

APPENDIX 4E
Preliminary Final Report for year ending 30 June 2009

Name of entity

BONE MEDICAL LIMITED

(1)	ABN	Reporting Period	Previous Corresponding Period
	70 009 109 755	Financial year ended 30 June 2009	Financial year ended 30 June 2008

(2) Results for Announcement to the Market

				\$A
Revenues from ordinary activities (<i>item 2.1</i>)	Down	74%	to	8,981
Profit (loss) from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Loss has increased	8%	to	(3,043,463)
Net profit (loss) for the period attributable to members (<i>item 2.3</i>)	Loss has increased	8%	to	(3,043,463)
Final and interim dividends (<i>item 2.4</i>)	It is not proposed that either an interim or final dividend be paid .			
Record date for determining entitlements to the dividend (<i>item 2.5</i>)	N/A			
<p>Brief explanation of any of the figures reported above (<i>item 2.6</i>): The Directors report that the loss was \$3,043,463 (2008: \$2,825,253). This result has been achieved after fully expensing all research and development costs. Income for the period totalled \$8,981 (2008: \$34,544) being interest income.</p> <p>For further details relating to the current period's results, refer to the "Review of Operations".</p>				

Basic loss per share
(cents per share) (3.55) (3.62)

Diluted loss per share
(cents per share) N/A N/A

	Current Period	Previous Corresponding Period
Net tangible assets per ordinary share (<i>Item 9</i>)	(1.26) cents	(0.86) cents

Details of entities over which control has been gained or lost (*item 10*)

N/A

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

Preliminary Annual Report for year ending 30 June 2009

Details of dividends or distribution payments (*item 6*)

- No dividends or distributions are payable.

Details of dividend or distribution reinvestment plans (*item 7*)

There is no dividend reinvestment program in operation for Bone Medical Limited.

Statement of Retained Earnings (<i>item 8</i>)	Current Period \$'s	Previous Corresponding Period \$'s
Retained Profits (Accumulated Losses) at the beginning of the financial period	(12,602,150)	(9,776,897)
Net Profit (Loss) attributable to members	(3,043,463)	(2,825,253)
Retained Profits (accumulated losses) at end of financial period	(15,645,613)	(12,602,150)

Details of associates and joint venture entities (*item 11*)

- 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 13*)

The financial information provided in the Appendix 4e has been prepared in accordance with Australian accounting standards.

The accounts are in the process of being audited (*item 15*)

Details of any possible audit dispute or qualification (*item 16*)

- None

Description of any audit dispute or qualification (*item 17*)

- N/A

REVIEW OF OPERATIONS

Bone Medical has experienced a very successful year and obtained a number of positive milestones. 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 osteoporosis. This focus has in 2009 been expanded to also include the development of Capsitonin™ (oral Calcitonin) for the treatment of Osteoarthritis. Furthermore, Bone Medical has obtained 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 Phase III pivotal study.

Bone Medical is also planning a Phase II clinical trial with Capsitonin™ in osteoarthritis. Two recent literature reviews and a phase III clinical trial by Novartis indicate that Capsitonin™ may be effective in osteoarthritis, which by most industry experts is considered a much larger market opportunity compared with osteoporosis. 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 golden 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. More pre-clinical work is planned for 2009/2010.

REVIEW OF OPERATIONS (continued)

Prior to commencing the Phase III study 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 AUD \$2.5 million in the 2008-2009 financial year and saw European sophisticated and institutional investors come into the share registry. Bone Medical continues to raise funds and announced today that an additional AUD 1 million has been subscribed to in a private placement. A portion of the funds raised from this private placement will be applied against the outstanding liabilities of the company by way of cash settlements and conversion of debt to equity with related parties.

Bone Medical continues to follow-up on several interesting potential investors and is confident that more funds will be raised early in the 2009/2010 financial year. Bone Medical has 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. Furthermore, Bone Medical intends to list on OTCQX in late 2009.

