

**BONE MEDICAL LIMITED**  
**ABN 70 009 109 755**

**PROSPECTUS**

For the Offer of 11,923,077 Shares at an issue price of \$0.26 per Share to raise approximately \$3,100,000, with a minimum subscription of \$1,000,000. Each Share allotted will attract one free attaching Option, each exercisable at \$0.40 on or before the date which is 18 months from the date of issue.

The Public Offer closes at 5.00pm (WST) on 7 October 2005.

The Restricted Offer closes at 5.00pm (WST) on 29 November 2005.

**IMPORTANT NOTICE**

*This is an important document and investors should read the document in its entirety and are advised to consult with their professional advisers before deciding whether to apply for Shares and Options.*

## **CORPORATE DIRECTORY**

### **DIRECTORS**

Mr Paul Hopper - Chairman  
Mr Michael T. Redman  
Mr Richard Basham  
Mr Chris Bilkey  
Dr Roger New  
Mr R. Wayne Fritzsche

### **COMPANY SECRETARY**

Ms Jane Swindells

### **REGISTERED OFFICE**

Suite 2, 1 Sarich  
Technology Park  
BENTLEY WA 6102

Tel: +61 8 9355 5123

Fax: +61 8 9355 5210

Website: [www.bonemedical.com](http://www.bonemedical.com)

### **STOCK EXCHANGE LISTING**

Bone Medical Limited's Shares are listed on the Australian Stock Exchange (Home Branch – Perth)  
ASX Code: BNE (ordinary shares)  
They are also listed on the Level One American Depository Receipt ("ADR")  
ADR Code: BMEDY

### **SOLICITORS**

Blakiston & Crabb  
1202 Hay Street  
WEST PERTH WA 6005

### **SHARE REGISTRY**

Security Transfer Registrars Pty Limited  
770 Canning Highway  
APPLECROSS WA 6153

Tel: +61 8 9315 2333

Fax: +61 8 9315 2233

Email: [registrar@securitytransfer.com.au](mailto:registrar@securitytransfer.com.au)

### **AUDITORS**

BDO Chartered Accountants and Advisers  
Level 8  
256 St Georges Terrace  
PERTH WA 6000

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### Important Notes

This Prospectus is dated 27 September 2005. A copy of this Prospectus was lodged with the ASIC on that date. Neither the ASIC nor the ASX take any responsibility for the contents of this Prospectus.

No securities will be issued on the basis of this Prospectus after the Expiry Date. Securities issued pursuant to this Prospectus will be issued on the terms and conditions set out in this Prospectus.

The Company will apply for the Shares and Options offered pursuant to this Prospectus to be listed on ASX. An Application for the Shares and Options will only be accepted on an Application Form accompanying this Prospectus.

This Prospectus will be issued in paper form and as an Electronic Prospectus, which may be accessed on the internet at [www.bonemedical.com](http://www.bonemedical.com). The Offer pursuant to an Electronic Prospectus is only available to persons receiving an electronic version of this Prospectus within Australia. The Corporations Act prohibits any person from passing to another person the Application Form unless it is attached to or accompanies the complete and unaltered version of this Prospectus. During the Offer period, any person may obtain a hard copy of the Prospectus by contacting the Company.

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

### Summary of Important Dates

Announcement of Offer	27 September 2005
Prospectus Lodged at ASIC and ASX	27 September 2005
Closing date for acceptance and receipt of Applications under the Public Offer*	7 October 2005
Closing date for acceptance and receipt of Applications under the Restricted Offer*	29 November 2005
Last day for despatch of holding statements for the Public Offer*	12 October 2005
Last day for despatch of holding statements for the Restricted Offer*	6 December 2005

\*These dates are indicative only. The Directors reserve the right to vary the key dates without prior notice.

## **Key Definitions**

Throughout this Prospectus, for ease of reading, various words and phrases have been defined rather than being repeated in full on each occasion. Definitions used in this Prospectus are set out in Section 6.

## **Section 1 DETAILS OF THE OFFER**

### **1.1 Description of the Offer**

This Prospectus is for an offer of 11,923,077 Shares at an issue price of \$0.26 per Share to raise approximately \$3,100,000, with a minimum subscription of \$1,000,000. Each Share allotted will attract one free attaching Option, each exercisable at \$0.40 on or before the date which is 18 months from the date of issue.

The Offer consists of the Public Offer and the Restricted Offer.

#### ***Public Offer***

The Public Offer is open to public investors, including shareholders of the Company. It is not open to Directors or other related parties of the Company, who may participate in the Restricted Offer only. 11,538,462 Shares are available under the Public Offer.

Public investors or shareholders of the Company who wish to subscribe for Shares and Options pursuant to the Public Offer must make an Application on the Public Offer Application Form accompanying this Prospectus.

#### ***Restricted Offer***

The Restricted Offer is open to Directors and other related parties of the Company only. A total of 384,615 Shares and attaching Options will be available for subscription under the Restricted Offer. The Restricted Offer is subject to shareholder approval under Listing Rule 10.12, Exception 10 of the Listing Rules. Shareholders will be asked to vote on the Restricted Offer at the Annual General Meeting of the Company for 2005 scheduled for 28 November 2005.

Allotment of the Shares and Options pursuant to the Restricted Offer will not be made unless shareholder approval is obtained. Until shareholder approval is obtained, the Application monies for the Restricted Offer will be held in trust in a separate bank account. All Application monies for the Restricted Offer will be returned (without interest) if the necessary shareholder approval is not obtained.

Directors or other related parties of the Company who wish to subscribe for Shares and Options pursuant to the Restricted Offer must make an Application on the Restricted Offer Application Form accompanying this Prospectus.

### **1.2 Opening and Closing Dates**

The Public Offer will open for receipt of acceptances at 9.00am WST on 27 September 2005 and will close at 5.00pm WST on 7 October 2005, or such other date as the Directors, in their absolute discretion, may determine.

The Restricted Offer will open for acceptances at 9.00am WST on 27 September 2005 and will close at 5.00pm WST on 29 November 2005, or such other date as the Directors, in their absolute discretion, may determine.

### 1.3 Applications for Shares and Options

#### *Public Offer*

An Application for Shares and Options pursuant to the Public Offer can only be made on the Public Offer Application Form which accompanies a copy of this Prospectus. Public Offer Application Forms must be completed in accordance with the instructions set out on the back of the Public Offer Application Form.

#### *Restricted Offer*

An Application for Shares and Options pursuant to the Restricted Offer can only be made on the Restricted Offer Application Form which accompanies a copy of this Prospectus. Restricted Offer Application Forms must be completed in accordance with the instructions set out on the back of the Restricted Offer Application Form.

#### *Information regarding all Applications*

Applications must be for a minimum of 1,000 Shares and thereafter in multiples of 1,000 Shares. Cheques should be in Australian currency and made payable to "**Bone Medical Limited - Share Account**" and crossed "**Not Negotiable**".

Completed Application Forms must be accompanied by the Application monies and lodged in person or by post with the Company's share registry:

**By Hand Delivery:**

Security Transfer Registrars Pty Limited  
770 Canning Highway  
APPLECROSS WA 6153

**By Post:**

Security Transfer Registrars Pty Limited  
PO Box 535  
APPLECROSS WA 6953

### 1.4 Minimum Subscription and Allotment of Shares and Options

The Offer is not underwritten.

