

Ellex Medical Lasers Limited

ABN 15 007 702 927

Letter of Offer

**NON-RENOUNCEABLE RIGHTS ISSUE
TO SHAREHOLDERS**

TO RAISE \$3,426,542

One (1) New Share for every Two (2) Shares

\$0.10 per New Share

CLOSING DATE: 30 December 2008

This offer is partially underwritten by Taylor Collison Limited.

This document is important and requires your immediate attention. Carefully read this Letter of Offer in full and consult your stockbroker, solicitor, accountant, licensed financial adviser or other professional adviser if you are in any doubt as to what to do.

This document is not a prospectus. It does not contain all information that an investor would find in a prospectus or which may be required in order to make an informed investment decision regarding, or about the rights attaching to, the new shares offered by this document.

If you do not lodge an Entitlement and Acceptance Form together with payment by 5.00pm (Adelaide time) on 30 December 2008 you will not be issued New Shares in Ellex Medical Lasers Limited.

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SUMMARY OF KEY DATES

Announcement of Rights Issue	1 December 2008
Lodgement Date – Letter of Offer, ASX Appendix 3B and first cleansing notice lodged with ASX	2 December 2008
Despatch of notices to Shareholders informing them of the Rights Issue	2 December 2008
Ex Date – the date on which the Company's shares commence trading without the right to participate in the Offer	4 December 2008
Record Date to determine entitlements of Eligible Shareholders under the Offer	10 December 2008
Lodgement of second cleansing notice with ASX	10 December 2008
Offer opens – Letter of Offer and Entitlement and Acceptance Forms sent to Shareholders	12 December 2008
Closing Date for acceptances	30 December 2008
Deferred Settlement – shares will be quoted on a deferred settlement basis	31 December 2008
Notify ASX of shortfall	5 January 2009
Allotment Date – Allotment of New Shares under the Offer	7 January 2009
Trading of New Shares expected to commence	8 January 2009
Anticipated despatch date of shareholding statements	9 January 2009

These dates, and the dates referred to throughout this Letter of Offer, are indicative only. Ellex Medical Lasers Limited reserves the right to amend this timetable, including, subject to the Corporations Act and the ASX Listing Rules, to extend the Closing Date, without prior notice.

IMPORTANT NOTICE

This Letter of Offer is dated 2 December 2008. The information contained in this Letter of Offer is important and should be read in full.

The Offer of New Shares in this Letter of Offer is only available for acceptance by Eligible Shareholders. This Letter of Offer does not constitute an offer in any place which, or to any person whom, it would not be lawful to make such an offer. Eligible Shareholders holding Share on behalf of persons who are resident outside Australia or New Zealand are responsible for ensuring that taking up the Rights under the Rights Issue does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Entitlement and Acceptance Form will constitute a representation that there has been no breach of such regulations. Where the Letter of Offer has been despatched to a Shareholder domiciled outside Australia or New Zealand and where that country's securities code or legislation prohibits or restricts in any way, the making of the Offers contemplated by the Letter of Offer, the Letter of Offer is provided for information purposes only.

No person is authorised to give any information or make any representations in connection with this Offer other than as contained in this Letter of Offer. Any information or representation in connection with this Offer not contained in this Letter of Offer is not, and may not be relied on as having been, authorised by Ellex Medical Lasers Limited (or any of its officers).

This is a Letter of Offer for an offer of continuously quoted securities (as defined in the Corporations Act) of Ellex Medical Lasers Limited and has been prepared in accordance with section 708AA of the Corporations Act. In broad terms, section 708AA relates to rights issues by certain entities that do not require provision of a prospectus or other disclosure document. Accordingly, the level of disclosure in this Letter of Offer is significantly less than that required in a prospectus or other disclosure document. Eligible Shareholders should therefore rely upon their own knowledge of Ellex Medical Lasers Limited, refer to disclosures made by it to the ASX, and refer to their professional advisers before deciding whether to accept the Offer.

