

Bone Medical

ASX/MEDIA RELEASE

Annual Report

23 October 2007: Bone Medical Limited (ASX:BNE) please find attached the Annual Report for 30 June 2007.

- ENDS -

Enquiries:

Dr Roger New
Chairman
Mobile: +44 781 806 8012
Australian Office: +61 8 9355 5123

Rudi Michelson
Monsoon Communications
03 9620 3333

Troels Jordansen
Managing Director
Mobile: + 44 79 1713 0019

Or visit: www.bonemedical.com

About Bone Medical Limited

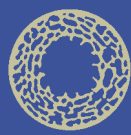
Bone Medical Limited is an international biopharmaceutical development company positioned to exploit the growing market in the treatment of bone disease particularly in osteoporosis and arthritis. Bone has a portfolio of biopharmaceutical development projects for the treatment of bone disease including,

Osteoporosis

- Capsitonin™ oral calcitonin
- oral parathyroid hormone
- bone cell regulators BN005 & BN008

Arthritis

- TNF regulators BN006
- joint protection & collagen tolerance BN007



Bone Medical Limited

AND ITS CONTROLLED ENTITIES

ABN 70 009 109 755



Annual Report 2007

CONTENTS



**BONE MEDICAL LIMITED
AND ITS CONTROLLED ENTITIES
ABN 70 009 109 755**

	Page
Corporate Directory	2
Chief Executive's Statement	3
Corporate Governance Statement	5
Directors' Report	12
Auditor's Independence Declaration	24
Income Statements	25
Balance Sheets	26
Statements of Changes in Equity	27
Cash Flow Statements	29
Notes to the Financial Statements	30
Directors' Declaration	64
Independent Audit Report to the Members	65
Shareholder Information	68

BONE MEDICAL LIMITED AND ITS CONTROLLED ENTITIES

CORPORATE DIRECTORY

Directors:	Mr. Troels Jordansen – Managing Director Dr. Roger New - Co-Founder and Non-Executive Chairman Mr. Barry Walker, M.D. – Non-Executive Director Mr. Leon Ivory - Non-Executive Director Mr. Gabriel Chiappini – Non-Executive Director Mr. Peter Brooks – Non-Executive Director Mr. Leif Jensen – Non-Executive Director
Company Secretary:	Mr. Gabriel Chiappini
Registered Office:	Unit 2, 1 Sarich Way Technology Park Bentley, Western Australia 6102 Telephone: (+61 8) 9355 5123 Facsimile : (+61 8) 9355 5210
Share Registry:	Security Transfer Registrars Pty Limited 770 Canning Highway Applecross WA 6153 Telephone: (61 8) 9315 2333 Facsimile: (61 8) 9315 2233
Bankers:	St George Bank Limited Level 11 152-158 St George's Terrace Perth WA 6000
Auditors:	BDO Kendalls Audit & Assurance (WA) 128 Hay Street Subiaco WA 6008
Solicitors:	Blakiston and Crabb 1202 Hay Street West Perth WA 6005
Website:	www.bonemedical.com
ASX Code:	BNE
ADR Ticker Symbol:	BMEDY
Stock Exchange:	The Company is listed on the Australian Stock Exchange. The home exchange is Perth.
Other Information:	Bone Medical Limited, incorporated and domiciled in Australia, is a publicly listed company, limited by shares.

Chief Executive's Statement

For the Year ended 30 June 2007

Dear Shareholder

Since Bone Medical listed on the Australian stock exchange in August 2004 the prime focus has been to develop and commercialise Capsitonin® (oral calcitonin) as one of the world's most interesting osteoporosis product. For a patient, taking an oral capsule instead of injectable or nasal spray is a profound marketing advantage.

On 1 August 2007 Bone announced that Capsitonin® had met clinical endpoints and demonstrated to be as effective as an already marketed nasal spray. This excellent news removed one of the drug's biggest risks.

Bone's early strategy was to reformulate already approved pharmaceutical substances to make the drugs easier for patients to take. Easier administration (better patient compliance) improves the effectiveness of a drug and expands overall market size.

An early success with Capsitonin® for example will help Bone strengthen links with pharmaceutical companies.

Beyond this Bone also has access to other platform technologies that will allow for novel drugs to be developed. We expect Bone will be increasingly known as a specialist musculoskeletal diseases drug development company.

Clinical progress

Capsitonin® recorded a successful Phase IIb clinical trial result by meeting the key clinical endpoint. Biomarker CTX-1, related to osteoporosis, fell to within 10% equivalence of the results of an already marketed nasal calcitonin spray.

This result allows Bone to discuss details of the pivotal Phase III (product approval) clinical trial with the US FDA. Bone hopes to initiate the Phase III trial in the first half of 2008. From earlier meetings with the FDA Bone has established that a 'fast-track' regulatory strategy (505b2) is open to Bone. This means that Bone is likely to be required to only demonstrate effectiveness of Capsitonin® in about 400 patients over a 6 months period. The primary clinical end point will again be the CTX-1 biomarker which Bone has successfully controlled in our trial with 35 healthy subjects.

Bone is also planning a clinical trial with Capsitonin® in osteoarthritis. Two recent literature reviews and a phase III clinical trial by Novartis indicate that Capsitonin® may be effective in osteoarthritis. Osteoarthritis is considered to have a much larger market than osteoporosis.

Perthoxal® received ethics committee approval in early August 2007 and will enter a Phase I/IIb clinical formulation trial. Once we have obtained successful clinical data for Perthoxal® we will again approach the FDA on further clinical trial requirements.

One of Bone's most interesting future projects is BN006. During the past financial year BN006 was tested by Synovo GmbH in rats and was able to reduce the production of TNF in excess of 75%. TNF is a key agent in the viscous destruction of cartilage in rheumatoid arthritis. This and our own work prompted Prof Marc Feldman of the Kennedy Institute in London to say, "Bone's TNF down-regulator is a second-generation approach to the treatment of rheumatoid arthritis and has tremendous promise because of its potential to be administered orally and at a low cost." Bone is now undertaking further research into this very interesting product opportunity.

Corporate progress

During past financial year Bone raised A\$3.9 million. This has been invested in the above clinical progress and in cementing Bone's intellectual property rights.

A few changes took place at board and management levels. Paul Hopper resigned as executive chairman and Dr Roger New took over as interim Chairman. Dr New is the scientific founder of Bone and is also chief scientific officer. Bone is currently assessing experienced pharmaceutical/biotech people for the position of chairman.

Professor Peter Brooks joined the Bone board in July 2007. Prof Brooks is executive dean of Queensland University's Medical Faculty and a renowned world expert in bone diseases. Troels Jordansen and Gabriel Chiappini (also company secretary) both joined the board during the year.

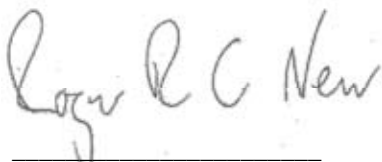
Troels Jordansen was appointed managing director in July 2007. Troels has over 20 years experience in international life sciences and has over the past 8 years worked with biotech start-ups. Over the same period he has been part of management teams or boards raising over \$100 million.

Outlook

With the positive clinical outcome and a solid product pipeline, Bone's priorities for 2007/2008 are to provide adequate funding to:

- Progress products in clinical testing:
 - Capsitonin® in Phase III for osteoporosis
 - Capsitonin® toxicity testing (1 month)
 - Perthoxal® in Phase I/IIb for osteoporosis
 - Capsitonin® for osteoarthritis
 - BN006 in pre-clinical and Phase I
- Expand management group with:
 - Medical director
 - Business development director
 - Production upscale manager
 - Regulatory director
- Maintain close contact with shareholder base
- Grow shareholder value

Bone will remain a low cash burn company with significant deal and income potential. We would like to thank all shareholders for their support and we look forward to updating you on our fast-paced progress during 2007/2008.



Dr. Roger New
Chairman
Bone Medical Limited



Mr. Troels Jordansen
Managing Director

Corporate Governance Statement

The Board of Bone Medical Limited (“Bone Medical” or “Company”) acknowledge that corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.

The Board further acknowledges that good corporate governance procedures encourage companies to create value, whilst providing accountability and controls commensurate with the risks involved.

However, corporate governance is the balance between the need for managerial risk taking, entrepreneurial energy and high capacity, with the need for some form of monitoring such that management direction is aligned with the interests of those of the shareholders and other stakeholders.

Directors are responsible for the Corporate Governance practices of a Company and to this end, need to establish appropriate

- Responsibilities
- Accountabilities and
- Checks and balances (supervision and control).

Effective corporate governance within the Company encourages the use of Board expertise in ways that maximise each director’s contribution.

Bone Medical is committed to high standards of Corporate Governance.

Policies and procedures which follow the “Principles of Good Corporate Governance and Best Practice Recommendations” issued by the Australian Securities Exchange (“ASX”) Corporate Governance Council in March 2003, to the extent they are applicable to the Company, have been adopted.

These documented policies and procedures form the basis of the Company’s corporate governance system.

Board Charter

The Board shall, as a preference, consist of:

- An appropriate number of independent non-executive directors;
- At least one member with appropriate professional and technical skills relevant to the pharmaceutical or biotechnology industry.

At the date of this report there were five independent directors on the board.

The Board as at the date of this report are:

- Mr. Troels Jordansen – Managing Director
- Mr. Barry Walker, M.D. – Independent Non-executive Director
- Mr. Leon Ivory – Independent Non-executive Director
- Dr. Roger New – Co-Founding & Executive Director
- Mr. Gabriel Chiappini – Independent Non-executive Director
- Prof. Peter Brooks – Independent Non-executive Director
- Mr. Leif Jensen – Independent Non-executive Director

The Chairman is a Non-executive director of the Company. He is associated with an organisation that provides material services to the Company. For this reason his appointment is temporary & the board is presently in the process of finding a suitable replacement.

The Board has not adopted a tenure policy.

Generally, no director of a company shall hold office for a continuous period in excess of three years or past the third annual general meeting following the director’s appointment, whichever is the longer, without submitting for re-election. Candidates for Board positions shall be nominated by the Board Nominations Committee for consideration by the Board. The whole Board shall decide on the recommendations of new directors made by the committee.

Bone Medical Limited

Corporate Governance Statement (continued)

In selecting new members for the Board, directors shall have regard to the appropriate skills and characteristics needed by the Board as a whole. The directors shall endeavor to appoint individuals who would provide the mix of director characteristics and diverse experiences, perspectives and skills appropriate for the company.

The management and control of the business of Bone Medical is vested in the Board.

The Board's primary responsibility is to oversee Bone Medical's activities and management for the benefit of shareholders.

The Board also recognises its responsibilities to Bone Medical's employees, the environments and communities in which the Company operates and where appropriate, other stakeholders.

The Board strives to create shareholder value and ensure that shareholders' funds are prudently safeguarded.

The Board has delegated responsibility for the day-to-day activities to the Managing Director who is supported by his staff and a Scientific Advisory Committee. The Board ensures that this Committee is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Committee.

Although there is a clear division between the responsibilities of the Board and management, the Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure that this is achieved.

These mechanisms include the following:

- Establishment of the Scientific Advisory Committee;
- Establishment of an Audit and Risk Management Committee;
- Establishment of the Remuneration Committee; and
- Establishment of the Board Nominations Committee;
- The Board oversees the strategic direction of the company.
- The Board approves all budgets.
- The Board receives detailed Board papers and a management report on a regular basis showing the monthly and year to date performance of all aspects of the company, compared to budget.
- Procedures are in place to allow any director or Committee of the Board to seek external professional advice as considered reasonable and necessary, at the company's expense.
- Procedures are in place to incorporate presentations from senior management at relevant Committee meetings on an as required basis to increase the Committee's understanding of the area. Further, the Board may request further information from management from time to time on any issue.
- In the event that a potential conflict of interest may arise, involved directors are to notify and consider with the Chairman of the Board or sub committee withdrawing from deliberations concerning the matter. The requirements of "Conflicts of Interests" as specified in the Corporations Law will be adhered to.

All the Board committees operate under formal charters approved by the Board.

Bone Medical Limited

Corporate Governance Statement (continued)

Scientific Advisory Committee

The committee shall be appointed by the Board of directors and shall comprise at least 2 directors. It can consist of non-Board non-executive persons. Persons serving on this committee should have diverse, complementary backgrounds, the majority of which will preferably be independent of management. The committee, as a preference, is to consist of at least 2 directors one of whom shall have leadership and Pharmaceutical Development or Biopharmaceutical experience.