The minimum subscription pursuant to the Offer is \$1,000,000.

No Shares or Options will be allotted or issued until the minimum subscription has been received. If the minimum subscription is not achieved within four months after the date of issue of this Prospectus, the Company will either repay the Application monies to the Applicants or issue a supplementary prospectus or replacement prospectus and allow Applicants one month to withdraw their Application and be repaid their Application monies.

Shares and Options issued pursuant to the Public Offer will be allotted within five Business Days after the Public Offer Closing Date.

Shares and Options issued pursuant to the Restricted Offer will be allotted within five Business Days of the Restricted Offer Closing Date, as referred to in Section 1.1.

**The Directors reserve the right to allot to an Applicant a lesser number of Shares and Options than the number for which the Applicant applies, or to reject an**

**Application. If the number of Shares and Options allotted is fewer than the number applied for, any surplus Application monies will be refunded in full. Interest will not be paid on monies refunded.**

Where the number of Shares and Options granted is less than the number applied for, or where no allotment is made, surplus Application monies (if applicable) will be refunded without any interest to the Applicant as soon as practicable after the Public Offer Closing Date, or the Restricted Offer Closing Date, as the case may be.

Pending the issue and allotment of the Shares and Options or payment of refunds (if applicable) pursuant to this Prospectus, all Application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on such bank account and each Applicant waives the right to claim any such interest.

#### **1.5 Oversubscriptions**

The Directors will not accept any oversubscriptions under the Offer. The maximum amount that may be raised under this Prospectus is \$3,100,000, plus any amount arising from the subsequent exercise of up to 11,923,077 Options.

#### **1.6 Brokerage and Commissions**

The Company may pay a fee of up to 6% of the amount subscribed (and accepted by the Company) to any holders of dealer's licences in respect of Applications bearing the stamp of such dealers.

No brokerage or stamp duty is payable by Applicants in respect of their Applications for Shares and Options under this Prospectus.

#### **1.7 ASX Listing**

Application will be made to the ASX within seven (7) days following the date of this Prospectus for the official quotation of the Shares and Options offered by this Prospectus.

If approval is not granted by the ASX within three (3) months after the date of this Prospectus, the Company will not allot or issue any Shares or Options and will repay all Application monies (where applicable) within the time prescribed under the Corporations Act, without interest.

The fact that the ASX may grant official quotation of the Shares or Options is not to be taken in any way as an indication of the merits of the Company or the Shares and Options offered for subscription pursuant to this Prospectus.

#### **1.8 Trading History of Shares**

The highest and lowest market sale prices of Shares on the ASX during the 3 months immediately preceding the date of this Prospectus and the respective dates of those sales were 33 cents on 11 July 2005 and 28.5 cents on 30 June 2005, 1 July 2005 and 15 August 2005. The latest available market sale price of Shares on the ASX

immediately before the date of this Prospectus was 29.5 cents on 26 September 2005. There are currently no listed Options.

#### **1.9 Overseas Investors**

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Shares, the Options or the Offer, or otherwise to permit a public offering of the Shares or Options, in any jurisdiction outside Australia.

The Offer pursuant to an Electronic Prospectus is only available to persons receiving an electronic version of this Prospectus within Australia.

#### **1.10 No Issue of Shares and Options after the Expiry Date**

No Shares or Options will be issued on the basis of this Prospectus later than the Expiry Date of this Prospectus.

#### **1.11 Electronic Prospectus**

Pursuant to Class Order 00/44 ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus on the basis of a paper prospectus lodged with the ASIC and the issue of shares and options in response to an electronic application form, subject to compliance with certain provisions.

If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company on 9355 5123 and the Company will send to you, for free, either a hard copy or a further electronic copy of the Prospectus or both.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application moneys received will be dealt with in accordance with Section 722 of the Corporations Act.

## Section 2 PURPOSE AND EFFECT OF THE OFFER ON THE COMPANY

### 2.1 Purpose of the Offer

The purpose of the Offer is to raise funds to assist with funding for:

- An oral dosage form of calcitonin (*Capsitonin*<sup>TM</sup>) for a dose ranging clinical study in humans.
- An oral dosage form of parathyroid hormone (*Perthoxal*<sup>TM</sup>) for a dose ranging clinical study in humans.
- Filing an investigational new drug application with the Food and Drug Administration for *Capsitonin*<sup>TM</sup> oral calcitonin and *Perthoxal*<sup>TM</sup> oral parathyroid hormone.
- Preclinical research and development. The Company needs to further develop its early stage technologies prior to conducting human clinical trials. The Company currently has a portfolio of 6 project areas, 4 of which are in early pre-clinical development or discovery, namely:
  - BN005 osteoblast regulators;
  - BN006 TNF regulators;
  - BN007 collagen tolerisation; and
  - BN008 osteoclast regulators.

In order to advance these projects and bring them closer to commercial reality additional resources arising from the Offer will have to be applied.

- Additional operational employees. The Company needs to employ additional personnel in the areas of clinical affairs and research. It is a publicly stated goal of the Company to lessen our dependence on outside contractors. Currently the Company is completely reliant on contractors to fulfil the key roles of regulatory affairs and product development, two core components of our business. It is intended that part of the funds raised will be used to appoint relevant personnel in the areas of product development and regulatory affairs, thereby ensuring the Company retains control over these key areas of our business.
- General working capital.

## 2.2 Use of Funds

If the Company raises the minimum subscription pursuant to the Offer, the funds raised will be applied towards the following:

	\$
<b>Minimum Subscription under the Offer</b>	
<i>Utilised as follows:</i>	
An oral dosage form of calcitonin ( <i>Capsitonin</i> <sup>TM</sup> ) for a dose ranging clinical study in humans	400,000
Investigational new drug application for <i>Capsitonin</i> <sup>TM</sup>	75,000
Working capital	360,000
Expenses associated with the Offer <sup>1</sup>	165,000
<b>Total funds utilised</b>	<b>1,000,000</b>

Note 1 - The expenses of the Offer at the minimum subscription of \$1,000,000 are estimated at \$165,000 including the maximum broker handling costs.

If the Company only raises the minimum subscription pursuant to the Offer, it will need to raise further funds in the future in order to have sufficient cash flow, together with its current cash reserves, to fund its operations.

If the Company raises the maximum subscription pursuant to the Offer, the funds raised will be applied towards the following:

	\$
<b>Maximum Subscription under the Offer</b>	
<i>Utilised as follows:</i>	
An oral dosage form of calcitonin ( <i>Capsitonin</i> <sup>TM</sup> ) for a dose ranging clinical study in humans	400,000
An oral dosage form of parathyroid hormone ( <i>Perthoxal</i> <sup>TM</sup> ) for a dose ranging clinical study in humans <sup>1</sup>	300,000
Investigational new drug applications for <i>Perthoxal</i> <sup>TM</sup> and <i>Capsitonin</i> <sup>TM</sup> <sup>1</sup>	150,000
Preclinical research and development	500,000
Additional operational employees	300,000
Working capital	1,188,000
Expenses associated with the Offer <sup>2</sup>	262,000
<b>Total funds utilised</b>	<b>3,100,000</b>

Note 1 – If the Company only raises the minimum subscription pursuant to the Offer, it will raise the \$300,000 for the parathyroid hormone (*Perthoxal*<sup>TM</sup>) study and *Perthoxal*<sup>TM</sup> investigational new drug application of \$75,000 using alternative means.