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 are continuously evaluating possible collaborative opportunities and are in discussion with a number of potential collaborators.

Outlook

The global financial market has of recent been stabilising with renewed interest in the International Biotech sector. 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 of Bone Medical Ltd for their continued support during 2008/2009 and we look forward to updating you on exciting news over the coming months.

Yours sincerely,



Leon Ivory - Joint CEO

31st August , 2009

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

Preliminary Annual Report for year ending 30 June 2009

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	Note	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue from continuing operations		8,981	34,544	8,981	34,544
Research & Development		(2,031,686)	(1,827,285)	(2,031,686)	(1,827,285)
Employee Benefits		(436,274)	(402,382)	(436,274)	(402,382)
Professional Consultants		(273,275)	(277,645)	(273,275)	(277,645)
Depreciation & Amortisation		(5,312)	(6,737)	(5,255)	(6,668)
External Consultants		(107,335)	(157,345)	(107,335)	(157,345)
Legal Fees		2,922	(94,942)	2,922	(94,942)
Travel		(8,668)	(69,059)	(8,668)	(69,059)
Business Development		(26,812)	(28,913)	(26,812)	(28,913)
Public Relations		(4,400)	(26,538)	(4,400)	(26,538)
Other Expenses		<u>(267,314)</u>	<u>(281,639)</u>	<u>(267,314)</u>	<u>(281,639)</u>
Loss before Income Tax		(3,149,171)	(3,137,942)	(3,149,115)	(3,137,873)
Income Tax Benefit		105,709	312,688	105,709	312,688
Loss for the year		<u>(3,043,463)</u>	<u>(2,825,253)</u>	<u>(3,043,406)</u>	<u>(2,825,184)</u>
Basic loss per share (cents per share)	4	(3.55)	(3.62)		
Diluted loss per share (cents per share)		N/A	N/A		

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

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

Preliminary Annual Report for year ending 30 June 2009

BALANCE SHEETS AS AT 30 JUNE 2009

	Note	Economic Entity		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash & cash equivalents		9,662	373,074	9,662	373,074
Trade and other receivables		40,152	22,632	40,152	22,632
TOTAL CURRENT ASSETS		49,814	395,706	49,814	395,706
NON-CURRENT ASSETS					
Other financial assets		0	0	3,502,069	3,502,069
Property, plant & equipment		10,301	15,613	10,301	15,556
Intangible assets		1,956,599	1,956,599	0	0
TOTAL NON-CURRENT ASSETS		1,966,900	1,972,212	3,512,370	3,517,625
TOTAL ASSETS		2,016,714	2,367,918	3,562,184	3,913,331
LIABILITIES					
CURRENT LIABILITIES					
Trade and other liabilities		1,138,974	1,081,835	2,997,339	2,940,200
TOTAL CURRENT LIABILITIES		1,138,974	1,081,835	2,997,339	2,940,200
TOTAL LIABILITIES		1,138,974	1,081,835	2,997,339	2,940,200
NET ASSETS		877,740	1,286,083	564,845	973,131
EQUITY					
Issued capital	2	15,970,264	13,447,207	3,355,962	75,514,821
Accumulated losses		(15,645,613)	(12,602,150)	(3,043,406)	(74,681,916)
Reserves		553,089	441,026	252,289	140,226
TOTAL EQUITY		877,740	1,286,083	564,845	973,131

