BONE MEDICAL LIMITED
AND ITS CONTROLLED ENTITIES

ABN 70 009 109 755

ANNUAL FINANCIAL REPORT

For the year ended

30 JUNE 2010

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AND ITS CONTROLLED ENTITIES
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BONE MEDICAL LIMITED
AND ITS CONTROLLED ENTITIES

CORPORATE DIRECTORY

Directors:	Dr. Roger New - Co-Founder and Non-Executive Director Mr. Barry Walker, M.D. – Non-Executive Director Mr. Leon Ivory - Non-Executive Director – Joint CEO Prof. Peter Brooks – Non-Executive Director Mr. Leif Jensen – Non-Executive Chairman – Joint CEO
Company Secretary:	Mr. Mark Clements
Registered Office:	Unit 1, 5 Turner Avenue Technology Park Bentley, Western Australia 6102 Telephone: (+61 8) 9355 5123 Facsimile : (+61 8) 9355 5210
Postal Address:	PO Box 1110 Bentley DC, Western Australia 6983
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 Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008
Solicitors:	Price Sierakowski Level 24, St Martin's Tower 44 St Georges Terrace Perth WA 6000
Website:	www.bonemedical.com
ASX Code:	BNE
ADR Ticker Symbol:	BMEDY
Stock Exchange:	The Company is listed on the Australian Securities 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 2010

Bone Medical given the continued state of the global economy has experienced a challenging year and still obtained positive outcomes.

Bone Medical´s core strategy is to reformulate already approved active pharmaceutical ingredients within the musculoskeletal segment into an oral form in order to make the drugs easier for patients to administer and as a result of the improved compliance, potentially increase the effectiveness of the drugs which has now been documented with 2 active pharmaceutical ingredients.

The major focus has been on Capsitonin™ and CaPTHymone™ (oral parathyroid hormone) for the treatment of osteroporosis. This focus has in 2010 to also include the development of Capsitonin™ (oral Calcitonin) for the treatment of Osteoarthritis. Furthermore, Bone Medical has very positive pre-clinical results with BN006 for the treatment of rheumatoid arthritis.

Developmental progress

Bone Medical is now managing 3 clinical projects and one pre-clinical project. Progress has been made on all projects:

Capsitonin™

Bone Medical obtained an important milestone earlier in the year in a Phase II clinical trial showing that Capsitonin™ can regulate the calcium and CTX-1 (osteoporosis bone marker) to the same degree, within a 10% margin, than an already marketed nasal spray. Based on these positive results, Bone Medical approached the FDA by submitting an IND letter in June 2009 for guidance in the further development. The FDA confirmed that Capsitonin™ is eligible for the fast-track approach called 505(b) (2) and that a non-inferiority study against the marketed nasal spray is sufficient to obtain approval. On this basis Bone Medical is now planning the further development of Capsitonin™ including a dose ranging study followed by the Phase III pivotal study.

Bone Medical is also planning a Phase II clinical trial with Capsitonin™ in osteoarthritis. Two recent literature reviews and data analysis from a pilot clinical trial by Novartis indicate that oral calcitonin may be effective in osteoarthritis, which by most industry experts is considered a much larger market opportunity compared with osteoporosis. Novartis/Emisphere has positively progressed the first of 2 phase 3 studies after interim analysis and has just reported a 1 year interim analysis on their phase III study for osteoarthritis, indicating that no safety concerns have arisen, and commitment to continue the study to its two-year endpoint. Based on the response from the FDA Bone Medical does not expect any safety concerns in the further development of Capsitonin™ against osteoarthritis.

CaPTHymone™

Bone Medical announced 2 positive outcomes for CaPTHymone™. One focused on CaPTHymone™ being able to increase calcium blood levels after 6 hours to the same degree as the golde standard, Forteo® from Eli Lilly. The other announcement focused on the positive clinical outcome that PTH had indeed been delivered into the blood stream and also in measures comparable to those of injectable PTH. Bone Medical is now planning a Phase IIb clinical study identifying the optimal dose and final formulation.

BN006

BN006 is Bone Medical's most advanced pre-clinical project. BN006 was originally developed as an inhibitor of secretion of tumour necrosis factor (TNF). TNF is one of the cytokines responsible for the progression of rheumatoid arthritis. In-vitro tests early in 2008 identified BN006 also as an inhibitor for interleukin-6 (IL-6). This is a significant finding as IL-6 is becoming recognised as an important target for new therapeutics in the treatment of rheumatoid arthritis. BN006 is a small peptide and could be made orally available where as other current IL-6 products under development and anti-TNF treatments are all injectable. Bone Medical has further optimized the efficacy of BN006 in 2009/2010. More pre-clinical work is planned for 2010/2011.

Intellectual Property Patents

Grants have been obtained for Bone Medical's key licensed Axcess™ patents (covering Capsitonin™) in major territories this year. In addition to grants of both Axcess™ II and Axcess™ III in India and Australia, Axcess™ II obtained a granted patent in US, and Axcess™ III was granted in China. Both Axcess II and III are currently under examination in Europe, Japan and Korea, as well as other territories. Examination of Axcess™ IV (for Capthymone™) has commenced in the international phase, and final responses to examiners' queries have been prepared for Australia and New Zealand. A request for examination of Axcess™ V (relating to further discoveries on protection of peptides from breakdown in the gut) has been submitted, following the results of an international search report being received.

Two new patents have been filed in the UK in the Vaxcine™ area, to cover new developments in technology which are being applied to Bone's collagen tolerance induction project. The Mozaic™ technology, employed in discovery of BN006 (potential treatment of RA) is now protected in both US and Europe, and the Lexcicon technology, used for further development of BN006, is currently under examination in Europe.

Bone Medical intends to undertake further work on the scaling-up of the Capsitonin™ GMP manufacturing process and to generate further data identifying the appropriate dose levels to be used in the study. Bone Medical will also be pressing ahead with the filing of an additional IND application for Capsitonin™ for the treatment of osteoarthritis. This is a substantial market where there is a great need for a safe product which alleviates bone pain.

Bone Medical now believes that the requirement by the FDA for only limited additional safety data is very encouraging not only for the osteoporosis indication but also for the osteoarthritis indication as well.

Corporate progress

Bone Medical has raised approximately AUD$1 million in the 2009-2010 financial year and continues to raise funds, announcing on the 2nd of August 2010 that AUD$177,000 has been subscribed to in a private placement.

Bone Medical decided to focus more on the US market with regard to the capital market and Business Development. Bone Medical plans to establish a US based office and to employ a US CEO as well as business development strategists.

Along with the success of clinical trial programmes and positive data, Bone Medical has been very busy forming relationships with the pharmaceutical industry. Bone Medical continues evaluating possible collaborative opportunities and are in discussion with a number of potential collaborators.

Outlook

Bone Medical has several initiatives with leading corporate financiers and remains confident of raising enough funds to progress the company. Below we have highlighted the key projects for Bone going forward:

- **Progress product in clinical testing**
    - Capsitonin™ in Phase III for osteoporosis
    - CaPTHymone™ in Phase II for osteoporosis
    - Capsitonin™ in Phase II for osteoarthritis

- **Progress projects in pre-clinical testing**
    - BN006 in pre-clinical and clinical Phase I
    - A renewed focus on pre-clinical development of the Osteoblast, BN005 and Osteoclast, BN008 projects

- Maintain close contact with shareholder base

- Grow shareholder value with an increased exposure to the US capital markets.

We would like to thank the shareholders and directors and officers of Bone Medical Ltd for their continued support during 2009/2010 and we look forward to updating you on progress over the coming months.

Yours sincerely,

____

Leon Ivory - Joint CEO

30th September, 2010

Bone Medical Limited ("The Company" or "Bone")

Corporate Governance Overview Statement

On 2 August 2007, the ASX Corporate Governance Council released the 'The Revised Corporate Governance Principles and Recommendations' (second edition Corporate Governance Guidelines) ('guidelines').

In fulfilling its obligations and responsibilities to its various stakeholders, the Board of Bone is a strong advocate of corporate governance. The Board has adopted corporate governance policies and practices consistent with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations 2nd edition" (Recommendations) where considered appropriate for Bone's size and nature.

This document describes the progress by Bone in addressing those guidelines. It is structured such that it includes the Council's guidelines, and the Council's 8 corporate governance principles.

Principle 1 – Lay solid foundations for management and oversight

"Companies should establish and disclose the respective roles and responsibilities of the Board and Management."

The main function of the Board is to set strategic objectives for the Company, supervising and guiding management through the implementation process. The aim is for the Board to provide the entrepreneurial leadership required for the Company to evolve within a framework of prudent and effective risk management.
Bone has adopted a formal Board charter delineating the roles, responsibilities, practices and expectations of the Board collectively, the individual directors and senior management.
The Board of Bone ensures that each member understands its roles and responsibilities and ensures regular meeting so as to retain full and effective control of the Company.

The Board specifically emphasises on the following:

- Setting the strategic aims of Bone and overseeing management's performance within that framework
- Making sure that the necessary resources (financial and human) are available to the Company and its senior executives to meet its objectives
- Overseeing management's performance and the progress and development of the Company's strategic plan
- Selecting and appointing a suitable Chief Executive officer/Managing Director with the appropriate skills to help the Company in the pursuit of its objectives
- Determining the remuneration policy for the Board members, Company Secretary and Senior Management
- Controlling and approving financial reporting, capital structures and material contracts
- Ensuring that a sound system risk management and internal controls is in place
- Setting the Company's values and standards
- Undertaking a formal and rigorous review of the Corporate Governance policies; to ensure adherence to the ASX Corporate Governance Council
- Ensuring that the Company's obligations to shareholders are understood and met
- Ensuring the health, safety and well-being of employees in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to assure the well-being of all employees
- Ensuring an adequate system is in place for the proper delegation of duties for the effective operative day to day running of the Company without the Board losing sight of the direction that the Company is taking.

Corporate Governance Overview Statement (continued)

Principle 2 - Structure the Board to add value

"Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties."

The Board has been structured in such a way so as to provide an adequate mix of proficient directors that lead the Board with enterprise, integrity and judgement. The Board acts in the best interest of the Company and its stakeholders. The Board is directed on the principles of transparency, accountability and responsibility.
The ASX Corporate Governance council guidelines recommend that ideally the Board should constitute of a majority of independent directors. The Board currently consists of five Directors; four of whom are independent.

The Board as at the date of this report are:

- Mr. Leif Jensen – Independent Non-executive Chairman / Joint Chief Executive Officer
- Mr. Barry Walker, M.D. – Independent Non-executive Director
- Mr. Leon Ivory – Independent Non-executive Director/ Joint Chief Executive Officer
- Dr. Roger New – Non-executive Director
- Prof. Peter Brooks – Independent Non-executive Director

Board is expecting to appoint a US based CEO. In the interim, Mr Leif Jensen, Chairman and Mr Leon Ivory, Non - executive Director are assuming the roles of joint CEO in Europe and Australia.

The Board feels the composition of the Board is appropriate at this stage. The Board endeavours to review this policy from time to time.

Principle 3 - Promote ethical and responsible decision-making

"Actively promote ethical and responsible decision-making"

Bone is aware that law and regulations alone is no guarantee of fair practice and thus to ensure the integrity of its operations, it has adopted a code of ethics and conduct to sustain its corporate culture.

Bone's ethical rules demands high standards of integrity, fairness, equity and honesty from all directors, senior management and employees. Bone expects its employees and contractors to understand that the company acts morally and that the main goal of the Company is to maximise shareholders value.

