1. ***Rule 4.2A***

Appendix 4D
Half-year Report for the period ending 31 December 2010

Name of entity

BONE MEDICAL LIMITED

ABN	Reporting Period	Previous Corresponding Period
70 009 109 755	Half year ended 31 December 2010	Half year ended 31 December 2009

(1) Results for Announcement to the Market

Financial Results				$A
Revenues from ordinary activities *(item 2.1)*	Down	94.59 %	to	23
Loss from ordinary activities after tax attributable to members (*item 2.2*)	Down	47.56 %	to	(532,834)
Net (loss) for the period attributable to members *(item 2.3)*	Down	47.56 %	to	(532,834)
Final and interim dividends *(item 2.4)*	It is not proposed that either a final or interim dividend be paid .			
Record date for determining entitlements to the dividend *(item 2.5)*	N/A			

Brief explanation of any of the figures reported above (*item 2.6*):
Refer attached Interim Financial Report.

	Current Period	**Previous Corresponding Period**
Net tangible assets per ordinary share (*Item 3)*	(2.34) cents	(1.86) cents

Details of entities over which control has been gained or lost (*item 4*)

N/A

Details of dividends or distribution payments *(item 5)*
- No dividends or distributions are payable.

Details of dividend or distribution reinvestment plans *(item6)*
- There is no dividend reinvestment program in operation for Bone Medical Limited

Details of associates and joint venture entities *(item 7)*
- Bone Medical Limited does not have any investments in associate entities or joint venture interests.

Foreign entities to disclose which accounting standards are used in compiling the report *(item 8)*
- International Accounting Standards

Details of any audit dispute or qualification *(item 9)*
-None

This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the company.

BONE MEDICAL LIMITED
AND CONTROLLED ENTITIES

ABN 70 009 109 755

INTERIM FINANCIAL REPORT

For the Half-Year ended

31 DECEMBER 2010

CONTENTS

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Bone Medical Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2010.

DIRECTORS

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

Mr. Leif Jensen

Dr. Roger New

Mr. Leon Ivory

Dr. Barry Walker, M.D.

Prof. Peter Brooks

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

COMPANY SECRETARY

Mr. Mark Clements held the position of Company Secretary during the year.

FINANCIALS

The consolidated loss after income tax for the financial half year was $532,834 (2009: $1,016,005) due to R&D expenditure which is consistent with the long-term commercial strategy of the company. The loss was in line with expectations, with major expenses broadly in line with previous years relating to research and development.

On 5 October 2010, the Company announced it had executed a convertible note funding agreement with La Jolla Cove Investors Inc for US$6 million.

La Jolla Cove Investors Inc (LJCI) is a private investment company with offices located in La Jolla and San Francisco, California. The firm invests in small and mid-cap public companies with promising growth opportunities and gifted management teams. LJCI couples capital investment with strategic advisory services to help companies reach their growth goals.

The key terms of the Convertible Note facility are as follows;

- US$6,000,000 (4 consecutive notes of US$1,500,000). Funded by LJCI 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 securities trading at A$0.11 to A$0.14;
  b) To $100,000 per month upon Bone Medical securities trading at A$0.141 to A$0.18;
  c) To $200,000 per month upon Bone Medical securities trading at A$0.181 to A$0.24;
  d) To $325,000 per month upon Bone Medical securities 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 Convertible Note may be converted at LJCI's option (or upon default triggers) into fully paid ordinary shares of the Company. The number of shares into which the Convertible Note may be converted is equal to the dollar amount being converted divided by the Conversion Price. The "Conversion Price" shall be equal to the lesser of:
  a) the "ceiling price" of A$0.40, or
  b) 80% of the average of the 3 lowest VWAP (Volume Weighted Average Price) prices during the 20 trading days prior to the election to convert.

- The Convertible Note will include a "floor price" of A$0.045; such that if the shares of the Company are trading on the ASX at or below such level at such time as the LJCI seeks to convert all or a portion of the outstanding principal balance of the Convertible Note, the Company may elect to refuse such conversion in exchange for the redemption of the portion of the Convertible Note that the LJCI sought to convert.

