

APPENDIX 4E

Preliminary Final Report for year ending 30 June 2010

Name of entity

BONE MEDICAL LIMITED

(1)

ABN	Reporting Period	Previous Corresponding Period
70 009 109 755	Financial year ended 30 June 2010	Financial year ended 30 June 2009

(2) Results for Announcement to the Market

			\$A
Revenues from ordinary activities (<i>item 2.1</i>)	Down	94% to	558
Profit (loss) from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Loss has decreased	35% to	(1,988,608)
Net profit (loss) for the period attributable to members (<i>item 2.3</i>)	Loss has decreased	35% to	(1,988,608)
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		
Brief explanation of any of the figures reported above (<i>item 2.6</i>):			
The Directors report that the loss was \$1,988,608 (2009: \$3,043,463). This result has been achieved after fully expensing all research and development costs. Income for the period totalled \$558 (2009: \$8,981) being interest income.			
For further details relating to the current period's results, refer to the "Review of Operations".			

Basic loss per share
(cents per share) (2.10) (3.55)

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>)	(2.08) cents	(1.26) cents

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

N/A

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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	(15,645,613)	(12,602,150)
Net Profit (Loss) attributable to members	(1,988,608)	(3,043,463)
Retained Profits (accumulated losses) at end of financial period	(17,634,221)	(15,645,613)

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

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REVIEW OF OPERATIONS (2010)

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

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

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

Developmental progress

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

Capsitonin™

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

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

CaPTHymone™

Bone Medical announced 2 positive outcomes for CaPTHymone™. One focused on CaPTHymone™ being able to increase calcium blood levels after 6 hours to the same degree as the gold 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.

REVIEW OF OPERATIONS (continued)

Bone Medical has further optimized the efficacy of BN006 in 2009/2010. More pre-clinical work is planned for 2010/2011.

Intellectual Property Patents

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

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

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

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

Corporate progress

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

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

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

REVIEW OF OPERATIONS (continued)

Outlook

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

- **Progress product in clinical testing**
 - Capsitonin® in Phase III for osteoporosis
 - CaPTHymone® in Phase II for osteoporosis
 - Capsitonin® in Phase II for osteoarthritis
- **Progress projects in pre-clinical testing**
 - BN006 in pre-clinical and clinical Phase I
 - A renewed focus on pre-clinical development of the Osteoblast, BN005 and Osteoclast, BN008 projects
- Maintain close contact with shareholder base
- Grow shareholder value with an increased exposure to the US capital markets.

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

Yours sincerely,



Leon Ivory - Joint CEO

31st August, 2010

Bone Medical Limited ABN 70 009 109 755 and Controlled Entities

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity		Parent Entity	
		2010 \$	2009 \$	2010 \$	2009 \$
Revenue from continuing operations		558	8,981	558	8,981
Research & Development		(1,174,958)	(2,031,686)	(1,174,958)	(2,031,686)
Employee Benefits		(200,335)	(436,274)	(200,335)	(436,274)
Professional Consultants		(272,355)	(273,275)	(272,355)	(273,275)
Depreciation & Amortisation		(4,197)	(5,312)	(4,197)	(5,255)
External Consultants		(168,749)	(107,335)	(168,749)	(107,335)
Legal Fees		(8,624)	2,922	(8,624)	2,922
Travel		(5,561)	(8,668)	(5,561)	(8,668)
Business Development		(21,522)	(26,812)	(21,522)	(26,812)
Public Relations		(4,999)	(4,400)	(4,999)	(4,400)
Other Expenses		(127,867)	(267,314)	(127,867)	(267,314)
Loss before Income Tax		(1,988,608)	(3,149,171)	(1,988,608)	(3,149,115)
Income Tax Benefit		-	105,709	-	105,709
Loss for the year		(1,988,608)	(3,043,463)	(1,988,608)	(3,043,406)
Basic loss per share (cents per share)	4	(2.10)	(3.55)		
Diluted loss per share (cents per share)		N/A	N/A		

