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Rule 4.2A

Appendix 4D
Half-year Report for the period ended 31 December 2012

Name of entity

BONE MEDICAL LIMITED

ABN	Reporting Period	Previous Corresponding Period
70 009 109 755	Half year ended 31 December 2012	Half year ended 31 December 2011

(1) Results for Announcement to the Market

Financial Results				\$A
Revenues from ordinary activities (<i>item 2.1</i>)	Down	45.45 %	to	5
Loss from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Up	0.649%	to	(895,765)
Net (loss) for the period attributable to members (<i>item 2.3</i>)	Up	0.649 %	to	(895,765)
Final and interim dividends (<i>item 2.4</i>)	It is not proposed that either a final or interim dividend be paid .			
Record date for determining entitlements to the dividend (<i>item 2.5</i>)	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 (<i>Item 3</i>)	(0.32) cents	(2.26) 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 (*item 6*)

- 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 2012

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report

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BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report

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 2012.

DIRECTORS

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

Dr. Roger New
Mr. Leon Ivory
Mr Peter Young
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 half year.

FINANCIALS

The consolidated loss after income tax for the financial half year was \$895,765 (2011: \$889,982) 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.

During the period, the Company has continued to fund its working capital by drawing down on the US\$6 million convertible note with La Jolla Cove Investors Inc (La Jolla).

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 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.

From March 2011, La Jolla made a minimum monthly commitment of \$100,000 per month. In addition, in September 2012 La Jolla made a commitment to provide up to \$200,000 in incremental funding to support new trial activity undertaken by the Company.

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.

BONE MEDICAL LIMITED and Controlled Entities
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OPERATIONS

Bone Medical Ltd's business is focused on the development of important new products for the treatment of musculoskeletal diseases like osteoporosis, osteoarthritis, and rheumatoid arthritis. The Company's product pipeline consists of three Phase II programs and four preclinical programs that rely on licensed technologies from Proxima Concepts and laboratory development and intellectual property support from Proxima Laboratories and Research Services. Its clinical stage products are based on formulation technology that allows peptides that have been historically limited to non-oral routes of administration to be given orally, creating the potential for significant benefits to patient convenience, compliance, and treatment outcomes. Bone's main product development programs are:

CaPTHymone:	oral parathyroid hormone for the treatment of osteoporosis
Capsitonin:	oral calcitonin for the treatment of osteoarthritis pain
BN006:	a novel synthetic oligopeptide with selective TNF- α and IL-6 inhibitory mechanism and the potential for oral administration.

All these products address large and growing patient populations and markets with significant unmet medical need that involve major strategic commitment from industry, payers, and government. We believe that all have prospective profiles that are competitively superior and in the case of the clinical-stage programs may require relatively low-risk and low-cost development support to reach the marketplace. The profile of BN006 has blockbuster potential if borne out by later-stage development. Due to uncertainty about the regulatory environment for calcitonin in the treatment of osteoporosis, the Company has deprioritized its Capsitonin osteoporosis activity. In the second half of 2012, the Company initiated several important new experimental studies in support of its new product opportunities, and expects that data from these studies should help stimulate partnering interest from industry.

EVENTS POST BALANCE DATE

The following events occurred subsequent to balance date:

- 7 January 2013 it was announced that substantial shareholder Proxima Concepts Limited and Associates had increased its shareholding from 17.81% to 33.02% in association with conversion of \$409,886 in accrued and unpaid fees owed by the Company.
- 10 January 2013 New studies initiated in late 2012 have begun to move from the active treatment phase to the final analytical stage that will determine the results of each trial.
- 18 January 2013 The CaPTHymone clinical trial has completed the patient treatment phase of the study conducted under a clinical trial agreement with Q-Pharm Pty Ltd, that began patient dosing late in 4th quarter of last year.
- 21 January 2013 Initial findings from the BN006 proof of concept have begun to be received and appear to be positive.
- 21 January 2013 Issued and allotted 22,916,667 fully paid ordinary shares to La Jolla Cove Investors Inc following the conversion of A\$55,000 of a convertible note with a face value of US\$1,500,000 (pursuant to a convertible note facility of up to US\$6,000,000).
- 24 January 2013 issued and allotted 30,769,231 fully paid ordinary shares to La Jolla Cove Investors Inc following the conversion of A\$80,000 of a convertible note with a face value of US\$1,500,000 (pursuant to a convertible note facility of up to US\$6,000,000).