Note 2 - The expenses of the Offer at the maximum subscription level of \$3,100,000 are estimated at \$262,000 including the maximum broker handling costs.

If more than the minimum subscription (\$1,000,000) but less than the maximum subscription (\$3,100,000) is raised, and after accounting for the expenses of the Offer, including broker handling fees (up to 6%), the amount of additional funds received will be allocated in the following ratios among the following items:

- An oral dosage form of parathyroid hormone (*Perthoxal*<sup>TM</sup>) for a dose ranging clinical study in humans 13%
- Investigational new drug applications 4%
- Preclinical research and development 22%
- Additional operational employees 12%
- Working capital 49%

### 2.3 Principal Effects

The principal effects on the Company of the Offer, assuming the Offer is fully subscribed, are as follows:

- (a) The Company will issue 11,923,077 Ordinary Shares and the number of Ordinary Shares on issue will increase from 58,226,291 to 70,149,368.
- (b) The Company will issue 11,923,077 Options and the number of Options on issue will increase from 3,300,000 to 15,223,077.
- (c) Following the issue of the Shares and Options, the cash reserves of the Company will increase by approximately \$3,100,000 (less expenses of the Offer which are estimated to be \$262,000 if the Offer is fully subscribed (including any broker fees)). The Company will receive \$0.40 for each Option exercised, and, assuming all 11,923,077 Options are exercised, this will raise \$4,769,231. The likelihood of the Company raising this additional capital through the exercise of the Options is dependent on the price of the Shares from time to time up to the expiry date of the Options.

### 2.4 Statement of Financial Position and Capital Structure

The Issue will have an effect on the capital structure and the financial position of the Company. Set out below is:

- (a) the capital structure of the Company showing the Shares and Options on issue before and after the Issue (assuming the Offer is fully subscribed); and
- (b) an unaudited consolidated pro-forma statement of financial position of the Company as at 30 June 2005, not allowing for monthly cash outflows since that date (there are no material changes since that date) by BDO Chartered Accountants and Advisors incorporating:
  1. the issue of the Shares and Options in accordance with this Prospectus (assuming the Offer is fully subscribed); and
  2. Issue expenses of \$262,000.

## **Capital Structure**

Issued share capital	58,226,291
Shares now offered for subscription	<u>11,923,077</u>
Issued share capital after completion of the Issue	<u>70,149,368</u>

## **Options on Issue**

Options on issue	
• Unlisted options, exercisable at \$0.50 after 3 September 2006 but before 1 July 2008	1,000,000
• Unlisted employee options exercisable at \$0.60 on or before 1 December 2009 on the achievement of all 4 performance milestones	300,000
• Director Options*	2,000,000
Options now offered for subscription	<u>11,923,077</u>
Options on issue after completion of the Issue	<u>15,223,077</u>

## **Preference Shares \*\***

Class C	9,999,204
Total Preference Shares on issue	<u>9,999,204</u>

\* Shareholders approved an option package for the Chief Executive Officer whereby Mr. Michael Redman has been issued 2,000,000 Director Options as follows:

- i. **Tranche 1** - 500,000 Director Options which vest after 12 months' continuous employment of Mr Redman with the Company (ie, 28 February 2006) and expire after 3 years, on 28 February 2009. They are exercisable at \$0.65 each.
- ii. **Tranche 2** – 500,000 Director Options which vest either in the following circumstances:
  - upon the receipt by the Company, within 9 months of Mr Redman's employment, of US\$5 million in capital investment; and
  - such capital investment is achieved primarily as a result of Mr Redman's efforts in organising and concluding the capital raising, or
  - upon a Takeover,at an exercise price determined by the 90 days average as of the date the US\$5 million capital investment is received by the Company or the date the Takeover occurs.

With respect to Tranche 2, the Company may, in its absolute discretion, deem that a portion of the 500,000 Director Options has vested if the US\$5 million capital investment is received by the Company within 10 to 12 months of Mr Redman's employment, as a result of Mr Redman's efforts.
- iii. **Tranche 3** – 500,000 Director Options which vest either upon the formal announcement of a deal described as follows:
  - procured primarily as a result of Mr Redman's introduction of the party to the Company;
  - with an international biopharmaceutical company;
  - funding any of the following Company projects (as described at [www.bonemedical.com](http://www.bonemedical.com)):
    - Capsitonin™ Oral Calcitonin;
    - Oral Parathyroid Hormone BN003; or
    - TNF Regulators BN006;
  - with a minimum value of US\$1 million in upfront payments; and

- accepted by the Company's Board of Directors; or
- upon a Takeover,

at an exercise price determined by the 30 day average as of the date the deal is formally announced or the date the Takeover occurs.

- iv. If Tranches 2 and 3 vest because of a Takeover, Mr Redman has 14 days from the date of vesting within which to exercise any of these Director Options.
- v. **Tranche 4** –500,000 Director Options which vest after 12 months' continuous employment of Mr Redman with the Company (ie, 28 February 2006) and expire after 3 years, on 28 February 2009. They are exercisable at \$0.48 each.

**\*\* Class C Preference Shares**

Each Class C Preference Share will convert into one (1) Share upon receiving of:

- (a) approval to market from a Member State of the European Union; or
- (b) approval to market from the US Food and Drug Administration, within 7 years of the date of issue of the Class C Preference Shares.

***Pro-forma Statement of Financial Position***

		<b>Consolidated Unaudited Statement of Financial Position at 30 June 2005</b>	<b>Consolidated Unaudited Proforma Statement of Financial Position at 30 June 2005</b>
			<b>Including:</b>
			1) The maximum subscription
			2) No material changes since 30 June 2005
			3) Issue expenses of \$262,000
<b>Current Notes</b>	<b>Assets</b>	<b>\$</b>	<b>\$</b>
Cash (a)		1,678,590	4,516,590
Receivables		27,940	27,940
<b>Total Current Assets</b>		<u>\$1,706,530</u>	<u>\$4,544,530</u>
<b>Non-Current Assets</b>			
Plant & Equipment		12,020	12,020
Goodwill		1,961,299	1,961,299
<b>Total Non-Current Assets</b>		<u>\$1,973,319</u>	<u>\$1,973,319</u>
<b>Total Assets</b>		<u>\$3,679,849</u>	<u>\$6,517,849</u>
<b>Current Liabilities</b>			
Payables		222,147	222,147
Loans		1,098	1,098
<b>Total Current Liabilities</b>		<u>\$223,245</u>	<u>\$223,245</u>
<b>Total Liabilities</b>		<u>\$223,245</u>	<u>\$223,245</u>
<b>Net Assets</b>		<u>\$3,456,604</u>	<u>\$6,294,604</u>
<b>Shareholders' Equity</b>			
Parent Equity			
Contributed (b)	Equity	68,765,846	71,603,846
Accumulated Losses		(65,335,624)	(65,335,624)
Parent Equity Interest		<u>3,430,222</u>	<u>6,268,222</u>
Outside Equity Interest		<u>26,382</u>	<u>26,382</u>
<b>Total Equity</b>		<u>\$3,456,604</u>	<u>\$6,294,604</u>

**Notes :**

**(a) Cash :**

Cash at 30 June 2005	\$1,678,590
Issue of 11,923,077 Shares at \$0.26	\$3,100,000
	<hr/>
	\$4,778,590
Less Issue Expenses	<hr/>
	(\$262,000)
<b>Total cash as per unaudited pro-forma (above)</b>	<hr/>
	\$4,516,590

**(b) Contributed Equity**

Issued Capital at 30 June 2005	\$68,765,846
Issue of 11,923,077 Shares at \$0.26	\$3,100,000
	<hr/>
	\$71,865,846
Less Issue Expenses	<hr/>
	(\$262,000)
<b>Total issued capital as per unaudited pro-forma (above)</b>	<hr/>
	\$71,603,846

## **Section 3 RISK FACTORS**

### **3.1 Introduction**

This Section identifies the areas the Directors regard as the major risks associated with an investment in the Company. Investors should be aware that an investment in the Company involves many risks, which may be higher than the risks associated with an investment in other companies. Intending investors should read the whole of this Prospectus in order to fully appreciate such matters and the manner in which the Company intends to operate before any decision is made to apply for Shares and Options.