The Code of ethics and conduct include the following issues:

- The avoidance of conflicts of interest;
- Employees behaviour towards the use of company property
- confidentiality;
- fair dealing with customers, suppliers, employees and competitors;
- protection and proper use of the company's assets;
- compliance with laws and regulations;
- encouraging the reporting of illegal and unethical behaviour

Principle 4 - Safeguard integrity in financial reporting

"Have a structure to independently verify and safeguard the integrity of the company's financial reporting"

Bone has a financial reporting process which includes half year and full- year results which are signed off by the Board before they are released to the market.
The Audit Committee has been developed as per the guidelines of good corporate governance and its responsibilities are delineated in the Audit Committee Charter.
The audit committee provides assistance to the Board of directors in fulfilling its corporate governance and oversight responsibilities, as well as advice on the modification and maintenance of the company's financial reporting, internal control structure, external audit functions, and appropriate ethical standards for the 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 reports in writing on the propriety of compliance on internal controls and reporting systems and ensures that they are working efficiently and effectively in all material respects.

Corporate Governance Overview Statement (continued)

The committee also advises 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 during the year were:
• Mr. Leon Ivory – Non–executive Director
• Mr. Leif Jensen – Independent Non-executive Director/ Joint Chief Executive Officer
• Mr. Mark Clements – Company Secretary

The CFO is a regular attendee at Audit Committee meetings.

The intention is to appoint other members of the Audit Committee based on suitable qualifications and experience.

Principle 5 - Make timely and balanced disclosure

"Promote timely and balanced disclosure of all material matters concerning the company."

Bone has adopted a formal policy dealing with its disclosure responsibilities.

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The policy also addresses the company's obligations to prevent the creation of a false market in its securities. Bone ensures that all information necessary for investors to make an informed decision is available on its website.
The Managing Director has ultimate authority and responsibility for approving market disclosure which, in practice, is exercised in consultation with the Board, CFO and Company Secretary.

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX.
In addition, the Board will also consider whether there are any matters requiring continuous disclosure in respect of each and every item of business that it considers.

Corporate Governance Overview Statement (continued)

Principle 6 – Respect the rights of shareholders

"Respect the rights of shareholders and facilitate the effective exercise of those rights"

Bone is aware that regular and constructive two-way communications between the Company and its shareholders can help investors understand what the Board of directors is planning to achieve and how the company intends to set about achieving its objectives.

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights, the Company is committed to:

- communicating effectively in a timely and accurate way with shareholders through releases to the market via ASX, Annual Reports, the general meetings of the Company and any information mailed to shareholders;
- sending a notice of any general meetings to which they are entitled to attend together with an explanatory memorandum of proposed resolutions (as appropriate). If shareholders cannot attend the General Meeting, they are entitled to lodge a proxy in accordance with the Corporations Act and the Company's Constitution.
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The address made by the Chairman and/or the Managing Director to the AGM is released to the ASX.
All ASX announcements are accessible via the Company's website.

Principle 7 - Recognise and Manage Risk

"Companies should establish a sound system of risk oversight and management and internal control"

Bone's policy is to regularly review processes and procedures to ensure the effectiveness of its internal systems control, so as to keep the integrity and accuracy of its reporting and financial results at a high level at all times. Internal controls are devised and enforced to ensure, as far as practicable in the given circumstances, the orderly and efficient conduct of the business. They include measures to safeguard the assets of the Company, prevent and detect fraud and error, ensure the accuracy and completeness of accounting records and ensure the timely preparation of reliable financial information.

The Board's Charter clearly establishes that it is responsible for ensuring there is a sound system for overseeing and managing risk.

The Managing Director and CFO are required to state to the Board, in writing, that to the best of their knowledge the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects.

The Managing Director and Chief Financial Officer are also required to report monthly to the Board on the areas they are responsible for, including material business risks and provide an annual written report to the Board summarising the effectiveness of the companies' management of material business risks.

Bone has combined the Audit Committee and the Risk Management committee as responsible to oversee good corporate governance practice as per the Audit Committee and Risk Management Policy that it has adopted.

Corporate Governance Overview Statement (continued)

Principle 8 - Remunerate fairly and responsibly

"Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear."

The Company is committed to remunerating its executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders.

Consequently, the Board ensures that executive remuneration follows the guidelines of good governance and the criteria for remuneration are as follows:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option scheme with thresholds approved by shareholders;
- Statutory superannuation.

Bone has devised a framework for remuneration that aligns the interest of the Company's Shareholders with that of the Executives. The aim is to make the structure agreeable to both parties. The elements of consideration are as follows:

For the Shareholders:
- They should see that there is an economic profit in the remuneration structure;
- The structure is one that focuses on the continued growth of share price and sustained returns on assets;
- Attracts and retains high calibre executives.

For the executives:
- Their capability and experience should be rewarded;
- The arrangement for reward should be clear and understandable;
- Their active contribution should be rewarded;
- Reward is competitive and linked with growth in shareholder value.

Bone is committed in providing the right remuneration structure so that executives are not unaware of shareholder value. The structure provides a balance of both fixed and variable pay with long and short term incentive designed to retain and motivate executives in bringing more value to the Company.

The Board has set a Remuneration Committee and the members of this Committee during the year were:

- Mr. Leif Jensen – Independent Non-executive Chairman / Joint Chief Executive Officer
- Mr. Glen Travers – Co-founder
- Dr. Roger New – Non-executive Director

Other Committees:

To further ensure that the objectives of the Company are met and to further ensure good corporate governance practice; the Board has set up a Scientific Advisory and Regulatory Committee, a Board Appointment and Nomination Committee and a Finance Committee.

Scientific Advisory and Regulatory Committee

The Board of Directors has established a Scientific Advisory and Regulatory Committee to direct product development and clinical testing programs and to provide independent advice to the Board of Bone Medical Limited. The committee also provides assistance to the Board in fulfilling its corporate and oversight responsibilities which are followed by all company personnel and ensuring that appropriate training is conducted where necessary.
The members of this Committee at year end were:

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

Corporate Governance Overview Statement (continued)

Board Appointment and Nomination Committee

The role of the Board Appointment and Nomination Committee is to ensure that the Board is adequately composed. The Committee also advises on the structure of the Board and reviews the induction and development of the Board.

The members of this Committee at year end were:
• Mr. Leif Jensen – Independent Non-executive Chairman / Joint Chief Executive Officer
• Dr. Roger New – Co founder and Chief Scientist, Non-executive Director

Finance Committee

The Finance Committee's role is to oversee the financial affairs of the Company and review and make recommendations to the Board about the financial affairs and policies of the Company.

The members of this Committee at year end were:
• Mr. Leif Jensen – Independent Non-executive Chairman
• Mr. Leon Ivory – Non–executive Director
• Mr. Glen Travers – Co founder

Corporate Governance Overview Statement (continued)

Corporate Governance Table

Principal No	Recommendation	Compliance	Reason for Non-compliance
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	The Board has adopted a formal charter setting out the responsibilities of the Board. This charter can be accessed at: www.bone-ltd.com	Not applicable
1.2	Disclose the process for evaluating the performance of senior executives.	The Board meets annually to review the performance of executives. The senior executives' performance is assessed against the performance of the company as a whole.	Not applicable
1.3	Provide the information indicated in the Guide to reporting on Principal 1.	A performance evaluation has been completed during the reporting period in accordance with the process detailed in 1.2 above.	Not applicable
2.1	A majority of the Board should be independent of Directors.	A definition of Director independence can be accessed at www.bone-ltd.com. During the year Bone Medical Limited had 4 independent Directors and one non independent Director. Mr Troels Jordansen, Non Independent director resigned in June 2009.	The Board is currently seeking to appoint a new CEO to ensure the appropriate composition of the Board.
2.2	The chair should be an independent Director.	The Chairman, Mr Leif Jensen is a non-executive, independent Director.	Not applicable
2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual.	Bone Medical Limited Chairman and Managing Director was not the same person up until the resignation of the Mr Troels Jordansen in June 2009.	The Board is currently seeking to appoint a new US based CEO. In the interim, Mr Leif Jensen, Chairman and Mr Leon Ivory, Non Executive Director are assuming the roles of joint CEO in Europe and Australia.
2.4	The Board should establish a nomination committee.	The Board has established a Remuneration and Nomination Committee and has adopted a formal Charter.	Not applicable
2.5	Disclose the process for evaluating the performance of the Board, its committee and individual Directors.	The performance evaluation of Board members occurs in accordance with the Board's Performance Evaluation Policy can be accessed at www.bone-ltd.com	Not applicable

2.6	Provide the information indicated in the Guide to reporting on Principle 2.	The skills, experience and expertise relevant to the position held by each Director is disclosed in the Directors' Report which forms part of the Annual Report. The Company's policies can be accessed at www.bone-ltd.com	Not applicable
3.1	Establish a code of conduct and disclose the code for a summary of the code as to: • the practice necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	The Company has adopted a Code of Conduct which can be accessed at www.bone-ltd.com.	Not applicable
3.2	Establish a policy concerning trading in Company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.	The Company has adopted a Trading Policy which can be accessed at www.bone-ltd.com.	Not applicable
3.3	Provide the information indicated in the Guide to reporting on Principle 3.	The information has been disclosed in the Annual Report.	Not applicable
4.1	The Board should establish an audit committee.	The Company has established an Audit Committee.	Not applicable
4.2	The audit committee should be structured so that it: • consists only of Non-executive Directors; • consists of a majority of independent Directors; • is chaired by an independent chair, who is not chair of the Board; • has at least three members.	The Company has an audit committee which consisted of an independent non-executive Director, is chaired by an independent Director and comprised of three members. The Company Secretary acts as secretary to the committee and attends its meetings.	Not applicable
4.3	The audit committee should have a formal charter.	The formal charter can be accessed at www.bone-ltd.com.	Not applicable
4.4	Provide the information in the Guide to reporting on Principle 4.	The members of the Audit Committee Mr Leon Ivory, Non-Executive Director, Mr Leif Jensen, Independent Non-Executive Director and Mr Mark Clements, Company Secretary. The Audit Committee will meet twice in each year, before sign off of the annual and half year financial statements.	Not applicable

5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has adopted a Continuous Disclosure Policy which can be accessed at www.bone-ltd.com	Not applicable
5.2	Provide the information indicated in the Guide to reporting on Principle 5.	The information is disclosed in the Annual Report.	Not applicable
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.	The Company has adopted a Shareholder Communications Policy which can be accessed at www.bone-ltd.com	Not applicable
6.2	Provide the information indicated in the Guide to reporting on Principle 6.	The information is disclosed in the Annual Report.	Not applicable
7.1	Establish policies for the oversight and management of material business risk and disclose a summary of those policies.	The Company has adopted a Risk Management Policy which can be accessed at www.bone-ltd.com. This policy outlines the key material risks faced by the Company as identified by the Board.	Not applicable
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	The CEO/Managing Director and Chief Financial Officer (equivalent) report to the board on the areas they are responsible for, including material business risks and provide an annual written report to the Board summarizing the effectiveness of the companies' management of material business risks.	Not applicable
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The Board receives assurance in the form of a declaration, from the CEO/Managing Director and Chief Financial Officer (equivalent) as required by the Corporations Act.	Not applicable
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	The information has been disclosed in the Annual Report.	Not applicable

8.1	The Board should establish a remuneration committee.	The Company has established a Remuneration and Nomination Committee under a formal charter.	Not applicable
8.2	Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives.	The structure of non-executive Directors' remuneration is clearly distinguished from that of Executive Directors and senior executives, as described in the Directors' Report which forms part of this Annual Report.	Not applicable
8.3	Companies should provide the information indicated in the guide to reporting on Principle 8.	The information has been disclosed in the Annual Report.	Not applicable

DIRECTORS' REPORT

The directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Bone Medical Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

DIRECTORS

The following persons were directors of the Bone Medical Limited during the whole of the financial year and up to the date of this report:

Dr. Roger New

Mr. Leon Ivory

Mr. Barry Walker, M.D.

Prof. Peter Brooks

Mr. Leif Jensen

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:

Mark Clements
BCom FCA

Mr Clements has over 14 years management, corporate administration, finance and accounting experience working for a number of listed and unlisted public companies for which he has held the role of company secretary for over 10 years. Mr Clements currently holds the position of director and company secretary with several ASX listed and unlisted companies. Mr Clements had previously worked for an international accounting firm and is a Fellow of the Institute of Chartered Accountants. He was appointed company secretary on the 14 December 2007.

