

Bone Medical

ASX/MEDIA RELEASE

24th May 2007

BONE MEDICAL - Appendix 4c

Bone Medical Limited (ASX: BNE) (“Bone Medical” or “the company”)

Attached is Bone Medical Limited's Option Application Form & Chairman's Letter to Offerees.

- ENDS -

For more information about Bone Medical Limited, please contact:

Paul Hopper
Executive Chairman
Mobile +1 858 200 5636 (USA)
Australian Office +61 8 9355 5123

Or visit: www.bonemedical.com

About Bone Medical Limited

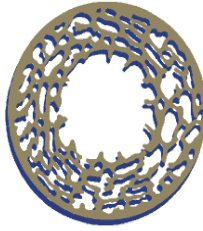
Bone Medical Limited is an international biopharmaceutical development company positioned to exploit the growing market in the treatment of bone disease particularly in osteoporosis and arthritis. Bone has a portfolio of biopharmaceutical development projects for the treatment of bone disease including,

Osteoporosis

- Capsitonin™ oral calcitonin
- oral parathyroid hormone
- bone cell regulators BN005 & BN008

Arthritis

- TNF regulators BN006
- joint protection & collagen tolerance BN007



Bone Medical

24 May 2007

NAME»
ADD1»
ADD2»
ADD3»
ADD4»
ADD5»

Holder No: «HOLD_NO»
No of Options Held: «NO_OPTS_»
Amount to Pay: «AMT»

Dear < INSERT >

BONE MEDICAL LTD – RIGHT TO ACQUIRE NEW OPTIONS

Further to the company's announcement to the Australian Securities Exchange ("ASX") on 11 May 2007 where Bone Medical announced that it will offer all option holders who converted their \$0.40 options prior to their expiry on 28 April 2007 with a new replacement option ("**Option**"), please find attached the application form for the Options.

On behalf of the board and myself I would like to thank you for your continued support of Bone Medical and to express our gratitude to the funds that you have invested into the company over the last 2 years.

The basic terms of the Options are as follows:

- (i) The Options will be issued on a 1:1 basis for \$0.40 options converted;
- (ii) The Exercise price will be \$0.60 each;
- (iii) The Subscription price is \$0.01 per Option;
- (iv) The expiry date will be 24 months from the date of grant; and
- (v) The Options will be unquoted.

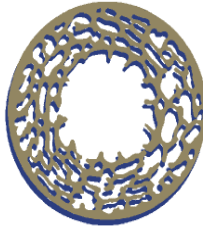
To take up this offer, please complete the attached application form in accordance with the instructions on the form. **Each Option is being offered to you at 1 cent each.** The company will apply to the ASX to have new shares issued as a result of the conversion of any of these Options quoted on the ASX.

The offer is open for 4 weeks and is due to close on 24 June 2007 (unless extended prior to that date at the discretion of the directors). If you have any queries please do not hesitate to contact our Chief Financial Officer in our Perth office on telephone (08) 9355 5123, facsimile (08) 9355 5210, or e-mail eddaquino@bone-ltd.com.

Yours sincerely

Mr Paul Hopper

Chairman



Bone Medical

To: Bone Medical Limited ("Company")
2/1 Sarich Way
Technology Park
BENTLEY WA 6102

[Company/Share Registry to *insert name*], ("Applicant") hereby applies to the Company for :

TO BE COMPLETED BY SHAREHOLDER	NO OF NEW OPTIONS ACCEPTED/APPLIED FOR	@ \$0.01 PER OPTION	AMOUNT ENCLOSED
Entitlement or part thereof		\$0.01	AUD\$

New options to acquire fully paid shares in the capital of the Company on the terms and conditions set out in Annexure A to this Application Form ("**Options**") at an issue price of AUD\$0.01 per Option.

Offer Period

This offer opens on 24 May 2007 and will close on 24 June 2007 (unless extended prior to that date by the directors of the Company in their absolute discretion)

If you wish to apply for your Options then you need to execute the Application Form as appropriate and forward it together with your cheque or EFT payment to be received no later than 5pm (WST) on **24 June 2007** to the Company's registered office, being:

Cheques Payable to:

Bone Medical Limited
2/1 Sarich Way
Technology Park
BENTLEY WA 6102
AUSTRALIA

EFT/Telegraphic payment bank details:

St George Bank Limited
152-158 St George's Terrace
Perth, Western Australia, 6000
B.S.B. # 336-060
Account # 5522 68443
SWIFT Code: SGBLAU2S (Overseas Payments)

Cheques should be made payable to "**BONE MEDICAL LIMITED**" in Australian dollars only and should be crossed "Not negotiable".

If you have any further questions please do not hesitate to contact Ed Daquino on telephone (08) 9355 5123, facsimile (08) 9355 5210, or e-mail eddaquino@bone-ltd.com.