The following summary, which is not exhaustive, represents some of the major risk factors which potential investors need to be aware of.

### **3.2 Economic Risk**

The Company, in common with other suppliers of health services, is affected by general economic conditions including the level of interest rates, employment rates, inflation and spending by clients on health services. Any changes in government fiscal, monetary and regulatory policies may also affect the Company's business.

### **3.3 Additional Requirements for Capital**

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from investments in it, the Company may require further financing in addition to amounts raised in the Offer. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and reduce its research and development programmes as the case may be.

The Company is not earning revenue and if it does not earn material revenues from licensing its projects its cash reserves may be exhausted and it may not be able to raise further funds.

### **3.4 Business Relationships**

An important strategy for the Company is to form strategic business relationships with other organisations for the conduct of certain research and development and for the commercialisation of its projects. There is no guarantee that these relationships can be established on commercially viable terms.

### **3.5 General Commercial Risks**

Factors such as inflation, commodity price volatility, currency fluctuation, interest rates, supply and demand and industrial disruption have an impact on operating costs and stock market prices. Future possible revenues and share price can be affected by these factors which are beyond the control of the Company.

### **3.6 Regulatory Issues and Government Regulation**

Products derived from the Company's research and development may be subject to numerous government regulatory approvals and controls throughout the world and will affect both the timing and the cost of bringing these products to the market.

Delays or failures in obtaining regulatory approval for a product would be likely to have a serious adverse effect on the value of the Company and have a consequent impact on the financial performance of the Company.

The Company's operations are also subject to laws, regulatory restrictions and certain government directives, recommendations and guidelines relating to, amongst other things, occupational safety, laboratory practice, the use and handling of hazardous materials, prevention of illness and injury and environmental protection. There can be no assurance that future legislation will not impose further government regulation, which may adversely affect the business or financial condition of the Company.

### **3.7 Reliance on Key Personnel and Need to Attract Qualified Staff**

The Company is dependent on its management and the team of scientists, the loss of whose services could materially and adversely affect the Company and impede the achievements of its research and development objectives.

Because of the specialised nature of the Company's business, its ability to commercialise its products and maintain its research programme will depend in part upon its ability to attract and retain suitably qualified management, scientists and research people over time.

There can be no assurance that the Company will be able to attract or retain sufficiently qualified personnel on a timely basis, retain its key scientific and management personnel, or maintain its relationship with key scientific organisations.

### **3.8 Uncertainty of Future Profitability and Competition**

The Company's ability to operate profitably in the future will depend on its ability to commercialise its products with other organisations on commercial terms for onward sale to customers. This will depend on the ultimate demand for its products by consumers which cannot be guaranteed. There is no certainty therefore that the Company can successfully commercialise its technology.

Other factors that will determine the Company's profitability are its ability to manage its costs and to execute its development and growth strategies, economic conditions in the markets in which the Company operates, competitive factors, cost of raw materials and regulatory developments. Accordingly, the extent of future profits, if any, and the time required to achieve a sustained profitability are uncertain. Moreover, the level of such profitability cannot be predicted.

The Company is not earning revenue and if it does not earn material revenues from licensing its projects its cash reserves may be exhausted and it may not be able to raise further funds.

### 3.9 **Industry Risks**

Significant international competition exists in the healthcare industry, relating particularly to developing products for existing and new markets, obtaining and sustaining proprietary right to intellectual property and selling and distributing healthcare products. There is always a risk that competing products in existence now or in development now or in the future, may prove to be more efficacious and more cost effective, or could achieve product approvals earlier or could be more acceptable to users than products developed by the Company. These factors could render costly research and development obsolete, decrease the financial value of products and reduce profits for the Company.

### 3.10 **Potential Acquisitions**

As part of its business strategy, the Company may acquire or make significant investments in complementary companies, products or technologies, although no such acquisitions or investments are currently planned. Any such future transactions would be accompanied by the risks commonly encountered in making acquisitions of companies, products and technologies.

### 3.11 **Research and Development**

The Company can make no representations that any of its research and development will be successful, that the Company's development milestones will be achieved or that the Company will develop products that are commercially exploitable.

There are many risks inherent in the development of the Company's range of products, particularly because some of them are in an early stage of development. Projects can be delayed or fail, or research may cease to be viable for a range of unexpected scientific and commercial reasons.

There is no guarantee that Company projects will be successful when tested in humans. Although both the active pharmaceutical ingredients in *Capsitonin*<sup>TM</sup> oral calcitonin and *Perthoxal*<sup>TM</sup> oral parathyroid hormone have been approved for marketing purposes by other companies, and the *Axcess*<sup>TM</sup> carrier vehicle has been tested in humans, the combinations of the carrier with the active pharmaceutical ingredients are still in development and therefore carry a risk of failure in human testing

### 3.12 **Intellectual Property Rights**

The Company currently holds licences for a number of platform technologies that have patent applications in process. Grant of patents is not guaranteed. Even if granted, the Company may not be able to defend a proprietary position for its projects in key markets.

Securing rights to intellectual property, and in particular to patents, is an integral part of securing potential product value in the outcomes of pharmaceutical research and development. Competition in retaining and sustaining protection of intellectual property and the complex nature of intellectual property can lead to expensive and lengthy patent disputes for which there can be no guaranteed outcome.

The granting of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop competing intellectual property that circumvents such patents. The Company's success depends, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties.

Because the patent positions of pharmaceutical companies can be highly uncertain and frequently involve complex legal and scientific evaluation, neither the breadth of claims allowed in pharmaceutical patents nor their enforceability can be predicted. There can be no assurance that any patents that the Company may own or control or license now and in the future will afford the Company commercially significant protection of its intellectual property or its projects or have commercial application.

While the Company is not aware of any third party interests in its intellectual property rights and has taken steps to protect and confirm its interest in these rights, there is always a risk of third parties claiming involvement in discoveries and if any such disputes arise, they could adversely affect the Company.

### **3.13 International Financial Reporting Standards**

For reporting periods beginning on or after 1 January 2005, the Company must comply with International Financial Reporting Standards (IFRS). These changes will affect the way certain items are reported in the Company's financial statements. The most significant changes to accounting treatment under IFRS as it applies to the Company relate to the accounting for research and development costs, intangible assets being patents and goodwill, share-based payments and foreign currency translation.