OPERATING RESULTS

The consolidated loss of the Group after providing for income tax amounted to a loss of $3,945,207 (2009 loss: $3,043,463).

FINANCIAL POSITION

The net assets of the Group have decreased by $2,674,348 from $877,740 at 30 June 2009 to ($1,796,608) at 30 June 2010. This decrease has resulted from the following factors:

- The loss recorded for the financial year of $3,945,207 was largely due to R&D expenditure which is consistent with the long-term commercial strategy of the company, and the write off of the carrying amount of goodwill for the amount of $1,956,599.
- Issue of options to key management personnel to the value of $47,379.

PRINCIPAL ACTIVITY

During the year the principal continuing activity of the Group was that of the development of improved therapeutics to prevent and/or treat bone and joint diseases and conditions, especially osteoporosis, osteoarthritis and arthritis.

DIRECTORS' REPORT (continued)

DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid or recommended during the financial year ended 30 June 2010.

REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

Please refer to the **Chief Executive's Statement** at the commencement of this document.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the year were as follows:

(a) On 1 July 2009 50,000 ordinary shares were issued and allotted at $0.20 per share to non-related parties as consideration for services rendered.

(b) On 7 July 2009 4,150,603 options exercisable at $0.40 each expired.

(c) On 1 August 2009 50,000 ordinary shares were issued and allotted at $0.20 per share to non-related parties as consideration for services rendered.

(d) On 30 September 2009 by way of private placement, 4,024,403 ordinary shares were issued and allotted at $0.18 per share.

(e) On 1 October 2009 by way of private placement, 2,012,202 free attaching options were issued exercisable at $0.20 each expiring 30 September 2010.

(f) On 25 November 2009 by way of private placement, 1,566,690 ordinary shares were issued to key personnel & related parties at $0.18 per share and allotted subsequent to shareholder approval at a general meeting.

(g) On 14 December 2009 by way of private placement, 783,347 free attaching options were issued to key personnel & related parties exercisable at $0.20 each expiring 11 December 2010 and allotted subsequent to shareholder approval at a general meeting.

(h) On 14 January 2010 100,000 ordinary shares were issued and allotted at $0.20 per share to non-related parties as consideration for services rendered.

(i) On 1 February 2010 500,000 options exercisable at $0.27 each expired.

(j) On 15 March 2010 141,500 ordinary shares were issued at $0.20 each for services rendered with one free attaching option exercisable at $0.25 each expiring 15 March 2011.

DIRECTORS' REPORT (continued)

MATTERS SUBSEQUENT TO END OF THE FINANCIAL YEAR

(1) On the 2nd August 2010 Bone Medical Limited, by way of conversion of notes to equity, raised $ 177,000 through the issue of 1,767,000 fully paid ordinary shares at $0.10 cents per share and 1,767,510 unlisted options exercisable at $0.20 at an expiry 24 months from the date of issue.

(2) On the 14th September 2010 Bone Medical Limited, announced that it had raised $ 180,000 for working capital in non interest bearing loan funds.

(3) As announced on 14th September 2010, the Company confirmed commitments from Directors and management to convert all or part of their outstanding obligations being of a minimum of $470,000, which now equates to $509,529 following the receipt of further undertakings. Directors, key management personnel and certain contractors, since the lodgment of the preliminary financial report, have agreed to defer a total of $883,755 of the amounts owing to them from short term liabilities to long term liabilities. These conversions and deferrals will be subject to shareholder approval where necessary.

(4) On the 14th September 2010, the Company announced that the Company has executed a convertible note funding term sheet agreement which was secured on 30th September 2010 with La Jolla Cove I nvestors Inc (LJCI) for US$6 million.

The key terms of the proposed convertible note facility are as follows;

- US$6,000,000 (4 consecutive notes of US$1,500,000) funded by LJCI through an initial through an initial payment of US$100,000 and minimum monthly payments of US$10,000 incrementing higher in relation to the BNE trading price, until the entire principal balance is fully funded.

  a) To $50,000 per month upon Bone Medical common stock trading at A$0.11 to A$0.14;

  b) To $100,000 per month upon Bone Medical common stock trading at A$0.141 to A$0.18;

  c) To $200,000 per month upon Bone Medical common stock trading at A$0.181 to A$0.24;

  d) To $325,000 per month upon Bone Medical common stock trading at A$0.241 or higher.

- The interest rate is 4.75% per annum payable monthly in cash or fully paid ordinary shares, on the outstanding funded and non-converted principal amount;

- Maturity is 3 years from the Closing of each Convertible Note, unless converted earlier.

The issue of shares in relation to the Convertible Note is subject to BNE obtaining such shareholder approvals or other regulatory approvals for the conversion contemplated by the Convertible Note facility and as may be required by the constitution, the Corporations Act, the ASX, ASIC or any other relevant regulatory body.

LIKELY DEVELOPMENTS

There are no likely material changes to current activities.

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS

Mr. Leif Jensen
(Non-executive Chairman & Joint CEO)

Mr. Jensen has more than 27 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 Directors of Rose Pharma, Inagen and Alcorlab and also the Chairman of the Board in Valderm, Microlytics and Global Aviation. 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 did not hold directorships in any other Australian listed companies. Mr. Jensen was appointed as a Non-executive Director on 10 September 2007 and as Non-executive Chairman on 27 May 2008.

Mr. Leon Ivory
(Non-executive Director and Joint CEO)

Mr. Ivory has been involved in corporate finance, funds management and venture capital for over 38 years. He, in 1985 co-founded Western Capital, a venture capital organisation which evolved into one of Australia's first public biotechnology companies.

He served as a director of a number of public companies including Auspharm International Limited, Arbuthnot Latham Bank Ltd (London), Foreign Commerce Bank (Zurich), Cortecs PLC and VRI BioMedical Limited. Mr. Ivory is former Chairman of Refresh Group Ltd. He is also a director of Kancer Ltd which is based in the United Kingdom. Mr. Ivory did not hold directorships in any other Australian listed companies during the year. He was appointed to the Board on the 16 November 2005.

Dr. Roger New
(Co-founder and Non-executive Director)

Dr. New (BA, PhD) has 34 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 an 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 pharmaceutics, diagnostics and microbiology and he is the inventor of Mozaic, Axcess and Vaxcine technologies, for which patents are currently pending or granted. Dr. New did not hold directorships in any other Australian listed companies. Dr. New was appointed interim chairman of Bone Medical on 16 July 2007. Dr. New resigned as chairman on the 27 May 2008 and remains a Non-executive Director.

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS (continued)

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

Mr. 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. Mr. 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 has 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. Mr. Walker did not hold directorships in any other Australian listed companies. He was appointed to the Board on the 16 November 2005.

Prof. Peter Brooks
(Non-executive Director)

Prof. Brooks has been the Director of the Australian Health Workforce Institute at the University of Melbourne since January 20101. He was previously the Executive Dean for the Faculty of Health Sciences at The University of Queensland from 1998 until December 2009. 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 and a member of the Council of the Queensland Institute for Medical Research. He is Vice Patron of the Arthritis Foundation in Queensland, Member of the International Committee for Bone & Joint Decade 2000 – 2010 and was Australian National Action Coordinator for Bone & Joint Decade 2000 – 2010 from 2001 to 2006. Prof. Brooks did not hold directorships in any other Australian listed companies. Prof. Brooks was appointed as a Non-executive Director on the 25 July 2007.

DIRECTORS' INTERESTS

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

Director	Number of Ordinary Shares	Number of Options	Number of Class C Preference Shares
Mr. Leon Ivory	562,458	523,887	82,610
Mr. Leif Jensen	1,127,600	992,600	-
Dr. Roger New	42,476	13,887	-
Prof. Peter Brooks	41,864	13,887	-
Dr Barry Walker	40,650	20,325	-

DIRECTORS' REPORT (continued)

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. Leon Ivory	12	12	12	12
Dr. Roger New	11	12	11	12
Mr. Barry Walker, M.D.	10	12	10	12
Mr. Leif Jensen	12	12	12	12
Prof. Peter Brooks	10	12	10	12

	Committee Meetings							
Members	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. Leon Ivory	**	**	**	**	2	2	**	**
Mr. Mark Clements	**	**	**	**	2	2	**	**
Mr. Glen Travers	2	2	1	1	**	**	1	1
Dr. Roger New	2	2	1	1	**	**	1	1
Mr. Leif Jensen	**	**	1	1	2	0	1	1
Prof. Peter Brooks	2	2	**	**	**	**	**	**
Dr. Phillip Sambrook	2	2	**	**	**	**	**	**
Mr. Barry Walker, M.D.	2	2	**	**	**	**	**	**
Dr. Tony Lockett	1	1	**	**	**	**	**	**

** = 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 in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

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. Remuneration strategies are linked to performance incentives in the creation of shareholder wealth. When the board deems it appropriate to, share based payments are issued to directors and executives.

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 individual 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.

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 made 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**
Non Executive Chairman	$ 50,000
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, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and specified executives of Bone Medical Limited and the Group are set out in the following tables.

As at reporting date Bone Medical Ltd and the Group has no other key management personnel or executives other than the directors listed on pages **20 - 21** of this report.

2010	**Short-term employee benefits**			**Post-employment benefits**	**Long-term benefits**		**Share-based payments**	
Name	**Cash, salary and fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Long-service leave $**	**Termination benefits $**	**Options $**	**Total $**
Non-executive directors								
Dr. Roger New	25,000	-	-	-	-	-	-	25,000
Mr. Barry Walker, M.D.	34,658	-	-	-	-	-	-	34,658
Mr. Leon Ivory	22,936	-	-	2,064	-	-	-	25,000
Prof. Peter Brooks	25,000	-	-	-	-	-	-	25,000
Mr. Leif Jensen	50,000	-	-	-	-	-	47,379	97,379
Sub-total non-executive directors	**157,594**	**-**	**-**	**2,064**	**-**	**-**	**-**	**207,037**
Other executives								
Mr. Mark Clements	31,160	-	-	-	-	-	-	31,160
Total key management personnel compensation	**188,754**	**-**	**-**	**2,064**	**-**	**-**	**47,379**	**238,197**

DIRECTORS' REPORT (continued)

B Details of remuneration (audited) (continued)

2009	Short-term employee benefits			Post-employment benefits	Long-term benefits		Share-based payments	
Name	Cash, salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Long-service leave $	Termination benefits $	Options $	Total $
Non-executive directors								
Dr. Roger New	25,000	-	-	-	-	-	-	25,000
Mr. Barry Walker, M.D.	39,181	-	-	-	-	-	-	39,181
Mr. Leon Ivory	22,936	-	-	2,064	-	-	83,116	108,116
Prof. Peter Brooks	25,000	-	-	-	-	-	-	25,000
Mr. Leif Jensen	50,000	-	-	-	-	-	28,947	78,947
Sub-total non-executive directors	**162,117**	**-**	**-**	**2,064**	**-**	**-**	**112,063**	**276,244**
Executive directors								
Mr. Troels Jordansen	160,030	-	-	-	-	-	-	160,030
Other executives								
Mr. Mark Clements	36,935	-	-	-	-	-	-	36,935
Total key management personnel compensation	**359,082**	**-**	**-**	**2,064**	**-**	**-**	**112,063**	**473,209**

C Service Agreemtments (audited)

There were no service agreements in place throughout the year.

D Share-based compensation (audited)

All options granted to directors are over ordinary shares in Bone Medical Limited and 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	% Vested
26-Nov-08	26-Nov-09	26-Nov-11	$ 0.40	$ 0.185	100%
26-Nov-08	26-Nov-10	26-Nov-12	$ 0.40	$ 0.207	Nil
26-Nov-08	26-Nov-11	26-Nov-13	$ 0.40	$ 0.223	Nil

DIRECTORS' REPORT (continued)

D Share-based compensation (audited) (continued)

In 2010, no options were issued as remuneration to Key Management Personnel.