The Scientific Advisory Committee shall provide assistance to the Board of directors in fulfilling its corporate governance and oversight responsibilities which are followed by all Company personnel and ensuring that appropriate training is conducted where necessary.

The members of this Committee as at 30 June 2007 were:

- Mr. Barry Walker, M.D. – Chairman; Independent Non-executive Director
- Dr. Roger New – Co Founder and Chief Scientist, Non-executive Chairman
- Mr. Glen Travers
- Prof. Peter Brooks
- Dr. Phillip Sambrook

Board Nominations Committee

The committee shall as a preference include at least 2 members of the Board of directors. The chairperson of this committee is to be elected by the members of that committee.

The Board Nominations Committee shall provide advice on the process to be adopted by the Company in selecting persons to fulfil the role of a Board member of the Company as well as taking responsibility for evaluating the Board's performance.

The members of this Committee as at 30 June 2007 were:

- Mr. Paul Hopper – Chairman, Executive Chairman
- Mr. Leon Ivory – Non-executive Director
- Mr. Glen Travers

Audit and Risk Management Committee

This committee shall be appointed by the Board of Directors and shall comprise at least 2 directors that have diverse, complementary backgrounds, and as a preference be independent of management and the Company. In addition, the committee chair shall have leadership experience and strong finance, accounting and/or business background. At least one member shall have a reasonable level of accounting and/or related financial management expertise as determined by the Board of directors. At least 1 member will have requisite pharmaceutical, biopharmaceutical or scientific experience.

The audit and risk management committee shall provide assistance to the Board of directors in fulfilling its corporate governance and oversight responsibilities, as well as advise on the modification and maintenance of the company's financial reporting, internal control structure, risk management systems, external audit functions, and appropriate ethical standards for the management of the company. A further purpose of the committee is to check the ongoing independence of the external auditors. In doing so, it is the responsibility of the committee to maintain free and open communication between the committee, external auditors and management of the Company.

In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The CFO will report in writing on the propriety of compliance on internal controls and reporting systems and that they are working efficiently and effectively in all material respects.

Bone Medical Limited

Corporate Governance Statement (continued)

The committee shall advise on the modification and maintenance of the Company's risk management systems, the Company's risk profile, compliance and control and assessment of effectiveness.

The members of this Committee as at 30 June 2007 were:

- Mr. Paul Hopper – Executive Chairman
- Mr. Leon Ivory – Non-executive director.

The intention is to appoint other members of the audit and risk management committee in time based on suitable qualifications and experience.

Remuneration Committee

The committee shall as a preference consist of a minimum of two directors. The committee is to be chaired by a person who shall have leadership experience.

The remuneration committee shall ensure that the level and composition of remuneration to the Board and executives is sufficient and reasonable and that its relationship to the performance by Company personnel is defined. The committee must ensure that the Company provides disclosure in relation to its remuneration policies to enable shareholders to understand the costs and benefits of the policies to the Company's financial performance and that there is a link between the remuneration paid to directors and the Company's performance.

The shareholders approve the aggregate remuneration payable to directors and the Board itself determines the split amongst its members based on reference to applicable commercial rates and the stage of Company development. The Remuneration Committee sets the broad executive remuneration parameters that the Company will adopt.

Shareholders will be asked in due course to approve an equity based remuneration scheme to be adopted by the Company.

The members of this Committee as at 30 June 2007 are:

- Mr. Paul Hopper – Chairman (Executive Chairman)
- Mr. Leon Ivory – Independent Non-executive director
- Mr. Glen Travers – Co-founder

The Board has adopted various policies and procedures to ensure propriety with its governance objectives. The salient policies and procedures in this regard are:

Directors and Executive Officers Code of Conduct

This Code of Conduct sets ethical standards for the directors of Bone Medical. Directors will pursue the highest standards of ethical conduct in the interests of shareholders and all other stakeholders.

The directors must comply with the statutory requirements set out in the Corporations Law at all times.

Performance Evaluation Process

The Board will review its performance and the performance of the individual directors, the committees of the Board, and management annually. This is an important element of the Board's monitoring role, especially with regard to long term growth of the company and of shareholder value.

The Board is required to meet annually to discuss their performance as a whole.

The chairperson of the Board is responsible for meeting with the individual directors to discuss their individual performance and contribution to the Board. At least annually the Board must review the performance of committees reporting to it to ensure that the committees are achieving outcomes.

Bone Medical Limited

Corporate Governance Statement (continued)

The CEO/Executive Chairman is responsible for assessing the performance of the key executives within the organisation. This is to be performed through a formal process before July of each year.

Based on the evaluation of the individual's performance, the CEO/Executive Chairman is required to present a document to the Remuneration Committee outlining the proposed compensation arrangements for each individual employee. The Remuneration Committee are then responsible for reviewing the compensation arrangement, making adjustments if necessary and preparing a recommendation to the Board of the compensation arrangements for each individual.

The results of any review of the performance of an individual within the Company should be linked to their compensation arrangement.

In the event that a director, key executive or employee is not performing to an acceptable level, then a performance evaluation can be conducted on an as needs basis.

Dealings in Bone Medical's Securities

This policy summarises the law relating to insider trading and sets out the policy of the Company on directors and employees dealing in the Company's shares and options.

If directors or employees have "price-sensitive information" relating to the Company which has not been published or which is not otherwise "generally available", they may not

- buy, sell or otherwise deal in Bone Medical shares or options during critical times (i.e. before the release of quarterly and/or yearly financial results and a major announcement);
- advise, incite or encourage another person (for example, a family member, a friend, a family company or trust) to buy or sell Bone Medical shares or options; or
- pass on information to any other person, if it is known or ought reasonably to be known that the person may use the information to buy or sell (or procure another person to buy or sell) Bone Medical shares or options.

Any director, senior management or employee intending to trade in the Company's shares or securities exceeding \$100,000 in value, must give the Chairman one (1) day's written notice.

Directors and employees are not permitted to deal in the Company's securities when the Chairman notifies in writing of a securities trading embargo.

Directors and employees are required to comply with the law governing insider trading provisions and are not permitted to deal in the Company's securities for a period of 24 hours following an announcement made by the company to the stock exchange where such an announcement contains price sensitive information.

Communications Strategy

The directors of Bone Medical recognise the importance of forthright communication and in order to prosper and achieve growth, it must (among other things) earn the trust of employees, customers, suppliers, communities and shareholders. The directors of Bone Medical similarly recognise the danger of leakage of confidential information and how such leakage could destroy shareholder value. Therefore a balance between forthright communication and leakage of confidential information is paramount.

In accordance with the disclosure requirements of the Corporations Act 2001 and the Australian Stock Exchange ("ASX") Listing Rules, the Company follows the following three main forms of information disclosure:

- continuous disclosure - which is its core disclosure obligation and primary method of informing the market and shareholders;
- periodic disclosure - in the form of full-year and half-year reporting and the quarterly reporting of research, development and production information together with corporate activities; and

Bone Medical Limited

Corporate Governance Statement (continued)

- specific information disclosure - as and when required, of administrative and corporate details, usually in the form of ASX releases.

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Hence, in addition to its market disclosure, the Directors ensure shareholders are kept informed through a variety of other means:

- Shareholders can gain access to information about the company, including the annual report, half yearly and quarterly reports, the Chairman's address delivered at the Annual General Meeting, key policies, the company's web site and other important information.
- In conducting briefings, the Company takes care to ensure that any price-sensitive information released is made available to all shareholders (institutional and private) and the market at the same time and in accordance with the requirements of the ASX.
- Information is also released by email to all persons who have requested their name to be added to the contact database. Any person wishing to be added to this database can do so by contacting the Company Secretary.
- The principal communication with private investors is through the provision of the Annual Report and financial statements and the Annual General Meeting. The Annual Report is made available to shareholders on a yearly basis. Notice of the Annual General Meeting is posted to shareholders at least 28 days in advance of the meeting. Shareholders also receive notices in relation to all meetings in which shareholders are permitted to attend.

The directors recognise the rights of shareholders and encourage the effective exercise of those rights through the following means:

- Notices of meetings are distributed in accordance with the Corporation's Act and provide shareholders with the opportunity to attend general meetings;
- Shareholders are encouraged to use their attendance at meetings to ask questions on any matter, with time being specifically set aside for shareholder queries;
- In the event that a resolution is proposed, notices encourage shareholders participation through appointment of proxies; and
- The Company is obliged under the Corporation Act to provide the auditor with notice of a general meeting as the Company encourages the policy of having the auditor attend such meetings. In the event that the Company's auditor or their representative attends the annual general meeting, the Chairperson of that meeting will allow a reasonable opportunity for shareholders to ask questions of the auditor concerning the conduct of the audit and the preparation and content of the auditor's report.

Disclosure Policy

The continuous disclosure policy sets out the procedure for:

- identifying material price sensitive information;
- reporting such information to the CEO/Executive Chairman and/or the Company Secretary for review;
- ensuring Bone Medical follows best practice in complying with its continuous disclosure obligations under the Corporations Act and Australian Stock Exchange ("ASX") Listing Rules; and
- monitoring the Company and individual officers compliance with the Corporations Act or ASX Listing Rules.

Bone Medical Limited

Corporate Governance Statement (continued)

The purpose of this policy is to ensure that Company announcements are:

- made in a timely manner;
- are factual;
- do not omit material information; and
- are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Company is committed to:

- ensuring that stakeholders have the opportunity to access externally available information issued by the Company;
- providing full and timely information to the market about the Company's activities; and
- complying with the obligations contained in the ASX Listing Rules and the Corporations Act relating to continuous disclosure.

The Managing Director and CFO will state in writing to the Board whether the financial reporting is "true and fair".

Risk Management and Internal Control Policy

The Board of Bone Medical recognises the importance of identifying and controlling risks to ensure that they do not have a negative impact on the Company. Procedures have been established at the Board and executive management levels which are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting.

The Board is ultimately responsible for the internal control framework and risk management of the company and for regularly reviewing its effectiveness.

The principle aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets. Although no system of internal control can provide absolute assurance that the business risks will be fully mitigated, the internal control systems have been designed to meet the Company's specific needs and the risks to which it is exposed.

Annually, the Board are responsible for identifying the risks facing the company, assessing the risks and ensuring that there are controls for these risks, which are to be designed to ensure that any identified risk is reduced to an acceptable level. (Refer below in relation to the role of the audit and risk management committee in undertaking this task).

The Board will review and discuss strategic risks and opportunities arising from changes in the Company's business environment regularly and on an as needs basis.

The Board may delegate some of the abovementioned responsibility to committees of the Board, but maintain the overall responsibility for the process.

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT

The directors present their report on the financial report of Bone Medical Limited (the "Company") and the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2007.

DIRECTORS

The directors of the Company at any time during or since the end of the year are:

Mr. Paul Hopper	(appointed 2 June, 2005 and resigned 16 th July 2007)
Dr. Roger New	(appointed 2 June, 2005)
Mr. Leon Ivory	(appointed 16 November, 2005)
Mr. Barry Walker, M.D.	(appointed 16 November, 2005)
Mr. Troels Jordansen	(appointed 16 November 2006)
Mr. Gabriel Chiappini	(appointed 18 December 2006)
Prof. Peter Brooks	(appointed 25 July 2007)
Mr. Leif Jensen	(appointed 10 September 2007)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

The following person held the position of Company Secretary during the year:

Gabriel Chiappini
Bachelor of Business

Mr. Chiappini has worked in Chief Financial Officer and Company Secretarial roles in local and international environments and has also held the position of Company Secretary with ASX listed and unlisted companies. He is currently Company Secretary of Bone Medical Ltd, Clinical Cell Culture Limited, Australis Aquaculture Ltd, Katana Capital Ltd and Australian Wine Holdings Ltd. Gabriel is a Chartered Accountant and member of the Australian Institute of Company Directors. He graduated from Edith Cowan University in 1990 with a Bachelor of Business majoring in Finance & Accounting and has worked predominantly in London and Perth with experience in the property, investment banking and biotechnology sectors. He was appointed Company Secretary on the 1st October, 2005.

PRINCIPAL ACTIVITY

The principal activity of the Company during the financial year was that of the development of improved therapeutics to prevent and/or treat bone and joint diseases and conditions, especially osteoporosis, osteoarthritis and arthritis.

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

OPERATING RESULTS

The consolidated loss of the economic entity after providing for income tax and eliminating minority equity interests amounted to a loss of \$ 3,416,963 (2006 loss: \$2,782,476).

DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid or recommended during the financial year ended 30 June 2007.

REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

Please refer to the Managing Directors Statement at the commencement of this document.

FINANCIAL POSITION

The net assets of the economic entity have increased by \$672,806 from \$2,223,949 at 30 June 2006 to \$2,896,755 at 30 June 2007. This increase has resulted from the following factors:

- The loss recorded for the financial year of \$3,416,963 was largely due to R&D expenditure which is consistent with the long-term commercial strategy of the company,
- Proceeds from issue of securities raising \$4,011,870.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- (1) On the 9th October 2006, 6,604,101 ordinary shares were issued & allotted at \$0.27 per share and \$1,783,107 was raised.
- (2) On the 16th November 2006 Mr. Troels Jordansen was appointed Non-executive Director.
- (3) On the 18th December 2006 Mr. Gabriel Chiappini was appointed Non-executive Director.
- (4) On the 28th April 2007 by the exercise of options, 5,436,591 ordinary shares were issued & allotted at \$0.40 per share and \$2,174,636 was raised.
- (5) On the 28th June 2007, 5,412,591 unlisted options were issued at \$0.01 each with an exercise price of \$0.60 & expire 28th June 2009 and \$54,126 was raised.

EVENTS SUBSEQUENT TO BALANCE DATE

On the 16th July, 2007 the Executive Chairman Mr. Paul Hopper resigned.

On the 19th July 2007 positive interim phase II clinical trial data was announced for Bone's lead technology Oral Calcitonin (Sct).

On the 25th July, 2007 Professor Peter Brooks was appointed to the Board as a Non-executive Director.

On the 1st August 2007 Bone announced positive results from its Phase II clinical trial of Oral Calcitonin.

On the 10th September 2007 Mr. Leif Jensen was appointed to the Board as a Non-executive Director.

LIKELY DEVELOPMENTS

There are no likely material changes to current activities.

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS

Mr. Paul Hopper BA (UNSW), A.S.I.A., FAICD
(Executive Chairman)

Mr. Hopper resigned on the 16 July 2007. Mr Hopper was appointed as a Non-executive Director on 2 June 2005 and on 1 July 2005 as Chairman. He was appointed executive chairman on the 7 November 2005. He is based in San Diego, USA, and has 26 years experience in public company markets primarily in the healthcare and biotechnology sectors.

From November 2003 to March 2004 he was a non executive director of MedAire Limited (listed). From August 2003 to February 2005 he was Managing Director of Australian Cancer Technology Limited (listed). On the 29th May 2007 he was appointed Non-executive Director of Cell Aquaculture Limited.

Mr Hopper's current international experience includes Chairman of Innovate Oncology, Inc, and CEO of Evolve Oncology, Inc, both listed US biotechnology companies involved in the development of mid and late stage, oncology products. He is a consultant to Advanced Biotherapy, Inc a pioneer in developing antibodies to interferon gamma and is a consultant to the LA-based merchant bank, Cappello Group, Inc.

He has served on numerous public and private Boards, including as CEO of Alpha Healthcare Limited, a Director of The Australian Private Hospitals' Association, the Chairman of the Singapore based, Your Health Group, and as a Director of Arizona based MedAire, Inc.

Dr. Roger New BA, PhD
(Co-founder and Non-executive Chairman)

Dr. New has 32 years experience in research and development in the field of drug delivery and is a world-recognised expert in liposomes and author of seminal reference book "Liposomes - A Practical Approach" published by OUP. He was appointed to the Board on 2 June 2005. He is the Chief Scientific officer of Bone Medical Limited.

He was the first to demonstrate efficacy of liposomal amphotericin and coordinated the first Phase I/II trials of liposomal doxorubicin. During his career he devised three new systems for oral delivery of insulin, giving first positive human results ever observed in Type I diabetics.

Dr New is a honorary professor at several foreign academic institutions and honorary lecturer at Kings College, London. He has also been a member of UK Government Expert Missions to China, France and Brazil. He has many patent applications filed and granted in areas of pharmaceuticals, diagnostics and microbiology and he is the inventor of Mozaic, Axxess and Vaxcine technologies, for which patents are currently pending or granted. Dr. New was appointed interim chairman of Bone Medical on the 16 July 2007.

Mr. Leon Ivory
(Non-executive Director)

Mr. Leon Ivory has been involved in corporate finance, funds management and venture capital for over 36 years. Leon 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, VRI BioMedical Limited. Leon is former Chairman of Refresh Group Ltd. He is also a director of Kancer Ltd which is based in the United Kingdom. He was appointed to the Board on the 16 November, 2005.

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS (continued)

Mr. Barry Walker, M.D.
(Non-executive Director)

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. He was appointed to the Board on the 16 November, 2005.

Mr. Troels Jordansen
(Managing Director)

Troels Jordansen has worked for more than 20 years in the international health care market in a variety of roles ranging from Product Manager to Managing Director of public listed life science companies. Past experience includes Leo Pharma, Johnson and Johnson, Genzyme and 2 start-up companies IsoTis and Clinical Cell Culture. In the last 8 years Troels has, as part of the management team, raised more than EUR 100 million. Troels has two commercial degrees. He was appointed as Non-executive Director on the 16 November 2006 & as Managing Director on the 18 July 2007.

Mr. Gabriel Chiappini
(Non-executive Director)

Gabriel Chiappini has worked in Chief Financial Officer and Company Secretarial roles in local and international environments and has also held the position of Company Secretary with ASX listed and unlisted companies. He is currently Company Secretary of Bone Medical Ltd, Clinical Cell Culture Limited, Australis Aquaculture Ltd, Katana Capital Ltd and Australian Wine Holdings Ltd. Gabriel is a Chartered Accountant and member of the Australian Institute of Company Directors. He graduated from Edith Cowan University in 1990 with a Bachelor of Business majoring in Finance & Accounting and has worked predominantly in London and Perth with experience in the property, investment banking and biotechnology sectors. He was appointed Company Secretary on the 1st October, 2005 & was appointed to the board on the 18 December 2006.

Prof. Peter Brooks
(Non-executive Director)

Prof Peter Brooks has been the Executive Dean for the Faculty of Health Sciences at The University of Queensland since 1998. Previous positions held include Foundation Professor of Rheumatology at the University of Sydney, Professor of Medicine at the University of New South Wales, Past President of the Australian Rheumatology Association, Vice Patron of the Arthritis Foundation in Queensland, Member of the International Committee for Bone & Joint Decade 2000 – 2010 & National Action Coordinator for Bone & Joint Decade 2000 – 2010. Prof. Brooks was appointed as a Non-executive Director on the 25 July 2007.

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS (continued)

Mr. Leif Jensen
(Non-executive Director)

Leif Helth Jensen has more than 25 years of experience within the life science industry. He has been the CEO of two Biotech companies (Cureon and Glycom), on the Board of Directors in 6 Biotech companies (Genmab, Zealand Pharma, Cureon, Exiqon, Meditel and Promogenetics) and been the co-founder of 3 Biotech companies (NeuroSearch, Zealand Pharma and Cureon). He has previously held other positions such as Director of Pharmacology at NeuroSearch, CEO of Danske Life Science and Vice President Portfolio Management at LifeCycle Pharma. He is currently on the Board of Director in Dentofit and the Chairman of the Board in Valderm, Microlytics, Inagen and Alcorlab. He has a M.Sc. in Biology from the University of Copenhagen. He is a co-author of more than 35 peer-reviewed scientific papers and a co-inventor of 19 patent families. Mr. Jensen was appointed as a Non-executive Director on the 10 September 2007.

DIRECTORS' INTERESTS

The relevant interest of each director in the share capital or options over such instruments issued by the companies within the consolidated entity and other related bodies corporate as notified by the directors to the Australian Stock Exchange in accordance with s205G(1) of the Corporations Law at the date of this report, is as follows:

Director	Number of Ordinary Shares	Number of Options	Number of Class C Preference Shares
Mr. Paul Hopper	-	200,000	-
Dr. Roger New	14,703	-	-
Mr. Leon Ivory	530,685	450,000	82,610
Mr. Barry Walker, M.D.	-	-	-
Mr. Troels Jordansen	-	-	-
Mr. Gabriel Chiappini	8,000	-	-
Prof. Peter Brooks	-	-	-
Mr. Leif Jensen	-	-	-

MEETINGS OF DIRECTORS

The number of meetings of the Company's directors held during the year and the number of meetings attended by each director are:

Board of Directors	Full meetings of directors		Meetings of non-executive directors	
	Attended	Maximum Possible	Attended	Maximum Possible
Mr. Paul Hopper	10	10	*	*
Mr. Leon Ivory	10	10	10	10
Dr. Roger New	9	10	9	10
Mr. Barry Walker, M.D.	7	10	7	10
Mr. Troels Jordansen	6	7	6	7
Mr. Gabriel Chiappini	6	7	6	7

* = Not a non-executive director

Members	Committee Meetings							
	Scientific Advisory Committee		Board Nominations Committee		Audit and Risk Management Committee		Remuneration Committee	
	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible	Attended
Mr. Paul Hopper	**	**	1	1	3	3	-	-
Mr. Leon Ivory	**	**	1	1	3	3	-	-
Mr. Glen Travers	3	3	1	1	**	**	-	-
Dr. Roger New	3	3	**	**	**	**	**	**
Dr. Peter Brookes	3	3	**	**	**	**	**	**
Dr. Phillip Sambrook	3	3	**	**	**	**	**	**
Mr. Barry Walker, M.D.	3	3	**	**	**	**	**	**
Mr. Gabriel Chiappini	**	**	**	**	3	3	**	**

** = Not a member of the relevant committee

DIRECTORS' REPORT (continued)

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service Agreements
- D Share-based compensation
- E Additional information

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in section E are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited.

A Principles used to determine the nature and amount of remuneration (audited)

Remuneration Philosophy

The company recognises the importance of structuring the remuneration packages of its directors' and executives so as to attract and retain people with the qualifications, skills and experience to help the company achieve the required objectives. However, the company understands that whilst it is still in the development phase of its growth, a prudent position must be observed in the total remuneration expense.

The Australian domiciled directors and executives receive a superannuation guarantee contribution required by the government which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

Performance-based remuneration

There is no correlation between the company's performance and remuneration paid to its executive directors, non-executive directors and executive employees.

Management and Chief Executive Officer

The remuneration package is approved by the Board for the Chief Executive Officer and management. The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants.

The management receive a fixed salary, options and bonus payments based on the achievement of specified performance criteria. Remuneration is not linked to the performance of the company.

Non-Executive Directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

The total amount paid to non-executive directors is determined by the board from time to time for presentation to and resolution by shareholders in General Meeting. The current approved maximum aggregate remuneration payable to non-executive directors is \$300,000 per year.

The directors are paid a set amount per year and apart from reimbursement of expenses incurred on the company's behalf, are not eligible for any additional payments.

Non-executive Directors fees are not linked to the performance of the company and do not receive options.

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

A Principles used to determine the nature and amount of remuneration (audited) (continued)

Directors Fees

The current base remuneration has been reviewed annually and no changes have been since June 2005. The Chairman's remuneration is inclusive of committee fees while other non-executive directors who chair, or are a member of, a committee receive additional yearly fees.

The following fees have applied:

Base fees	From June 2005
Chairman	169,649
Other non-executive directors	25,000

Additional Fees	
Scientific committee - chairman	10,364
Scientific committee - member	10,000

B Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Bone Medical Limited and the economic entity are set out in the following tables.

Note: As at reporting date the company and the economic entity has no other key management personnel other than the directors listed on pages 14-16 of this report.