In relation to research and development costs, research costs are expensed immediately, while development costs can only be recognised if certain criteria are met. In relation to patents if they have finite lives they are required to be amortised on an amortisation period and the amortisation method at least at the end of each annual reporting period. For patents with infinite lives, the assets are subject to an annual impairment test. In relation to goodwill, under IFRS, goodwill will not be amortised but will be subject to an annual impairment test. The Company will be required to test the values attributed to goodwill for impairment on at least an annual basis.

All share-based payments to employees, directors and third parties in respect of goods and services must be expensed and a corresponding increase in equity is recognised when goods or services are received (or a liability if the goods or services were acquired in a cash-settled share-based transaction).

In relation to foreign currency, the Company can choose which currency it will present its financial statements in. Note though, that if Australian currency is not used a justification is required in the notes to the accounts.

Also in relation to foreign currency, there is no longer a distinction between self sustaining and integrated foreign operations. Instead, where a foreign operation is required to be consolidated into the Company's financial statements (or vice versa), general translation provisions are included in the Standard which largely follow the

current method for translating self sustaining operations using a separate equity reserve for foreign exchange differences.

### **3.14 Admission of Options to the Official List of the ASX**

As stated in Section 1.7, the Company intends to apply for the Options to be issued pursuant to the Prospectus to be admitted to the Official List of the ASX. In order for the Company to be able to make this application, the Company has to comply with the requirements of the Listing Rules, including the requirement in Listing Rule 2.5 that there be 100,000 Options on issue and 50 Option holders each with a marketable parcel as defined in the Listing Rules. There is no guarantee that the Company will be able to comply with this requirement within three (3) months after the date of this Prospectus. If not, the Company will deal with Application monies as set out in Section 1.7.

### **3.15 Shareholder Approval for the Restricted Offer**

As stated in Section 1.1, allotment of the Shares and Options pursuant to the Restricted Offer is subject to shareholder approval under Listing Rule 10.12, Exception 10. There is no guarantee that shareholders will approve the issue of 384,615 Shares and attaching Options to Directors and other related parties of the Company under the Listing Rules. If the necessary shareholder approval is not obtained, the Company will deal with Application monies as set out in Section 1.1.

### **3.16 Investment Speculative**

The list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The risk factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the securities offered under this Prospectus.

Therefore, the securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for securities.

## **Section 4 ADDITIONAL INFORMATION**

### **4.1 Legal Framework of the Prospectus**

The Company is a "disclosing entity" for the purposes of section 111AC of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations which require it to disclose to the ASX any information of which it is, or becomes, aware concerning the Company and which a reasonable person would expect to have a material effect on the price or value of securities of the Company.

### **4.2 Applicability of Corporations Act**

As a "disclosing entity", the Company has issued this Prospectus in accordance with section 713 of the Corporations Act applicable to prospectuses for an offer of, and options to acquire, securities which are quoted securities and the securities are in a class of securities or underlie a class of securities that were quoted securities at all times in the 12 months before the issue of this Prospectus. The Shares underlying the Options to be issued under this Prospectus are in a class of shares that were quoted on the stock market of the ASX at all times in the 12 months before the issue of this Prospectus.

A transaction specific prospectus under section 713 of the Corporations Act is only required to contain information related to the issue of securities the subject of the prospectus. Other general information is not required to be included by a disclosing entity as the periodic reporting and continuous disclosure requirements now required of disclosing entities means that all this information should have previously been released to the market.

Having taken such precautions and made such enquiries as are reasonable, the Company believes that it has complied with the general and specific requirements of the ASX (as applicable from time to time throughout the 12 months before the issue of this Prospectus) which requires the Company to notify the ASX of information about specified events or matters as they arise for the purpose of the ASX making that information available to the stock market conducted by the ASX.

### **4.3 Copies of Documents**

Copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, an office of the ASIC. The Company will provide a copy of each of the following documents, without charge, to any person on request prior to the Public Offer Closing Date or the Restricted Offer Closing Date, as the case may be:

- (a) the annual financial report for the year ended 30 June 2004 (being the last annual financial report to be lodged with the ASIC in relation to the Company before the issue of this Prospectus);
- (b) the half year report of the Company for the period ending 31 December 2004;  
and

- (c) continuous disclosure notices given during the period starting after the lodgement with the ASIC of the annual financial report referred to in (a) above and ending before the issue of the Prospectus being the following documents:

<b>DATE</b>	<b>ASX RELEASE</b>
06/10/04	Change in substantial holding
11/10/04	Arthritis Research Collaboration receives Clearance to Begin
18/10/04	Change of Director's Interest Notice
22/10/04	Notice of Annual General Meeting
29/10/04	Commitments Test Entity – First Quarter Report
04/11/04	Secures \$250K BIF Grant
04/11/04	Secures new collaboration with Inst for Molecular Bioscience
23/11/04	Newsletter to Shareholders
25/11/04	Bone Medical Announces New Collaboration
30/11/04	Chairman's AGM Address to Shareholders
01/12/04	Results of Annual General Meeting
01/12/04	Final Director's Interest Notice
08/12/04	Appendix 3B – Employee Options
10/12/04	Appendix 3B – Issue of Employee Share Options
14/12/04	Prominent New Members to Scientific Advisory Committee
21/12/04	Successful Pre-Clinical Trial for Rheumatoid Arthritis
04/01/05	Key Business Development Executive Appointed
04/01/05	Final Director's Interest Notice
25/01/05	Partnering and Alliance Executive Appointed in USA
28/01/05	Commitments Test Entity – Second Quarter Report
31/01/05	Human Clinical Trials for Bone-Building Hormone
28/02/05	Appoints new CEO
28/02/05	Initial Director's Interest Notice
28/02/05	New CEO appointed as Director
28/02/05	Half Yearly Report
07/03/05	Board Changes
14/03/05	Shareholder Letter
15/03/05	Amended Initial Director's Interest Notice
21/03/05	Change of Director's Interest Notice
11/04/05	Appoints non-executive director
11/04/05	Moves towards ADR Listing in the US
18/04/05	Initial Director's Interest Notice
20/04/05	Alterations to licence payments/Proposed Pref B changes
29/04/05	Commitments Test Entity – Third Quarter Report
10/05/05	Notice of Meeting Preference B Shareholders
30/5/05	Board Changes

30/05/05	Final Director's Interest Notice
03/06/05	Board Changes
03/06/05	Final Director's Interest Notice
07/06/05	Initial Director's Interest Notice
08/06/05	Initial Director's Interest Notice
10/06/05	Preference B Shareholder Meeting Results
14/06/05	June Shareholder Letter
14/06/05	Notice of General Meeting
23/06/05	Appointment of New Chairman
04/07/05	Completion of Perthoxal Osteoporosis Trial
06/07/05	Progress with Arthritis Drug Candidate
12/07/05	Results of Meeting
19/07/05	Change in substantial holding
19/07/05	Change of Director's Interest Notice
19/07/05	Appendix 3B
29/07/05	Commitments Test Entity - Fourth Quarter Report
01/08/05	Appointment of BIO-IB Inc
08/08/05	Level One ADR Program granted
18/08/05	End of restriction period for securities
02/09/05	Restructure of License Repayments
02/09/05	Achieves Consolidation
09/09/05	Appendix 3B - End of Restriction Period
13/09/05	Preliminary Final Report

#### 4.4 **Rights Attaching to Shares**

The rights attaching to the Company's Shares are:

- (a) set out in the Constitution of the Company, a copy of which is available for inspection at the registered office of the Company during normal business hours; and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASTC Settlement Rules and the general law.