Options granted carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share of Bone Medical Limited 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. Further information on the options is set out in **note 24** to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	**2010**	2009
Directors of Bone Medical Limited				
Leif Jensen	-	*900,000	300,000	-
Leon Ivory	-	450,000	-	450,000

*On the 26 November 2008 by approval of shareholders at the annual general meeting and agreed upon by the Board, Mr Jensen was issued 900,000 options vesting in annual batches of 300,000 options per year over the next 3 years for every full year the position of chairman is held. The exercise price is set at AU$ 0.40 each for all options issued. Each batch of options issued will expire 2 years after vesting. When exercisable, each option is convertible into one ordinary share up to the date of expiry.

Trading in the company's securities by directors, officers and employees

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, the directors, officers and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information and also prohibited from short term or "active" trading in the Company's securities. The directors, officers and employees should also prevent dealing in the Company's securities during specific blackout periods. The Company Secretary or a director must be notified upon a trade occurring.

The policy is provided to all directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

DIRECTORS' REPORT (continued)

E Additional information

Key management compensation is not linked to Bone Medical Limited's performance to date.

Details of remuneration: cash bonuses and options:
For each grant of options included in the tables on pages **24 - 25**, the percentage of the available 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. 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. No cash bonuses or options have been issued during the year ended 30 June 2010.

Options						
Name	**Year Granted**	**Vested** %	**Forfeited** %	**Year in which options are fully vested**	**Minimum total value of grant yet to vest** $	**Maximum total value of grant yet to vest** $
Mr. Leif Jensen	2008	33.33%	-	30/06/2012	23,495	108,130

Share-based compensation: Options
Further details relating to options are set out below

Name	**A** Remuneration consisting of options	**B** Value at grant date $	**C** Value at exercise date $	**D** Value at lapse date $
Mr. Leif Jensen	48.7%	184,456	-	-

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.
B = The value at grant date calculated in accordance with AASB 2 Share-based Payments of options granted during the 2009 financial year as part of remuneration.
C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.
D = The value at lapse date of the options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

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.

Shares issued on the exercise of options
During the year ended 30 June 2010 and 30 June 2009, no ordinary shares of Bone Medical Limited were issued on exercise of options.

This is the end of the audited Remuneration Report

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
Share based payments			
26/11/2008	26/11/2011	$0.40	450,000
26/11/2008	26/11/2011	$0.40	300,000
26/11/2008	26/11/2012	$0.40	300,000
26/11/2008	26/11/2013	$0.40	300,000
		Sub-total	**1,350,000**
Equity Issued			
01/10/2009	30/09/2010	$0.20	2,012,000
14/12/2009	11/12/2010	$0.20	783,347
15/03/2010	15/03/2011	$0.25	141,500
02/08/2010	02/08/2012	$0.20	1,767,510
		Sub-total	**4,704,357**
Total shares under option			**6,054,357**

Insurance of officers

During the financial year, no premium was paid on behalf of Bone Medical Limited to insure the directors and secretary of the Group

Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

No proceedings have been brought to or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit Services

There were no non-audit services provided by BDO Audit (WA) Pty Ltd during the year

	Consolidated	
	2010	**2009**
	$	**$**
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	**46,755**	**46,931**

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DIRECTORS' REPORT (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on **page 30.**

No director of Bone Medical Limited is currently or was formerly a partner of BDO Audit (WA) Pty Ltd.

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 7 - 16** of this report.

Environmental regulation

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the first measurement period 1 July 2009 to 30 June 2010 the directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

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 owned 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.

Auditor

BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

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

Leon Ivory
Joint Chief Executive Officer
Perth, Western Australia
30th September 2010

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

30 September 2010

Board of Directors
Bone Medical Limited
Unit 1, 5 Turner Avenue
Technology Park
BENTLEY WA 6102

Dear Sirs

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF BONE MEDICAL LIMITED

As lead auditor of Bone Medical Limited for the year ended 30 June 2010, 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.

Brad McVeigh
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity		Parent Entity	
		2010	2009	2010	2009
		$	$	$	$
Revenue from continuing operations	5	558	8,981	558	8,981
Research & Development		(1,174,958)	(2,031,686)	(1,174,958)	(2,031,686)
Employee Benefits		(200,335)	(436,274)	(200,335)	(436,274)
Professional Consultants		(272,355)	(273,275)	(272,355)	(273,275)
Depreciation & Amortisation		(4,197)	(5,312)	(4,197)	(5,255)
External Consultants		(168,749)	(107,335)	(168,749)	(107,335)
Write off of Goodwill	13	(1,956,599)	-	-	-
Impairment of investment	11	-	-	(3,502,069)	-
Legal Fees		(8,624)	2,922	(8,624)	2,922
Travel		(5,561)	(8,668)	(5,561)	(8,668)
Business Development		(21,522)	(26,812)	(21,522)	(26,812)
Public Relations		(4,999)	(4,400)	(4,999)	(4,400)
Other Expenses		(127,867)	(267,314)	(127,867)	(267,314)
Loss before Income Tax	6	(3,945,207)	(3,149,171)	(5,490,677)	(3,149,115)
Income Tax Benefit	8	-	105,709	-	105,709
Loss for the year		(3,945,207)	(3,043,463)	(5,490,677)	(3,043,406)
Other Comprehensive Income for the year		-	-	-	-
Total Comprehensive Loss for the year attributed to members of Bone Medical Limited		(3,945,207)	(3,043,463)	(5,490,677)	(3,043,406)
Basic loss per share (cents per share)	24	(4.16)	(3.55)		

The statements of comprehensive income should be read in conjunction with the accompanying notes

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated Entity		Parent Entity	
		2010	2009	2010	2009
		$	$	$	$
ASSETS					
CURRENT ASSETS					
Cash & cash equivalents	9	33,210	9,662	33,210	9,662
Trade and other receivables	10	19,281	40,152	52,190	40,152
TOTAL CURRENT ASSETS		52,491	49,814	52,491	49,814
NON-CURRENT ASSETS					
Other financial assets	11	-	-	-	3,502,069
Property, plant & equipment	12	6,104	10,301	6,104	10,301
Intangible assets	13	-	1,956,599	-	-
TOTAL NON-CURRENT ASSETS		6,104	1,966,900	6,104	3,512,370
TOTAL ASSETS		**58,595**	**2,016,714**	**58,595**	**3,562,184**
LIABILITIES					
CURRENT LIABILITIES					
Trade and other liabilities	14	971,448	1,138,974	971,448	1,138,974
TOTAL CURRENT LIABILITIES		971,448	1,138,974	971,448	1,138,974
NON-CURRENT LIABILITIES					
Deferred payables	14	883,755	-	883,755	-
Amounts owed to subsidiaries		-	-	1,858,365	1,858,365
TOTAL NON-CURRENT LIABILITIES		883,755	-	2,742,120	1,858,365
TOTAL LIABILITIES		**1,855,203**	**1,138,974**	**3,713,568**	**2,997,339**
NET ASSETS/(NET LIABILITIES)		**(1,796,608)**	**877,740**	**(3,654,973)**	**564,845**
EQUITY					
Issued capital	15	17,193,744	15,970,264	4,579,442	3,355,962
Accumulated losses	16	(19,590,820)	(15,645,613)	(8,534,083)	(3,043,406)
Reserves	16	600,468	553,089	299,668	252,289
TOTAL EQUITY/(DEFICIT)		**(1,796,608)**	**877,740**	**(3,654,973)**	**564,845**

The statements of financial position should be read in conjunction with the accompanying notes

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

Consolidated Entity	Issued Capital Ordinary $	Accumulated Losses $	Reserves $	Total $
Balance at 1st July 2008	**13,447,207**	**(12,602,150)**	**441,026**	**1,286,083**
Total comprehensive income (loss) for the year	-	(3,043,463)	-	(3,043,463)
Transaction with owners in their capacity as equity holders:				
Ordinary shares issued under placement, net of costs	2,523,057	-	-	2,523,057
Options issued during the year	-	-	112,063	112,063
Balance at 30th June 2009	**15,970,264**	**(15,645,613)**	**553,089**	**877,740**
Total comprehensive income (loss) for the year	-	(3,945,207)	-	(3,945,207)
Transaction with owners in their capacity as equity holders:				
Ordinary shares issued under placement, net of costs	1,223,480	-	-	1,223,480
Options vested during the year	-	-	47,379	47,379
Balance at 30th June 2010	**17,193,744**	**(19,590,820)**	**600,468**	**(1,796,608)**

Parent Entity	Issued Capital Ordinary $	Accumulated Losses $	Option Reserve $	Total $
Balance at 1st July 2008	**75,514,821**	**(74,681,916)**	**140,226**	**973,131**
Total comprehensive income (loss) for the year	-	(3,043,406)	-	(3,043,406)
Transaction with owners in their capacity as equity holders:				
Reduced share capital to the extent not represented by assets	(74,681,916)	74,681,916	-	-
Ordinary shares issued under placement	2,523,057	-	-	2,523,057
Options issued during the year			112,063	112,063
Balance at 30th June 2009	**3,355,962**	**(3,043,406)**	**252,289**	**564,845**
Total comprehensive income (loss) for the year	-	(5,490,677)	-	(5,490,677)
Transaction with owners in their capacity as equity holders:				
Ordinary shares issued under placement, net of costs	1,223,480	-	-	1,223,480
Options issued during the year	-	-	47,379	47,379
Balance at 30th June 2010	**4,579,442**	**(8,534,083)**	**299,668**	**(3,654,973)**

The above statements of changes in equity should be read in conjunction with the accompanying notes

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity 2010	Consolidated Entity 2009	Parent Entity 2010	Parent Entity 2009
CASHFLOWS FROM OPERATING ACTIVITIES					
Income tax research & development rebate		-	105,709	-	105,709
Payments to suppliers & employees		(861,562)	(1,733,298)	(861,562)	(1,733,298)
Interest Received		444	8,981	444	8,981
Net cash (used in) operating activities	23	(861,118)	(1,618,608)	(861,118)	(1,618,608)
CASHFLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant & equipment		-	-	-	-
Net cash (used in) investing activities		-	-	-	-
CASHFLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares & other equity securities		901,143	1,293,000	901,143	1,293,000
Share issue transaction costs		(16,477)	(37,804)	(16,477)	(37,804)
Net cash provided by financing activities		884,666	1,255,196	884,666	1,255,196
Net increase/(decrease) in cash held		23,548	(363,412)	23,548	(363,412)
Cash at beginning of financial year		9,662	373,074	9,662	373,074
Cash at end of financial year	9	33,210	9,662	33,210	9,662

The statements of cash flows should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1

Summary of Significant Accounting Policies

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 and are general purpose financial statements. The principal accounting policies adopted in the presentation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial statements includes separate financial statements for Bone Medical Limited as an individual entity and the consolidated entity consisting of Bone Medical Limited and its subsidiaries. The entity has applied class order 10/654 in choosing to include separate financial statements for Bone Medical Limited as an individual entity.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

Going Concern

For the period ended 30 June 2010 the Consolidated Entity had incurred a net loss of $3,945,207 (2009: $3,043,463) and at year end had a working capital deficiency of $918,957 (2009: $1,089,160).

The financial statements 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 it can successfully commercialise or market these products and technologies.

The Board of Bone Medical is confident that it will continue to operate as a going concern. Since the reporting date, the company has raised an approximate amount of $357,000 for on going working capital, and will continue to raise further amounts by way of equity and loan funds. The Company confirmed commitments from Directors, management & contractors to convert all or part of their outstanding obligations being of a minimum of $470,000, which now equates to $509,529 following the receipt of further undertakings. Directors, key management personnel and certain contractors, since the lodgement of the preliminary financial report, have agreed to defer a total of $883,755 of the amounts owing to them from short term liabilities to long term liabilities (which is disclosed in the Statement of financial position and **note 14**). Bone has secured a convertible note facility for a total of US$6 million from La Jolla Cove investors Inc, with payments drawn down in monthly instalments (refer to **note 22(4)**). With this progressive funding and additional capital raisings, the company intends to further develop its projects and technologies.