Eligible Shareholders will receive an Entitlement and Acceptance Form with this Letter of Offer.

Definitions of certain terms used in this Letter of Offer appear in Section 5.

Privacy

The Company collects information about each Applicant provided on an Entitlement and Acceptance Form for the purposes of processing the application and, if the application is successful, to administer the Applicant's security holding in the Company.

By submitting an Entitlement and Acceptance Form, each Applicant agrees that the Company may use the information provided by an Applicant on the Entitlement and Acceptance Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the share registry, the Company's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory authorities.

If you do not provide the information required on the Entitlement and Acceptance Form, the Company may not be able to accept or process your application.

An Applicant has a right to gain access to the information that the Company holds about that person subject to certain exemptions under law. Access requests must be made in writing to the Company's registered office.

Letter from the Chairman

2 December 2008

Dear Shareholder

Invitation to Participate in a Non-Renounceable Entitlement Offer

On behalf of the directors of Ellex Medical Lasers Limited (**Ellex**), I am pleased to announce that Ellex is implementing an underwritten, non-renounceable rights issue (**Rights Issue**).

The offer is for one (1) share for every two (2) existing shares held at an issue price \$0.10 per share. It is anticipated that up to 34,265,420 of new ordinary shares in Ellex may be issued pursuant to the Rights Issue (**New Shares**), which would raise \$3,426,542.

Ellex has entered into an Underwriting Agreement with respect to the Rights Offer whereby Taylor Collison Limited has agreed to partially underwrite the Rights Offer to the extent that it will subscribe for up to a maximum of 32% of the shares offered under the Rights Offer. If subscriptions for less than 23,265,420 shares under the Rights Offer are received, the underwriter will subscribe for the difference. The minimum amount to be received by the Company pursuant to the Rights Offer will accordingly be \$1,100,000.

Funds raised under the Rights Issue will be used for working capital and to retire debt.

Participation in the Rights Issue is voluntary. You may do nothing, and thereby retain your current number of shares in Ellex.

Under the Rights Issue, shareholders are able to purchase additional fully paid ordinary shares in Ellex (ranking equally with existing fully paid ordinary shares) without brokerage costs.

The right to participate in the Rights Issue is only available to Australian and New Zealand shareholders who are registered as shareholders of fully paid ordinary shares in Ellex at 5.00pm (Adelaide time) on 10th December 2008.

The offer is non-renounceable and will open on 12th December 2008 and will close at 5.00pm (Adelaide time) on 30th December 2008.

Directors of Ellex intend to either participate in the Rights Issue with respect to their own shareholdings or to act as sub-underwriters.

The terms and conditions of the Rights Issue are contained in the enclosed Letter of Offer dated 2nd December 2008. Please read the Letter of Offer and the Entitlement and Acceptance Form carefully.

If you are in any doubt about whether to participate in the Rights Issue, please consult your licensed financial adviser. You may also wish to obtain independent professional advice regarding the possible taxation consequences of your decision.

If you have any queries in relation to this letter, please do not hesitate to contact Computershare on 1300 556 161 (for callers within Australia) and +613 9415 4000

On behalf of the Directors, I invite you to consider this opportunity to increase your investment in Ellex.

Yours faithfully
Ellex Medical Lasers Limited

A handwritten signature in red ink, appearing to read 'V. Previn', with a stylized flourish at the end.

Victor Previn
Chairman

1. DETAILS OF RIGHTS ISSUE

1.1 This Rights Issue

Ellex Medical Lasers Limited (**Ellex** or the **Company**) is undertaking a non-renounceable Rights Issue on the basis of one (1) New Share for every two (2) Shares held, at a price of \$0.10 per share, to shareholders who are registered as at the Record Date.

The maximum number of New Shares which may be issued pursuant to this Rights Issue will be approximately 34,265,420. The amount which may be raised under this Rights Issue will be \$3,426,542, if fully subscribed. The costs associated with this Rights Issue are estimated at \$85,000.

