

B O N E M E D I C A L L I M I T E D

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Notice of Annual General Meeting

Proxy Form

and

Explanatory Memorandum

Date of Meeting: 23 November 2005

Place: 2 Brodie Hall Drive, Seminar
Room 4, Technology Park
Bentley WA 6102

Time: 3pm

B O N E M E D I C A L L I M I T E D

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given of the Annual General Meeting of Bone Medical Limited ("**Company**" or "**Bone**") to be held at Seminar Room 4, 2 Brodie Hall Drive, Technology Park, Bentley, Western Australia, on Thursday, 23 November 2006 at 3pm Western Standard Time, for the purpose of transacting the following business referred to in this Notice of Annual General Meeting.

An Explanatory Memorandum containing information in relation to the following Resolutions accompanies this Notice of Annual General Meeting.

AGENDA

ORDINARY BUSINESS

Annual Accounts

To receive and consider the Financial Report, the Directors Report and the Independent Auditors Report of the Company for the year ended 30 June 2006 in accordance with the Corporations Act 2001.

Resolution 1 – Remuneration Report

To consider, and if thought fit, to pass, with or without amendment, the following non binding resolution as an **ordinary resolution**:

"That shareholders adopt the Remuneration Report for the financial year ended 30 June 2006."

Note: The vote on this resolution is advisory only and does not bind the Directors of the Company.

Resolution 2 – Re-election of Dr Roger New as a Director

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That Dr Roger New, retires in accordance with Clause 21.3(2) of the Company's Constitution and being eligible, offers himself for re-election, be re-elected as a Director of the Company."

Resolution 3 – Election of Mr Leon Ivory as a Director

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That Mr Leon Ivory, having been appointed since the last annual general meeting of the Company, retires in accordance with clause 21.3(1) of the Constitution and being eligible, offers himself for election, be elected as a Director."

Resolution 4 – Election of Mr Barry Walker MD as a Director

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That Mr Barry Walker MD, having been appointed since the last annual general meeting of the Company, retires in accordance with clause 21.3(1) of the Constitution and being eligible, offers himself for election, be elected as a Director."

SPECIAL BUSINESS

Resolution 5 – Ratification of Placement

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, pursuant to and in accordance with Listing Rule 7.4 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, the Company approve and ratify the issue of 6,604,101 Shares in the capital of the Company at an issue price of 27 cents each, as described in the Explanatory Memorandum accompanying this Notice of Annual General Meeting".

The Company will disregard any votes cast on Resolution 5 by any person who participated in the issue and any person associated with those persons. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

OTHER BUSINESS

To deal with any other business which may be brought forward in accordance with the Constitution and the Corporations Act.

For the purposes of Resolutions 1 – 5, the following definitions apply:

"ASX" means Australian Stock Exchange Limited;

"Company" means Bone Medical Limited ACN 009 109 755;

"Constitution" means the Company's constitution, as amended from time to time;

"Corporations Act" means Corporations Act 2001 (Cth);

"Directors" means the directors of the Company;

"Listing Rules" means the Listing Rules of the ASX; and

"Shares" means fully paid ordinary shares in the capital of the Company.

By Order of the Board of Directors

Gabriel Chiappini
Company Secretary

18 October 2006

PROXIES

- Votes at the general meeting may be given personally or by proxy, attorney or representative.
- A shareholder entitled to attend and vote at the above meeting may appoint not more than two proxies to attend and vote at this meeting. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the shareholder's voting rights.
- A proxy may but need not be a shareholder of the Company.
- The instrument appointing the proxy must be in writing, executed by the appointor or his attorney duly authorised in writing or, if such appointor is a corporation, either under seal or under hand of an officer of his attorney duly authorised.
- The instrument of proxy (and the power of attorney or other authority, if any, under which it is signed) must be lodged by person, post, courier or facsimile and reach the Registered Office of the Company at least 48 hours prior to the meeting. For the convenience of shareholders a Proxy Form is enclosed.

For the purposes of regulation 7.11.37 of the Corporations Regulations 2001, the Company determines that members holding ordinary shares at 3.00pm WST on 21 November 2006 will be entitled to attend and vote at the Annual General Meeting.

Corporate Representatives

A corporation may elect to appoint a representative in accordance with the Corporations Act in which case the Company will require written proof of the representative's appointment which must be lodged with, or presented to the Company before the meeting.

BONE MEDICAL LIMITED

ABN 70 009 109 755

PROXY FORM

The Company Secretary
Bone Medical Limited
Corporate Office Address:

Unit 2, 1 Sarich Way
Technology Park
BENTLEY WA 6102
+ 61 8 9355 5210

Facsimile:

I/We (name of shareholder)
of (address)
being a member/members of Bone Medical Limited HEREBY APPOINT
(name)
of (address)
and/or failing him (name)
of (address)

or failing that person then the Chairman of the Annual General Meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at Seminar Room 4, 2 Brodie Hall Drive, Technology Park, Bentley, Western Australia, on 23 November 2006 at 3pm Western Standard Time and at any adjournment of the meeting.