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 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.

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.

Compliance with IFRS

The financial report of Bone Medical Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in **note 3**.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1

Summary of Significant Accounting Policies (Continued)

(b) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bone Medical Limited (parent entity) as at 30 June 2010 and the results of all subsidiaries for the year then ended. Bone Medical Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of Bone Medical Limited.

Reverse Acquisition

In accordance with AASB 3 *Business Combinations*, when Bone Medical Limited (the legal parent) acquired Bone Limited (the legal subsidiary) in August 2005, 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 the legal subsidiary (Bone Limited) was accounted for at cost.

  As a consequence:

- an exercise was 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;.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1

Summary of Significant Accounting Policies (Continued)

(b) Principles of Consolidation (continued)

- 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 2010.

(c) Segment Reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Board of directors. The Board, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic steering committee.

Change in accounting policy
The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which segment reporting is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reporting segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

(d) Foreign Currency Transactions and Balances

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars which is Bone Medical Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each reporting date presented are translated at the closing rate at the date of that statements of financial position
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the Profit and Loss, as part of the gain or loss on sale where applicable.

Note 1

Summary of Significant Accounting Policies (Continued)

(e) Revenue

Interest income is recognised on a time proportion basis using the effective interest method. All revenue is stated net of the amount of goods and services tax (GST).

(f) 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.

Government grants relating to costs are deferred and recognised in the statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

(g) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Bone Medical Limited has not elected to consolidate the Group under the Tax Consolidation Regime, however, the Company may elect to do so in the future.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1

Summary of Significant Accounting Policies (Continued)

(i) Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and Cash Equivalents

For statements of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statements of financial position.

(k) Financial assets

Classification

The only type of financial assets held by the Group is loans and receivables.

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 recognised initially at fair value. They are included in current assets, except for those with maturities greater then 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included within trade and other receivables (**note 9**) in the statements of financial position.

Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent measurement
Loans and receivables are carried at amortised cost using the effective interest method.

Impairment
The Group assess at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statements of comprehensive income.

(l) Property, Plant and Equipment

Each class of property, plant and equipment is stated at historical cost or fair value less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are expensed during the reporting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1

Summary of Significant Accounting Policies (Continued)

(l) Property, Plant and Equipment (continued)

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:

Class of fixed assets	Depreciation Rate
Plant & Equipment	10% - 33%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (**note 1(i)**).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss. The assets residual values & useful lives are reviewed, and adjusted if appropriate, at each balance sheet reporting date.

(m) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is 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.

(ii) Research and development costs

Research expenditure is recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure that do not meet these criteria are recognised as an expense incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

(iii) 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 be written off as incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1

Summary of Significant Accounting Policies (Continued)

(n) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are recognised initially at fair value and subsequently at amortised cost. The amounts are unsecured and are usually paid within 45 days of recognition. They are recognised initially at fair value and subsequently at amortised cost.

(o) 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. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest income.

(p) 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 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.

(q) Contributed Equity

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.

(r) Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1

Summary of Significant Accounting Policies (Continued)

(s) Goods and Services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the Australian Taxation 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 statements of financial position are stated inclusive of the amount of GST receivable or payable. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statements of financial position.

(t) Comparative Figures

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

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 those stated in the financial report.

(u) New accounting standards and interpretations

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 30 June 2010. They have not been adopted in preparing the financial report for the year ended 30 June 2010 and are expected to impact the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated in the table below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 1

Statement of Significant Accounting Policies (Continued)

STANDARDS LIKELY TO HAVE A FINANCIAL IMPACT

AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process (issued May 2009)

AASB reference	Title of Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 107	Statement of Cash Flows	Clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash flows from investing activities.	Periods commencing on or after 1 January 2010	Initial adoption of this amendment will have no impact as the entity only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position.
AASB 136	Impairment of Assets	Clarifies that CGUs to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 *Operating Segments* before aggregation.	Periods commencing on or after 1 January 2010	There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after 1 July 2010.

Improvements to IFRSs (*issued May 2010*)

AASB reference	Title of Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
IFRS 7	Financial Instruments: Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	Periods commencing on or after 1 January 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.
AASB 9 (issued December 2009)	Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

There are no other standards or interpretations that have been issued which are expected to impact the group.

Note 2
Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including interest rate risk, currency risk, credit risk and liquidity risk). The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. Risk management is carried out by the Board.

Financial Risk
The main risks the Group is exposed to through financial instruments are interest rate risk, liquidity risk, and foreign exchange risk.

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent entity	
	2010	2009	2010	2009
	$	$	$	$
Financial assets				
Cash and cash equivalents	33,210	9,662	33,210	9,662
Other receivables	13,008	19,077	13,008	19,077
Other financial assets	-	-	-	3,502,069
	46,218	**28,739**	**46,218**	**3,530,808**
Financial liabilities				
Trade and other payables	1,855,203	1,138,974	1,855,203	1,138,974
Inter-company loans	-	-	1,858,365	1,858,365
Total financial liabilities at amortised cost	**1,855,203**	**1,138,974**	**3,713,568**	**2,997,339**

(a) Market risk

(i) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising mainly from its exposure to the British pound. The Group may also be exposed to one-off transactional flows which occur on an ad hoc basis in other foreign exchange currencies.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cashflow forecasting. The Group does not hedge any foreign exchange risks.

Foreign exchange risk is managed by the Board with an overall responsibility to minimising its effect on the expenditure of the Group.

The group's and parent's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2010			30 June 2009		
	GBP	USD	EUR	GBP	USD	EUR
Trade Payables	735,779	39,259	-	408,611	13,519	2,600

Note 2
Financial risk management (continued)

Group and Parent Sensitivity
Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the USD and GBP, the effect to the Group's and Parent's post-tax loss for the year is shown in the table below. This is based on management's assessment of current and future market conditions given the possibility that the AUD may increase/decrease by 10% against GBP and/or USD in the current financial year.

	30 June 2010			**30 June 2009**		
Foreign exchange currency	**GBP**	**USD**	**EUR**	**GBP**	**USD**	**EUR**
Sensitivity Analysis	Profit $	Profit $	Profit $	Profit $	Profit $	Profit $
Australian Dollar weakened 10%	(143,876)	(5,094)	-	(93,177)	(1,867)	(504)
Australian Dollar strengthened 10%	117,717	4,168	-	76,235	1,527	413

The carrying amounts of the group and parent entity's financial assets and liabilities are all denominated in Australian dollars.

(ii) Cash flow interest rate risk
The Group's main interest rate risk arises from deferred licencing fees and interest bearing cash deposits. The deferred licencing fees are charged monthly based on applying the variable London Interbank Offered Rate plus 2%, calculated on the principle amount of the outstanding contingent licencing fee, which exposes the group to cash flow interest rate risk. The Group has no other borrowings.

As at reporting date the Group and the parent company had the following variable rate deferred licence fee liability:

	30 June 2010		**30 June 2009**	
	Weighted average interest rate %	**GBP**	**Weighted average interest rate %**	**GBP**
Contingent Licencing Fee	2.52%	£850,856	4.6%	£850,856

Note 2
Financial risk management (continued)

The Group'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:

2010	Weighted Average Effective Interest Rate	Balance
Financial Assets		AUD
Cash & cash equivalents	0.78%	33,210
Total Financial Assets		33,210
Financial Liabilities		GBP
Contingent Liabilities	2.52%	£850,856
Total Contingent Liabilities		£850,856

2009	Weighted Average Effective Interest Rate	Balance
Financial Assets		AUD
Cash & cash equivalents	2.99%	9,662
Total Financial Assets		9,662
Financial Liabilities		GBP
Contingent Liabilities	4.60%	£850,856
Total Contingent Liabilities		£850,856

The Group invests surplus cash in at call or term deposit accounts with internationally recognised financial institutions. Interest rate risk is managed by the selection of term deposit interest rates and terms that reflect management's market expectations, to terms not exceeding 12 months. Funds are only held at call when it is reasonably expected that those amounts will be required prior to existing term deposits reaching maturity.

Group and Parent Sensitivity
If the weighted average interest rates had changed by plus/minus 75 basis points the effect to the Groups post-tax loss for the year would have been $11,497 lower/higher (2009: $12,890 lower/higher).

The method used to arrive at the possible change of 75 basis points was conservatively based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, there was a bias towards an increase in interest rate ranging between 0 to 50 basis points. It is considered that 75 basis points is a 'reasonably possible' estimate as it more than accommodates for the maximum variations inherent in the interest rate movement over the past five years.

Note 2
Financial risk management (continued)

(b) Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as receivables for subsidiaries. The Board manages credit risk by ensuring that the banks and financial institutions where cash & deposits are held are independently rated parties with a minimum rating of 'A'. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on **pages 52-53**.

(c) Liquidity Risk and Liquidity Risk Management

Prudent liquidity risk management implies maintaining sufficient cash to support the activities of the company. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows.

The Board monitors rolling forecasts of the Company's liquidity on the basis of expected cash flow.

Maturities of financial liabilities
The tables below analyse the Group's and the parent entity's financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months	6 - 12 months	Greater than 12 months	Total contractual cashflows	Carrying Amount (assets)/ liabilities
Group - At 30 June 2010	$	$	$	$	$
Non-derivatives					
Trade and other payables	971,448	-	883,755	1,855,203	1,855,203
Group - At 30 June 2009					
Non-derivatives					
Trade and other payables	1,138,974	-	-	1,138,974	1,138,974
Parent - At 30 June 2010					
Non-derivatives					
Trade and other payables	971,448	-	2,742,120	3,713,568	3,713,568
Parent - At 30 June 2009					
Non-derivatives					
Trade and other payables	1,138,974	-	1,858,365	2,997,339	2,997,339

(d) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

Estimated discounted cash lows are used to determine the fair value of unlisted investments in subsidiaries. The carrying value of payables is a reasonable approximation of their fair values due to the short-term nature. There are no financial instruments carried at fair value.

Note 3
Critical Accounting Estimates and Significant Judgments

The directors evaluate estimates and judgments incorporated in the financial statements 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) 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.

Significant Judgement:

- Non capitalisation of patent costs and research and development costs – Due to the high element of risk & uncertainty associated with the development of pharmaceutical products the Group elects to expense all patent costs and all research and development costs. This is consistent with other companies in the Biotech industry in the same stage of development as Bone Medical.
- As of 30 June 2010, the board made the decision to impair the carrying amount of goodwill in accordance with the requirements of AASB 136 *Impairment of Assets.* The impairment is a result of the uncertainty surrounding the timing of future cash flows generated by the technology.
- The investments held by the parent entity in its subsidiaries were impaired as of 30 June 2010 as the board has acknowledged it yet to commercialise the company's projects, and the decision was made to write down the assets carrying value.

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**. The carrying amount of goodwill was written off as of the year ended 30 June 2010 (2009:nil).

Note 4
Segment Information

The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a 'management approach' under which segment information in presented on the same basis as that used for internal reporting purposes by the chief operating decision maker.

As the company is still the research and development phase of operations, it has yet to commercialise its projects and therefore has no major customers in the reportable segment. The company's primary operations, financial reporting and stock market quotation is in Australia.

The Group's chief operation decision makers have been identified as the Joint Chief Executive Officers. Operating segments are reported in a manner that is consistent with the internal reporting provided to the Board of directors.

The Joint Chief Executive Officers review the financial and operating performance of the primarily from a R&D and a corporate perspective.