Your Entitlement to be issued New Shares under this Offer is non-renounceable, which means that Eligible Shareholders cannot sell or otherwise transfer all or any part of their Entitlement.

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. Fractional entitlements to New Shares will be rounded down to the nearest whole number.

Shareholders may do any of the following:

- take up their Entitlement in full;
- take up part of their Entitlement, and allow the balance of their Entitlement to lapse; or
- not take up any of their Entitlement.

The Closing Date and time for acceptance and payment is 5.00pm (Adelaide time) on 30 December 2008. The Company reserves the right to extend the Closing Date.

1.2 Allocation

The following allocation policy will apply for any application in excess of a shareholder's Entitlement:

- all shareholders will receive their Entitlement, to the extent applied for; and
- any amount by which Applications from shareholders exceed their Entitlements may be scaled back, at the absolute discretion of the Directors.

The Company does not guarantee that Shareholders will receive the New Shares applied for in excess of their Entitlement. The Rights Issue is partially underwritten and, subject to Sections 2.3 and 3.4 below, there is no shortfall facility. The Directors reserve the right to issue at their discretion any Shortfall in the number of New Shares applied for under this Offer within three months of the Closing Date at an issue price not less than the price being offered under this Letter of Offer. The Company may pay fees or commissions in offering or issuing shares from the Shortfall. See Sections 2.3 and 3.4 below for information about the placement of any Shortfall.

Pending the allocation of New Shares under the Offer, all Application Moneys will be deposited into a separate bank account to be held in trust for so long as required under section 722 of the Corporations Act. Surplus Application Moneys will be returned to the relevant shareholder as soon as practicable, in accordance with section 722 of the Corporations Act. No interest will be paid on returned Application Moneys.

1.3 Underwriting

The Rights Issue is partially underwritten. The Underwriter, Taylor Collison Limited, will subscribe for up to a maximum of 32% of the New Shares offered under the Offer. If

subscriptions for less than 23,265,420 Shares under the Offer are received, the Underwriter will subscribe for 11,000,000 New Shares. If more than 23,265,420 New Shares are subscribed for then the Underwriter will be relieved from subscribing for the New Shares on a one for one basis above 23,265,420. The minimum amount to be received by the Company pursuant to the Rights Issue will accordingly be \$1,100,000.

Pursuant to the Underwriting Agreement between the Company and the Underwriter dated 2 December 2008 the Company will pay the Underwriter an underwriting commission of \$50,000 and a handling fee of 4% of the valid applications lodged by the Underwriter bearing a broker stamp or the Underwriter's CHESSE number. The Underwriter has the right to terminate the Underwriting Agreement on the occurrence of certain events (a summary of these events is set out in Section 1.9 below).

1.4 Your Entitlement to Participate in the Rights Issue and the Record Date

The Record Date for the purpose of the Rights Issue is 10 December 2008. Eligible Shareholders who are registered as the holders of Shares on the Record Date, will be entitled to participate in the Rights Issue. The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. Fractional entitlements have been rounded down.

Option holders wishing to participate in the Issue must ensure that their completed exercise notice and payment is received by the Company by 5:00pm (Adelaide time) on 9 December 2008 to ensure the Company has sufficient time to process the application before the Record Date or they will not be able to participate in the Issue.

1.5 Opening and Closing Dates

The Offer will open for receipt of acceptances on 12 December 2008. The Closing Date and time for acceptances and payments is 5.00pm (Adelaide time) on 30 December 2008 or such other date as the Company, in its absolute discretion determines subject to the requirements of the ASX Listing Rules.

1.6 Ranking

The New Shares will, from the time they are issued, rank equally with existing Shares.

1.7 Issue of New Shares

The Company expects to issue the New Shares on or before 7 January 2009. No issue of New Shares will be made until permission is granted for quotation of the New Shares on the ASX.