The following is a summary of the principal rights which attach to the Shares issued pursuant to this Prospectus.

#### **Voting**

Every holder of shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of shares who is present in person or by proxy, attorney or representative has one vote for every fully paid share held by him or her, and a

proportionate vote for every partly paid share, registered in such shareholder's name on the Company's share register.

A poll may be demanded by the chairperson of the meeting, by any five shareholders present in person or by proxy, attorney or representative and entitled to vote on the resolution, or by any one or more shareholders who are together entitled to not less than 5% of the total voting rights of, or paid up value of, the shares of all those shareholders having the right to vote at that meeting.

### **Dividends**

The Directors may declare, and authorise the distribution from profits of the Company, a dividend to be distributed to the shareholders according to their respective rights and interests, may determine the property to constitute the dividend and may fix the time for distribution.

### **Transfer of Shares**

A shareholder may transfer shares by a market transfer in accordance with any computerised or electronic system established or recognised by the ASX or the Corporations Act for the purpose of facilitating transfers in shares or by an instrument in writing in a form approved by the ASX or in any other usual form or in any form approved by the Directors.

The Directors of the Company may refuse to register any transfer of shares where:

- to register the transfer would contravene or fail to observe the provisions of law of the Commonwealth of Australia or a state or territory of Australia;
- the Company has a lien on those Shares;
- except if the transferees are the executors or trustees of a deceased shareholder, the transferees are to be joint holders and are more than three in number;
- subject to certain exceptions, the transfer would, if registered, create a new holding of Shares which is an unmarketable parcel (as defined by the Listing Rules); or
- the transfer is in respect of a share which is not fully paid.

The Directors must not refuse to register or give effect to or delay or in any way interfere with the registration of a market transfer of shares or other securities where to do so would be contrary to any provision of the Listing Rules or the ASTC Settlement Rules.

### **Meetings and Notice**

Each shareholder is entitled to receive notice of and to attend general meetings for the Company and to receive all notices, accounts and other documents required to be sent to shareholders under the Constitution of the Company, the Corporations Act or the Listing Rules.

## **Liquidation Rights**

Once all the liabilities of the Company are satisfied, a liquidator may, with the authority of a special resolution of shareholders divide the whole or any part of the remaining assets of the Company and may set the value of each asset to be distributed that the liquidator considers fair, and determine how the distribution is to be carried out as between the different classes of shareholders, provided no shareholder must accept any shares or other property in respect of which there is any liability. The liquidator can with the sanction of a special resolution of the Company's shareholders vest the whole or any part of the assets in trust for the benefit of shareholders as the liquidator thinks fit.

## **Shareholder Liability**

As the Shares under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

## **Alteration to the Constitution**

The Constitution can only be amended by a special resolution passed by at least three quarters of shareholders present and voting at the general meeting. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

## **Listing Rules**

Despite anything in the Constitution of the Company, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Constitution to contain a provision or not to contain a provision the Constitution is deemed to contain that provision or not to contain that provision (as the case may be). If a provision of the Constitution is or becomes inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

### **4.5 Terms and Conditions of Options to be granted pursuant to the Offer**

- (a) No monies will be payable for the issue of the Options.
- (b) A certificate will be issued for the Options.
- (c) The Options expire at 5.00 pm on the date that is 18 months after their issue ("**Expiry Date**").
- (d) The Option is a right in favour of the option holder to subscribe for one 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 40 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 Option.
- (j) Subject 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.
- (l) The Company will apply for the Options to be listed for official quotation on the ASX. The Company will also in accordance with the 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:

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

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.

#### 4.6 Interests of Directors

Except as disclosed in this Prospectus, no Director (whether individually or in consequence of a Director's association with any company or firm or in any material contract entered into by the Company) has now, or has had, in the two year period ending on the date of this Prospectus, any interest in:

- (a) the formation or promotion of the Company; or
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (c) the Offer.

Except as disclosed in this Prospectus, no amounts of any kind (whether in cash or Shares or otherwise) have been paid or agreed to be paid to any Director or to any company or firm with which a Director is associated to induce him or her to become, or to qualify as, a Director, or otherwise for services rendered by him or her or any company or firm with which the Director is associated in connection with the formation or promotion of the Company or the Offer.

#### *Directors' Holdings*

Set out below are the details of the Directors' relevant interests in the securities of the Company as at the date of this Prospectus:

<b>Director</b>	<b>Class of Securities</b>	<b>Shareholding Direct</b>	<b>Indirect Shareholding</b>
M T Redman	Director Options	2,000,000	-
R New (1)	-	-	-
C Bilkey	Shares	80,000	-
R Basham (2)	Shares	-	48,333
P Hopper	-	-	-
R W Fritzsche	-	-	-

- (1) Dr Roger New has an indirect holding in 15.61% of the shares in Proxima Concepts Limited, which holds approximately 74.76% of the Shares.
- (2) These Shares are held by Hawea Pty Ltd, trustee of the Richard Basham Family Superannuation Fund, a company of which Mr Basham is a director and beneficiary.

***Directors' Remuneration***

Over the last two years, no remuneration was paid or was payable to the Directors of the Company, except as noted below:

<b>Director</b>	<b>Remuneration (\$)</b>
M T Redman	187,759
R New (1)	-
C Bilkey	29,166
R Basham	31,083
P Hopper	14,583
R W Fritzsche	12,500
<b>Total</b>	275,091

- (1) The Company and Proxima Laboratory and Research Services Pty Ltd ("**PLRS**") have entered into an agreement whereby PLRS provides laboratory, research and management services to the Company for a fee of £36,000 a month. Dr New is a director of PLRS and Chief Scientific Officer of the Company.

The Directors are also entitled to be reimbursed for travelling, hotel, communication and other expenses which they may properly incur in carrying out their duties and any Director performing extra or special professional services for the Company may be remunerated for those services.

The constitution provides that the remuneration of non-executive Directors will not be more than the aggregate fixed sum determined by a general meeting. The annual aggregate remuneration has been determined by shareholders at a general meeting to be an amount of \$300,000.

**4.7 Interests of Named Persons**

Except as disclosed in this Prospectus, no expert, or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with, has now, or has had, in the two year period ending on the date of this Prospectus, any interest in:

- (a) the formation or promotion of the Company; or
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or

(c) the Offer.

Except as disclosed in this Prospectus, no amounts of any kind (whether in cash or Shares or otherwise) have been paid or agreed to be paid to any expert, or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, or to any firm in which any of those persons is or was a partner or to any company in which any of those persons is or was associated with, for services rendered by that person in connection with the formation or promotion of the Company or the Offer.

Blakiston & Crabb has acted as solicitor to the Company and in that capacity has been involved in providing legal advice to the Company in relation to the Issue. In respect of this work, the Company will pay approximately \$15,000 (inclusive of GST) for these services. Blakiston & Crabb have been paid fees for other professional services provided to the Company during the last two years totalling approximately \$76,212.