- Two years after the Closing Date, if Bone Medical shares are trading below A$0.08 and LJCI has only funded $10,000 per month, for three consecutive months, Bone Medical may terminate the financing. Furthermore, Bone Medical may terminate the 3rd and 4th Note if its shares are trading below A$0.08 a share.

- LCJI is limited to holding no more than 19.9% of the shares capital of the Company and are not able to short sell the converted shares.

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.

Directors, management & contractors have also agreed to;

- convert all or part of their outstanding obligations totalling approximately $644,488 at $0.10 per share and 1 for 1 option exercisable at $0.20, subject to shareholder approval where required as at the 31st December 2010. Until conversion, these amounts are considered deferred; and

- defer a total of $1,747,805 of the amounts owing to them from short term liabilities to long term liabilities as at 31 December 2010. This includes the amounts agreed for deferment and conversion as at 30 June 2010

OPERATIONS

Bone Medical has continued with another productive year in furtherance of its major projects to launch on the market. Additional discussions have been held with the US FDA to clarify CMC and toxicology requirements, and the company now has an open IND filed for calcitonin in treatment for osteoporosis, and another IND filed for the osteoarthritis indication. Pre-IND meetings have also been held on the PTH programme. The first grants for the Axcess IV patent (used in the PTH formulation) have come out in South Africa and New Zealand, and other territories will follow shortly. Formulation work on BN006 has continued, examining sequence variants and optimising excipient combinations. Work on peptide folding for both PTH and calcitonin are giving new insights into behaviour of these molecules in the clinic.

EVENTS POST BALANCE DATE

On the 19th of January 2011, Bone Medical Limited issued one convertible note with the face value of US$1,500,000 (pursuant to the convertible not facility of up to US$6,000,000). This convertible note facility was issued in accordance with the Funding Agreement between La Jolla Cove Investors Inc and Bone Medical dated 5th of October 2010.

On the 19th of January 2011, Bone Medical Limited issued 781,250 shares to La Jolla Cove Investors Inc. for the conversion of US$25,000.00 of the convertible note with a face value of US$1,500,000 (pursuant to the convertible note facility of up to US$6,000,000).

On the 17th of February 2011, Bone Medical Limited issued 859,107 shares to La Jolla Cove Investors Inc. for the conversion of US$25,000.00 of the convertible note with a face value of US$1,500,000 (pursuant to the convertible note facility of up to US$6,000,000).

On the 28th of February 2011, Bone Medical Limited issued 1,953,125 shares to La Jolla Cove Investors Inc. for the conversion of US$50,000.00 of the convertible note with a face value of US$1,500,000 (pursuant to the convertible note facility of up to US$6,000,000).

On the 1st of March 2011, Bone Medical Limited appointed Mr Peter Young as Chief Executive Officer of the company. Mr Young was Chief Executive Officer and President of Ikano Therapeutics Inc. since April 2007 and prior to that served as the Chief Executive Officer and President of AlphaVax Inc. since 1999, both privately held development-stage life-science companies. He was employed by various Glaxo entities for a period of over 10 years, and served as Vice President of HIV and Opportunistic Infection at Glaxo Wellcome, where he was responsible for combined global commercial and product development and oversaw a five-fold expansion of HIV portfolio sales in the latter part of the 1990s. He has 25 years of experience in the global pharmaceutical industry, including senior commercial, general management, and development positions at Abbott International and Glaxo Wellcome.

Mr. Young has also served as a member of the national BIO board of directors and as the Chairman of the North Carolina Biosciences Organization and as the Chairman of NC BIO. He was a Director of Memory Pharmaceuticals Corp. from 2004 to 2009. Mr. Young holds a B.A and a Master of Business Administration from Indiana University.

As a result of his appointment, the La Jolla Cove Investors Inc will increase its minimum monthly payment to $100,000 for the next 12 months.

Other than the above there are no other events subsequent to balance date.