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated Entity		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash & cash equivalents		33,210	9,662	33,210	9,662
Trade and other receivables		19,281	40,152	19,281	40,152
TOTAL CURRENT ASSETS		52,491	49,814	52,491	49,814
NON-CURRENT ASSETS					
Other financial assets		-	-	3,502,069	3,502,069
Property, plant & equipment		6,104	10,301	6,104	10,301
Intangible assets		1,956,599	1,956,599	-	-
TOTAL NON-CURRENT ASSETS		1,962,703	1,966,900	3,508,173	3,512,370
TOTAL ASSETS		2,015,194	2,016,714	3,560,665	3,562,184
LIABILITIES					
CURRENT LIABILITIES					
Trade and other liabilities		2,031,955	1,138,974	3,890,320	2,997,339
TOTAL CURRENT LIABILITIES		2,031,955	1,138,974	3,890,320	2,997,339
TOTAL LIABILITIES		2,031,955	1,138,974	3,890,320	2,997,339
NET ASSETS		(16,761)	877,740	(329,655)	564,845
EQUITY					
Issued capital	2	17,016,992	15,970,264	4,402,691	3,355,963
Accumulated losses		(17,634,221)	(15,645,613)	(5,032,014)	(3,043,406)
Reserves		600,468	553,089	299,668	252,289
TOTAL EQUITY		(16,760)	877,740	(329,655)	564,845

The Statement of Financial Position should be read in conjunction with the accompanying notes

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

Consolidated Entity	<u>Share Capital</u>			
	Ordinary	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1st July 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
Loss attributable to members of parent entity	-	(1,988,608)	-	(1,988,608)
Total recognised income & expense for the year	-	(1,988,608)	-	(1,988,608)
Ordinary shares issued under placement	1,046,728	-	-	1,046,728
Options issued during the year	-	-	47,379	47,379
Balance at 30th June 2010	17,016,992	(17,634,221)	600,468	(16,760)
Parent Entity	<u>Share Capital</u>			
	Ordinary	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1st July 2008	75,514,821	(74,681,916)	140,226	973,131
Loss attributable to members of parent entity	-	(3,043,406)	-	(3,043,406)
Total reorganised 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
Loss attributable to members of parent entity	-	(1,988,608)	-	(1,988,608)
Total recognised income & expense for the year	-	(1,988,608)	-	(1,988,608)
Ordinary shares issued under placement	1,046,728	-	-	1,046,728
Options issued during the year	-	-	47,379	47,379
Balance at 30th June 2010	4,402,690	(5,032,014)	299,668	(329,655)

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

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity		Parent Entity	
		2010	2009	2010	2009
CASHFLOWS FROM OPERATING ACTIVITIES					
Income tax research & development rebate		-	105,709	-	105,709
Payments to suppliers & employees		(861,562)	(1,733,298)	(861,562)	(1,733,298)
Interest Received		444	8,981	444	8,981
Net cash (used in) operating activities		(861,118)	(1,618,608)	(861,118)	(1,618,608)
CASHFLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares & other equity securities		724,392	1,293,000	724,392	1,293,000
Share issue transaction costs		(16,477)	(37,804)	(16,477)	(37,804)
Proceeds from Borrowings		176,751	-	176,751	-
Net cash provided by financing activities		884,666	1,255,196	884,666	1,255,196
Net (Increase) in cash held		23,548	(363,412)	23,548	(363,412)
Cash at beginning of financial year		9,662	373,074	9,662	373,074
Cash at end of financial year		33,210	9,662	33,210	9,662

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

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

Note 1

Segment Information

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

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Board of directors. The Board is responsible for strategic decisions.

Note 2

Issued Capital

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
At the beginning of reporting period	15,970,264	13,447,207	3,355,962	75,514,821
Issue of shares	1,046,728	2,523,057	2,523,057	2,523,057
Reduction of share capital to the extent not represented by assets as at 30 June 2008			(74,681,916)	(74,681,916)
90,755,071 (2007: 80,481,627)	17,016,992	15,970,264	(68,802,897)	3,355,962

Fully Paid Ordinary shares

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	No.	No.	No.	No.
Ordinary Shares				
At the beginning of reporting period	90,755,071	80,481,627	90,755,071	80,481,627
b Shares Issued 26th August, 2008	-	2,960,000	-	2,960,000
c Shares Issued 26th November, 2008	-	1,200,000	-	1,200,000
e Shares Issued 30th January, 2009	-	2,782,435	-	2,782,435
f Shares Issued 25th March, 2009	-	3,181,009	-	3,181,009
g Shares Issued 1st June, 2009	-	150,000	-	150,000
i Shares Issued 1st July, 2009	50,000	-	50,000	-
k Shares Issued 1st August, 2009	50,000	-	50,000	-
l Shares Issued 30th September, 2009	4,024,403	-	4,024,403	-
n Shares Issued 25th November, 2009	1,566,690	-	1,566,690	-
p Shares Issued 14th January, 2010	100,000	-	100,000	-
r Shares Issued 15th March, 2010	141,500	-	141,500	-
At reporting date	96,687,664	90,755,071	96,687,664	90,755,071