1.8 Excluded Shareholders

The Offer is not being made to any Shareholder whose registered address is outside Australia or New Zealand (**Excluded Shareholders**).

The Company has decided that it is unreasonable to make the Offer to Excluded Shareholders, having regard to the number of Excluded Shareholders, the number and value of New Shares they would be offered and, in particular, the costs of complying with the relevant legal and regulatory requirements in those countries at which the Excluded Shareholders domicile.

1.9 Underwriting

The Offer is partially underwritten by Taylor Collison to \$1,100,000 or 11,000,000 Shares. Accordingly, the Offer will raise at least \$1,100,000.

Under the terms of the Underwriting Agreement, Taylor Collison will receive a fee for providing the underwriting service of \$50,000 and a handling fee of 4% of the valid applications lodged by the Underwriter bearing a broker stamp or the Underwriter's CHESSE

number. The obligations of the Underwriter under the Underwriting Agreement are conditional on the following:

1. the Underwriter being satisfied (in its sole and absolute discretion, [**acting reasonably**]) with the form of this Letter of Offer (**Offer Document**) and the cleansing notice (together, **Key Documents**) by the applicable lodgement date specified in this Letter of Offer (**Lodgement Date**);
2. a legal sign-off letter being provided by the solicitors for the Company, to the Company, to the satisfaction of the Underwriter, and addressed to be for the benefit of the Underwriter, by the Record Date;
3. lodgement of the Offer Document and Appendix 3B on the Lodgement Date.

The Underwriter, in its sole discretion, may terminate its obligations under the Underwriting Agreement if:

1. the Company does not lodge the Key Documents on the respective lodgement date (or other date agreed to by the Underwriter) or the Offer is withdrawn by the Company;
2. consent by ASX to official quotation of the Shares being underwritten by the Underwriter (**Underwritten Shares**) has not been granted by the date by which the Company must give the Underwriter written notice of the Shortfall Shares (**Shortfall Notice Deadline Date**) or, having been granted, is subsequently withdrawn, withheld or qualified;
3. the Underwriter, having elected not to exercise its right to terminate its obligations under the underwriting Agreement, forms the view on reasonable grounds that a corrective document should be lodged with ASX to comply with the Corporations Act and the Company fails to lodge a corrective document in such form and content and within such time as the Underwriter may reasonably require;
4. the Company lodges a corrective document without the prior written agreement of the Underwriter;
5. subject to it having a material adverse effect, it transpires that the Key Documents do not contain all the information required by the Corporations Act;
6. subject to it having a material adverse effect, it transpires that there is a statement in the Key Documents that is misleading or deceptive or likely to mislead or deceive, or that there is an omission from the Key Documents or if any statement in the Key Documents becomes misleading or deceptive or likely to mislead or deceive or if the issue of the Key Documents is or becomes misleading or deceptive or likely to mislead or deceive;
7. the Company is prevented from allotting the Underwritten Shares within the time required by the Underwriting Agreement, the Corporations Act, the Listing Rules, any statute, regulation or order of a court of competent jurisdiction by ASIC, ASX or any court of competent jurisdiction or any governmental or semi governmental agency or authority;
8. an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to the Offer, the Shortfall Notice Deadline Date has arrived, and that application has not been dismissed or withdrawn;

9. the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel;
10. subject to it having a material adverse effect, there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of the Underwriting Agreement involving Australia, or a terrorist act is perpetrated on Australia or any diplomatic, military, commercial or political establishment of Australia anywhere in the world;
11. subject to it having a material adverse effect, a director or senior manager of the Company is charged with an indictable offence; or
12. subject to it having a material adverse effect, any of the following events occurs:
 - a. default or breach by the Company under Underwriting Agreement of any terms, condition, covenant or undertaking;
 - b. any representation, warranty or undertaking given by the Company in Underwriting Agreement is or becomes untrue or incorrect;
 - c. a contravention by the Company of any provision of its constitution, the Corporations Act, the Listing Rules or any other applicable legislation or any policy or requirement of ASIC or ASX;
 - d. an event occurs which gives rise to a material adverse effect or any adverse change or any development including a prospective adverse change after the date of Underwriting Agreement in the assets, liabilities, financial position, trading results, profits, losses, prospects, business or operations of the Company;
 - e. any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the Issue or the affairs of the Company is or becomes misleading or deceptive or likely to mislead or deceive;
 - f. the official quotation is qualified;
 - g. there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;
 - h. any of the following events occur:
 - i. the Company converting all or any of its shares into a larger or smaller number of shares;
 - ii. the Company resolving to reduce its share capital in any way;
 - iii. the Company:

1. entering into a buy back agreement; or
 2. resolving to approve the terms of a buy back agreement under section 257D or 257E of the Corporations Act;
- iv. the Company making an issue of, or granting an option to subscribe for, any of its shares or any other securities, or agreeing to make such an issue or grant such an option, other than the issue of securities in accordance with the Rights Issue, any securities issued or granted pursuant to any incentive plan or scheme for the issue of securities to employees or officers of the Company, any securities issued as a result of a pro rata offering to existing shareholders of the Company, any securities issued on conversion of convertible securities that are on issue at the date of this Agreement and any securities issued with the prior written consent of the Underwriter;
 - v. the Company issuing, or agreeing to issue, convertible notes;
 - vi. the Company disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
 - vii. the Company charging, or agreeing to charge, the whole, or a substantial part, of its business or property;
 - viii. the Company resolving that it be wound up;
 - ix. the appointment of a liquidator or provisional liquidator of the Company;
 - x. the making of an order by a court for the winding up of the Company;
 - xi. an administrator of the Company, being appointed under section 436A, 436B or 436C of the Corporations Act;
 - xii. the Company executing a deed of company arrangement; or
 - xiii. the appointment of a receiver, or a receiver and manager, in relation to the whole, or a substantial part, of the property of the Company;
- i. the Company suspends payment of its debts generally;
 - j. an event of insolvency occurs in respect of the Company;
 - k. a judgment in an amount exceeding \$100,000 is obtained against the Company and is not set aside or satisfied within seven days;
 - l. litigation, arbitration, administrative or industrial proceedings are after the date of the Underwriting Agreement commenced against the Company;
 - m. there is a change in the composition of the Board or a change in the senior management of the Company before the issue of the Underwritten Shares without the prior written consent of the Underwriter;

- n. a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in relation to the Company;
- o. there is a delay in any specified date in the timetable set out in this Letter of Offer which is greater than 3 Business Days, without the prior written consent of the Underwriter;
- p. a force majeure affecting the Company's business or any obligation under the Agreement lasting in excess of seven days occurs;
- q. the Company passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter;
- r. the Company alters its capital structure in any manner not contemplated by the Key Documents;
- s. any person is appointed under any legislation in respect of companies to investigate the affairs of the Company;
- t. hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States of America, the United Kingdom any member state of the European Union, Indonesia, Japan, Russia or the Peoples Republic of China, or a terrorist act is perpetrated on any of those countries or any diplomatic or political establishment of any of those countries elsewhere in the world, or a national emergency is declared by any of those countries;
- u. there occurs any material adverse change or material adverse disruption to the political or economic conditions of financial markets in Australia, the United Kingdom, the United States of America or the international financial markets or any change or development involving a prospective change in national or international political, financial or economic conditions;
- v. the S&P/ASX Small Ordinaries Index of the ASX falls at any time below 1,500; or
- w. any of the sub-underwriters that are introduced by the Company, including Sub underwriting Directors, do not comply with their obligations under the sub-underwriting agreements or threaten to not comply with their respective obligations under the sub-underwriting agreements.

1.10 Directors Sub Underwriting

Some of the Company's directors, namely Alex Sundich, Giuseppe Canala and Victor Previn or their associated entities, have agreed to sub underwrite the Rights Offer. The total number of shares that are underwritten by directors or their associated entities equal 10,400,000 for a total consideration of \$1,040,000.