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
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- 25 January 2013 Issued and allotted 28,846,154 fully paid ordinary shares to La Jolla Cove Investors Inc following the conversion of A\$75,000 of a convertible note with a face value of US\$1,500,000 (pursuant to a convertible note facility of up to US\$6,000,000).
- 4 February 2013 Issued and allotted 16,111,111 fully paid ordinary shares to La Jolla Cove Investors Inc following the conversion of A\$29,000 of a convertible note with a face value of US\$1,500,000 (pursuant to a convertible note facility of up to US\$6,000,000).
- 13 February 2013 Issued and allotted 20,555,556 fully paid ordinary shares to La Jolla Cove Investors Inc following the conversion of A\$37,000 of a convertible note with a face value of US\$1,500,000 (pursuant to a convertible note facility of up to US\$6,000,000).

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 2012. Future capital raisings or industry partnerships 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 seeking, 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**
 - CaPTHymone® in Phase II for osteoporosis
 - Capsitonin® in Phase II for osteoarthritis
- **Progress projects through pre-clinical testing**
 - BN006 in pre-clinical and clinical Phase I
 - Pre-clinical development of the Osteoblast, BN005 and Osteoclast, BN008 projects
- Identify and establish additional product opportunities with the potential to exert a significant impact on the Company's value
- Maintain close contact with shareholder base
- Provide a foundation for shareholder value growth through new partnering and capital investment

We would like to thank the shareholders and directors and officers of Bone Medical Ltd for their continued support during 2012/13 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 6** for the half year ended 31 December 2012.

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



Director:

Peter Young

Date:

28th February 2013

BONE MEDICAL LIMITED and Controlled Entities
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Half-year Financial Report



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Chartered Accountants (Aus)
Business Consultants
Financial Advisors

AUDITOR'S INDEPENDENCE DECLARATION

To those charged with governance of Bone Medical Limited

As auditor for the review of Bone Medical Limited for the period ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) No contraventions of any applicable code of professional conduct in relation to the review.

Somes Cooke

Somes Cooke

Nicholas Hollens

Nicholas Hollens
Perth
28 February 2013

BONE MEDICAL LIMITED and Controlled Entities
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Half-year Financial Report

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2012	31 December 2012 \$	31 December 2011 \$
Revenue from continuing operations	5	11
Unrealised foreign exchange losses	(96,158)	(52,449)
Research & development expenses	(508,987)	(469,641)
Employee benefits expenses	(21,414)	(44,844)
Professional consultants expenses	(118,496)	(62,405)
Depreciation expense	-	(2,125)
Accounting and legal Fees	(61,054)	(90,773)
Travel expenses	-	(50,101)
Business development expenses	(75)	(561)
Finance costs	(12,130)	(68,411)
Other expenses	(73,423)	(40,577)
Loss before Income Tax	(891,732)	(881,876)
Income tax benefit	-	-
Loss for the half year	(891,732)	(881,876)
Other comprehensive income	(4,033)	(8,106)
Total comprehensive income for the half-year attributable to the members of Bone Medical Limited	(895,765)	(889,982)
 Loss per share from continuing operations attributable to the ordinary equity holders of the company		
Basic and diluted loss per share (cents per share)	(0.22)	(0.70)

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

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012	Note	31 December 2012 \$	30 June 2012 \$
<u>ASSETS</u>			
CURRENT ASSETS			
Cash & cash equivalents		43,769	10,485
Trade and other receivables		15,246	7,372
TOTAL CURRENT ASSETS		59,015	17,857
TOTAL ASSETS		59,015	17,857
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Trade and other payables	6	563,988	283,299
Deferred payables	7	1,099,883	1,590,757
Other liabilities	8	518,050	477,444
TOTAL CURRENT LIABILITIES		2,181,921	2,351,500
TOTAL LIABILITIES		2,181,921	2,351,500
NET (LIABILITIES)		(2,122,906)	(2,333,643)
<u>EQUITY</u>			
Contributed equity	10	20,814,360	19,703,825
Accumulated losses		(23,041,765)	(22,213,874)
Reserves		104,499	176,406
TOTAL (DEFICIT)		(2,122,906)	(2,333,643)

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

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2012	31 December 2012	31 December 2011
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers & employees	(535,866)	(535,337)
Interest received	5	11
Net cash (outflow) from operating activities	(535,861)	(535,326)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	-	(24,000)
Proceeds from borrowings	569,145	559,613
Net cash inflow from financing activities	569,145	535,613
Net increase in cash & cash equivalents	33,284	287
Cash & cash equivalents at beginning of the half-year	10,485	7,366
Cash & cash equivalents at the end of the half-year	43,769	7,653

Non-cash financing activities:

During the half-year, 194,008,453 shares were issued to settle deferred payables of \$582,025 and 185,228,984 shares were issued upon part conversion of convertible note balance (Note 10).