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

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

Preliminary Annual Report for year ending 30 June 2009

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

Economic Entity	<u>Share Capital</u>			
	Ordinary	Retained Earnings	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1st July 2007	12,232,626	(9,776,897)	441,026	2,896,755
Loss attributable to members of parent entity	-	(2,825,253)	-	(2,825,253)
Total recognised income & expense for the year	-	(2,825,253)	-	(2,825,253)
Ordinary shares issued under placement	1,214,581			1,214,581
Balance at 30th June 2008	13,447,207	(12,602,150)	441,026	1,286,083
Loss attributable to members of parent entity		(3,043,463)		(3,043,463)
Total recognised income & expense for the year		(3,043,463)		(3,043,463)
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	15,970,264	(15,645,613)	553,089	877,740
Parent Entity	<u>Share Capital</u>			
	Ordinary	Retained Earnings	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1st July 2007	74,300,240	(71,856,732)	140,226	2,583,734
Loss attributable to members of parent entity	-	(2,825,184)	-	(2,825,184)
Total reorganised income & expense for the year	-	(2,825,184)	-	(2,825,184)
Ordinary shares issued under placement	1,214,581	-	-	1,214,581
Balance at 30th June 2008	75,514,821	(74,681,916)	140,226	973,131.17
Loss attributable to members of parent entity	-	(3,043,406)	-	(3,043,406)
Total recognised income & expense for the year		(3,043,406)	-	(3,043,406)
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

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

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

Preliminary Annual Report for year ending 30 June 2009

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note	Economic Entity		Parent Entity	
	2009	2008	2009	2008
CASHFLOWS FROM OPERATING ACTIVITIES				
Income tax research & development rebate	105,709	312,688	105,709	312,688
Payments to suppliers & employees	(1,733,298)	(2,726,375)	(1,733,298)	(2,726,375)
Interest Received	8,981	38,617	8,981	38,617
Net cash (used in) operating activities	(1,618,608)	(2,375,070)	(1,618,608)	(2,375,070)
CASHFLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant & equipment	-	(1,000)	-	(1,000)
Net cash (used in) investing activities	-	(1,000)	-	(1,000)
CASHFLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares & other equity securities	1,293,000	1,301,104	1,293,000	1,301,104
Share issue transaction costs	(37,804)	(30,600)	(37,804)	(30,600)
Net cash provided by financing activities	1,255,196	1,270,504	1,255,196	1,270,504
Net (decrease) in cash held	(363,412)	(1,105,566)	(363,412)	(1,105,566)
Cash at beginning of financial year	373,074	1,478,640	373,074	1,478,640
Cash at end of financial year	9,662	373,074	9,662	373,074

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

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

Preliminary Annual Report for year ending 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

**Note 1
Segment Information**

In 2009 and 2008, the Company has predominantly undertaken all its business activities in the biopharmaceutical segment in Australia.

**Note 2
Issued Capital**

	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
At the beginning of reporting period	13,447,207	12,232,626	75,514,821	74,300,240
Issue of shares	2,523,057	1,214,581	2,523,057	1,214,581
* 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)	15,970,264	13,447,207	3,355,962	75,514,821
Fully Paid Ordinary shares				
		Economic Entity	Parent Entity	
		2009	2008	2009
		No.	No.	No.
Ordinary Shares				
At the beginning of reporting period	80,481,627	76,331,024	80,481,627	76,331,024
a Shares Issued 7th January, 2008		2,723,350		2,723,350
b Shares Issued 6th March, 2008		1,427,253		1,427,253
d Shares Issued 26th August, 2008	2,960,000		2,960,000	
e Shares Issued 26th November, 2008	1,200,000		1,200,000	
h Shares Issued 30th January, 2009	2,782,435		2,782,435	
i Shares Issued 25th March, 2009	3,181,009		3,181,009	
j Shares Issued 1st June, 2009	150,000		150,000	
At reporting date	90,755,071	80,481,627	90,755,071	80,481,627
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	11,263,194	7,112,591	11,263,194	7,112,591
a Options Issued 7th January, 2008		2,723,350		2,723,350
b Options Issued 6th March, 2008		1,427,253		1,427,253
c Expired Options 1st July, 2008	(1,000,000)		(1,000,000)	
f Options Issued 26th November, 2008	1,350,000		1,350,000	
g Expired Options 27th December, 2008	(200,000)		(200,000)	
k Expired Options 27th June, 2009	(5,412,591)		(5,412,591)	
At reporting date	6,000,603	11,263,194	6,000,603	11,263,194

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 2

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.

