split, share dividend, share combination or other similar transaction during such period.

(fff) "**Successor Entity**" means the Person, which may be the Company, formed by, resulting from or surviving any Fundamental Transaction or the Person with which such Fundamental Transaction shall have been made; provided that if such Person is not a publicly traded entity whose common shares or equivalent equity security is quoted or listed for trading on an Eligible Market, Successor Entity shall mean such Person's Parent Entity.

(ggg) "**Trading Day**" means any day on which the ADRs are traded on the Principal Market, or, if the Principal Market is not the principal trading market for the ADRs, then on the principal securities exchange or securities market on which the ADRs are then traded; provided that "Trading Day" shall not include any day on which the ADRs are scheduled to trade on such exchange or market for less than 4.5 hours or any day that the ADRs are suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York Time).

(hhh) "**Trading Dollar Volume**" means, for any day on which the ADRs are traded on the Principal Market, the product of (i) the daily average trading volume of the ADRs on such day multiplied by (ii) the Weighted Average Price for the ADRs on such day.

(iii) "**Warrants**" has the meaning ascribed to such term in the Securities Purchase Agreement, and shall include all warrants issued in exchange therefor or replacement thereof.

(jjj) "**Weighted Average Price**" means, for any security as of any date, the dollar volume-weighted average price for such security on the Principal Market during the period beginning at 9:30:01 a.m., New York Time (or such other time as the Principal Market publicly announces is the official open of trading), and ending at 4:00:00 p.m., New York Time (or such other time as the Principal Market publicly announces is the official close of trading) as reported by Bloomberg through its "Volume at Price" functions, or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30:01 a.m., New York Time (or such other time as such market publicly announces is the official open of trading), and ending at 4:00:00 p.m., New York Time (or such other time as such market publicly announces is the official close of trading) as reported by Bloomberg, or, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Weighted Average Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Weighted Average Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 24. All such determinations to be appropriately adjusted for any share dividend, share split, share combination or other similar transaction during the applicable calculation period.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed as of the Issuance Date set out above.

pSivida Limited

By: _____
Name:
Title:

EXHIBIT I

PSIVIDA LIMITED

NOTE CONVERSION NOTICE

Reference is made to the Second Amended and Restated Convertible Note (the "**Note**") issued to the undersigned by PSIVIDA LIMITED (the "**Company**"), payable to the undersigned. In accordance with and pursuant to the Note, the undersigned hereby elects to convert (A) a portion of the Principal, (B) accrued and unpaid Interest with respect to such Principal and (C) accrued and unpaid Late Charges with respect to such Principal and Interest. (the "Conversion Amount") of the Note indicated below into Conversion ADSs (as defined in the Note) in the form of American Depositary Shares ("**ADSs**"), as of the date specified below.

Date of Conversion: _____

Conversion Amount: _____

Please confirm the following information:

Conversion Price: _____

Number of ADSs to be issued: _____

Please deliver ADSs specified above, as follows:

In the case of book-entry delivery of ADSs

DTC Participant Name:	
DTC Participant Account Number:	
Account No. for undersigned at DTC Participant (f/b/o information):	
Contact Person at DTC Participant:	
Daytime telephone number of contact person at DTC Participant:	
E-mail address of contact person at DTC Participant:	

-OR-

In the case of ADSs evidenced by an ADR certificate:

Name of Holder:	
Address of Holder:	
Tax Identification Number of Holder:	
Daytime Telephone Number of Holder:	
Federal Express Account Number of Holder:	

The undersigned represents that it is the beneficial owner of the Note being converted and that each of the statements following a checked box is true and correct as of the date hereof:

o (i) the ADSs to be delivered upon conversion of the Note have been sold or are being sold pursuant to a resale registration statement declared effective under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") (and the undersigned has not been informed by the Company that such registration statement has ceased to be effective under the Securities Act) and (ii) the undersigned is the person identified as selling shareholder in the applicable prospectus.

o The ADSs to be delivered upon conversion of the Note have not been sold and the undersigned has beneficially owned the Note for a period of at least two years prior to the date hereof and is not at present nor has it been during the two year period preceding the date hereof, an “Affiliate” of the Company, as such term is defined in the Securities Act.

o The ADSs to be delivered upon conversion of the Note have been sold or are being sold pursuant to an exemption from registration under the Securities Act and the undersigned has delivered an opinion of counsel, reasonably satisfactory to the Company, that a public sale, assignment or transfer of the ADSs may be made without registration under the Securities Act.

o The ADSs to be delivered upon conversion of the Note have been sold or are being sold pursuant to Rule 144 promulgated under the Securities Act, or a successor rule thereto, and will be or have been sold in accordance with the terms of Rule 144 and the undersigned has provided the Company with reasonable assurances, reasonably satisfactory to the Company, that the ADSs can be sold pursuant to Rule 144.

o The ADSs to be delivered upon conversion of the Note have not been sold and are not being sold and the ADSs delivered shall remain restricted securities in the undersigned's hands, and the undersigned acknowledges that such ADSs will be delivered in physical form, will bear the restrictive legend set forth below and will be subject to the provisions of Section 2.12 of the Deposit Agreement.