2007	Short-term employee benefits			Post-employment benefits		Long-term benefits	Share-based payments	Total
	Cash, salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Long-service leave	Options	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>								
Dr. Roger New	25,000	-	-	-	-	-	-	25,000
Mr. Barry Walker, M.D.	38,607	-	-	-	-	-	-	38,607
Mr. Leon Ivory	24,847	-	-	2,604	-	-	-	26,911
Mr. Troels Jordansen	15,376	-	-	-	-	-	-	15,376
Mr. Gabriel Chiappini	13,403	-	-	-	-	-	-	13,403
Sub-total non-executive directors	117,233	-	-	2,064	-	-	-	119,297
<i>Executive directors</i>								
Mr. Paul Hopper	187,551	-	-	-	-	-	*16,400	203,951
Total key management personnel compensation	304,784	-	-	2,064	-	-	16,400	323,248

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

B Details of remuneration (audited) (continued)

2006	Short-term employee benefits			Post-employment benefits		Long-term benefits	Share-based payments	Total
	Cash, salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Long-service leave	Options	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>								
Dr. Roger New	27,083	-	-	-	-	-	-	27,083
Mr. Barry Walker, M.D.	25,317	-	-	-	-	-	-	25,317
Mr. Richard Basham	18,157	-	-	1,634	-	-	-	19,791
Mr. Leon Ivory	12,424	-	-	1,290	-	-	-	13,714
Mr. Chris Bilkey	8,601	-	-	774	-	-	-	9,375
Mr. Wayne Fritzsche	9,169	-	-	-	-	-	-	9,169
Sub-total non-executive directors	100,751	-	-	3,698	-	-	-	104,449
<i>Executive directors</i>								
Mr. Michael Redman	205,802	-	-	-	-	-	-	205,802
Mr. Paul Hopper	143,637	-	-	-	-	-	* 8,200	151,837
<i>Other Company executives</i>								
Mr. John Fitzgerald	41,667	-	-	3,300	-	-	-	44,967
Mr. Gabriel Chiappini	27,825	-	-	-	-	-	-	27,825
Total key management personnel compensation	519,682	-	-	6,998	-	-	8,200	534,880

C Service Agreements (audited)

Paul Hopper – Executive Chairman (resigned 16th July 2007)

- annual salary of US \$144,000;

* As part of Mr. Hoppers contract, 200,000 employee share options were issued on the 27 December 2005. They are exercisable at \$0.47 & expire on the 27th December 2008. 11,111 options will vest at the end of every month from date of issue over an 18 month period. The number of options vested as at 30 June 2007 were 200,000 (2006: 133,333)

D Share-based compensation (audited)

No options were issued as remuneration to Key Management Personnel in 2007.

All options granted to directors are ordinary shares in Bone Medical Limited, which confer a right of one ordinary share for every option held. The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Date vested and exercisable	Expiry Date	Exercise Price	Value per option at grant date
27-Dec-05	27-Jun-07	27-Dec-08	\$ 0.47	\$ 0.12
1-Dec-04	1-Dec-07	1-Dec-09	\$ 0.60	\$ 0.30

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

D Share-based compensation (audited) (continued)

Options granted carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share up to the date of expiry. The exercise price of the options are set at grant date unless stated otherwise.

Details of options over ordinary shares in the company provided as remuneration to each director of Bone Medical Limited and each of the key management personnel of the parent entity and the group are set out below. When exercisable, each option is convertible into one ordinary share of Bone Medical Limited. Further information on the options is set out in note 21 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2007	2006	2007	2006
<i>Directors of Bone Medical Limited</i>				
Paul Hopper	-	200,000	133,333	66,667

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

No remuneration options have been granted during the year ended 30 June 2007.

The model inputs for options granted during the year ended 30 June 2006 included:

- (a) options are granted for no consideration and 11,111 options vest each month over 18 months for each month of continuous service.
- (b) exercise price: \$0.47
- (c) grant date: 27 December 2005
- (d) expiry date: 27 December 2008
- (e) share price at grant date: \$0.23
- (f) expected price volatility of the company's shares: 105%
- (g) expected dividend yield: nil %
- (h) risk-free interest rate: 6.01%

No remuneration options have been exercised and in turn no shares have been issued for remuneration options.

E Additional information – unaudited

Details of remuneration: cash bonuses and options

For each cash bonus & grant of options included in the tables on pages 18 to 20, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. The options vest over an eighteen month period, provided the vesting conditions are met. No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	Cash bonus		Options					
	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
Mr. Paul Hopper	-	-	2006	100	-	-	-	-
Mr. Michael Redman	-	-	2005	-	100	-	-	-
Mr. John Fitzgerald	-	-	2005	-	100	-	-	-

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

Shares under option

As at the date of this report, the unissued ordinary shares of the company under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
01/08/2004	01/08/2009	\$0.50	1,000,000
27/12/2005	27/12/2008	\$0.47	200,000
01/02/2007	01/02/2010	\$0.27	500,000
27/06/2007	27/06/2009	\$0.60	5,412,591
Total			7,112,591

During the year ended 30 June 2007, the following ordinary shares of Bone Medical Limited were issued on exercise of options granted under a prospectus dated 26 October 2005:

Grant Date	Exercise Price	Number of Shares Issued
28/04/2007	\$0.40	5,436,591

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Loans to specified directors

There were no loans to specified directors, at the beginning of the year, during the year, or at the end of the year.

Other transactions and balances with specified directors

Ivory and Co Pty Ltd of which Mr. Leon Ivory is a Director was compensated for management services provided to the company throughout the year.

Proxima Laboratory and Research Services Limited of which Dr. Roger New is a Director was compensated for providing Laboratory & Management Services to the company throughout the year.

Mededis Ltd of which Mr. Troels Jordansen is a Director was compensated for UK based fundraising consultancy provided to the company throughout the year.

Laurus Corporate Services Limited of which Mr. Gabriel Chiappini is a Director was compensated for corporate consultancy services provided to the company throughout the year.

Refer to Note 22 Related Party Transactions for details.

There were no other transactions during the year with the directors or with any director related entities.

AUDITOR INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 24 of this report.

No director of Bone Medical Limited is currently or was formerly a partner of BDO Kendalls Audit and Assurance (wa).

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors support the principles of corporate governance. The company's corporate governance statement is included on pages 5 - 11 of this report.

Annual Report for year ending 30 June 2007

DIRECTORS' REPORT (continued)

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid/payable to a related entity of the auditors during the year ended 30 June 2007:

Corporate Finance: \$ 650

ENVIRONMENTAL ISSUES

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

EMPLOYEES

The consolidated entity had 1 full-time equivalent employee as at 30th June 2007. (2006: 1)

INDEMNIFICATION OF OFFICERS AND AUDITORS

The Company has, not, during or since the financial year, in respect of any person who is or has been an officer or the auditor of the Company or of a related body corporate:

- (a) indemnified or made any relative agreement for indemnifying against a liability incurred as an officer or auditor, including costs and expenses in defending legal proceedings; or
- (b) paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer or auditor for the costs or expenses to defend legal proceedings.

CORPORATE STRUCTURE

Bone Medical Limited is a company limited by shares that is incorporated and domiciled in Australia. Bone Medical Limited is the ultimate legal parent company. Bone Medical Limited has prepared a consolidated financial report incorporating Bone Limited, a company incorporated and domiciled in Jersey, Channel Islands, of which Bone Medical owns 100% of the ordinary share capital during the year. Owein Pty Ltd, a wholly owned subsidiary, has also been incorporated into the consolidated financial report of Bone Medical Limited. It is a company incorporated and domiciled in Australia that Bone Medical Limited controlled during the financial year.

This report has been made in accordance with a resolution of Directors.



Troels Jordansen
Managing Director
Perth, Western Australia
26th September 2007



BDO Kendalls

BDO Kendalls Audit & Assurance (WA)
128 Hay Street
SUBIACO WA 6008
PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 90 360 101 594

26 September 2007

The Directors
Bone Medical Limited
1 Sarich Way
Technology Park
BENTLEY WA 6102

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF BONE MEDICAL LIMITED

As lead auditor of Bone Medical Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bone Medical Limited and the entities it controlled during the period.

Yours faithfully
BDO Kendalls Audit & Assurance (WA)

BG McVeigh
Partner

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

Annual Report for year ending 30 June 2007

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	Note	Economic Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue from Continuing Operations	2	50,752	93,355	50,752	93,355
Research & Development		(2,496,580)	(1,871,413)	(2,496,580)	(1,871,413)
Employee Benefits		(323,112)	(480,720)	(323,112)	(480,720)
Professional Consultants		(215,939)	(212,074)	(215,939)	(207,385)
Depreciation & Amortisation		(7,238)	(4,934)	(6,423)	(3,935)
External Consultants		(304,362)	(168,445)	(304,362)	(168,445)
Legal Fees		(12,522)	(85,404)	(12,522)	(85,404)
Travel		(82,488)	(95,970)	(82,488)	(95,970)
Business Development		(15,035)	-	(15,035)	-
Public Relations		(8,800)	(26,751)	(8,800)	(26,751)
Other Expenses		(250,797)	(221,356)	(250,797)	(221,355)
Loss before Income Tax	3	(3,666,121)	(3,073,712)	(3,665,306)	(3,068,023)
Income Tax Benefit	4	249,158	291,236	249,158	291,236
Loss for the year		(3,416,963)	(2,782,476)	(3,416,148)	(2,776,787)
Basic loss per share (cents per share)	7	(4.87)	(4.46)		
Diluted loss per share (cents per share)	7	N/A	N/A		

The Income Statements should be read in conjunction with the accompanying notes

Annual Report for year ending 30 June 2007

BALANCE SHEETS AS AT 30 JUNE 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash & cash equivalents	8	1,478,640	220,559	1,478,640	220,559
Trade and other receivables	9	43,640	304,706	43,640	304,706
TOTAL CURRENT ASSETS		1,522,280	525,265	1,522,280	525,265
NON-CURRENT ASSETS					
Financial assets	10	-	-	3,502,069	3,502,069
Property, plant & equipment	12	21,350	25,979	21,224	25,038
Intangible assets	13	1,956,599	1,956,599	-	-
TOTAL NON-CURRENT ASSETS		1,977,949	1,982,578	3,523,293	3,527,107
TOTAL ASSETS		3,500,229	2,507,843	5,045,573	4,052,372
LIABILITIES					
CURRENT LIABILITIES					
Payables	14	603,474	283,894	603,474	283,894
TOTAL CURRENT LIABILITIES		603,474	283,894	603,474	283,894
NON-CURRENT LIABILITIES					
Trade and other liabilities	15	-	-	1,858,365	1,858,365
TOTAL NON-CURRENT LIABILITIES		-	-	1,858,365	1,858,365
TOTAL LIABILITIES		603,473	283,894	2,461,839	2,142,259
NET ASSETS		2,896,755	2,223,949	2,583,734	1,910,113
EQUITY					
Contributed Equity	16	12,232,626	8,274,883	74,300,240	70,342,497
Accumulated losses		(9,776,897)	(6,359,934)	(71,856,732)	(68,440,584)
Reserves	17	441,026	309,000	140,226	8,200
TOTAL EQUITY		2,896,755	2,223,949	2,583,734	1,910,113

The Balance Sheets should be read in conjunction with the accompanying notes

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

Economic Entity	Share Capital					Total
	Ordinary	Convertible Preference	Retained Earnings	Option Reserve	Minority Equity Interests	
	\$	\$	\$	\$	\$	
Balance at 1st July 2005	6,671,850	-	(3,577,458)	331,130	26,382	3,451,904
Loss attributable to members of parent entity	-	-	(2,782,476)	-	-	(2,782,476)
Total recognised income & expense for the year	-	-	(2,782,476)	-	-	(2,782,476)
Ordinary shares issued under a prospectus	1,576,651	-	-	-	-	1,576,651
Options issued during the year	-	-	-	8,200	-	8,200
Options cancelled during the year	-	-	-	(30,330)	-	(30,330)
Purchase of minority shareholders interest	26,382	-	-	-	(26,382)	-
Balance at 30th June 2006	8,274,883	-	(6,359,934)	309,000	-	2,223,949
Loss attributable to members of parent entity	-	-	(3,416,963)	-	-	(3,416,963)
Total recognised income & expense for the year	-	-	(3,416,963)	-	-	(3,416,963)
Ordinary shares issued under placement	1,783,107	-	-	-	-	1,783,107
Ordinary shares issued for options exercised	2,174,636	-	-	-	-	2,174,636
Options issued during the year	-	-	-	132,026	-	132,026
Balance at 30th June 2007	12,232,626	-	(9,776,897)	441,026	-	2,896,755

The Statement of Changes in Equity should be read in conjunction with the accompanying notes

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

Parent Entity	Share Capital		Retained Earnings	Option Reserve	Minority Equity Interests	Total
	Ordinary	Convertible Preference				
	\$	\$				
Balance at 1st July 2005	68,765,846	-	(65,663,797)	30,330	-	3,132,379
Loss attributable to members of parent entity	-	-	(2,776,787)	-	-	(2,776,787)
Total reorganised income & expense for the year	-	-	(2,776,787)	-	-	(2,776,787)
Ordinary shares issued under a prospectus	1,576,651	-	-	-	-	1,576,651
Options cancelled during the year	-	-	-	(30,330)	-	(30,330)
Options issued during the year	-	-	-	8,200	-	8,200
Balance at 30th June 2006	70,342,497	-	(68,440,584)	8,200	-	1,910,113
Loss attributable to members of parent entity	-	-	(3,416,148)	-	-	(3,416,148)
Total recognised income & expense for the year	-	-	(3,416,148)	-	-	(3,416,148)
Ordinary shares issued under placement	1,783,107	-	-	-	-	1,783,107
Ordinary shares issued for options exercised	2,174,636	-	-	-	-	2,174,636
Options issued during the year	-	-	-	132,026	-	132,026
Balance at 30th June 2007	74,300,240	-	(71,856,732)	140,226	-	2,583,734