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

BONE MEDICAL LIMITED and Controlled Entities
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Half-year Financial Report

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Contributed Equity	Accumulated Losses	Option Reserve	Translation Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2011	18,228,230	(21,110,564)	651,865	(820)	(2,231,289)
Total comprehensive income for the half year	-	(889,982)	-	-	(889,982)
Transactions with owners in their capacity as equity holders:					
Ordinary shares issued	110,000	-	-	-	110,000
Share based payments	-	-	3,077	-	3,077
Convertible note converted to equity	25,000	-	-	-	25,000
Foreign exchange movements	-	-	-	(8,106)	(8,106)
Balance at 31 December 2011	18,363,230	(22,000,546)	654,942	(8,926)	(2,991,300)
Balance at 1 July 2012	19,703,825	(22,213,874)	190,222	(13,816)	(2,333,643)
Total comprehensive income for the half year	-	(895,765)	-	-	(895,765)
Transactions with owners in their capacity as equity holders:					
Deferred payables converted to equity	582,025	-	-	-	582,025
Expired options	-	67,874	(67,874)	-	-
Share based payments	-	-	-	-	-
Convertible note converted to equity	528,510	-	-	-	528,510
Foreign exchange movements	-	-	-	(4,033)	(4,033)
Balance at 31 December 2012	20,814,360	(23,041,765)	122,348	(17,849)	(2,122,906)

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 interim financial statements for the half-year ended 31 December 2012 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 2012 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.

The Board of Bone Medical is confident that it will continue to operate as a going concern. Key management personnel and their related parties have agreed to defer a total of \$1,099,883 (Note 7) of the amounts owing to them. 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.

In common with many 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 continuation of funding being received from La Jolla Cove Investors Inc., and key management personnel and their related parties continuing to defer amounts owing to them by the company. 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 its controlled entities. The achievement of the forecast is dependent upon the aforementioned outcomes, which are 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 and 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 and controlled entities not be able to continue as a going concern.

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report

NOTES TO FINANCIAL REPORTS (continued)

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 ended 31 December 2012 and 31 December 2011, the Company has predominantly undertaken all its business activities in the biopharmaceutical segment. 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

There has been no material change to the contingent liabilities disclosed at the last annual reporting date.

5 Dividends

No dividends were declared during the half-year.

6 Trade and Other Payables

	31 December 2012	30 June 2012
Current	\$	\$
Trade payables	529,311	259,321
Sundry payables and accrued expenses	34,677	23,978
	<u>563,988</u>	<u>283,299</u>

7 Deferred Payables

	31 December 2012	30 June 2012
Current	\$	\$
Deferred payables	<u>1,099,883</u>	<u>1,590,757</u>

On 31 December 2010, key management personnel and other related parties agreed to defer their debts in accordance with a Deferral Agreement. In February 2012, this deferral agreement was renewed until either the raising of \$4 million in capital or through at least September 2012. In August 2012, this agreement was further renewed for the debt owed as of the end of fiscal year 2012 through to at least June 2013, with an option to convert debt to equity, subject to shareholder approval.

BONE MEDICAL LIMITED and Controlled Entities
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NOTES TO FINANCIAL REPORTS (continued)

8 Borrowings and Derivative Financial Instrument

	31 December 2012	30 June 2012
Current	\$	\$
Convertible Note	518,050	477,444

Convertible notes

On 5th October 2010, a funding agreement was executed with U.S. based institutional investor, La Jolla Cove Investors, Inc. to provide US\$6 million financing to the Company by means of four equal convertible notes of USD 1.5million. The agreement was updated on 30th August 2011.

Key terms of the funding facility are as follows:

i. Aggregate funding

The facility comprises of four convertible notes of US\$1.5million each, totalling US\$6 million; a minimum of US\$10,000 is to be drawn every month (currently US\$100,000 is being drawn down each month and this is expected to continue in the foreseeable future; in addition, La Jolla has committed up to US\$200,000 in incremental funds to support the new trial activity that the Company initiated in 2012);

ii. Term

Each convertible note will have a repayment term of four years, from the date of initial drawdown;

iii. Interest

Interest is payable quarterly in arrears at a fixed rate of 4.75% per annum, on the then outstanding unconverted principal amount. Payment of interest shall be in cash, or at the election of La Jolla, in ordinary shares of Bone Medical Ltd valued at the then applicable conversion price;

iv. Conversion

La Jolla may convert the note, either in whole or in part, by the delivery to the Company of a conversion notice; and

v. Conversion price

The number of new shares into which the note may be converted is equal to the principal amount that is to be converted (as specified in the conversion notice) divided by the conversion price.