- (a) On 7 January 2008 by way of private placement, 2,723,350 ordinary shares were issued and allotted at \$0.30 per share. Each share had one attaching option exercisable at \$ 0.40 each expiring on 7 July 2009.
- (b) On 6 March 2008 by way of private placement, 1,427,253 ordinary shares were issued and allotted at \$0.30 per share. Each share had one attaching option exercisable at \$ 0.40 each expiring on 7 July 2009.
- (c) On 1 July 2008, 1,000,000 options exercisable at \$0.50 each expired.
- (d) On 26 August 2008 by way of private placement, 2,960,000 ordinary shares were issued and allotted at \$0.25 per share.
- (e) On 26 November 2008 by way of private placement, 1,200,000 ordinary shares were issued and allotted at \$0.25 per share.
- (f) On 26 November 2008, 1,350,000 options exercisable at \$0.40 each were issued to key management personnel.
- (g) On 27 December 2008, 200,000 options exercisable at \$0.47 each expired.
- (h) On 30 January 2009 by way of private placement, 2,782,435 ordinary shares were issued and allotted at \$0.25 per share.
- (i) On 25 March 2009 by way of private placement, 3,181,009 ordinary shares were issued and allotted at \$0.25 per share.
- (j) On 1 June 2009 150,000 ordinary shares were issued and allotted at \$0.20 per share to non-related parties as consideration for services rendered.
- (k) On 27 June 2009 5,412,591 options exercisable at \$0.60 each expired.

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 3

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 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 for 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 4

Earnings per Share

	Economic Entity	
	2009	2008
	Cents	Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the company	(3.55)	(3.62)
	Economic Entity	
	2009	2008
	\$	\$
(b) Reconciliation of earnings to profit or loss		
Loss from continuing operations attributable to the ordinary equity holders of the company	(3,043,463)	(2,825,253))
Earnings used to calculate basic earnings per share	<hr/> <u>(3,043,463)</u>	<hr/> <u>(2,825,253)</u>
	Economic Entity	
	2009	2008
	No.	No.
(c) Weighted average number of shares used as the denominator	85,685,971	78,085,526
(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.

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

Preliminary Annual Report for year ending 30 June 2009

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 5

Events occurring after the balance sheet date

On the 7 July 2009, 4,150,603 options with an exercise price of \$0.40 expired. These options were not exercised.

On the 31 July 2009, 50,000 ordinary shares were issued at \$0.20 each as payment for consultancy services rendered.

On the 31 August 2009, Bone Medical completed a fundraise of \$1 million.

Note 6

Share-based Payments

The following share-based payment arrangements existed at 30 June 2009:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Granted during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at the end of the year
			Number	Number	Number	Number	Number
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	\$ 0.43	\$ 0.33
2008							
Consolidated & Parent Entity							
30-08-04	01-07-08	\$ 0.50	1,000,000	-	-	1,000,000	1,000,000
27-12-05	27-12-08	\$ 0.47	200,000	-	-	200,000	200,000
01-02-07	01-02-10	\$ 0.27	500,000	-	-	500,000	500,000
			1,700,000	-	-	1,700,000	1,700,000
Weighted average exercise price							
		\$ 0.43	\$ -	\$ -	\$ 0.43	\$ -	\$ 0.43

1,200,000 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 2009 had a weighted average exercise price of \$0.36 (2008 - \$0.43) and a weighted average remaining contractual life of 2.65 years (2008 – 0.70 years).

Exercise prices range from \$0.27 to \$0.40 in respect to options outstanding at 30 June 2009. (2008: \$0.27 to \$0.50)

NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 6

Share-based Payments (continued)

Fair Value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 30 June 2009 was \$0.198 (2008: no 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.

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 2008.

Included under employee benefits expense in the income statement in 2009 is \$112,063 (2008: nil) which relates, in full, to equity-settled share-based payment transactions.

Note 7

Commitments

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