The directors have sub underwritten on the basis of firm in relief for their Entitlements. The directors will receive no fee for sub underwriting the Rights Offer.

1.11 Professional Advice

If you are in any doubt as to whether to accept this offer to participate in the Rights Issue, please contact your stockbroker, licensed financial adviser or other professional adviser.

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of subscribing for New Shares under this Letter of Offer.

The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Shareholders. As a result, Shareholders should consult their professional tax adviser in connection with subscribing for New Shares under this Letter of Offer.

1.12 Enquiries

For enquiries about this Letter of Offer, please contact Computershare Investor Services on 1300 556 161 or + 613 9415 4000 if outside Australia.

2. ACTION REQUIRED BY SHAREHOLDERS

2.1 What you may do

This Offer is non-renounceable.

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form.

You may:

- apply for **all** of your Entitlement;
- apply for **part** of your Entitlement and allow the balance to lapse; or
- apply for **none** of your Entitlement.

2.2 How to apply for New Shares

Complete the accompanying Entitlement and Acceptance Form in accordance with the instructions set out on the Form.

Forward your completed Form together with your cheque or bank cheque made out to **Ellex Medical Lasers Limited** for the amount shown on the Form to reach the Company's share registry (**Computershare**) at the address shown below by 5.00pm (Adelaide time) on the Closing Date.

The Closing Date is 30 December 2008. The Company reserves the right to extend the Closing Date.

Surplus Application Moneys will be returned to the relevant shareholder as soon as practicable, in accordance with section 722 of the Corporations Act. No interest will be paid on returned Application Moneys.

If you decide not to accept all or part of your Entitlement pursuant to the Issue you need not do anything and your Entitlement will automatically lapse. The New Shares not accepted will form part of the Shortfall. The Company reserves the right to issue any Shortfall at its discretion and you will receive no benefit.

For further information you may contact Computershare on 1300 556 161 or + 613 9415 4000.

2.3 Shortfall Shares

In addition to being able to apply for New Shares in the manner described in paragraph 2.2 above, Shareholders who subscribe for their full Entitlement will also have the opportunity to apply for New Shares that are not subscribed for under the Offer (**Shortfall Shares**), subject to the limitations set out in Section 1.2 and 3.4. Shareholders wishing to apply for Shortfall Shares should do so on their Entitlement and Acceptance Form by applying for a number of New Shares which is in excess of their Entitlement.

2.4 Payment

Acceptance of New Shares must be accompanied by payment in full of the total price of \$0.10 per New Share.

Payments will only be accepted in Australian currency and as follows:

- Bank cheque drawn on and payable at any Australian bank;
- Personal cheque drawn on and payable at any Australian bank; or
- By BPAY in accordance with the instructions on your Entitlement and Acceptance Form.

Cheques or bank cheques should be made payable to “**Ellex Medical Lasers Limited**” and crossed “**Not Negotiable**”. Shareholders must not forward cash. Receipts for payment will not be issued.

2.5 Enquiries

For further instructions, please refer to the accompanying Entitlement and Acceptance Form.

For information regarding your holding of the Company’s Shares, change of address or other registry matters, please contact please contact Computershare Investor Services on 1300 556 161 or + 613 9415 4000.

3. PURPOSE AND EFFECT OF THIS RIGHTS ISSUE

3.1 Purpose of Offer and Use of Proceeds

If the Rights Issue proceeds as contemplated, the Company will raise up to \$3,426,542 (less expenses associated with the Rights Issue), which will be used to fund Ellex's general working capital and strengthen the Company's balance sheet.

3.2 Capital Structure

The following table shows the number of Existing Shares at the date of the Offer and the total number of issued Shares at the close of the Offer.