The segment information provided to the Joint Chief Executive Officers for the reporting segments for the reporting period ending 30 June 2010 is as follows:

2010 Group Entity	**Continuing Operations**		
	Research and Development	**Unallocated**	**Total**
	$	**$**	**$**
Segment Revenue			
Interest Received	-	558	558
Segment net profit / (loss) before tax per statement of comprehensive income	(3,153,078)	(792,129)	(3,945,207)
Segment Assets	-	58,595	58,595
Total assets per statement of financial position			58,595
Segment Liabilities	1,276,106	579,097	1,855,203
Total Liabilities per statement of financial position			1,855,204

2009 Group Entity	**Continuing Operations**		
	Research and Development	**Unallocated**	**Total**
	$	**$**	**$**
Segment Revenue			
Interest Received	-	8,981	8,981
Segment net profit / (loss) before tax per statement of comprehensive income	(2,031,686)	(1,117,485)	(3,149,171)
Segment Assets	1,956,599	60,115	2,016,714
Total assets per statement of financial position			2,016,714
Segment Liabilities	768,779	370,195	1,138,974
Total Liabilities per statement of financial position			1,138,974

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 5
Revenue

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Interest received - other parties	558	8,981	558	8,981
Total Revenue	**558**	**8,981**	**558**	**8,981**

Note 6
Expenses

Loss before Income Tax includes the following specific expenses:

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Research and development	1,136,935	1,508,134	1,136,935	1,508,134
Licence Fee	38,023	523,552	38,023	523,552
Corporate and administration	210,539	218,238	210,539	218,238
External consultants	168,749	107,335	168,749	107,335
Write off of Goodwill	1,956,599	-	-	-
Foreign exchange (gains) and losses	(82,672)	19,076	(82,672)	19,076
Diminution in investment	-	-	3,502,069	-
Legal fees	8,624	(2,922)	8,624	(2,922)
Travel costs	5,561	8,668	5,561	8,668
Public relations costs	4,999	4,400	4,999	4,400
Depreciation and amortisation	4,197	5,312	4,197	5,255
Professional consultants	272,355	273,275	272,355	273,275
Directors and management	152,955	324,211	152,955	324,211
Share based payments	47,379	142,063	47,379	142,063
Business development	21,522	26,812	21,522	26,812

Note 7
Correction of error, revision of estimates and variation from preliminary report

Subsequent to the release of the company's preliminary report to the ASX, the board has since impaired the full amount of Goodwill. At the time of release of the 4E, the impairment testing had yet to be finalised and the carrying amount of $1,956,599 was included in the consolidated statement of financial position of the appendix 4E. The company has recognised that this intangible asset is no longer recoverable at its carrying value and the subsequent write off of this amount has been reflected in the final consolidated statement of comprehensive income and consolidated statement of financial position in accordance with the requirements of AASB 136 *Impairment of Assets*.

Note 8
Income Tax Expense

(a) Income tax expense	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Current tax expense (benefit)	-	(105,709)	-	(105,709)
Income tax expense (benefit)	-	(105,709)	-	(105,709)

(b) Reconciliation of tax expense to net profit before tax	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Profit/(loss) before tax	(3,945,207)	(3,149,171)	(5,490,677)	(3,149,115)
Prima facie tax @ 30%	(1,183,562)	(944,751)	(1,647,203)	(944,735)
Increase in tax expense due to:				
Expenditure not deductible for tax purposes	659,010	33,112	65,931	33,114
Other				
Deferred tax benefits not recognised	524,552	911,639	1,581,272	911,621
Decrease in tax expense due to:				
Tax benefit associated with R&D rebate	-	(105,709)	-	(105,709)
Income tax expense/(benefit)	-	(105,709)	-	(105,709)

(c) Unrecognised deductible temporary differences	Economic Entity 2010 $	Economic Entity 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Tax losses	4,823,329	4,298,777	4,823,329	14,329,256
Investment in subsidiaries	-	-	30,375,558	26,873,489
Other deductible differences				
Deferred tax assets	628,374	551,769	628,374	1,839,230
Deferred tax liabilities	-	-	-	-
	5,451,703	4,850,546	35,827,261	43,041,975

No deferred tax asset is recognised in the statements of comprehensive income as it is not probable that the Group 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 be offset against this income subject to the Company continuing to meet the relevant statutory tests.

Note 9
Current Assets - Cash and Cash Equivalents

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Cash at bank and in hand	32,693	3,599	32,693	3,599
Deposits at call	518	6,063	518	6,063
Cash at end of year	**33,210**	**9,662**	**33,210**	**9,662**

The effective interest rate on at call deposits was 0.78% (2009: 2.99%)

(a) Reconciliation of Cash

Cash at the end of the financial year as shown in the statements of cash flows is reconciled to items in the statements of financial position as follows:

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Cash and Cash Equivalents	**33,210**	**9,662**	**33,210**	**9,662**

(b) Risk Exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

Note 10
Trade and Other Receivables

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
CURRENT				
Other Receivables	13,008	19,077	13,008	19,077
Prepayments	6,273	21,075	6,273	21,075
	19,281	**40,152**	**19,281**	**40,152**

There were no impaired receivables for the consolidated entity or the parent entity in 2010 or 2009.

(a) Past due but not impaired

As at 30 June 2010, trade receivables of $19,281 (2009: $40,152) were past due but not impaired.

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Up to 3 months	18,381	40,152	18,381	40,152
3 to 6 months	900	-	900	-
	19,281	**40,152**	**19,281**	**40,152**

Note 10
Trade and Other Receivables (continued)

(b) Foreign exchange and currency risk

Information about the Group's and the parent entity's exposure to foreign currency risk and interest rate risk in relation to other receivables is provided in **Note 2**.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivable mentioned in the table on page 52. Refer to note 2 for more information on the risk management policy of the company and the credit quality of the entity's trade receivables.

Note 11
Other Financial Assets – Non Current

	Consolidated Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
Unlisted Investments at cost	**$**	**$**	**$**	**$**
Shares in controlled entities – Owein Pty Ltd	-	-	1,426,850	1,426,850
Less : impairment provision			(1,426,850)	
Shares in controlled entities – Bone Ltd	-	-	28,948,708	28,948,708
Less : impairment provision	-	-	(28,948,708)	(26,873,489)
	-	**-**	**-**	**3,502,069**

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 fully exploit the company's products and technology in excess of the carrying value of the investment.

The company has acknowledged that it is yet to commercialise the company's technologies, and the decision was made following the reporting date to write down the asset's carrying value following the directors annual impairment review in accordance with the requirements of AASB 136 *Impairment of Assets*

Note 12
Property, Plant & Equipment

	Consolidated Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Plant & equipment	36,634	36,634	33,499	33,499
Accumulated depreciation	(30,530)	(26,333)	(27,395)	(23,198)
Total plant & equipment	**6,104**	**10,301**	**6,104**	**10,301**

Movements in Carrying Amounts

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

	Consolidated Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Balance at beginning of year	10,301	15,613	10,301	15,556
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation Expense	(4,197)	(5,312)	(4,197)	(5,255)
Carrying amount at the end of year	**6,104**	**10,301**	**6,104**	**10,301**

Note 13
Intangible Assets

	Consolidated Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Cost of goodwill	1,956,599	1,956,599	-	-
Write off of Goodwill	(1,956,599)	-	-	-
Net carrying value	**-**	**1,956,599**	**-**	**-**

Movement:

	Consolidated Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
Goodwill				
Balance at the beginning of the year	1,956,599	1,956,599	-	-
Acquisitions through business combinations	-	-	-	-
Write off of Goodwill	(1,956,599)	-	-	-
Total Goodwill	**-**	**1,956,599**	**-**	**-**

Note 13
Intangible Assets (Continued)

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 fully exploit the company's products & technologies in excess of the carrying value of the goodwill. As of 30 June 2010, the board has recognised that the company's technologies have yet to be successfully exploited across the range of projects, and the decision was made to write down the asset's carrying value in accordance with the requirements of AASB 136 *Impairment of Assets*.

Impairment Charge

The company has acknowledged that it is yet to bring a product to a stage of commercialisation, and the decision was made following the reporting date to write down the assets carrying value following the directors annual impairment review in accordance with the requirements of AASB 136 *Impairment of Assets*. This impairment is a result of the uncertainty surrounding the timing of future cash flows to be generated by the technology.

Note 14
Trade and Other Liabilities

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
CURRENT				
Trade payables	136,680	331,982	136,680	331,982
Sundry payables & accrued expenses	30,218	23,112	30,218	23,112
Other related parties	449,673	594,861	449,673	594,861
Key management personnel related entities	354,877	189,019	354,877	189,019
NON-CURRENT				
Deferred related trade payables*	883,755	-	883,755	-
Amounts owed to subsidiaries**	-	-	1,858,365	1,858,365
	1,855,203	**1,138,974**	**3,713,568**	**2,997,339**

It is expected that all current payables will be settled within the next 6 months.

Trade and other liabilities generally do not accrue interest and are typically settled within the agreed payment terms. Information about the group's and the parents entity's exposure to foreign exchange risk is provided in note 2.

* Amounts have been deferred as of 30 June 2010 by key management personnel and certain contractors.

** Payment terms are on demand and no interest is charged. No demand for payment has been made from the wholly owned subsidiaries for inter-company loans outstanding.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 15
Issued Capital

		Consolidated Entity		Parent Entity	
		2010	2009	2010	2009
		$	$	$	$
	At the beginning of reporting period	15,970,264	13,447,207	3,355,962	75,514,821
	Issue of shares	1,223,479	2,523,057	1,223,479	2,523,057
	Reduction of share capital to the extent not represented by assets as at 30 June 2008	-	-	-	(74,681,916)
	90,755,071 (2007: 80,481,627)	**17,193,743**	**15,970,264**	**4,579,441**	**3,355,962**
	Fully Paid Ordinary shares				

		Consolidated Entity		Parent Entity	
		2010	2009	2010	2009
		No.	No.	No.	No.
	Ordinary Shares				
	At the beginning of reporting period	90,755,071	80,481,627	90,755,071	80,481,627
b	Shares Issued 26th August, 2008	-	2,960,000	-	2,960,000
c	Shares Issued 26th November, 2008	-	1,200,000	-	1,200,000
e	Shares Issued 30th January, 2009	-	2,782,435	-	2,782,435
f	Shares Issued 25th March, 2009	-	3,181,009	-	3,181,009
g	Shares Issued 1st June, 2009	-	150,000	-	150,000
i	Shares Issued 1st July, 2009	50,000	-	50,000	-
k	Shares Issued 1st August, 2009	50,000	-	50,000	-
l	Shares Issued 30th September, 2009	4,024,403	-	4,024,403	-
n	Shares Issued 25th November, 2009	1,566,690	-	1,566,690	-
p	Shares Issued 14th January, 2010	100,000	-	100,000	-
r	Shares Issued 15th March, 2010	141,500	-	141,500	-
	At reporting date	**96,687,664**	**90,755,071**	**96,687,664**	**90,755,071**
	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	**9,999,204**	**9,999,204**	**9,999,204**	**9,999,204**
	Options				
	At the beginning of reporting period	6,000,603	11,263,194	6,000,603	11,263,194
a	Expired Options 1st July, 2008	-	(1,000,000)	-	(1,000,000)
c	Options Issued 26th November, 2008	-	1,350,000	-	1,350,000
d	Expired Options 27th December, 2008	-	(200,000)	-	(200,000)
h	Expired Options 27th June, 2009	-	(5,412,591)	-	(5,412,591)
j	Expired Options 7th July, 2009	(4,150,603)	-	(4,150,603)	-
m	Options Issued 1st October, 2009	2,012,000	-	2,012,000	-
o	Options Issued 14th December, 2009	783,347	-	783,347	-
q	Expired Options 1st February, 2010	(500,000)	-	(500,000)	-
r	Options Issued 15th March, 2010	141,500	-	141,500	-
	At reporting date	**4,286,847**	**6,000,603**	**4,286,847**	**6,000,603**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 15
Issued Capital (continued)

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 a poll is called, otherwise each shareholder has one vote on a show of hands.