The Statement of Changes in Equity should be read in conjunction with the accompanying notes

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
CASHFLOWS FROM OPERATING ACTIVITIES					
Receipts from Government Grants		-	36,344	-	36,344
Income tax research & development rebate		540,394	-	540,394	-
Payments to suppliers & employees		(3,336,072)	(3,110,593)	(3,336,072)	(3,110,593)
Interest Received		44,498	59,417	44,498	59,417
Net cash outflow of operating activities	20	<u>(2,751,180)</u>	<u>(3,014,832)</u>	<u>(2,751,180)</u>	<u>(3,014,832)</u>
CASHFLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant & equipment		(2,608)	(18,893)	(2,608)	(18,893)
Loan repayments from controlled entities		-	-	-	93,213
Net cash (outflow) inflow from investing activities		<u>(2,608)</u>	<u>(18,893)</u>	<u>(2,608)</u>	<u>74,320</u>
CASHFLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares & other equity securities		4,011,870	1,575,694	4,011,870	1,575,694
Net cash inflow from financing activities		<u>4,011,870</u>	<u>1,575,694</u>	<u>4,011,870</u>	<u>1,575,694</u>
Net increase (decrease) in cash and cash equivalents held		1,258,081	(1,458,031)	1,258,081	(1,364,818)
Cash and cash equivalents at beginning of financial year		220,559	1,678,590	220,559	1,585,377
Cash and cash equivalents at end of financial year	8	<u>1,478,640</u>	<u>220,559</u>	<u>1,478,640</u>	<u>220,559</u>

The Cash Flow Statements should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies

The financial report covers the economic entity of Bone Medical Limited and controlled entities. Bone Medical Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Bone Medical Limited and controlled entities comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS). The Company financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosure and Presentation*.

Except for the amendments to various Australian Accounting Standards made as a result of AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*, which the Group has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2007.

These are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 <i>Financial Instrument Disclosures</i> .	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007
AASB 7	<i>Financial Instruments: Disclosures</i>	New standard replacing disclosure requirements of AASB 132.	1 January 2007	As above.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amendments arise from release of AASB Interpretation 11 <i>Group and Treasury Share Transactions</i> .	1 March 2007	Unless the Group enters into such share-based payment transactions in future reporting periods, these amendments are not expected to have any impact on the Group's financial report.	1 July 2007

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB Interpretation 11	<i>AASB 2 – Group and Treasury Share Transactions</i>	Clarifies the accounting treatment under AASB 2 “share based payments” where the parent entity grants rights to its equity instruments to employees of its subsidiaries or where subsidiaries grant to its employees rights to equity instruments of its parent.	1 March 2007	As above.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 and AASB 139]	Amendments arise from release of AASB Interpretation 12 <i>Service Concession Arrangements</i> .	1 January 2008	Unless the Group enters into such service concession arrangements in future reporting periods, these amendments are not expected to have any impact on the Group’s financial report.	1 July 2008
AASB Interpretation 12	<i>Service Concession Arrangements</i>	Addresses service concession arrangements under which private sector entities participate in the development, financing, operation and maintenance of infrastructure for the provision of public services, such as transport, water and energy facilities.	1 January 2008	As above.	1 July 2008
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 and AASB 1038]	Amendments arise from release of AASB 8 <i>Operating Segments</i> .	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group’s financial statements. However, the amendments will result in changes to the segment disclosures included in the Group’s financial report.	1 July 2009
AASB 8	<i>Operating Segments</i>	New standard replacing disclosure requirements of AASB 114.	1 January 2009	As above.	1 July 2009
AASB 2007-5	Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities [AASB 102]	Inventories held for distribution by not-for-profit entities are to be measured at cost, adjusted when applicable for any loss of service potential.	1 July 2007	Not applicable.	1 July 2007

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 and AASB 138 and Interpretations 1 and 12]	Amendments arise from the issuance in June 2007 of a revised AASB 123 <i>Borrowing Costs</i> .	1-Jan-09	As it is the Group's current policy to capitalise interest on qualifying assets, there will be no impact on the Group's financial statements.	1-Jul-09
AASB 123	<i>Borrowing Costs</i>	Revised standard requiring the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.	1-Jan-09	As above.	1-Jul-09
AASB Interpretation 10	<i>Interim Financial Reporting and Impairment</i>	Prevents the reversal of impairment losses on goodwill, investments in equity instruments carried at cost and available-for-sale financial assets being reversed in the annual financial report.	1-Nov-06	There will be no impact because the entity has not previously made any impairment write-downs on these items during an interim reporting period (or has not subsequently reversed such impairment write-downs).	1-Jul-07
AASB Interpretation 13	<i>Customer Loyalty Programmes</i>	The fair value of revenue is to be allocated between sales and reward credits, resulting in a portion of revenue being deferred until reward credits are redeemed.	1-Jul-08	There will be no impact as the entity does not have a customer loyalty programme.	1-Jul-08
AASB Interpretation 14	<i>AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	Provides guidance on how to assess the limit in AASB 119 <i>Employee Benefits</i> para 58 on the amount of the surplus that can be recognised as an asset by an employer sponsor.	1-Jan-08	There will be no impact as the entity does not contribute to a defined benefit fund.	1-Jul-08

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 2007-7	<i>Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB5, AASB 107 and AASB 128]</i>	Makes editorial amendments to six Standards, removes the encouragement in AASB 107: Cash Flow Statements to adopt a particular format for the cash flow statement and deletes superseded implementation guidance accompanying AASB 4 Insurance Contracts.	1-Jul-07	Unless the Group enters into such Insurance Contract arrangements in future reporting periods, these amendments are not expected to have any impact on the Group's financial report	1-Jul-07
AASB Interpretation 4	<i>Determining whether an arrangement contains a Lease [revised]</i>	Determining whether an Arrangement contains a lease. The Interpretation's scope has been amended to exclude service concession arrangements because these are now covered by AASB Interpretation 12.	1-Jan-08	There will be no impact as the entity does not have a lease service concession arrangements.	1-Jan-08
AASB 101	<i>Presentation of Financial Statements</i>	Removes Australian specific disclosure requirements.	1-Jan-07	As these changes result in a reduction of Australian specific disclosures, there will be no impact on amounts recognised in the financial statements.	1-Jul-07

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bone Medical Limited (parent entity) as at 30 June 2007 and the results of all subsidiaries for the year then ended. A controlled entity is any entity Bone Medical Limited has the power to control the financial & operating policies of, so as to obtain benefits from its activities. A list of controlled entities is contained in Note 11 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances & transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

(a) Principles of Consolidation (continued)

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity & results of the entities that are controlled are shown as a separate item in the consolidated financial report.

Reverse Acquisition

In accordance with AASB 3 *Business Combinations*, when Bone Medical Limited (the legal parent) acquired Bone Limited (the legal subsidiary), the acquisition was deemed to be a reverse acquisition since the substance of the transaction is that the existing shareholders of Bone Limited have, effectively acquired Bone Medical Limited. Under reverse acquisition accounting, the consolidated financial statements are prepared as if Bone Limited had acquired Bone Medical Limited and its controlled entities, not vice versa as represented by the legal position.

- In reverse acquisition accounting, the cost of the business is deemed to have been incurred by the legal subsidiary (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (the acquiree for accounting purposes). However due to the fact that the fair value of the equity instruments of the legal subsidiary (Bone Limited) was not clearly evident at the date of the control was passed, the alternative method was elected (per AASB 3, B6), where the cost of the business combination was determined as the total fair value of all the issued equity instruments of the legal parent (Bone Medical Limited) immediately before the business combination
- In the legal parent (Bone Medical Limited) separate financial statements, the investment in legal subsidiary (Bone Limited) was accounted for at cost.

As a consequence:

- an exercise is performed to fair value the assets and liabilities of the legal acquirer, Bone Medical Limited;
- the cost of investment held by the legal parent (Bone Medical Limited) in the legal subsidiary (Bone Limited) is reversed on consolidation and the cost of reverse acquisition is eliminated on consolidation against the consolidated equity and reserves of Bone Medical Limited and its consolidated entities at the date when control is passed. The effect of this is to restate the consolidated equity and reserves balances to reflect those of Bone Limited at the date of acquisition;
- the amount recognised as issued equity instruments are determined by adding to the issued equity of the legal subsidiary immediately before the business combination, the cost of the combination.
- the consolidated financial statements are issued under the name of the legal parent (Bone Medical Limited) but are a continuation of the financial statements of the deemed acquirer (Bone Limited) under the reverse acquisition rules. Hence the comparative figures on the consolidated financial statements is that of Bone Limited and its subsidiaries for the year ended 30 June 2006.

See note 1(t) for details on the business combination.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

To date the company has not elected to consolidate the Group under the Tax Consolidation Regime, however, the Company may elect to do so in the future.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant & equipment

Plant & equipment are measured on the cost basis.

The carrying amount of plant & equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<u>Class of fixed assets</u>	<u>Depreciation Rate</u>
Plant & Equipment	10 - 33%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

(c) Property, Plant and Equipment (continued)

The assets residual values & useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An assets carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains & losses on disposals are determined by comparing proceeds with the carrying amount. These gains & losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(d) Impairment

At each reporting date, the group reviews the carrying values of its tangible & intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the assets fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(e) Intangibles

Goodwill

Goodwill & goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Patent development expenses written off

Patent development and exploitation costs are currently expensed as incurred. It is considered that there is considerable value in the patents but as there is no accurately determined direct relationship with currently forecast future cash flows, it has been resolved that these costs should written off as incurred.

Research and development costs

Research costs are recognised as an expense as they are incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Where development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits. Unamortised costs are reviewed at each reporting date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

(f) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

(g) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

The group issues share-based compensation by way of options. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(h) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(i) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

(j) Revenue

Interest revenue is recognised as it accrues using the effective interest method.

All revenue is stated net of the amount of goods and services tax (GST).

(k) Goods and Services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(l) Trade and Other Payables

Liabilities and trade creditors of the entity are carried at cost, which is the fair value of the consideration to be paid in the future for the goods and services received. For the current period, payables to related parties are carried at the principal amount. Interest when charged by the lender, is recognised as an expense on an accrual basis.

(m) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

(n) Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(o) Issued Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(p) Earnings Per Share

Basic earnings per share is determined by dividing the operating profit after tax and after preference dividends by the weighted average number of ordinary shares outstanding during the financial year.

The diluted loss per share has not been disclosed as the effect of any conversion of shares is not deemed to be dilutive.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

(q) Going Concern

The accounts have been prepared on a going concern basis. Future capital raisings will be required in order to continue the research and development of the company's products and technology to achieve a position where they can commercialise or market the products and technology.

In common with biotechnology companies, the company's operations are subject to risk & uncertainty due primarily to the nature of research, development and commercialisation to be undertaken.

The ability of the company to continue as a going concern is dependent upon the company raising significant further capital sufficient to meet the company's expenditure commitments or successful sale or exploitation of its assets.

The company is required to raise significant additional funding in order to continue to research and develop the company's products and technology to achieve a position where they can commercialise or market the products and technology.

The Directors and senior management have prepared a cash flow forecast for the foreseeable future reflecting the above mentioned expectations and their effect upon Bone Medical Limited or controlled entities. The achievement of the forecast is dependant upon the future capital raising outcomes which is uncertain.

In the event that sufficient capital raising at an amount and timing necessary to meet the future budgeted operational and investing activities of the company is unfavourable the Directors believe that they will be able to contain the operating and investment activities sufficiently to ensure that Bone Medical Limited or controlled entities can meet its debts as and when they become due and payable.

In the unlikely event that the events referred to above result in a negative outcome, then the going concern basis of accounting may not be appropriate with the result that the Group may have to realise its assets and extinguish its liabilities other than in the normal course of business and in amounts different from that stated in the financial report.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or classification of liabilities that might be necessary should Bone Medical Limited or controlled entities not be able to continue as a going concern.