	Ordinary Shares
Existing Shares at the date of this Letter of Offer	68,530,839
Total New Shares offered	34,265,420
Total issued Shares on Close of the Offer (if fully subscribed)	102,796,259

The above table assumes that no options over Shares are exercised prior to the Record Date. These figures are estimates only, as individual Entitlements will be rounded down when calculating entitlements.

3.3 Effect on capital structure and control

The Rights Issue is partially underwritten. The Underwriter, Taylor Collison Limited, will subscribe for up to a maximum of 32% of the New Shares offered under the Offer. If subscriptions for less than 23,265,420 Shares under the Offer are received, the Underwriter will subscribe for 11,000,000 New Shares. If more than 23,265,420 New Shares are subscribed for then the Underwriter will be relieved from subscribing for the New Shares on a one for one basis above 23,265,420. The minimum amount to be received by the Company pursuant to the Rights Issue will accordingly be \$1,100,000.

3.4 Subscription Shortfall

Under an exception to the Listing Rule 7.1 requirement for shareholder approval to an issue of securities in excess of 15% of the company's issued share capital, the directors of Ellex reserve the right, subject to the Underwriting Agreement and the Listing Rules, to issue any Shortfall Shares at their discretion. The price at which the Shortfall Shares are issued must not be less than the issue price for the New Shares under the Offer. Shortfall Shares issued to Taylor Collison Limited as underwriter will be issued in accordance with the Underwriting Agreement, and in any event not later than 15 business days after the Closing Date. Shortfall Shares not covered by the Underwriting Agreement will be issued within 3 months of the Closing Date. If there are any Shortfall Shares in addition to those applied for by Shareholders and those covered by the Underwriting Agreement, the Board reserves the right to:

- seek bids from institutions and other prospective investors for the additional Shortfall Shares; and
- determine the issue price (which must not be less than \$0.10 per Share) and allot the Shares on the basis of those bids.

4. RISK FACTORS

There are general risks with any investment in the stock market. The value of New Shares may rise or fall depending upon a range of factors and stock market conditions that are unrelated to the Company's financial performance. Therefore, if an investor decides to sell New Shares, the amount received may be higher or lower than the amount of the original investment.

In addition, there are a number of specific risks concerning the Company which potential investors should be aware. The following is not an exhaustive summary but identifies the areas the Board regards as the major risks specific to an investment in the Company.

4.1 General Risk Factors

Economic Conditions – The performance of the Company may be significantly affected by changes in economic conditions. Profitability of the business may also be affected by factors such as market conditions, interest rates, exchange rates, inflation, consumer demand and availability of debt funds from Banks.

Geo-political Factors – The Company may be affected by the impact that geo-political factors have on the world or Australian economy or on financial markets and investments generally or specifically. This may include terrorist type activities and governmental responses to such activities.

Government Policies & Legislation – The Company may be affected by changes to government policies and legislation, including those relating to the defence and homeland security sectors, the environment, taxation, the regulation of trade practices and competition.

4.2 Specific Risk Factors

Foreign Exchange Risk - The Company is exposed to adverse currency movements that may increase the financial risk inherent in its business, in particular to export sales which accounted for 88% of total sales in the 30 June 2008 financial year.

Interest Rate Risk – The Company may be affected by interest rate movements with respect to its long-term and short-term borrowings. Interest on borrowings is paid at variable rates which expose the Company to cash flow interest rate risk.

Liquidity Risk – The Company may be affected by deterioration in its cash flows.

Access to Debt Funding – In this very uncertain credit market, continued access to debt funding is vital for the success of the Company. Withdrawal of the debt facilities would require further capital funding.

Product Development and Commercialisation Risk – The Company is currently seeking to develop new products including Retinal Regeneration Therapy. The successful development, trial, market acceptance and commercialisation of potential new products are subject to many risks, including the potential for ineffectiveness, lack of safety, unreliability, failure to receive relevant regulatory approvals, the development of superior or equivalent products by the Company's competitors, and the effect of the General Risk Factors set out above.