SECURITIES ACT LEGEND:

THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL, IN A FORM REASONABLY ACCEPTABLE TO THE DEPOSITARY AND THE COMPANY, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (C) SUCH DOCUMENTS AND CERTIFICATES AS THE DEPOSITARY AND THE COMPANY MAY REASONABLY REQUIRE, OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Name:	
Signature:	
Title:	
Date:	
Address:	
Daytime Telephone Number:	
E-mail Address:	

ACKNOWLEDGMENT

The Company hereby acknowledges this Conversion Notice and hereby directs Citibank, N.A., as Depositary (the "Depositary"), to issue the above indicated number of ADSs in accordance with the Amended ADS Issuance Instructions Letter, dated December **[__]**, 2006, from the Company to the Depositary and acknowledged and agreed to by the Depositary.

PSIVIDA LIMITED

By: _____
Name:
Title:

ASX/Media RELEASE **2 January 2007**

pSivida released from loan covenant

pSivida's lender agrees to release the Company from loan covenant necessary to complete specified financing transactions with Nordic Biotech Advisors and gives other relief

Boston, MA. and Perth, Australia - Global bio-nanotech company pSivida Limited (ASX:PSD, NASDAQ:PSDV, Xetra:PSI) announces that it is has entered into an agreement with its principal institutional lender whereby the lender has agreed to a general forbearance with respect to any defaults through to and including the earlier of the closing of the Nordic Biotech Advisors **(**Nordic) transaction or March 31, 2007, subject to the satisfaction of closing conditions:

- The lender has agreed to allow the Company to transfer or grant security interests in the Company's Medidur^{TM} and Mifepristone assets which would be necessary to complete specified financing transactions with Nordic;
- The lender agreed to forego the interest payment due on January 2, 2007 in favor of adding approximately US$309k (AU$391k) to the principal amount of the loan [representing the value of the American Depository Receipts (ADSs) with which the Company would have issued to satisfy the payment had it met certain conditions allowing it to pay with ADSs);
- The lender agreed to defer the Company's scheduled payment of US$800k (AU$1m) for prior registration delay penalties until the earlier of the closing of the Nordic transaction or March 31, 2007;
- The lender agreed to forgive US$770k (AU$973k) of additional registration delay penalties accruing through the earlier of the closing of the Nordic transaction or March 31, 2007;
- The lender agreed to amend the Company's loan covenants to release it from the obligation to satisfy a minimum cash balance test of 30% of the outstanding principal until March 31, 2007; and
- The lender agreed that the Company would have until ten days after the earlier of the closing of the Nordic transaction or March 31, 2007 to file a registration statement with respect to securities issuable on exercise of the lender's warrants.

In return for the foregoing, the Company has issued to the lender warrants to purchase 1.5 million ADSs over 5 years with an exercise price of US$2.00 per ADS and has agreed, upon receipt of required approvals, including shareholder approval, and satisfaction of other standard conditions, to issue additional warrants to purchase 4.0 million ADSs over 5 years with an exercise price of US$2.00, subject to adjustment based on the final terms of the Company's transaction with Nordic.

The Company expects to close definitive documents with Nordic Biotech Advisors for a US$4.0m (AU$5.1m) corporate investment in the Company and a US$22.0m (AU$27.8m) investment over time in a 'Special Purpose Vehicle' that is expected to fully fund the Company's portion of costs to develop Medidur™ for the treatment of the chronic eye disease diabetic macular edema.

THIS RELEASE DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION TO BUY ANY SECURITIES.

-ENDS-

Released by:

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NOTES TO EDITORS:

pSivida is a global bio-nanotech company committed to the biomedical sector and the development of drug delivery products. Retisert™ is FDA approved for the treatment of uveitis. Vitrasert® is FDA approved for the treatment of AIDS-related CMV Retinitis. Bausch & Lomb own the trademarks Vitrasert® and Retisert™. pSivida has licensed the technologies underlying both of these products to Bausch & Lomb. The technology underlying Medidur™ for diabetic macular edema is licensed to Alimera Sciences and is in Phase III clinical trials.

pSivida owns the rights to develop and commercialise a modified form of silicon (porosified or nano-structured silicon) known as BioSilicon™, which has applications in drug delivery, wound healing, orthopaedics, and tissue engineering. pSivida's subsidiary, AION Diagnostics Limited is developing diagnostic products and the subsidiary pSiNutria is developing food technology products both using BioSilicon™.

pSivida's intellectual property portfolio consists of 76 patent families, 95 granted patents, including patents accepted for issuance, and over 300 patent applications. pSivida conducts its operations from offices and facilities near Boston in the United States, Malvern in the United Kingdom, Perth in Australia and Singapore.

pSivida is listed on NASDAQ (**PSDV**), the Australian Stock Exchange (**PSD**) and on the Frankfurt Stock Exchange on the XETRA system (**German Symbol: PSI. Securities Code (WKN) 358705**). pSivida is a founding member of the NASDAQ Health Care Index and the Merrill Lynch Nanotechnology Index.

This document contains forward-looking statements that involve risks and uncertainties including with respect to the potential signing of definitive agreements with Nordic on the terms contemplated by the Company and its lender; the satisfaction by the Company of the conditions to the waivers and consents offered by the lender; and potential products, applications and regulatory approvals. Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we can give no assurance that such expectations will prove to be correct. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements due to many important factors including: failure of the company to successfully close the transaction with Nordic contemplated by the Memorandum of Understandings with Nordic on the terms contemplated or at all; and the failure of the Company to obtain the requisite shareholder approvals to complete the Nordic transactions and the issuance of the warrants to the Company's lender. Other reasons are contained in cautionary statements in the Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission, including, without limitation, under Item 3.D, "Risk Factors" therein. We do not undertake to update any oral or written forward-looking statements that may be made by or on behalf of pSivida.