Should you so desire to direct the Proxy how to vote, you should place a cross in the appropriate box below:

I/We direct my/our Proxy to vote in the following manner:

	For	Against	Abstain
Resolution 1 – Remuneration Report	☐	☐	☐
Resolution 2 – Re-election of Dr Roger New as a Director	☐	☐	☐
Resolution 3 – Election of Mr Leon Ivory as a Director	☐	☐	☐
Resolution 4 – Election of Mr Barry Walker MD as a Director	☐	☐	☐
Resolution 5 – Ratification of Placement	☐	☐	☐

If no directions are given my proxy may vote as the proxy thinks fit or may abstain.

The Chairman intends to vote **in favour** of all Resolutions in relation to undirected proxies.

*This Proxy is appointed to represent _____% of my voting right, or if 2 proxies are appointed Proxy 1 represents _____% and Proxy 2 represents _____% of my total votes
My total voting right is _____ shares*

If the shareholder(s) is an individual:

Name:

If the shareholder is a company:

Affix common seal (if required by Constitution)

Director/Sole Director and Secretary

Director/Secretary

Dated: 2006.

INSTRUCTIONS FOR APPOINTMENT OF PROXY

1. A shareholder entitled to attend and vote is entitled to appoint no more than two proxies to attend and vote at this Annual General Meeting as the shareholder's proxy. A proxy need not be a shareholder of the Company.
2. Where more than one proxy is appointed, each proxy must be appointed to represent a specific proportion of the shareholder's voting rights. If such appointment is not made then each proxy may exercise half of the shareholder's voting rights. Fractions shall be disregarded.
3. The proxy form must be signed personally by the shareholder or his attorney, duly authorised in writing. If a proxy is given by a corporation, the proxy must be executed under either the common seal of the corporation or under the hand of an officer of the company or its duly authorised attorney. In the case of joint shareholders, this proxy must be signed by at least one of the joint shareholders, personally or by a duly authorised attorney.
4. If a proxy is executed by an attorney of a shareholder, then the original of the relevant power of attorney or a certified copy of the relevant power of attorney, if it has not already been noted by the Company, must accompany the proxy form.
5. To be effective, forms to appoint proxies must be received by the Company no later than 48 hours before the time appointed for the holding of this Annual General Meeting (that is, by 3pm WST on 21 November 2006), by person, post or facsimile to the address or facsimile number stipulated in this proxy form.
6. If the proxy form specifies a way in which the proxy is to vote on any of the resolutions stated above, then the following applies:
 - (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way;
 - (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands;
 - (c) if the proxy is Chairperson, the proxy must vote on a poll and must vote that way; and
 - (d) if the proxy is not the Chairperson, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.

If a proxy is also a shareholder, the proxy can cast any votes the proxy holds as a shareholder in any way that the proxy sees fit.

7. The Chairman intends to vote in favour of all resolutions in relation to undirected proxies.

BONE MEDICAL LIMITED

ABN 70 009 109 755

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting of the Company.

The Directors recommend shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolutions.

RESOLUTION 1 – REMUNERATION REPORT

Section 298 of the Corporations Act requires that the annual Directors' Report contain a Remuneration Report prepared in accordance with section 300A of the Corporations Act.

By way of summary, the Remuneration Report:

- (a) discusses the Company's policy and the process for determining the remuneration of its executive officers; and
- (b) sets out remuneration details for each Director of the Company named in the Remuneration Report for the financial year ended 30 June 2006.

Section 250R(2) of the Corporations Act requires companies to put a resolution to their members that the Remuneration Report be adopted. Pursuant to section 250R(3), the vote on this resolution is advisory only and does not bind the Board or the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

RESOLUTION 2 – RE-ELECTION OF DR ROGER NEW AS A DIRECTOR

Resolution 2 seeks approval for the re-election of Dr Roger New as a Director with effect from the end of the Meeting.

Clause 21.3 of the Constitution provides that at each annual general meeting one-third of the Directors (or if that is not a whole number, the next lowest number), shall retire from office.

Mr New retires from office in accordance with this requirement and submits himself for re-election.

RESOLUTION 3 – APPOINTMENT OF MR LEON IVORY AS A DIRECTOR

Resolution 3 is an ordinary resolution and provides for confirmation of the appointment of Mr Leon Ivory to the Board pursuant to the Constitution.

Clause 21.6 of the Constitution provides that the Board may at any time appoint any person as a Director (other than an alternate Director) to fill a casual vacancy or as an addition to the Board. Clause 21.3(1) of the Constitution provides that any Director appointed to fill a casual vacancy must automatically retire at the next general meeting and is then eligible for re-election at that general meeting.