CURRENT OUTLOOK

The Company has a negative working capital and equity position as at 31 December 2010. 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 is actively evaluating and exploring a range of partnering and financing opportunities to create value for all shareholders and remains confident of raising enough funds to progress the Company. Below we have highlighted the key projects for Bone Medical 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 2010/11 and we look forward to updating you on progress over the coming months.

Auditor’s Independence Declaration

The Auditors Independence Declaration under section 307C of the Corporations Act 2001 is set out on **page 7** for the half year ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors.

Director: ________________________________
Leon Ivory

Date: 4rd March 2011

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

4 March 2011

The 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 half year ended 31 December 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 review.
- any applicable code of professional conduct in relation to the review.

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

BM Veigh

Brad McVeigh
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

Consolidated statement of comprehensive income

For the half-year ended 31st December 2010	Note	2010 $	2009 $
Revenue from Continuing Operations		23	425
Unrealised foreign exchange gains		200,272	-
Research & Development		(423,604)	(629,345)
Employee Benefits		(100,104)	(96,414)
Professional Consultants		(82,877)	(136,185)
Depreciation & Amortisation		(1,990)	(2,207)
External Consultants		(2,795)	(80,020)
Legal Fees		(13,516)	(7,894)
Travel		(1,976)	(6,229)
Business Development		(10,322)	(9,606)
Public Relations		(10,800)	(4,999)
Other Expenses		(85,145)	(43,531)
Loss before Income Tax		(532,834)	(1,016,005)
Income Tax Benefit		-	-
Loss and total comprehensive income (loss) for the half-year attributable to the members of Bone Medical Limited		(532,834)	(1,016,005)

Loss per share from continuing operations attributable to the ordinary equity holders of the company

	Cents	Cents
Basic loss per share (cents per share)	(0.54)	(1.09)

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2010	Note	31/12/2010	30/06/2010
ASSETS			
CURRENT ASSETS			
Cash & cash equivalents		3,578	33,210
Trade and other receivables		25,730	19,281
TOTAL CURRENT ASSETS		**29,307**	**52,491**
NON-CURRENT ASSETS			
Property, plant & equipment		4,114	6,104
TOTAL NON-CURRENT ASSETS		4,114	6,104
TOTAL ASSETS		**33,422**	**58,595**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other liabilities	6	344,376	971,448
Borrowings	7	246,800	-
TOTAL CURRENT LIABILITIES		591,176	971,448
NON-CURRENT LIABILITIES			
Deferred payables		1,747,804	883,755
TOTAL NON-CURRENT LIABILITIES		1,747,804	883,755
TOTAL LIABILITIES		**2,338,980**	**1,855,203**
NET (LIABILITIES)		**(2,305,558)**	**(1,796,608)**
EQUITY			
Issued capital		17,193,744	17,193,744
Accumulated losses		(20,123,654)	(19,590,820)
Reserves		624,352	600,468
TOTAL (DEFICIT)		**(2,305,558)**	**(1,796,608)**

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 31st December 2010	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers & employees	(284,267)	(714,216)
Interest received	23	425
Net cash (outflow) from operating activities	**(284,244)**	**(713,791)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares & other equity securities	-	724,372
Share issue transaction costs	-	(16,477)
Proceeds from borrowings	254,612	-
Net cash inflow from financing activities	**254,612**	**707,895**
Net (decrease) in cash & cash equivalents	(29,632)	(5,896)
Cash & cash equivalents at beginning of the half-year	33,210	9,662
Cash & cash equivalents at the end of the half-year	**3,578**	**3,766**

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half-year ended 31st December 2010	Issued Capital Ordinary $	Accumulated Losses $	Option Reserve $	Total $
Balance at 1 July 2009	**15,970,264**	**(15,645,613)**	**553,089**	**877,740**
Total comprehensive income (loss) for the half year	-	(1,016,005)	-	(1,016,005)
Transactions with owners in their capacity as equity holders:				
Ordinary shares issued under placement	998,428	-	-	998,428
Share based payments	-	-	23,884	23,884
Balance at 31 December 2009	**16,968,692**	**(16,661,618)**	**576,973**	**884,048**
Balance at 1 July 2010	**17,193,744**	**(19,590,820)**	**600,468**	**(1,796,608)**
Total comprehensive income (loss) for the half year	-	(532,834)	-	(532,834)
Transactions with owners in their capacity as equity holders:				
Ordinary shares issued under placement	-	-	-	-
Share based payments	-	-	23,884	23,884
Balance at 31 December 2010	**17,193,744**	**(20,123,654)**	**624,352**	**(2,305,558)**