Product Liability Risk – The Company manufactures and distributes products used by medical practitioners for ocular diagnostics and ocular surgery on patients. Malfunction of the product could result in misdiagnosis of disease or inadequate or incorrect treatment of patients which could result in loss of vision by the patients.

Competitors Develop Products that are More Effective and Safer than Our Products – The medical industry is highly competitive and the Company competes with device and pharmaceutical companies that have greater resources than the Company. The Company

faces the risk that through technological advances, products developed by competitors may render the Company's products obsolete.

Products May Have Undesirable Side Effects – The Company faces the risk that products manufactured and distributed by the Company may cause undesirable side effects which could cause the Company to withdraw its products from the market.

Fail to Retain and Attract Key Management – The Company is small and dependent on key managers with key skills. The Company may not be able to retain or attract personnel necessary to accomplish business objectives. In particular, if members of the senior management team are lost, the Company may not be able to find suitable replacements in a timely manner and the business may be harmed as a result.

5. DEFINITIONS

\$	Australian dollars (and references to cents are to Australian cents).
Applicant	An Eligible Shareholder who returns a completed Entitlement and Acceptance Form as instructed in this Letter of Offer before the Closing Date.
Application	An application for New Shares under this Letter of Offer, submitted by duly completing an Acceptance Form.
Application Money	The aggregate amount of money payable for New Shares applied for in an Acceptance Form.
ASX	ASX Limited (ABN 98 008 624 691).
ASX Listing Rules	The official Listing Rules of ASX.
Company	Ellex Medical Lasers Limited (ABN 15 007 702 927).
Board of Directors	The board of Directors.
Closing Date	30 December 2008 (unless extended).
Corporations Act	The Corporations Act (2001) (Cth) as amended from time to time.
Directors	The Directors of the Company.
Eligible Shareholder	A shareholder with a registered address in Australia or New Zealand.
Entitlement and Acceptance Form	The entitlement and acceptance form attached to this Letter of Offer.
Entitlement	The right of an existing Shareholder to subscribe for New Shares pursuant to the Rights Issue.
Excluded Shareholders	Shareholders of the Company with their registered address in places outside Australia and New Zealand.
Letter of Offer	This letter under which the Offer is being made.
New Share or New Shares	The Shares to be issued pursuant to this Letter of Offer.
Offer	Offer of New Shares under this Letter of Offer.
Option	An option to subscribe for a Share in the Company.
Record Date	10 December 2008.

Rights	The rights of existing Shareholders to subscribe for New Shares pursuant to the Rights Issue.
Rights Issue or Issue	The issue by way of non-renounceable rights to New Shares pursuant to this Letter of Offer.
Shareholder or Shareholders	Holder/s of Shares as at the Record Date.
Shares	Ordinary shares in the capital of the Company.
Shortfall	Those New Shares not subscribed for by way of an Entitlement and Acceptance Form pursuant to this Letter of Offer by 5.00pm (Adelaide time) on the Closing Date.
Underwriter	Taylor Collison Limited ABN 53 008 172 450.
Underwriting Agreement	Underwriting Agreement between the Company and the Underwriter dated 2 December 2008.

6. CORPORATE DIRECTORY

Directors

Mr Victor Previn (Chairman, Executive Director)
Mr Malcolm Plunkett (Executive Director)
Mr Alex Sundich (Non-Executive Director)
Professor John Marshall (Non-Executive Director)
Mr Giuseppe Canala (Non-Executive Director)

Company Secretary

Mr Giuseppe Canala

Registered Office

82 Gilbert Street
ADELAIDE SA 5000
AUSTRALIA

Legal Advisers

Thomson Playford Cutlers Lawyers
Level 25 Australia Square Tower
264 George Street
SYDNEY NSW 2000
AUSTRALIA

Share Registry

Computershare Investor Services Pty Limited
GPO Box 2987
ADELAIDE SA 5001
AUSTRALIA

Website

www.ellex.com