Mr Ivory retires from office in accordance with this requirement and submits himself for re-election.

Mr Ivory has been involved in corporate finance, funds management and venture capital for over 35 years. Mr Ivory in 1985 co-founded Western Capital, a venture capital organisation which evolved into one of Australia's first public biotechnology companies. He served as a director of a number of public companies including Auspharm International Limited, Arbuthnot Latham Bank Ltd (London), Foreign Commerce Bank (Zurich), Cortecs Plc and VRI BioMedical Limited. Mr Ivory is currently Chairman of Refresh Group Ltd. He is also a director of Kancer Ltd based in the United Kingdom.

Mr Ivory was appointed to the Board on 16 November 2005.

RESOLUTION 4 – APPOINTMENT OF MR BARRY WALKER M.D. AS A DIRECTOR

Resolution 4 is an ordinary resolution and provides for confirmation of the appointment of Mr Barry Walker M.D. to the Board pursuant to the Constitution.

Clause 21.6 of the Constitution provides that the Board may at any time appoint any person as a Director (other than an alternate Director) to fill a casual vacancy or as an addition to the Board. Clause 21.3(1) of the Constitution provides that any Director appointed to fill a casual vacancy must automatically retire at the next general meeting and is then eligible for re-election at that general meeting.

Mr Walker retires from office in accordance with this requirement and submits himself for re-election.

Mr Barry R. Walker, M.D., F.A.C.P. received his BA from Yale University in 1958. He graduated from the College of Physicians and Surgeons of Columbia University after which he completed a medical internship and residency at Temple University Hospital. An NIH Fellowship in renal-electrolyte diseases was completed at the Hospital of the University of Pennsylvania. He is board certified in internal medicine, a Fellow and member of numerous scientific organizations and a co-founder of the American Society of Hypertension for which he served as Vice President and Chairman of the Board.

Dr. Walker has been an Adjunct Associate Professor of Medicine at the Hospital of the University of Pennsylvania and the Leonard Davis Institute of the Wharton School, University of Pennsylvania. He also co-authored over one hundred peer reviewed publications. While Senior Vice President for Clinical Research and Development at Wyeth-Ayerst Research, he was responsible for establishing and supervising research and development, bio-statistics, data and financial management in the United States, Canada, South America, Japan and Europe.

Other management responsibilities have included strategic planning for all aspects of corporate research and development including mergers and acquisitions. More recently, over the past fifteen years, he has consulted for venture capital and investment firms (e.g., Alex. Brown/Deutsch Bank, Morgan Stanley, Philadelphia Ventures and Liberty Ventures, Philadelphia) on matters of technology assessment and due diligence. He has consulted with major pharmaceutical, biotech and medical device firms in the areas of regulatory, reimbursement issues and new product strategic planning. He is currently the Senior Vice President of Regulatory and Clinical Development for a biotech company, Yaupon Therapeutics, Inc.

Dr Walker was appointed to the Board on the 16 November, 2005.

RESOLUTION 5 – RATIFICATION OF SHARE ISSUE

On 25 September 2006, the Company announced to ASX the placement of 6,604,101 Shares at an issue price of 27 cents per Share to raise approximately \$1.8 million from institutional and sophisticated investors for funding to continue its clinical programs.

Listing Rule 7.4

Listing Rule 7.4 permits the ratification of previous issues of securities made without prior shareholder approval, provided the issue did not (at the time) breach the 15% threshold set by Listing Rule 7.1. The effect of such a ratification is to restore a company's maximum discretionary power to issue further shares up to 15% of the issued capital of the company without requiring shareholder approval.

Information for shareholders

The following information is provided to shareholders for the purposes of Listing Rule 7.5:

1. the number of Shares validly allotted under Listing Rule 7.1 was 6,604,101;
2. the price at which the Shares were allotted was 27 cents each;
3. the Shares allotted were fully paid ordinary shares which rank equally with all other fully paid ordinary shares on issue;
4. the Shares were issued to various institutional and sophisticated investors; and
5. the funds are being used to continue the Company's clinical programs.

GLOSSARY

In this Explanatory Memorandum, the following terms have the following meanings unless the context otherwise requires:

ASX	means Australian Stock Exchange Limited.
Board	means the board of Directors of the Company.
Company or Bone	means Bone Medical Limited (ACN 009 109 755).
Constitution	means the constitution of the Company.
Corporations Act	means the Corporations Act 2001 (Cth).
Director	means a director of the Company.
Listing Rules	means the Listing Rules of the ASX.
Meeting	means the annual general meeting the subject of the Notice.
Notice	means the notice of annual general meeting which accompanies this Explanatory Memorandum.
Resolution	means a resolution proposed pursuant to the Notice.
Share	means a fully paid ordinary share in the capital of the Company.