* At the Annual General Meeting held on 19 November 2008, shareholders approved a reduction in the value of the Parent Entity's share capital against accumulated losses by $74,681,916, being an amount not represented by available assets, pursuant to section 258F of the Corporations Act. This was essentially an accounting entry that allowed the Company to remove from retained earnings historical carried forward losses that effects the ability of the Company to retain earnings from which future dividends may be paid. The reduction has no effect on the carried forward tax losses of the Company nor did it change the number of shares on issue or the net asset position of the Company.

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.

Summary of movements in issued capital during the year

(a) On 1 July 2009 50,000 ordinary shares were issued and allotted at $0.20 per share to non-related parties as consideration for services rendered.

(b) On 7 July 2009 4,150,603 options exercisable at $0.40 each expired.

(c) On 1 August 2009 50,000 ordinary shares were issued and allotted at $0.20 per share to non-related parties as consideration for services rendered.

(d) On 30 September 2009 by way of private placement, 4,024,403 ordinary shares were issued and allotted at $0.18 per share.

(e) On 1 October 2009 by way of private placement, 2,012,000 free attaching options were issued exercisable at $0.20 each expiring 30 September 2010.

(f) On 25 November 2009 by way of private placement, 1,566,690 ordinary shares were issued to key personnel & related parties at $0.18 per share and allotted subsequent to shareholder approval at a general meeting.

(g) On 14 December 2009 by way of private placement 783,347 free attaching options were issued to key personnel & related parties exercisable at $0.20 each expiring 11 December 2010 and allotted subsequent to shareholder approval at a general meeting.

(h) On 14 January 2010 100,000 ordinary shares were issued and allotted at $0.20 per share to non-related parties as consideration for services rendered.

(i) On 1 February 2010 500,000 options exercisable at $0.27 each expired

(j) On 15 March 2010 141,500 ordinary shares were issued at $0.20 each for services rendered with one free attaching option exercisable at $0.25 each expiring 15 March 2010.

Note 15
Issued Capital (continued)

Capital Risk Management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to progress development of its technologies toward commercialization, so as to provide returns to shareholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The Group monitors capital on the basis of available working capital. The Group relies upon investment funding and equity raising in order to meet its working capital requirements so it may develop its technologies to a stage whereby future commercial benefits can be derived.

Note 16
Reserves and Accumulated Losses

(a) Reserves

	Consolidated Entity		**Parent Entity**	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
(i) Option reserve	54,126	54,126	54,126	54,126
(ii) Share based payments reserve	546,342	498,963	245,542	198,163
	600,468	**553,089**	**299,668**	**252,289**
Movements				
Option Reserve				
Balance 1 July	54,126	54,126	54,126	54,126
Balance 30 June	**54,126**	**54,126**	**54,126**	**54,126**
Share based payments reserve				
Balance 1 July	498,963	386,900	198,163	86,100
Options issued to key management	47,379	112,063	47,379	112,063
Balance 30 June	**546,342**	**498,963**	**245,542**	**198,163**

Note 16
Reserves and Accumulated Losses (continued)

(i) **Option Reserve**
The option reserve includes the following:
- Options issued in exchange for cash

(ii) **Share based payments reserve**
The share based payments includes the following:
- Items recognised as expenses on valuation of employee share options but not exercised.
- Options issued to non-related parties in exchange for cash or services but not yet exercised.

(b) Accumulated losses

	Consolidated Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Movements in accumulated losses were as follows:				
Balance 1 July	(15,645,613)	(12,602,150)	(3,043,406)	(74,681,916)
Net loss for the year	(3,495,207)	(3,043,463)	(5,470,677)	(3,043,406)
Reduction of accumulated losses against share capital	-	-	-	74,681,916
Balance 30 June	**(19,590,820)**	**(15,645,613)**	**(8,654,973)**	**(3,043,406)**

Note 17
Key Management Personnel Disclosures

a. Key Management Personnel Compensation

	Consolidated Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
Short-term employee benefits	188,754	359,082	188,754	359,082
Post-employment benefits	2,064	2,064	2,064	2,064
Long-term benefits	-	-	-	-
Termination payments	-	-	-	-
Share-based payments	47,379	112,063	47,379	112,063
	238,197	**473,209**	**238,197**	**473,209**

Detailed remuneration disclosures can be found in the directors report in sections A to D of the remuneration report on pages **23 - 26**.

b. 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 page 27.

Note 17
Key Management Personnel Disclosures (continued)

(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.

Consolidated and Parent:
2010

Key Management Personnel	Balance at start of the year	Granted as Compen-sation	Expired	Other Changes	Balance at end of year	Vested and exercisable	Unvested
Mr. Leon Ivory	450,000	-	-	73,887	523,887	523,887	-
Mr. Leif Jensen	1,642,400	-	*(742,400)	92,600	992,600	392,600	600,000
Dr Barry Walker	-	-	-	20,325	20,325	20,325	-
Prof. Peter Brooks	-	-	-	13,887	13,887	13,887	-
Dr. Roger New	-	-	-	13,887	13,887	13,887	-
Total	**2,092,400**	**-**	**(742,400)**	**214,586**	**1,564,586**	**964,586**	**600,000**

* These options expired, as part of 4,150,603 options (exercisable at $0.40 each) that expired on 7 July 2009.

Consolidated and Parent:
2009

Key Management Personnel	Balance at start of the year	Granted as Compen-sation	Exercised	Other Changes	Balance at end of year	Vested and exercisable	Unvested
Mr. Leon Ivory	450,000	450,000	-	*(450,000)	450,000	450,000	-
Mr. Leif Jensen	742,400	900,000	-	-	1,642,400	742,400	900,000
Mr. Paul Hopper	200,000	-	-	**(200,000)	-	-	-
Total	**1,392,400**	**1,350,000**	**-**	**(650,000)**	**2,092,400**	**1,192,400**	**900,000**

All vested options are exercisable at the end of the year.

* These options expired on 1 July 2008 and were not exercised.

** These options expired on 27 December 2008 and were not exercised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 17
Key Management Personnel Disclosures (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.

Consolidated & Parent
2010

Key Management Personnel	Balance at start of the year	Granted as Compen-sation	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Mr. Leon Ivory	514,685	-	-	47,773	*562,458
Mr. Leif Jensen	942,400	-	-	185,200	1,127,600
Dr. Roger New	14,703	-	-	27,773	42,476
Prof. Peter Brooks	14,091	-	-	27,773	41,864
Dr Barry Walker	-	-	-	40,650	40,650
Total	**1,485,879**	**-**	**-**	**329,169**	**1,815,048**

* **33,000** and 511,914 are nominally held by Ivory & Company Pty Ltd and Gwenny Ivory respectively. 6,368 shares are also nominally held by Bluewater Capital Partners Pty Ltd for which Leon is a director and shareholder.

Consolidated & Parent
2009

Key Management Personnel	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Mr. Leon Ivory	514,685	-	-	514,685
Mr. Leif Jensen	742,400	-	200,000	942,400
Dr. Roger New	14,703	-	-	14,703
Prof. Peter Brooks	14,091	-	-	14,091
Total	**1,285,879**	**-**	**200,000**	**1,485,879**

c. 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.

d. Other transactions with key management personnel

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:

(a) Proxima Laboratory & Research Services Limited: (Dr. Roger New – Non-executive Director)
2010: $781,573 (2009: $953,554) - The contract with Proxima Laboratory & Research Services Limited of which Dr. Roger New is a Director, is for the supply of research, laboratory & management services. Dr. New is a director of both Bone Limited & Bone Medical Limited.

(b) Ivory and Company Pty Ltd: (Mr. Leon Ivory – Non-executive Director)
2010: $108,000 (2009: $108,000) - These payments to Ivory and Company Pty Ltd of which Mr. Leon Ivory is a director are for corporate & administration services. Mr. Ivory is a Non-executive Director of both Bone Medical Limited and Bone Limited.

Note 17
Key Management Personnel Disclosures (continued)

(c) Bluewater Capital Partners Pty Ltd: (Mr. Leon Ivory – Non-executive Director)
2010: $40,721 (2009: $31,755) – These payments to Bluewater Capital Partners Pty Ltd of which Mr. Leon Ivory is a director, are for provision of office rental premises. Mr. Ivory is a Non-executive Director of both Bone Medical Limited and Bone Limited.

(d) Proxima Concepts Limited: (Dr. Roger New – Non-executive Director)
2010: $38,023 (2009: $523,552) – These payments to Proxima Concepts Limited of which Dr. Roger New is a director, are for licencing fees in relation to the Axcess technology. Dr. New is a Director of both Bone Limited & Bone Medical Limited.

Aggregate amounts payable to key management personnel of the Group at balance date relating to the above types of other transactions:

	2010	**2009**
	$	**$**
Current Liabilities		
Key management personnel related entities	968,317	783,880

Note 18
Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity:

	Consolidated Entity		**Parent Entity**	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
BDO Audit (WA) Pty Ltd				
Audit and review of financial report	46,755	46,931	46,755	46,931
	46,755	46,931	46,755	46,931

Note 19
Contingent Liabilities

Licence agreement obligations:-

Under the licence agreement between Bone Medical Limited and Axcess Limited the following terms apply: £1,030,000 is payable to Axcess 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 4 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%.

The events listed above have not occurred subsequent to year end, however, during the 2009 financial year Axcess Limited participated in a private placement for 1,680,000 ordinary shares at an issue price of AU$0.25 per share. Settlement for these shares issued by this private placement was by way of reduction to the contingent licence fee of £1,030,000 by an amount of £179,144.20 (AU$420,000), thus reducing the balance of the contingent licence fee to £850,855.80. The issue of these shares was approved at a general meeting held on the 25 March 2009.

Note 20
Related Party Transactions

(a) Parent entities

The parent entity within the Group is Bone Medical Limited. The ultimate Australian parent entity in the group is Bone Medical Limited which at 30 June 2010 owns 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). The ultimate parent entity in the Group is Proxima Concepts Limited (incorporated in Jersey, Channel Islands) holding 49.80% of the issued ordinary share capital of Bone Medical Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in **note 20.**

(c) Key management personnel

Disclosures relating to key management personnel are set out in **note 16**.

(d) Transactions with related parties

There were no transactions between Bone Medical Limited and the other entities in the group during the year ended 30 June 2010 or the year ended 30 June 2009.

(e) Loans due to Subsidiaries

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Beginning of the year	-	-	1,858,365	1,858,365
End of the year	-	-	1,858,365	1,858,365

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

Note 21
Subsidiaries

Name of entity	Country of incorporation	Class of shares	Equity holding*	
			2010	2009
			%	%
Bone Limited	Jersey, Channel Islands	Ordinary	100	100
		Preference	100	100
Owein Pty Ltd	Australia	Ordinary	100	100

* The proportion of ownership interest is equal to the proportion of voting power held

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 22
Events occurring after the reporting date

(1) On the 2nd August 2010 Bone Medical Limited, by way of conversion of notes to equity, raised $ 177,000 through the issue of 1,767,000 fully paid ordinary shares at $0.10 cents per share and 1,767,510 unlisted options exercisable at $0.20 at an expiry 24 months from the date of issue.

(2) On the 14th September 2010 Bone Medical Limited, announced that it had raised $180,000 for working capital in non interest bearing loan funds.

(3) Since the lodgment of the preliminary financial report the Company announced confirmed commitments from Directors and management to convert all or part of their outstanding obligations, which now equates to $509,529. Directors, key management personnel and certain contractors, since the lodgment of the preliminary financial report, have agreed to defer a total of $883,755 of the amounts owing to them from short term liabilities to long term liabilities. These conversions and deferrals will be subject to shareholder approval where necessary.

(4) On the 14th September 2010, the Company announced that the Company has executed a convertible note funding term sheet agreement which was secured on 30th September 2010 with La Jolla Cove Investors Inc (LJCI) for US$6 million.