(r) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

(r) Financial Instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments are non-derivative and have fixed maturities, and it is the group's intention to hold these investments to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(s) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

(i) Reverse Acquisition

The directors have deemed that the acquisition of Bone Limited by Bone Medical Limited is a reverse acquisition. The basis of this is as follows:

Bone Limited was considered significantly more valuable than Bone Medical Limited (formerly Revenir Limited) prior to the transaction. Former shareholders of Bone Limited control a significant proportion of Bone Medical Limited's shares.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Statement of Significant Accounting Policies (Continued)

(s) Critical Accounting Estimates and Judgments (continued)

Following disposal of property interests, Bone Medical Limited (formerly Revenir Limited) was largely a "shell" listed company.

(ii) Deferred tax assets

The Group expects to have carried forward tax losses which have not been recognised as deferred tax assets as it is not considered sufficiently probable that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Goodwill is tested for impairment annually, see details under note 13. No impairment has been recognised in respect of goodwill for the year ended 30 June 2007.

(t) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of identifiable net assets acquired is recorded as goodwill. (refer to note 1(e)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 2

Revenue from continuing operations

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Operating Activities				
Interest received - other parties	50,752	60,316	50,752	60,316
Government grants	-	33,039	-	33,039
Total Revenue	50,752	93,355	50,752	93,355

Note 3

Expenses

Loss before Income Tax includes the following specific expenses:

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Research & Development	2,511,615	1,871,413	2,511,615	1,871,413
Corporate & Administration	443,241	221,356	443,241	221,355
External Consultants	111,918	168,445	111,918	168,445
Legal Fees	12,522	85,404	12,522	85,404
Travel costs	82,488	95,970	82,488	95,970
Public relations costs	8,800	26,751	8,800	26,751
Depreciation	7,238	4,934	6,423	3,935
Professional Consultants	215,939	212,074	215,939	207,385
Directors & Management	323,112	480,720	323,112	480,720

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 4

Income Tax Expense

(a) Income Tax Expense	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current tax expense	(249,158)	(291,236)	(249,158)	(291,236)
Income tax expense	(249,158)	(291,236)	(249,158)	(291,236)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(loss) before tax	(3,666,121)	(3,073,712)	(3,665,306)	(3,068,023)
Prima facie tax @ 30%	(1,099,836)	(922,114)	(1,099,592)	(920,407)
<i>Increase in tax expense due to:</i>				
Non deductible R&D expenditure	250,151	200,012	250,151	200,012
Expenditure not deductible for tax purposes	8,375	4,053	8,375	4,053
Other		54,523	(245)	54,523
Deferred tax benefits not recognised	841,310	415,439	841,311	413,732
<i>Decrease in tax expense due to:</i>				
Tax benefit associated with R&D rebate	(249,158)	(291,236)	(249,158)	(291,236)
Under/(over) provision for prior years tax		248,037		248,087
Income tax expense/(benefit)	(249,158)	(291,286)	(249,158)	(291,236)
(c) Unrecognised deductible temporary differences				
Tax losses	6,209,498	4,216,242	6,209,498	4,216,242
Investment in subsidiaries	23,376,931	23,376,931	27,542,476	27,542,476
Other deductible differences	1,290,653	479,540	1,290,653	479,540
	30,877,082	28,072,713	35,042,627	32,238,258

No deferred tax asset is recognised in the balance sheet as it is not probable that the company will derive tax profits in the future to allow utilisation of the income tax benefits represented by the deferred tax asset.

If tax profits are derived in future years, the tax losses and other tax benefits will be able to offset against this income subject to the Company continuing to meet the relevant statutory tests.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 5

Key Management Personnel Disclosures

a. Directors

The following persons were directors of Bone Medical Limited during the financial year:

Mr. Paul Hopper	Executive Chairman (appointed 2 June 2005 and resigned 16 July 2007)
Dr. Roger New	Non-executive Director (appointed 2 June 2005)
Mr. Leon Ivory	Non-executive Director (appointed 16 November 2005)
Mr. Barry Walker, M.D.	Non-executive Director (appointed 16 November, 2005)
Mr. Troels Jordansen	Non-executive Director (appointed 16 November 2006)
Mr. Gabriel Chiappini	Non-executive Director (appointed 18 December 2006)

b. Other key management personnel

Bone Medical Limited dot not employ other key management personnel during the financial year.

c. Key Management Personnel Compensation

	Consolidated		Parent Entity	
	2007	2006	2007	2006
Short-term employee benefits	304,784	519,682	304,784	519,682
Post-employment benefits	2,064	6,998	2,064	6,998
Long-term benefits	-	-	-	-
Share-based payments	16,400	8,200	16,400	8,200
	323,248	534,880	323,248	534,880

The company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the directors report. The relevant information can be found in sections A-D of the remuneration report on pages 17 to 20.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 5 (continued)

Key Management Personnel Disclosures (continued)

d. Equity instrument disclosures relating to key management personnel

(i) *Options provided as remuneration and shares issued on exercise of such options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options can be found in section D of the remuneration report on pages 19 to 20.

(ii) *Option Holdings*

The number of options over ordinary shares in the company held during the financial year by each director of Bone Medical Limited and other key management personnel of the group, including their personally related parties, are set out below.

2007

Key Management Personnel	Balance 1.7.2006	Granted as Compensation	Options Exercised	Net Change Other
Mr. Paul Hopper	200,000	-	-	-
Mr. Leon Ivory	468,000	-	*(18,000)	-
Mr. Gabriel Chiappini	4,000	-	*(4,000)	-
Total	672,000	-	(22,000)	-

Key Management Personnel	Balance 30.6.2007	Total Vested 30.6.2007	Total Exercisable 30.6.2007	Total Unvested 30.6.2007
Mr. Paul Hopper	200,000	200,000	200,000	-
Mr. Leon Ivory	450,000	-	450,000	-
Mr. Gabriel Chiappini	-	-	-	-
Total	650,000	200,000	650,000	-

* These options were issued as an attaching option for the purchase of ordinary shares offered by prospectus on the 26 October 2005

2006

Key Management Personnel	Balance 1.7.2005	Granted as Compensation	Options Exercised	Net Change Other*
Mr. Michael Redman	-	2,000,000	-	** (2,000,000)
Mr. John Fitzgerald	300,000	-	-	** (300,000)
Mr. Paul Hopper	-	200,000	-	-
Mr. Leon Ivory	450,000	-	-	*18,000
Mr. Gabriel Chiappini	-	-	-	*4,000
Total	750,000	2,200,000	-	(2,278,000)

Key Management Personnel	Balance 30.6.2006	Total Vested 30.6.2006	Total Exercisable 30.6.2006	Total Unvested 30.6.2006
Mr. Paul Hopper	200,000	66,666	66,666	133,334
Mr. Leon Ivory	468,000	-	-	468,000
Mr. Gabriel Chiappini	4,000	4,000	4,000	-
Total	672,000	70,666	70,666	601,334

* These options were issued as an attaching option for the purchase of ordinary shares offered by prospectus on the 26 October 2005

** The Net Change Other reflected above includes those options that have been forfeited by the holders. Mr Redman resigned on 7 November 2005 and Mr Fitzgerald resigned on 31 October 2005

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 5 (continued)

Key Management Personnel Compensation (continued)

(iii) *Share Holdings*

The numbers of shares in the company held during the financial year by each director of Bone Medical Limited and other key management personnel of the Group, including their personally related parties are set out below. There were no shares granted during the reporting period as compensation.

2007

Key Management Personnel	Balance 1.7.2006	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2007
Leon Ivory	512,685	-	*18,000	-	530,685
Gabriel Chiappini	4,000	-	*4,000	-	8,000
Total	516,685	-	22,000	-	538,685

Net Change Other refers to shares purchased or sold during the financial year.

* These options were issued as an attaching option for the purchase of ordinary shares offered by prospectus on the 26 October 2005

2006

Key Management Personnel	Balance 1.7.2005	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2006
Richard Basham**	48,333	-	-	-	48,333
Chris Bilkey **	80,000	-	-	-	80,000
Leon Ivory	494,685	-	-	*18,000	512,685
Gabriel Chiappini	-	-	-	*4,000	4,000
Total	623,018	-	-	22,000	645,018

* Net Change Other refers to shares purchased or sold during the financial year.

** Richard Basham resigned 11 April 2006 and Chris Bilkey resigned 16 November 2005

e. **Loans to key management personnel**

No loans have been made to directors or key management personnel including their personally related parties of, Bone Medical Limited.

f. **Other transactions with key management personnel**

Refer to Note 22 for details of other transactions with key management personnel of Bone Medical Limited and the group.

Note 6

Auditors Remuneration

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
Auditing or reviewing the financial report	41,068	53,046	41,068	53,046
Remuneration for other services by the parent entity auditors	650	10,004	650	10,004
Remuneration of other auditors of subsidiaries for:				
Auditing or reviewing the financial report of subsidiaries	-	9,412	-	9,412
	<u>41,718</u>	<u>72,462</u>	<u>41,718</u>	<u>72,462</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 7

Earnings per Share

Basic Earnings Per Share	Economic Entity	
	2007	2006
	\$	\$
a) Reconciliation of earnings to profit or loss		
Loss	(3,416,963)	(2,782,476)
Loss attributable to minority equity interest	-	-
Earnings used to calculate basic EPS	<u>(3,416,963)</u>	<u>(2,782,476)</u>

	Economic Entity	
	2007	2006
	No.	No.
b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	70,092,636	62,346,516

c) Diluted Earnings per Share

The company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion to these options would result in the decrease in the net loss per share.

Note 8

Cash and Cash Equivalents

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash at bank and in hand	56,258	220,559	56,258	220,559
Deposits at call	172,382	-	172,382	-
Investment Bill	1,250,000	-	1,250,000	-
Cash at end of year	<u>1,478,640</u>	<u>220,559</u>	<u>1,478,640</u>	<u>220,559</u>

The effective interest rate on at call deposits was: 5.90% (2006: 3.42%)

Reconciliation of Cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and Cash Equivalents	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash and Cash Equivalents	<u>1,478,640</u>	<u>220,559</u>	<u>1,478,640</u>	<u>220,559</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 9

Trade and Other Receivables

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Other Receivables	43,640	304,706	43,640	304,706
	<u>43,640</u>	<u>304,706</u>	<u>43,640</u>	<u>304,706</u>

Note 10

Other Financial Assets – Non Current

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Unlisted Investments at cost				
Shares in controlled entities – Owein Pty Ltd	-	-	1,426,850	1,426,850
Shares in controlled entities – Bone Ltd	-	-	28,948,708	28,948,708
Less : provision for write down to recoverable amount	-	-	(26,873,489)	(26,873,489)
	<u>-</u>	<u>-</u>	<u>3,502,069</u>	<u>3,502,069</u>

The recoverability of the amount of investments is based upon Bone Medical Limited and controlled entities being able to continue as a going concern by way of raising further capital in order to meet expenditure commitments to be able to successfully exploit the company's products and technology in excess of the carrying value of the investment.

Note 11

Controlled Entities

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned	
		2007	2006
Parent Entity:			
Bone Medical Limited (Legal Parent)	Australia	-	-
Subsidiaries of Bone Medical Limited:			
Bone Limited	Jersey, Channel Islands	100%	100%
Owein Pty Ltd	Australia	100%	100%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 12

Property, Plant & Equipment

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Plant & equipment	35,634	33,026	32,499	29,891
Accumulated depreciation	(14,284)	(7,047)	(11,275)	(4,853)
Total plant & equipment	<u>21,350</u>	<u>25,979</u>	<u>21,224</u>	<u>25,038</u>

Movements in Carrying Amounts

Movement in carrying amounts for plant & equipment between the beginning and the end of the financial year

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance at beginning of year	<u>25,979</u>	<u>12,020</u>	<u>25,038</u>	<u>10,079</u>
Additions	2,609	18,893	2,609	18,894
Disposals	-	-	-	-
Depreciation Expense	(7,238)	(4,934)	(6,423)	(3,935)
Carrying amount at the end of year	<u>21,350</u>	<u>25,979</u>	<u>21,224</u>	<u>25,038</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 13

Intangible Assets

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cost of Goodwill	1,956,599	1,956,599	-	-
Accumulated impaired losses	-	-	-	-
Net carrying Value	<u>1,956,599</u>	<u>1,956,599</u>	-	-

Economic Entity

Goodwill

Balance at the beginning of the year	1,956,599	1,956,599	-	-
Acquisitions through business combinations	-	-	-	-
Total Goodwill	<u>1,956,599</u>	<u>1,956,599</u>	-	-

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

The recoverability of the amount of goodwill is based upon Bone Medical Limited and controlled entities being able to continue as a going concern, by way of raising further capital in order to meet expenditure commitments to be able to successfully exploit the company's products & technologies in excess of the carrying value of the goodwill.