Payment of the total subscription monies of AUD\$ is enclosed with this Application:

Paid by Cheque:

Paid by TT / EFT:

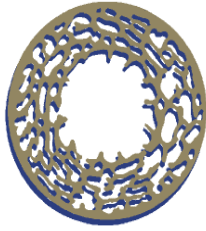
My/Our contact details in case of enquiries are:

Telephone
Area Code

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Facsimile
Area Code

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Bone Medical

Email: _____

Details of Applicant:

NAME
ADD1
ADD2
ADD3
ADD4
ADD5

By signing and lodging this Application Form with the Company, the Applicant:

1. declares that the agreements, statements, declarations and acknowledgments contained in the following paragraphs are given for the benefit of the Company;
2. declares that all details and statements made by the Applicant in this Application Form are complete and accurate;
3. agrees to be bound by the Constitution of the Company;
4. represents, warrants and undertakes to the Company that the Applicant has full right and authority to sign and lodge this Application Form, to subscribe for the Options and to perform the other obligations set out in this Application Form, and has taken all action and obtained all regulatory and other consents, approvals and authorisations necessary in that respect;
5. acknowledges that the Applicant has made its own enquiries concerning the Company and its business and affairs and that the Company makes no representation or warranties to the Applicant;
6. request the Company to, upon its receipt of this Application Form signed by the Applicant, issue the Options to the Applicant;
7. declares that the Company is not required to provide to the Applicant a prospectus or other disclosure document for the issue of the Options because the Applicant comes within one of the stated exceptions in section 708 of the Corporations Act 2001;
8. rescinds all previous Application Forms relating to the same subject matter hereof;
9. agrees not to offer any of the Options for sale to any person ("**Offer**") within 12 months from the date of issue of the Options unless:

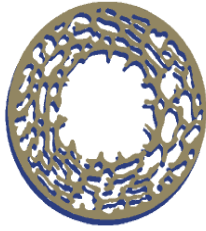
(a) the Offer does not require disclosure as a result of section 708 or 708A of the Corporations Act 2001 (excluding section 708 (1) of the Corporations Act 2001); or

(b) the Offer is made pursuant to a disclosure document in accordance with the Corporations Act 2001; or

(c) the Offer is received by a person outside Australia.

For the avoidance of doubt, nothing in this paragraph creates any obligation on the Company to issue a disclosure document (whether at its cost or otherwise) or a secondary trading "cleansing" notice under section 708A(5)(e) of the Corporations Act 2001 with respect to either the Options or the fully paid shares in the capital of the Company that may be issued on exercise of the Options; and

10. acknowledges that this Application Form is governed by the laws of Western Australia.



Bone Medical

Signed by the Applicant(s):

For Individuals

Signed..... Signed

Print Print

Name Name:.....

Date:.....2007

Date:.....2007

For Companies

SIGNED for and on behalf of)

.....)

by authority of its Directors in)

accordance with section 127 of)

the Corporations Act)

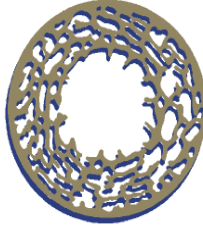
_____)
Director

_____)
Secretary/Director

_____)
Print name

_____)
Print name

Date:.....2007



Bone Medical

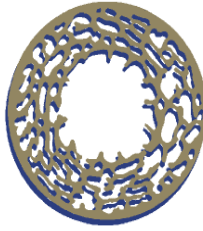
ANNEXURE A

TERMS AND CONDITIONS OF OPTIONS

- (a) The issue price of the Options is one cent each.
- (b) A certificate will be issued for the Options.
- (c) The Options expire at 5.00 pm WST on [*24 months after their issue*] ("**Expiry Date**").
- (d) The Option is a right in favour of the option holder to subscribe for one fully paid share in the capital of the company ("**Share**").
- (e) The option holder may exercise Options any time prior to the Expiry Date.
- (f) Shares allotted to option holders on exercise of Options shall be issued at a price of 60 cents each ("**Exercise Price**").
- (g) The Exercise Price of Shares the subject of the Options shall be payable in full on exercise of the Options.
- (h) Options shall be exercisable by the delivery to the registered office of the Company of a notice in writing stating the intention of the option holder to:
 - (i) Exercise all or a specified number of Options; and
 - (ii) Pay the subscription monies in full for the exercise of each Option.

The notice must be accompanied by the option certificate and a cheque made payable to the Company for the subscription monies for the Shares. An exercise of only some Options shall not affect the rights of the option holder to the balance of the Options held by the option holder.

- (i) The Company shall allot the resultant Shares and deliver the holding statement within five Business Days of the exercise of the Options.
- (j) Subject to the Corporations Act 2001 and to any restrictions on transfer agreed between the Company and the option holder, the Options shall be freely transferable.
- (k) Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing ordinary fully paid Shares of the Company in all respects.



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- (l) The Company will, in accordance with the Listing Rules of the Australian Securities Exchange ("**Listing Rules**"), make application to have Shares allotted pursuant to an exercise of Options listed for official quotation.
- (m) In the event of any reorganisation of the issued capital of the Company (including consolidation, subdivisions, reduction or return), the rights of an option holder will be changed to the extent necessary to comply with the Listing Rules applying to a re-organisation of capital at the time of the re-organisation.
- (n) The Options will not give any right to participate in dividends, bonus issues or entitlement issues until Shares are allotted pursuant to the exercise of the relevant Options.
- (o) In the event that a pro rata issue (except a bonus issue) is made to the holders of the underlying securities in the Company, the exercise price of the Options may be reduced according to the following formula:

$$O' = O - \frac{E[P - (S + D)]}{N + 1}$$

where:

O' = the new exercise price of the Option.

O = the old exercise price of the Option.

E = the number of underlying securities in the Company into which one Option is exercisable.

P = the average market price per security (weighted by reference to volume) of the underlying securities in the Company during the 5 trading days ending on the day before the ex rights date or ex entitlements date.

S = the subscription price for a security under the pro rata issue.

D = the dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue).

N = the number of securities with rights or entitlements that must be held to receive a right to one new security in the Company.