Preference Shares

CLASS C

At the beginning of reporting period	9,999,204	9,999,204	9,999,204	9,999,204
At reporting date	9,999,204	9,999,204	9,999,204	9,999,204

Options

At the beginning of reporting period	6,000,603	11,263,194	6,000,603	11,263,194
a Expired Options 1st July, 2008	-	(1,000,000)	-	(1,000,000)
c Options Issued 26th November, 2008	-	1,350,000	-	1,350,000
d Expired Options 27th December, 2008	-	(200,000)	-	(200,000)
h Expired Options 27th June, 2009	-	(5,412,591)	-	(5,412,591)
j Expired Options 7th July, 2009	(4,150,603)	-	(4,150,603)	-
m Options Issued 1st October, 2009	2,012,000	-	2,012,000	-
o Options Issued 14th December, 2009	783,347	-	783,347	-
q Expired Options 1st February, 2010	(500,000)	-	(500,000)	-
r Options Issued 15th March, 2010	141,500	-	141,500	-
At reporting date	4,286,847	6,000,603	4,286,847	6,000,603

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

Note 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.

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 1 July 2008, 1,000,000 options exercisable at \$0.50 each expired.
- (b) On 26 August 2008 by way of private placement, 2,960,000 ordinary shares were issued and allotted at \$0.25 per share.
- (c) On 26 November 2008 by way of private placement, 1,200,000 ordinary shares were issued and allotted at \$0.25 per share & 1,350,000 options exercisable at \$0.40 each were issued to key management personnel.
- (d) On 27 December 2008, 200,000 options exercisable at \$0.47 each expired.
- (e) On 30 January 2009 by way of private placement, 2,782,435 ordinary shares were issued and allotted at \$0.25 per share.
- (f) On 25 March 2009 by way of private placement, 3,181,009 ordinary shares were issued and allotted at \$0.25 per share.
- (g) 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.
- (h) On 27 June 2009 5,412,591 options exercisable at \$0.60 each expired.
- (i) On 1 July 2009 50,000 ordinary shares were issued and allotted at \$0.20 per share to non-related parties as consideration for services rendered.
- (j) On 7 July 2009 4,150,603 options exercisable at \$0.40 each expired.
- (k) On 1 August 2009 50,000 ordinary shares were issued and allotted at \$0.20 per share to non-related parties as consideration for services rendered.
- (l) On 30 September 2009 by way of private placement, 4,024,403 ordinary shares were issued and allotted at \$0.18 per share.
- (m) On 1 October 2009 by way of private placement, 2,012,000 free attaching options were issued exercisable at \$0.20 each expiring 30 September 2010.
- (n) On 25 November 2009 by way of private placement, 1,566,690 ordinary shares were issued to key personnel & related parties at \$0.18 per share and allotted subsequent to shareholder approval at a general meeting.
- (o) On 14 December 2009 by way of private placement, 783,347 free attaching options were issued to key personnel & related parties exercisable at \$0.20 each expiring 11 December 2010 and allotted subsequent to shareholder approval at a general meeting.

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

(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.

Note 5

Events occurring after the balance sheet date

On the 2 August 2010 by way of conversion of a convertible note, 1,767,510 ordinary shares were issued at \$0.10 each. 1,767,510 free attaching unlisted options were issued exercisable at \$0.20, expiring 2 August 2012. \$176,751 was raised.

Note 6

Share-based Payments

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

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

500,000 options expired during the period covered by the above tables.

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

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

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.40 (2009 - \$0.36) and a weighted average remaining contractual life of 2.16 years (2009 - 2.65 years).

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

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

Note 6

Share-based Payments (continued)

Fair Value of options granted

No options were issued during the year ended 30 June 2010.

The weighted average assessed fair value at grant date of options granted during the year ended 30 June 2009 was \$0.198. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

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.

Included under employee benefits expense in the income statement in 2010 is \$47,379 (2009: \$112,063) 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.