(a) Impairment tests for goodwill

The goodwill acquired through a business combination of \$1.957m relates to novel technology for the oral delivery of peptides for the treatment of Osteoporosis & Osteoarthritis.

The recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

(b) Key assumptions used for value-in-use calculations

The cash flow projections rely upon the successful commercialisation of Bone Medicals' two lead projects, Oral Sct & Oral Pth, which are now entering a phase of development whereby commercialisation is possible by way of licencing deals, consisting of both milestone payments and royalties payments typical of the Biotech Industry, with large pharmaceutical company's. The discount rate used being 30.48% reflects the high level of risk associated with biotechnology research and development staged companies.

(c) Impact of possible changes in key assumptions

The calculated recoverable amount of goodwill based on the cash flow projections is significantly greater than the carrying value of goodwill. If the discount factor applied is raised to 50%, the calculated recoverable amount remains considerably greater than the carrying value of goodwill.

(d) Impairment Charge

In the opinion of the board there have been no events that have occurred during or since the reporting period that is likely to have a negative effect on the carrying value of goodwill. Therefore no impairment to goodwill has been charged.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 14

Trade and Other Liabilities

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Trade payables	275,198	93,991	275,198	93,991
Sundry payables & accrued expenses	60,048	70,250	60,048	70,250
Other related parties	254,130	90,295	254,130	90,295
Key management personnel related entities	14,098	29,358	14,098	29,358
	<u>603,474</u>	<u>283,894</u>	<u>603,474</u>	<u>283,894</u>

Note 15

Trade and Other Liabilities

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NON-CURRENT				
Wholly owned subsidiary	-	-	1,858,365	1,858,365
	<u>-</u>	<u>-</u>	<u>1,858,365</u>	<u>1,858,365</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

**Note 16
Issued Capital**

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
76,331,024 (2006: 64,290,332) Fully Paid Ordinary shares	12,232,626	8,274,883	74,300,240	70,342,497
9,999,204 (2006: 9,999,204) Class C Preference Shares	-	-	-	-
	<u>12,232,626</u>	<u>8,274,883</u>	<u>74,300,240</u>	<u>70,342,497</u>
	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	No.	No.	No.	No.
Ordinary Shares				
At the beginning of reporting period	64,290,332	58,226,291	64,290,332	58,226,291
a Shares Issued 26th October, 2005	-	6,064,041	-	6,064,041
b Shares Issued 6th October, 2006	6,604,101	-	6,604,101	-
c Shares Issued 28th April, 2007	5,436,591	-	5,436,591	-
At reporting date	<u>76,331,024</u>	<u>64,290,332</u>	<u>76,331,024</u>	<u>64,290,332</u>
Preference Shares				
CLASS C				
At the beginning of reporting period	9,999,204	9,999,204	9,999,204	9,999,204
At reporting date	<u>9,999,204</u>	<u>9,999,204</u>	<u>9,999,204</u>	<u>9,999,204</u>
Options				
At the beginning of reporting period	7,130,707	1,000,000	7,130,707	1,000,000
a Options issued under prospectus	-	6,064,041	-	6,064,041
d Employee Options issued	-	66,666	-	66,666
e Employee Options issued	133,334	-	133,334	-
f Options issued as consideration for services rendered	500,000	-	500,000	-
c Options exercised	(5,436,591)	-	(5,436,591)	-
a Options expired	(627,450)	-	(627,450)	-
g Options Issued	5,412,591	-	5,412,591	-
At reporting date	<u>7,112,591</u>	<u>7,130,707</u>	<u>7,112,591</u>	<u>7,130,707</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 16 (continued)

Issued Capital

Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when poll is called, otherwise each shareholder has one vote on a show of hands.

Class C Preference Share

Each Class C Preference Share will convert into 1 ordinary share upon receiving for any project produced as a result of Bone Medical's conduct of any one of the following:

- approval to market from a Member State of the European Union; or
- approval to market from the US Food Drug Authority Administration,

within 7 years of the date of issue of the Class C Preference Share.

The preference shares carry the right to receive a non-cumulative preference dividend at the rate of 4% per annum of the issue price in priority to the issued ordinary shares.

- (a) On 26 October 2005 under a prospectus, 6,064,041 ordinary shares were issued & allotted at \$ 0.26 per share and \$1,576,651 was raised. Each share had one attaching option exercisable at \$0.40 expiring on the 26 April 2007.
- (b) On the 6 October 2006 by way of private placement, 6,604,101 ordinary shares were issued and allotted at \$ 0.27 per share and \$1,783,107 was raised.
- (c) On the 28 April 2007 by way of exercise of options issued under prospectus, 5,436,591 ordinary shares were issued and allotted at \$ 0.40 per share and \$2,174,636 was raised.
- (d) 66,666 Employee options vested from the 27 January 2006 to the 27 June 2006, refer Note 5 for more details.
- (e) 133,334 Employee options vested from the 27 June 2006 to the 27 June 2007, refer Note 5 for more details.
- (f) On the 1 February 2007, 500,000 options were issued to non-related parties as consideration for services rendered. These options are exercisable at \$0.27 and expire on the 1 February 2010.
- (g) On 27 June 2007, 5,412,591 replacement options were issued to non-related parties at \$0.01 each. These options are exercisable at \$0.60 and expire on the 27 June 2009.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

**Note 17
Reserves**

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
a Option reserve	54,126	-	54,126	-
b Share based payments	386,900	309,000	86,100	8,200
	<u>441,026</u>	<u>309,000</u>	<u>140,226</u>	<u>8,200</u>

(a) **Option Reserve**

The option reserve includes the following:

- Options issued in exchange for cash

(b) **Share based payments**

The share based payments includes the following:

- Items recognised as expenses on valuation of employee share options.
- Options issued in exchange for cash or services

**Note 18
Contingent Liabilities**

Licence agreement obligations:-

Under the licence agreement between Bone Limited and Axxess Limited the following terms apply:
£1,030,000 is payable to Axxess Limited as a lump sum payment upon any of the following events occurring :-

- The completion of a \$15 million fundraising,
- Any licence transaction involving upfront or milestone payments of equal to or more than \$10 million.
- The commencement of a pivotal Phase III study (or the study prior to lodgement for regulatory approval from the FDA or EMEA) for any project in Bone Medical Limited, subject to the company having at least \$5 million in the bank.

If by the 4th January 2006 the licence payment has not been paid in full, a monthly interest charge is payable on the unpaid balance at a rate equal to the 30 day London Interbank Offering Rate (LIBOR) on the 4th day of each month plus 2%.

As at the date of this report, no claim for this interest has been received by the company as extended credit terms have been granted by Axxess Limited subject to available cash on hand.

**Note 19
Segment Information**

In 2007 and 2006, the Company has predominantly undertaken all its business activities in the biopharmaceutical segment in Australia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 20

Cash Flow Information

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Profit after income tax	(3,416,963)	(2,782,476)	(3,416,148)	(2,776,787)
Non-cash flows in profit				
Depreciation	7,238	4,934	6,423	3,935
Employee Options	16,400	(22,130)	16,400	(22,130)
Other Options	61,500	-	61,500	-
R&D Tax Rebate	-	(291,236)	-	(291,236)
(Increase)/decrease in trade & term receivables	261,066	14,470	261,066	14,470
Movement in receivables not attributable to operating activities	-	(84)	-	(5,798)
Increase/(decrease) in trade payables & accruals	319,579	60,650	319,579	62,714
Movement in Creditors not attributable to operating activities	-	1,040	-	-
Cashflow from operations	<u>(2,751,180)</u>	<u>(3,014,832)</u>	<u>(2,751,180)</u>	<u>(3,014,832)</u>

Annual Report for year ending 30 June 2007

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 21

Share-based Payments

The following share-based payment arrangements existed at 30 June 2007:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Granted during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at the end of the year
			Number	Number	Number	Number	Number
2007							
Consolidated & Parent Entity							
30-08-04	01-07-08	\$ 0.50	1,000,000	-	-	1,000,000	1,000,000
27-12-05	27-12-08	\$ 0.47	200,000	-	-	200,000	200,000
01-02-07	01-02-10	\$ 0.27	-	500,000	-	500,000	500,000
			<u>1,200,000</u>	<u>500,000</u>	<u>-</u>	<u>1,700,000</u>	<u>1,700,000</u>
Weighted average exercise price		\$ 0.50	\$ 0.27			\$ 0.43	\$ 0.43

2006

Consolidated & Parent Entity

30-08-04	01-07-08	\$ 0.50	1,000,000	-	-	1,000,000	-
01-12-04	01-12-09	\$ 0.60	300,000	-	(300,000)	-	-
28-12-05	28-02-09	\$ 0.40	-	2,000,000	(2,000,000)	-	-
27-12-05	27-12-08	\$ 0.47	-	200,000	-	200,000	66,667
			<u>1,300,000</u>	<u>2,200,000</u>	<u>(2,300,000)</u>	<u>1,200,000</u>	<u>66,667</u>
Weighted average exercise price		\$ 0.52	\$ 0.41	\$ 0.43	\$ 0.50	\$ 0.47	

No options expired during the period covered by the above tables.

No options were exercised during the period covered by the above tables.

All options granted are ordinary shares in Bone Medical Limited, which confer a right of one ordinary share for every option held.

The options outstanding at 30 June 2007 had a weighted average exercise price of \$0.43 (2006 - \$0.50) and a weighted average remaining contractual life of 1.70 years (2006 - 2.25 years).

Exercise prices range from \$0.27 to \$0.50 in respect to options outstanding at 30 June 2007.

Fair Value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was \$0.123 (2006: \$0.123) The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 21 (continued)
Share-based Payments

The model inputs for options granted during the year ended 30 June 2007 included:

- (a) options are granted for no consideration with no vesting period and are exercisable from grant date. (2006: granted options are granted for no consideration and 11,111 options vest each month over 18 months for each month of continuous service.)
- (b) exercise price: \$0.27 (2006: \$0.47)
- (c) grant date: 1 February 2007 (2006: 27 December 2005)
- (d) expiry date: 1 February 2010 (2006: 27 December 2008)
- (e) share price at grant date: \$0.20 (2006: \$0.23)
- (f) expected price volatility of the company's shares: 105% (2006: 105%)
- (g) expected dividend yield: nil % (2006: nil %)
- (h) risk-free interest rate: 6.39% (2006: 6.01%)

Included under employee benefits expense in the income statement in 2007 is \$16,400 (2006: (\$22,130)) which relates, in full, to equity-settled share-based payment transactions.

Included in external consultants expense in the income statement in 2007 is \$61,500 (2006: nil) and relates, in full, to equity-settled share-based payment transactions.

Note 22
Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties recognised as expense:

		Economic Entity		Parent Entity	
		2007	2006	2007	2006
Key Management Personnel		\$	\$	\$	\$
Laboratory research & management services	a	1,073,873	1,039,584	-	1,039,584
Corporate, financial & administration services	b	-	60,000	-	60,000
Corporate management services	c	177,113	54,000	177,113	54,000
		<u>1,250,986</u>	<u>1,153,584</u>	<u>177,113</u>	<u>1,153,584</u>

(a) Proxima Laboratory & Research Services Limited: (Roger New – Non-executive Director)
The contract with Proxima Laboratory & Research Services Limited of which Roger New is a director, is for the supply of research, laboratory & management services. Roger New is a director of both Bone Limited & Bone Medical Limited.

(b) Bluewater Capital Limited: (Leon Ivory – Non-executive Director)
These are payments to Bluewater Capital Limited of which Leon Ivory is a director & are for financial, administration and corporate services. Leon Ivory is a Director of Bone Medical Limited & Bone Limited. These payments ceased in October 2005.

(c) Ivory and Company Pty Ltd: (Leon Ivory – Non-executive Director)
2007: \$84,000 (2006: \$54,000) - These payments to Ivory and Company Pty Ltd of which Leon Ivory is a director are for corporate & administration services. Leon Ivory is a Non-executive Director of both Bone Medical Limited and Bone Limited.