BDO Chartered Accountants and Advisers are the auditors of the Company. They have provided audit services to the Company during the last two years totalling \$37,459. BDO have provided other professional services to the Company during the last two years totalling \$28,184 (inclusive of GST).

#### 4.8 **Consents**

Each of the parties referred to in this Section 4.8:

- (a) does not make, or purport to make, any statement in this Prospectus or on which a statement made in the Prospectus is based other than as specified in this Section; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and/or a statement included in this Prospectus with the consent of that party as specified in this Section.

Each of the following have consented to being named in the Prospectus in the capacity as noted below and have not withdrawn such consent prior to the lodgement of this Prospectus with the ASIC:

- (c) Blakiston & Crabb as solicitors to the Company;
- (d) Security Transfer Registrars Pty Limited as the Company's share registry; and
- (e) BDO Chartered Accountants and Advisers as auditors.

#### 4.9 **Expenses of the Issue**

The estimated amount of the expenses of the Issue if the Offer is fully subscribed, including ASX and ASIC fees, advisers' fees, printing and distribution costs and other miscellaneous expenses, is \$262,000, which has been paid or is payable by the Company. The estimated amount of the expenses of the Issue, if the minimum subscription of \$1,000,000 is raised, is \$165,000. The Company may pay up to a maximum of \$180,000 as a fee to brokers in accordance with Section 1.6.

#### 4.10 **Litigation**

The Company is not involved in any legal or arbitration proceedings, nor, so far as the Directors are aware are any such proceedings pending or threatened against the Company which are regarded as material.

#### 4.11 **Privacy Disclosure Statement**

The Company collects information about each Applicant from an Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's security holding in the Company.

By submitting an Application Form, each Applicant agrees that the Company may use the information in the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the share registry, the Company's related bodies corporate, agents, contractors and third party service providers (including mailing houses), the ASX, ASIC and other regulatory authorities.

If an Applicant becomes a security holder of the Company, the Corporations Act requires the Company to include information about the security holder (name, address and details of the securities held) in its public register. This information must remain in the register even if that person ceases to be a security holder of the Company. Information contained in the Company's registers is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.

## **Section 5 DIRECTORS' RESPONSIBILITY STATEMENT AND CONSENT**

The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in respect to any other statements made in the Prospectus by persons other than Directors, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given their consent to the statements being included in this Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with the ASIC, or to the Directors knowledge, before any issue of Shares and Options pursuant to this Prospectus.

The Prospectus is prepared on the basis that certain matters may be reasonably expected to be known to likely investors or their professional advisers.

Each Director has consented to the lodgement of this Prospectus with the ASIC and has not withdrawn that consent.

Dated: 27 September 2005

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Signed for and on behalf of  
**BONE MEDICAL LIMITED** by  
**MICHAEL T. REDMAN**

## Section 6 KEY DEFINITIONS

"Applicant(s)"	Person(s) who submit a valid Application Form pursuant to this Prospectus;
"Application"	A valid application made to subscribe for Shares and Options pursuant to this Prospectus;
"Application Form"	Either a Public Offer Application Form or a Restricted Offer Application Form;
"ASIC"	Australian Securities & Investments Commission;
"ASTC"	ASX Settlement and Transfer Corporation Pty Ltd;
"ASTC Settlement Rules"	the operating rules of ASTC;
"ASX"	Australian Stock Exchange Limited;
"Business Day"	every day other than a Saturday, Sunday, New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that the ASX declares is not a business day;
"Company"	Bone Medical Limited ABN 70 009 109 755;
"Constitution"	the constitution of the Company;
"Corporations Act"	Corporations Act 2001 (Cth);
"Directors"	the directors of the Company;
"Director Option"	an option to acquire one Share, on the terms and conditions set out in the explanatory memorandum accompanying the notice of meeting sent to shareholders for a meeting of the Company on 12 July 2005 which approved the issue of Director Options;
"Electronic Prospectus"	an electronic version of this Prospectus;
"Expiry Date"	the date which is 13 months after the date of this Prospectus, which is 27 October 2006;
"Issue"	the issue of Shares and Options under this Prospectus;
"Listing Rules"	the Listing Rules of the ASX;
"Offer"	the Public Offer and the Restricted Offer the subject of this Prospectus;
"Option"	an option to acquire a Share;
"Prospectus"	this Prospectus dated 27 September 2005 and includes the Electronic Prospectus;
"Public Offer"	the public offer under this Prospectus, as described in Section 1.1;

<b>"Public Offer Application Form"</b>	the application form so described accompanying this Prospectus;
<b>"Public Offer Closing Date"</b>	7 October 2005;
<b>"Restricted Offer"</b>	the restricted offer restricted to Directors and other related parties of the Company, as described in Section 1.1;
<b>"Restricted Offer Application Form"</b>	the application form so described accompanying this Prospectus;
<b>"Restricted Offer Closing Date"</b>	29 November 2005;
<b>"Section"</b>	a section of this Prospectus;
<b>"Share"</b>	an ordinary fully paid share in the capital of the Company;
<b>"Takeover"</b>	the date when 51% of the shareholders of the Company have accepted an offer for at least \$0.60 per Share; the offer involves a minimum consideration of at least US\$25 million and the offer is for at least 51% of the Company; and
<b>"WST"</b>	Australian Western Standard Time.

# Bone Medical Limited

ABN 70 009 109 755

## Public Offer Application Form

Please read all instructions on reverse of this form

Share Registrars use only	
Broker reference – stamp only	
Broker code	Adviser Code

Number of Shares applied for (minimum 1,000 Shares and thereafter in multiples of 1,000)

Total amount payable cheque(s) to equal this amount

	at \$0.26 per Share =	A\$
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You may be allocated all of the Shares above or a lesser number. You will be allotted one free attaching Option for every Share allotted.

Full name details title, given name(s) (no initials) and surname or Company name

Tax file number(s)  
Or  
exemption category

Name of Applicant 1

Applicant 1/Company

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Name of joint Applicant 2 or <account name>

Joint Applicant 2/ trust

--

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Full postal address  
Number/street

Contact details  
Contact name

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Suburb/town

State/postcode

Contact daytime telephone number

( )
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Contact email address

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**CHESS HIN** (if applicable)

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Cheque payment details please fill out your cheque details and make your cheque payable to "Bone Medical Limited – Share Account"

Drawer	Cheque number	BSB number	Account number	Total amount of cheque
				\$
				\$

You should read the Prospectus carefully before completing this Public Offer Application Form. The Corporations Act prohibits any person from passing on this Public Offer Application Form unless it is attached to or accompanies a complete and unaltered copy of the Prospectus and any relevant supplementary prospectus.

I/We declare that:

- (a) this Application is completed according to the declaration/appropriate statements on the reverse of this form and agree to be bound by the Constitution of Bone Medical Limited; and
- (b) I/we have received personally a copy of this Prospectus accompanied by or attached to the Public Offer Application Form or a copy of the Public Offer Application Form or a direct derivative of the Public Offer Application Form, before applying for Shares and Options.