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO FINANCIAL REPORTS

1 Basis of Preparation

The general purpose financial statements for the half-year reporting period ended 31 December 2010 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2010 and any public announcements made by Bone Medical Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Accounting Policies

(a) Going Concern

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.

In common with biotechnology companies, the Group's operations are subject to risk and uncertainty due primarily to the nature of research, development and commercialisation to be undertaken. The ability of the Group to continue as a going concern is dependent upon the Group raising further capital sufficient to meet the Group's expenditure commitments.

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

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

During the period, 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. With this progressive funding and additional capital raisings, the company intends to further develop its projects and technologies.

Further during the period, the Company has raised approximately $255,000 from shareholders and supporter of the company for on going working capital, and will continue to raise further amounts by way of equity and loan funds. Currently, investment bankers from the US, are in the process of being engaged to raise capital for the Company.

Directors, management & contractors have also agreed to;

- convert all or part of their outstanding obligations totalling approximately $644,488 at $0.10 per share and 1 for 1 option exercisable at $0.20, subject to shareholder approval where required as at the 31st December 2010. Until conversion, these amounts are considered deferred; and

- defer a total of $1,747,805 of the amounts owing to them from short term liabilities to long term liabilities as at 31 December 2010. This includes the amounts agreed for deferment and conversion as at 30 June 2010.

Since the reporting date, the Company has appointed a CEO who has the necessary expertise to commercialise the Company's projects. Further, La Jolla Cove Investors Inc will increase the minimum monthly payment to $100,000 for the next 12 months as a result of the appointment.

NOTES TO FINANCIAL REPORTS (continued)

1 Basis of Preparation (continued)

The Board of Bone Medical is confident that it will continue to operate as a going concern.

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

To achieve this the Group has not entered into any additional fixed contracts aside from a pre-existing contract with Proxima Laboratory & Research Services which includes a payment suspension clause should there be less than 3 months cash on hand. Also all Directors, Management & contractors cash fees remain suspended & may be settled by way of equity issues if required.

Without successful future capital raising, then the going concern basis of accounting may not be appropriate with the result that Bone Medical Limited and controlled entities may have to realise its assets and extinguish its liabilities other than in the normal course of business and in amounts different from that stated in the financial report.

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

2 Loss for the half-year

There were no items included in the loss for the half-year that that were considered to be unusual because of their nature, size or incidence.

3 Segment Information

In the half-year ending 31 December 2010 and 31 December 2009, the Company has predominantly undertaken all its business activities in the biopharmaceutical segment in Australia. The financial information as presented in these financial statements is consistent with the reports reviewed by the Board used to make strategic decisions.

4 Contingent Liabilities

Licence agreement obligations:-

Under the licence agreement between Bone Limited and Axcess Limited the following terms apply:

£850,856 is payable to Axcess Limited as a lump sum payment upon any of the following events occurring by 4th January 2006:

- 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.

NOTES TO FINANCIAL REPORTS (continued)

4 Contingent Liabilities (continued)

As the licence payment was not paid in full by the 4th January 2006, a deferred licence fee is charged monthly. This monthly charge is calculated by applying interest 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%.

5 Dividends

No dividends were declared during the half-year.