Laurus Corporate Services Pty Ltd: (Gabriel Chiappini – Non-executive Director)
2007: \$34,643 (2006: nil) - These payments to Laurus Corporate Services of which Gabriel Chiappini is a director are for corporate & company secretarial services. Gabriel Chiappini is a Non-executive Director of Bone Medical Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 22 (continued)

Related Party Transactions

Mededis Ltd: (Troels Jordansen – Non-executive Director)
2007: \$58,470 (2006: nil)- These payments to Mededis Limited of which Troels Jordansen is a director are for corporate services. Troels Jordansen is a Non-executive Director of both Bone Medical Limited and Bone Limited.

Group

The group consists of Bone Medical Limited, its wholly-owned controlled entity's, Owein Pty Ltd and Bone Limited. Ownership interests in these controlled entities are set out in note 11.

There were no transactions between Bone Medical Limited and other entities in the group during the year ended 30 June 2007. Transactions between Bone Medical Limited and other entities in the group during the year ended 30 June 2006 consisted of:

- (a) loans repaid by Bone Medical Limited
- (b) loans advanced to Bone Medical Limited
- (c) transactions between Bone Medical Limited & its wholly owned Australian controlled entities under the accounting tax sharing agreement

Loans from Subsidiaries

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Beginning of the Year	-	-	1,858,365	1,770,939
Loans advanced	-	-	-	87,426
End of Year	-	-	1,858,365	1,858,365

These loans are repayable on demand and incur no interest charge.

Controlling entities

The ultimate parent entity in the group is Proxima Concepts Limited (incorporated in Jersey, Channel Islands) holding 57.03% of the issued ordinary share capital. The ultimate Australian parent entity in the group is Bone Medical Limited which at 30 June 2007 owned 100% of the issued ordinary shares of Owein Pty Ltd (incorporated in Australia) & 100% of the issued ordinary shares of Bone Limited (incorporated in Jersey, Channel Islands).

Note 23

Financial Instruments

a) Financial Risk Management

The groups financial instruments consist mainly of deposits with banks, short-term investments, accounts payable, loans to & from subsidiaries, bills & preference shares.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group does not speculate in the trading of derivative instruments.

i. Treasury Risk Management

A finance committee meeting of senior executives of the group meet on a regular basis to analyse currency & interest rate exposure & to evaluate treasury management strategies in the context of the most recent economic conditions & forecasts.

ii. Financial Risks

The main risks the Group is exposed to through its financial instruments are foreign currency risk, liquidity risk and credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 23 (continued)
Financial Instruments

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the purchases of goods & services in currencies other than the group's measurement currency.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows & ensuring that adequate utilised borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet & notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

b) Financial Instruments

i. Derivative Financial Instruments

The economic entity has no derivative financial instruments at 30 June 2007.

Forward exchange contracts

The economic entity has no forward exchange contracts at 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 23 (Continued)

Financial Instruments

ii. Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2007	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest rate maturing			Non- interest Bearing	Total
			Within Year	1 to 5 Years	Over 5 Years		
Financial Assets							
Cash & cash equivalents	5.90%	1,478,640	-	-	-	-	1,478,640
Receivables		-	-	-	-	43,640	43,640
Total Financial Assets		<u>1,478,640</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,640</u>	<u>1,522,280</u>
Financial Liabilities							
Payables		-	-	-	-	603,474	603,474
Total Financial Liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>603,474</u>	<u>603,474</u>

2006	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest rate maturing			Non- interest Bearing	Total
			Within Year	1 to 5 Years	Over 5 Years		
Financial Assets							
Cash & cash equivalents	3.42%	220,559	-	-	-	-	220,559
Receivables		-	-	-	-	304,706	304,706
Total Financial Assets		<u>220,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,706</u>	<u>525,265</u>
Financial Liabilities							
Payables		-	-	-	-	283,894	283,894
Total Financial Liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283,894</u>	<u>283,894</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 23 (Continued)

Financial Instruments

iii. Net Fair Values

The net fair values of:

- Other assets & liabilities approximate their carrying value.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
	Fair Value	Fair Value	Fair Value	Fair Value
Financial Assets				
Loans & Receivables	43,640	304,706	43,640	304,706
Other Financial Assets	-	-	3,502,069	3,502,069
Financial Liabilities				
Other Liabilities	603,474	283,894	603,474	283,894
Inter-company Loans	-	-	1,858,365	1,858,365

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 24

Economic Dependency

Bone Medical Limited has a sub-licence agreement with Bone Limited which in turn has licence agreements for the technologies of Mozaic, Vaxcine, and Axxess from the licensors Mozaic Discovery Limited, Axxess Limited and Vaxcine Limited.

On 23 December 2002, Bone Ltd (as Licensee) entered into three exclusive intellectual property licence agreements (Licence Agreements) with Axxess, Mozaic and Vaxcine (each the Licensor).

Each Licence Agreement enables Bone Ltd & in turn Bone Medical Limited to use the Intellectual Property of the respective Licensor in the field of musculoskeletal therapies (such as, osteoporosis, arthritis, cartilage replacement, collagen tolerance or bone disease) to develop a product for commercialisation. The use of the licence to develop and commercialise products is limited to the jurisdictions where the Patents subsist.

The Licence Agreements are principally the same. A summary of the key terms of these agreements are as follows:

Generic Terms

- (a) Each Licence Agreement operates from 30 November 2002 until the last of the Patents expires or until the Licence Agreement is terminated in accordance with its provisions.
- (b) Bone must pay a 3% royalty of revenue from sales of Products to the Licensor (Royalty).
- (c) Bone must bear all costs of patent applications and independent patent advice and protection.
- (d) The Licensor must not develop, manufacture, use or sell products which could not be developed, made or sold without infringing the relevant Patents.
- (e) The Licensor is entitled to a non-exclusive worldwide royalty free licence for any improvements made to the Intellectual Property by the Licensee for the term of the Licence Agreement.
- (f) Bone Limited is entitled to a non-exclusive licence for any improvements made to the Intellectual Property by the Licensor in the territory of the Licence.
- (g) The Licensor has a royalty free non-exclusive licence to use all know how disclosed to Bone Limited by the Licensor pursuant to the Licence Agreement.
- (h) Bone Limited must use its best endeavours to commercialise the Products. Bone Limited is not required to pursue commercial opportunities which it does not consider commercially viable. If Bone Limited does not pursue such opportunities then the Licensor has full right to pursue that commercial venture.
- (i) Bone Limited is entitled to grant sub-licences with the prior written consent of the Licensor (such consent not to be unreasonably withheld), provided that Bone Limited indemnifies the Licensor in respect of the performance of the Licence Agreement by any sub-licensee.
- (j) The Licensor has not provided a warranty that the Patents are valid. It has provided a warranty that use of the Intellectual Property pursuant to the Licence Agreement will not infringe third party rights provided that Bone Limited makes reasonable inquiries as to the existence of other third party rights.
- (k) Each Licensor has the right to terminate its Licence Agreement if any outstanding Royalty is not paid within 14 days of a written notice to Bone Limited requesting payment or if Bone Limited fails to remedy a breach of the Licence Agreement with 30 days of written notice requesting remedy of the breach.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 25

Company Details

The registered office of Bone Medical Limited is:

Bone Medical Limited
Unit 2,
1 Sarich Way
Bentley Western Australia 6102

The principal places of business are:

Bone Medical Limited
Unit 2,
1 Sarich Way
Bentley Western Australia 6102

Note 26

Commitments

As at the date of the preparation of this report, Bone Medical Limited & its controlled entities had no capital or leasing commitments.

Note 27

Events After the Balance Sheet Date

On the 16th July, 2007 the Executive Chairman Mr. Paul Hopper resigned. It is not possible to estimate the financial effect of this event.

Bone Medical completed a phase IIb clinical trial to confirm the efficacy & bioequivalence of its lead technology, Capsitonin© an oral delivery formulation of Salmon Calcitonin. The results of this trial are positive. It is not possible to estimate the financial effect of this event.

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 25 to 63 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 12 to 23 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001; and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 11 will be able to meet any obligations or liabilities to which they are, or may become subject.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.



Director
Mr. Troels Jordansen – Managing Director

Dated this 26th day of September 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BONE MEDICAL LIMITED

We have audited the accompanying financial report of Bone Medical Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the consolidated entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Bone Medical Limited on 26 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion on the Financial Report

In our opinion:

- (a) the financial report of Bone Medical Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1, there is significant uncertainty whether Bone Medical Limited and controlled entities will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report.

Inherent Uncertainty Regarding Recoverability of Goodwill and Investments

As indicated in Note 10 to the financial statements, Bone Medical Limited has an investment in Bone Limited as at 30 June 2007 with a carrying value of \$2,075,219. This amount is recoverable based upon Bone Medical Limited and controlled entities being able to continue as a going concern as outlined in the above paragraph. The amount is also dependent upon Bone Medical Limited and controlled entities being able to successfully exploit the company's products and technology at amounts in excess of the carrying value of the investment.

As indicated in Note 13 to the financial statements, there is goodwill on consolidation as at 30 June 2007 with a carrying value of \$1,956,599. This amount is recoverable based upon Bone Medical Limited and controlled entities being able to continue as a going concern as outlined in the above paragraph. The amount is also dependent upon the company being able to successfully exploit the company's products and technology at amounts in excess of the carrying value of the goodwill.

BDO Kendalls Audit & Assurance (WA) (formerly BDO)

Handwritten signature in blue ink, appearing to read 'BDO Kendalls' on the top line and 'BM' on the bottom line, with a large flourish extending from the 'M'.

BG McVeigh

Partner

Perth, Western Australia

Dated this 26th day of September 2007

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 22nd August 2007.

A. Distribution of Securities

(a) Analysis of numbers of shareholders by size and holding:

Category	(size of holding)	Ordinary Shares
1	- 1,000	582
1,001	- 5,000	217
5,001	- 10,000	149
10,001	- 100,000	83
100,001 and over		32
		1,063

(b) There were 624 holders of less than a marketable parcel of ordinary shares.

(c) The percentage of the total holding of the twenty largest security holders is:

Ordinary Shares: 91.89%

B. Voting Rights

Ordinary Shares:

On a show of hands, every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Class C 4% Non-cumulative Preference Shares:

Each Class C preference share will convert into 1 ordinary share upon receiving for any project produced as a result of Bone Medical's conduct of any one of the following:

- approval to market from a Member State of the European Union; or
- approval to market from the US Food Drug Authority Administration; or
- within 7 years of the date of issue of the Class C Preference Share.

Options:

Options carry no voting rights. Options convert to one ordinary share upon exercise.

C. Substantial Shareholders

Substantial shareholders who have notified the Company as at 22nd August 2007 are:

Name	%
Proxima Concepts Limited	57.03
Hall Phoenix Inwood Limited	16.69

Annual Report for year ending 30 June 2007

SHAREHOLDER INFORMATION

The names of the 20 largest security holders of each class of equity as at 22nd August 2007 are listed below:

TWENTY LARGEST ORDINARY SHAREHOLDERS

Name	Number Held	Percentage of Issued shares
PROXIMA CONCEPTS LTD	43,529,412.00	57.03%
HALL PHOENIX/INWOOD LTD	12,743,457.00	16.69%
PIRUNIW TRUSTEES JERSEY L	2,962,962.00	3.88%
CLINTON JOHN	2,291,585.00	3.00%
DUNCRAIG INV SVCS PL	1,652,554.00	2.16%
STOUP DAVID	1,077,184.00	1.41%
CHANG VICTOR MING-CHING	924,500.00	1.21%
LENTONA HLDGS PL	589,419.00	0.77%
IVORY GWENNY	530,685.00	0.70%
III CLARENCE V NALLEY	500,000.00	0.66%
OAK TRUST GUERNSEY LTD	449,558.00	0.59%
GOWER NOM PL	424,186.00	0.56%
BALCARLIE PL	384,614.00	0.50%
RIVERMAN HLDGS PL	345,333.00	0.45%
M GARDNER INVESTMENTS PL	335,000.00	0.44%
C P P PL	328,823.00	0.43%
FRAME JOHN RICHARD + J E	324,660.00	0.43%
BOMBARA HUGO JOSEPH	303,529.00	0.40%
KRIKLER PAUL ALAN	223,529.00	0.29%
SULLIVAN BARRY	219,740.00	0.29%
	70,140,730.00	91.89%

Unquoted equity securities

	Number on issue	Number of holders
Class C 4% non-cumulative preference shares	9,999,204	1358
Proxima Concepts Limited has a percentage holding of 76.02%		
Options issued to employee Paul Hopper	200,000	1
Options issued to non-related parties	6,912,591	18
Hall Phoenix Inwood Limited has a percentage holding of 62.79%		