**THIS FORM DOES NOT REQUIRE A SIGNATURE**

## INSTRUCTIONS TO APPLICANTS

This Public Offer Application Form relates to the offer of 11,538,462, Shares in Bone Medical Limited at an issue price of \$0.26 per Share to raise approximately \$3,000,000, with a minimum subscription (together with the Restricted Offer) of \$1,000,000. Each Share allotted will attract one free attaching Option, each exercisable at \$0.40 on or before the date which is 18 months from the date of issue, pursuant to the Prospectus dated 27 September 2005. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus. The Prospectus contains information about investing in the Shares and Options of the Company and it is advisable to read this document before applying for Shares and Options. A person who gives another person access to this Public Offer Application Form must at the same time and by the same means, give the other person access to the Prospectus, and any supplementary prospectus (if applicable). While the Prospectus is current, the Company will send paper copies of the Prospectus, and any supplementary prospectus (if applicable), and a Public Offer Application Form, on request and without charge.

Please post or deliver the completed Public Offer Application Form together with a cheque to the Company's share registry. If an Applicant has any questions on how to complete this Public Offer Application Form, please telephone the Company on +61 8 9355 5123. The Form must be received by the Registry no later than 5.00pm (WST) on 7 October 2005.

**A. Application for Shares and Options**

The Public Offer Application Form must only be completed in accordance with instructions included in Prospectus.

**B. Contact Details**

Please provide a contact name and daytime telephone number so that the Company can contact the Applicant if there is an irregularity regarding the Public Offer Application Form.

**C. Cheque Details**

Make cheques payable to “**Bone Medical Limited – Share Account**” in Australian currency and cross them “**Not Negotiable**”. Cheques must be drawn on an Australian Bank. The amount of the cheque should agree with the amount shown on the Public Offer Application Form.

**Declaration**

Before completing the Public Offer Application Form the Applicant(s) has read the Prospectus to which the Application relates. The Applicant(s) agree(s) that this Application is for Shares (and Options) in Bone Medical Limited upon and subject to the terms of the Prospectus, agree(s) to take any number of Shares (and Options) equal to or less than the number of Shares (and Options) indicated on the front of the form that may be allotted to the Applicant pursuant to the Prospectus and declare(s) that all details and statements made are complete and accurate. It is not necessary to sign the Public Offer Application Form.

If a Public Offer Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be accepted. Any decision of the Directors as to whether to accept a Public Offer Application Form, and how to construe, amend or complete it, shall be final. A Public Offer Application Form will not however, be treated as having offered to subscribe for more Shares (and Options) than is indicated by the amount of the accompanying cheque.

**Forward your completed Application to:**

Security Transfer Registrars Pty Limited

Phone: + 61 8 9315 2333

Facsimile: + 61 8 9315 2233

Addresses:

<b>By Post</b>	<b>By Hand</b>
Security Transfer Registrars Pty Limited PO Box 535 APPLECROSS WA 6953	Security Transfer Registrars Pty Limited 770 Canning Highway APPLECROSS WA 6153

# Bone Medical Limited

ABN 70 009 109 755

## Restricted Offer Application Form

Please read all instructions on reverse of this form

Share Registrars use only	
Broker reference – stamp only	
Broker code	Adviser Code

Number of Shares applied for (minimum 1,000 Shares and thereafter in multiples of 1,000)

Total amount payable cheque(s) to equal this amount

<input type="text"/>	at \$0.26 per Share =	A\$ <input type="text"/>
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You may be allocated all of the Shares above or a lesser number. You will be allotted one free attaching Option for every Share allotted.

Full name details title, given name(s) (no initials) and surname or Company name

Tax file number(s)  
Or  
exemption category

Name of Applicant 1

Applicant 1/Company

Name of joint Applicant 2 or <account name>

Joint Applicant 2/ trust

Full postal address  
Number/street

Contact details

Contact name

Contact daytime telephone number

Suburb/town

State/postcode

Contact email address

CHES HIN (if applicable)

Cheque payment details please fill out your cheque details and make your cheque payable to "Bone Medical Limited – Share Account"

Drawer	Cheque number	BSB number	Account number	Total amount of cheque
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	\$
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	\$

You should read the Prospectus carefully before completing this Restricted Offer Application Form. The Corporations Act prohibits any person from passing on this Restricted Offer Application Form unless it is attached to or accompanies a complete and unaltered copy of the Prospectus and any relevant supplementary prospectus.

**Note: The Restricted Offer is only available to Directors and other related parties of the Company. Allotment of the Shares and Options pursuant to the Restricted Offer is subject to shareholder approval under the Listing Rules, as described in Section 1.1 of the Prospectus.**

I/We declare that:

- this Application is completed according to the declaration/appropriate statements on the reverse of this form and agree to be bound by the Constitution of Bone Medical Limited; and
- I/we have received personally a copy of this Prospectus accompanied by or attached to the Restricted Offer Application Form or a copy of the Restricted Offer Application Form or a direct derivative of the Restricted Offer Application Form, before applying for Shares and Options.

**THIS FORM DOES NOT REQUIRE A SIGNATURE**

## INSTRUCTIONS TO APPLICANTS

This Restricted Offer Application Form relates to the offer of 384,615 Shares in Bone Medical Limited at an issue price of \$0.26 per Share to raise approximately \$100,000, with a minimum subscription (together with the Public Offer) of \$1,000,000. Each Share allotted will attract one free attaching Option, each exercisable at \$0.40 on or before the date which is 18 months from the date of issue, pursuant to the Prospectus dated 27 September 2005. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus. The Prospectus contains information about investing in the Shares and Options of the Company and it is advisable to read this document before applying for Shares and Options. A person who gives another person access to this Restricted Offer Application Form must at the same time and by the same means, give the other person access to the Prospectus, and any supplementary prospectus (if applicable). While the Prospectus is current, the Company will send paper copies of the Prospectus, and any supplementary prospectus (if applicable), and a Restricted Offer Application Form, on request and without charge.

Please post or deliver the completed Restricted Offer Application Form together with a cheque to the Company's share registry. If an Applicant has any questions on how to complete this Restricted Offer Application Form, please telephone the Company on +61 8 9355 5123. The Form must be received by the Registry no later than 5.00pm (WST) on 29 November 2005.

**A. Application for Shares and Options**

The Restricted Offer Application Form must only be completed in accordance with instructions included in Prospectus.

**B. Contact Details**

Please provide a contact name and daytime telephone number so that the Company can contact the Applicant if there is an irregularity regarding the Restricted Offer Application Form.

**C. Cheque Details**

Make cheques payable to “**Bone Medical Limited – Share Account**” in Australian currency and cross them “**Not Negotiable**”. Cheques must be drawn on an Australian Bank. The amount of the cheque should agree with the amount shown on the Restricted Offer Application Form.

### Declaration

Before completing the Restricted Offer Application Form the Applicant(s) has read the Prospectus to which the Application relates. The Applicant(s) agree(s) that this Application is for Shares (and Options) in Bone Medical Limited upon and subject to the terms of the Prospectus, agree(s) to take any number of Shares (and Options) equal to or less than the number of Shares (and Options) indicated on the front of the form that may be allotted to the Applicant pursuant to the Prospectus and declare(s) that all details and statements made are complete and accurate. It is not necessary to sign the Restricted Offer Application Form.

If a Restricted Offer Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be accepted. Any decision of the Directors as to whether to accept a Restricted Offer Application Form, and how to construe, amend or complete it, shall be final. A Restricted Offer Application Form will not however, be treated as having offered to subscribe for more Shares (and Options) than is indicated by the amount of the accompanying cheque.

**Forward your completed Application to:**

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