6 Trade and Other Payables

Current	**31/12/2010**	**30/06/2010**
	$	$
Trade payables	262,512	136,680
Sundry payables and accrued expenses	48,090	30,218
Other related parties	32,718	449,673
Key management personnel related entities	1,056	354,877
	344,376	**971,448**

7 Borrowings

Current	**31/12/2010**	**30/06/2010**
	$	$
Borrowings	67,431	-
Convertible Note*	100,025	-
Short term loans**	79,344	
	246,800	**-**

* $100,025 is share placement monies raised, from La Jolla Cove Investors Inc initial payment through to December 2010 as per the agreement. The amount received through 31 December 2010 was settled in shares post balance date.
****** These amounts are short term loans from shareholders where there is no interest payable, and each party will be offered the opportunity to redeem the amounts or subscribe to shares, during Bone Medical's next placement.

8 Events occurring after the balance date

On the 19th of January 2011, Bone Medical Limited issued one convertible note with the face value of US$1,500,000 (pursuant to the convertible not facility of up to US$6,000,000). This convertible note facility was issued in accordance with the Funding Agreement between La Jolla Cove Investors Inc and Bone Medical dated 5th of October 2010.

On the 19th of January 2011, Bone Medical Limited issued 781,250 shares to La Jolla Cove Investors Inc. for the conversion of US$25,000.00 of the convertible note with a face value of US$1,500,000 (pursuant to the convertible note facility of up to US$6,000,000).

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NOTES TO FINANCIAL REPORTS (continued)

8 Events occurring after the balance date (continued)

On the 1st of March 2011, Bone Medical Limited appointed Mr Peter Young as Chief Executive Officer of the company. Mr Young was Chief Executive Officer and President of Ikano Therapeutics Inc. since April 2007 and prior to that served as the Chief Executive Officer and President of AlphaVax Inc. since 1999, both privately held development-stage life-science companies. He was employed by various Glaxo entities for a period of over 10 years, and served as Vice President of HIV and Opportunistic Infection at Glaxo Wellcome, where he was responsible for combined global commercial and product development and oversaw a five-fold expansion of HIV portfolio sales in the latter part of the 1990s. He has 25 years of experience in the global pharmaceutical industry, including senior commercial, general management, and development positions at Abbott International and Glaxo Wellcome.

Mr. Young has also served as a member of the national BIO board of directors and as the Chairman of the North Carolina Biosciences Organization and as the Chairman of NC BIO. He was a Director of Memory Pharmaceuticals Corp. from 2004 to 2009. Mr. Young holds a B.A and a Master of Business Administration from Indiana University.

As a result of his appointment, the La Jolla Cove Investors Inc will increase its minimum monthly payment to $100,000 for the next 12 months.

9 Equity securities issued

Ordinary shares issued during the half-year	**31/12/2010**		**31/12/2009**	
	Shares	**$**	**Shares**	**$**
Ordinary shares issued by private placement	1,767,510	176,751*	5,591,093	1,006,397
Transaction costs	-	(1,160)*	-	(27,969)
Share based payments in lieu of cash	-	-	100,000	20,000
Total shares issued during the half-year	**1,767,510**	**175,591***	**5,691,093**	**998,428**

* These funds were received and accounted for in the 30 June 2010 annual report. The respective shares were issued 2nd of August 2010.

Options Issued
1,767,510 ordinary shares were issued by way of private placement. One attaching option was issued for every one ordinary share issued. As a result 1,767,510 options were issued with an exercise price of $0.20, expiring 24 months from date of issue.

Options expired
A total of 2,795,549 unlisted options exercisable at $0.20 expired during the period without being exercised.

10 Related Party Transactions

Related party transactions continue to be in place during the period. See 30 June 2010 annual report for details.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 15 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standard 134 'Interim Financial Reporting' and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Bone Medical Limited will be able to pay its debts as and when they become due and payable.

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

Leon Ivory
Director

Perth, Western Australia
4rd March, 2011

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Fax: +61 8 6382 4601
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Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bone Medical Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bone Medical Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of Bone Medical Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bone Medical Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1(a) in the financial report, which states that the company will have to seek additional funding to fulfill its present obligations. If the company is unable to obtain additional funding it may indicate the existence of a material uncertainty which may cast significant doubt on the company'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 at the values stated in this financial report.

BDO Audit (WA) Pty Ltd

BDO

Brad McVeigh
Director

Signed in Perth, Western Australia
Dated this 4th day of March 2011