The conversion price of the notes is equal to the lesser of:

- (i) AU\$0.40 (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalisations or the like); and
- (ii) 80% of the average of the 3 lowest Volume Weighted Average Prices during the 20 trading days prior to investor's election to convert. For the initial Note only, this was amended to the average of the Volume Weighted Average Prices during the 5 trading days prior to investor's election to convert.

vi. Contingent liability

A contingent liability of USD 150,000 exists if the company terminates this agreement early or if amounts remain unpaid under certain circumstances. As at 31 2012, the Company has issued the second convertible note of USD 1.5 million.

NOTES TO FINANCIAL REPORTS (continued)

Pursuant to accounting standards, the fair value of option component of the convertible note is included in the liability. The value of this derivative fluctuates with the Company's underlying share price.

As the convertible note is denominated in the United States dollars, the change in the exchange rate with the Australian dollar is also taken into account in deriving the fair value of the convertible note derivative.

9 Events occurring after the balance date

The following events occurred subsequent to balance date:

- 7 January 2013 it was announced that a substantial shareholder Proxima Concepts Limited and Associates had increased its shareholding from 17.81% to 33.02% in association with conversion of \$409,886 in accrued and unpaid fees owed by the Company.
- 10 January 2013 New studies initiated in late 2012 have begun to move from the active treatment phase to the final analytical stage that will determine the results of each trial.
- 18 January 2013 The CaPTHymone clinical trial has completed the patient treatment phase of the study conducted under a clinical trial agreement with Q-Pharm Pty Ltd, that began patient dosing late in 4th quarter of last year.
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- 25 January 2013 Issued and allotted 28,846,154 fully paid ordinary shares to La Jolla Cove Investors Inc following the conversion of A\$75,000 of a convertible note with a face value of US\$1,500,000 (pursuant to a convertible note facility of up to US\$6,000,000).
- 4 February 2013 Issued and allotted 16,111,111 fully paid ordinary shares to La Jolla Cove Investors Inc following the conversion of A\$29,000 of a convertible note with a face value of US\$1,500,000 (pursuant to a convertible note facility of up to US\$6,000,000).
- 13 February 2013 Issued and allotted 20,555,556 fully paid ordinary shares to La Jolla Cove Investors Inc following the conversion of A\$37,000 of a convertible note with a face value of US\$1,500,000 (pursuant to a convertible note facility of up to US\$6,000,000).

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report

NOTES TO FINANCIAL REPORTS (continued)

10 Contributed equity

	Ordinary Shares	\$
Balance as at 1 July 2012	290,042,689	19,703,825
Shares issued to settle deferred payables	194,008,453	582,025
Shares issued upon part conversion of convertible note balance	185,228,984	528,510
Other	1,882,530	-
Balance as at 31 December 2012	671,162,656	20,814,360

As at 31 December 2012, the company had 13,081,468 options on issue. Further details of these options are available on the ASX.

Options Issued during the half year

- On 3rd July 2012 2,635,542 options were issued in lieu of cash fees to related parties including directors and contractors. The Options expire on 2nd July 2015 and have an exercise price of \$0.10.
- On the 3rd July 2012, 1,000,000 options were issued to the CEO with an expiry date of 2nd July 2015 and an exercise price of \$0.01328.
- On the 29th November 2012 290,000 options were issued to consultants with an expiry date of 28th November 2015 and an exercise price of \$0.01328 in consideration of capital raising services.
- A valuation of the options issued has been performed in accordance with AASB 2 using Black Scholes valuation modelling. The fair value of the options is immaterially variable from nil, and accordingly no expense has been recognised for these options.

Options expired during the half year

- On 2nd August 2012 1,767,510 options with an exercise price of \$0.2 expired without being exercised.
- On 26th November 2012 300,000 options with an exercise price of \$0.4 expired without being exercised.

10 Related Party Transactions

Related party transactions during the period were consistent in nature with those disclosed in the 30 June 2012 Annual Report.

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 7 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 2012 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.



Peter Young
Director

Perth, Western Australia
28th February, 2013

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report



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Business Consultants
Financial Advisors

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 consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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.

Directors' Responsibility for the Half-year Financial Report

The directors of Bone Medical Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal 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 Bone Medical Limited's financial position as at 31 December 2012 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*.

BONE MEDICAL LIMITED and Controlled Entities
ABN 70 009 109 755
Half-year Financial Report

Conclusion

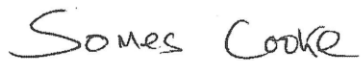
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bone Medical Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Bone Medical Limited's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

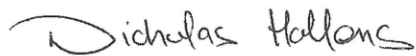
Emphasis of matter - Inherent uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to Note 1, which outlines that 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 continuation of funding being received from La Jolla Cove Investors Inc., and key management personnel and their related parties continuing to defer amounts owing to them by the company.

As a result there is material uncertainty related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern, and therefore whether it will realise its asset and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



Somes Cooke



Nicholas Hollens

28 February 2013

Perth
Western Australia