The key terms of the proposed convertible note facility are as follows;

- US$6,000,000 (4 consecutive notes of US$1,500,000) funded by LJCI through an initial through an initial payment of US$100,000 and minimum monthly payments of US$10,000 incrementing higher in relation to the BNE trading price, until the entire principal balance is fully funded.

  a) To $50,000 per month upon Bone Medical common stock trading at A$0.11 to A$0.14;

  b) To $100,000 per month upon Bone Medical common stock trading at A$0.141 to A$0.18;

  c) To $200,000 per month upon Bone Medical common stock trading at A$0.181 to A$0.24;

  d) To $325,000 per month upon Bone Medical common stock trading at A$0.241 or higher.

- The interest rate is 4.75% per annum payable monthly in cash or fully paid ordinary shares, on the outstanding funded and non-converted principal amount;

- Maturity is 3 years from the Closing of each Convertible Note, unless converted earlier.

The issue of shares in relation to the Convertible Note is subject to BNE obtaining such shareholder approvals or other regulatory approvals for the conversion contemplated by the Convertible Note facility and as may be required by the constitution, the Corporations Act, the ASX, ASIC or any other relevant regulatory body.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 23
Reconciliations of loss after income tax to net cash outflow from operating activities

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Profit for the year	(3,945,207)	(3,043,463)	(5,490,677)	(3,043,406)
Depreciation	4,197	5,312	4,197	5,255
Key management options	47,379	112,063	47,379	112,063
Non-cash expenses – (share based payments)	162,062	1,007,861	162,062	1,007,861
Provision for write off of goodwill	1,956,599	-	-	-
Less : impairment to recoverable amount of investments	-	-	3,502,069	-
(Increase)/decrease in trade & term receivables	20,871	(17,519)	20,871	(17,519)
Increase/(decrease) in trade payables & accruals	892,981	317,138	892,981	317,138
Net cash inflow (outflow) from operating activities	(861,118)	(1,618,608)	(861,118)	(1,618,608)

(a) Subscription monies for the application of ordinary shares issued at 25 cents each by way of a private placement were received by way of an offset against outstanding creditor's invoices. For details refer to **Note 24** - Share based payments.

Note 24
Loss per Share

		Consolidated Entity	
		2010	2009
		Cents	Cents
(a)	**Basic loss per share**		
	Loss attributable to the ordinary equity holders of the company	(4.16)	(3.55)

		Consolidated Entity	
		2010	2009
		$	$
(b)	**Reconciliation of loss to profit or loss**		
	Loss from continuing operations attributable to the ordinary equity holders of the company	(3,945,765)	(3,043,463)
	Loss used to calculate basic earnings per share	(3,945,765)	(3,043,463)

		Consolidated Entity	
		2010	2009
		No.	No.
(c)	**Weighted average number of shares used as the denominator**	94,879,247	85,685,971

(d) **Diluted earnings per share**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 25
Share-based Payments

The following share-based payment arrangements existed at 30 June 2010:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year Number	Granted during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at the end of the year Number
2010							
Consolidated & Parent Entity							
26-11-08	26-11-11	$ 0.40	450,000	-	-	450,000	450,000
26-11-08	26-11-11	$ 0.40	300,000	-	-	300,000	300,000
26-11-08	26-11-12	$ 0.40	300,000	-	-	300,000	-
26-11-08	26-11-13	$ 0.40	300,000	-	-	300,000	-
01-02-07	01-02-10	$ 0.27	500,000	-	(500,000)	-	-
			1,850,000	-	(500,000)	1,350,000	750,000
Weighted average exercise price			$ 0.36	-	$ 0.27	$ 0.40	$ 0.40
2009							
Consolidated & Parent Entity							
26-11-08	26-11-11	$ 0.40	-	450,000	-	450,000	450,000
26-11-08	26-11-11	$ 0.40	-	300,000	-	300,000	-
26-11-08	26-11-12	$ 0.40	-	300,000	-	300,000	-
26-11-08	26-11-13	$ 0.40	-	300,000	-	300,000	-
01-02-07	01-02-10	$ 0.27	500,000	-	-	500,000	500,000
30-08-04	01-07-08	$ 0.50	1,000,000	-	(1,000,000)	-	-
27-12-05	27-12-08	$ 0.47	200,000	-	(200,000)	-	-
			1,700,000	1,350,000	(1,200,000)	1,850,000	950,000
Weighted average exercise price			$ 0.43	$ 0.40	$ 0.50	$ 0.36	$ 0.33

500,000 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 2010 had a weighted average exercise price of $0.40 (2009 - $0.36) and a weighted average remaining contractual life of 2.16 years (2009 – 2.65 years).

Exercise prices are $0.40 in respect to options outstanding at 30 June 2010. (2009: $0.27 to $0.40)

Fair Value of options granted
During the year end 30 June 2010, no options were issued under share based payment arrangements. The weighted average assessed fair value at grant date of options granted during the year ended 30 June 2009 was $0.198. 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.

Note 25
Share-based Payments (continued)

The model inputs for options granted during the year ended 30 June 2009 to included:

	Number of options issued	450,000	300,000	300,000	300,000
(a)	Vesting period	Nil	12 Months	24 Months	36 Months
(b)	Exercise price	$ 0.40	$ 0.40	$ 0.40	$ 0.40
(c)	Grant date	26/11/2008	26/11/2008	26/11/2008	26/11/2008
(d)	Expiry date	26/11/2011	26/11/2011	26/11/2012	26/11/2013
(e)	Share price at grant date	$ 0.30	$ 0.30	$ 0.30	$ 0.30
(f)	Expected price volatility	105%	105%	105%	105%
(g)	Expected dividend yield	0%	0%	0%	0%
(h)	Risk-free interest rate	5.75%	5.75%	5.75%	5.75%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

No options were granted as share-based payments during the year ended 30 June 2010.

Included under employee benefits expense in the statements of comprehensive income in 2010 is $47,379 (2009: $112,063) which relates, in full, to equity-settled share-based payment transactions.

Share based payment transactions

1 On the 15th March 2010 141,500 options were issued to non-related parties for in lieu of cash in return for consultancy services rendered. These options are excisable at $0.25 and expire 1 year from issue on the 13th March 2011.

2 During the year ending 30th June 2010, 200,000 ordinary shares were issued and allotted at $0.20 per share to a non-related party as consideration for services rendered. On 1st July 2009 and on 1st August 2009, 50,000 ordinary shares were issued, and on 14th January 2010 100,000 ordinary shares were issued.

Equity settled transactions

1 On the 25th November 2009 shareholders approved the issue of 1,033,678 ordinary shares at $0.18 each to Proxima Concepts Limited for its subscription in a Private Placement. Settlement of the subscription application monies was by way of offset against existing liabilities owed to the Proxima Group to the value of $186,062.

2 On the 25th November 2009 shareholders approved the issue of 469,169 ordinary shares at $0.18 each to Directors and Management for their subscription in a Private Placement. Settlement of the subscription application monies was by way of offset against existing liabilities owed to each person to the value of $186,062. These share were issues with a one for two attaching option exercisable at $0.20 per share expiring on 11th December 2010.

Note 26
Economic Dependency

Bone Limited (wholly owned subsidiary of Bone Medical Limited) has licence agreements for the technologies of Axcess, Mozaic, Vaxcine, and Lexicon from the licensors Axcess Limited, Mozaic Discovery Limited, Vaxcine Limited and Lexcicon Limited.

On 23 December 2002, Bone Ltd (as Licensee) entered into three exclusive intellectual property licence agreements (Licence Agreements) with Axcess, Mozaic & Vaxcine and in 2006 with Lexicon (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 (except Lexcicon from 1 October 2006) 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 2010

Note 27
Company Details

The registered office of Bone Medical Limited is:

Bone Medical Limited
Unit 1,
5 Turner Avenue,
Bentley Western Australia 6102

The principal places of business are:

Bone Medical Limited
Unit 1,
5 Turner Avenue
Bentley Western Australia 6102

The postal address is:

Bone Medical Limited
PO Box 1110
Bentley DC, Western Australia 6102

Note 28
Commitments

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

DIRECTORS' DECLARATION

The directors of the company declare that:

(a) the financial statements comprising the statement of comprehensive income, statement of financial position, statement of cashflows, statement of changes in equity and accompanying notes are in accordance with the *Corporations Act 2001 and* :

  (i) comply with Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date and

(b) The consolidated entity and company have included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

(c) In the directors opinion, 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

(d) the remuneration disclosures set out in the Directors' Report (as part of the audited Remuneration Report) for the year ended 30 June 2010 comply with section 300A of the *Corporations Act 2001.*

The directors have been given the declarations by the chief executive officer and 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. Leon Ivory – Joint Chief Executive Officer

Dated this 30th day of September 2010

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Australia

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

Report on the Financial Report

We have audited the accompanying financial report of Bone Medical Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Directors' Responsibility for the Financial 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 controls 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 the financial statements comply with *International Financial Reporting Standards*.

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial 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 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.

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* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

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 2010 and of their 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 financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying the opinion expressed above, we draw attention to Note 1(a) to the financial statements which indicates that the consolidated entity incurred a net loss of $3,945,207 during the year ended 30 June 2010, and had a net cash outflow from operating activities of $861,118. These conditions, along with other matters set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the entity's ability 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 statements.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Bone Medical Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001.*

BDO Audit (WA) Pty Ltd

BDO

Brad McVeigh
Director

Perth, Western Australia
Dated this 30th day of September 2010

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 22nd September 2010.

A. Distribution of Securities

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

Category (size of holding)			Ordinary Shares
1	-	1,000	546
1,001	-	5,000	216
5,001	-	10,000	140
10,001	-	100,000	131
100,001 and over			70
			1,103

(b) There were 888 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: 83.19%

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 22 September 2010 are:

Name	%
Proxima Concepts Limited	49.80
Hall Phoenix / Inwood Limited	13.68

SHAREHOLDER INFORMATION

The names of the 20 largest security holders of each class of equity as at 22 September 2010 are listed below:

TWENTY LARGEST ORDINARY SHAREHOLDERS

Name	Number	Issued shares held %
PROXIMA CONCEPTS LTD	46,514,040	47.24%
HALL PHOENIX/INWOOD LTD	13,198,457	13.41%
PIRUNICO TTEES JERSEY LTD	3,190,246	3.01%
PROXIMA LABORATORY & RESEARCH	2,514,912	2.55%
CLINTON JOHN O & LA	2,320,959	2.36%
HSBC CUSTODY NOMINEES AUSTRALIA LTD	2,221,676	2.26%
DUNCRAIG INV SVCS PL	1,631,554	1.66%
JENSEN LEIF HELTH	1,527,600	1.55%
STOUP DAVID	1,477,184	1.50%
HYFLASH HOLDINGS PTY LTD	1,325,883	1.35%
FORGIONE DOMENIC	975,000	0.99%
CHANG VICTOR MING-CHING	924,500	0.94%
NATIONAL NOM LTD	869,255	0.88%
HOTLAKE PTY LTD	555,556	0.56%
ANZ NOM LTD	547,054	0.56%
IVORY GWENNY	505,581	0.51%
III CLARENCE V NALLEY	500,000	0.51%
GOWER NOMINEES PTY LTD	473,529	0.48%
OAK TRUST GUERNSEY LTD	447,058	0.45%
NEWMAN PETER JOHN + C F	410,000	0.42%
	82,130,044	83.19%

Restricted equity securities

	Number on issue	Number of holders
Fully paid ordinary shares	100,000	1

Unquoted equity securities

	Number on issue	Number of holders
Class C 4% non-cumulative preference shares	9,999,204	1,358
Proxima Concepts Limited has a percentage holding of 76.02%		
Options issued to Key Management Personnel	2,101,424	10
Mr. Leif Jensen has a percentage holding of 48.65%		
Options issued to non-related parties	3,953,134	47