

**APPENDIX 4E**  
Preliminary Final Report for year ending 30 June 2005

Name of entity

<b>BONE MEDICAL LIMITED (FORMERLY REVENIR LIMITED)</b>
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ABN	Reporting Period	Previous Corresponding Period
70 009 109 755	Financial year ended 30 June 2005	Financial year ended 30 June 2004

(1)

(2) Results for Announcement to the Market

				\$A
Revenues from ordinary activities ( <i>item 2.1</i> )	Down	84%	to	350,249
Profit (loss) from ordinary activities after tax attributable to members ( <i>item 2.2</i> )	Up	3005%	to	(29,764,252)
Net profit (loss) for the period attributable to members ( <i>item 2.3</i> )	Up	3005%	to	(29,764,252)
Final and interim dividends ( <i>item 2.4</i> )	It is not proposed that either a final or interim dividend be paid .			
Record date for determining entitlements to the dividend ( <i>item 2.5</i> )	N/A			

Brief explanation of any of the figures reported above (*item 2.6*):

The loss from ordinary activities includes the writedown of goodwill in the consolidated entity of \$26,873,489. This is based on the Directors' assessment of the recoverability of the value of the balance of this asset.

	Current Period	Previous Corresponding Period
Net tangible assets per ordinary share ( <i>Item 9</i> )	7.5 cents	8.6 cents

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

Bone Limited – 80%. 23 August 2004

	<b>Current Period</b> \$'s	<b>Previous Corresponding Period</b> \$'s
Profit (Loss) from ordinary activities after extraordinary items and income tax of the controlled entity during the current period from the date control was gained	(10,491)	N/a

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.

	<b>Current Period</b> \$'s	<b>Previous Corresponding Period</b> \$'s
Statement of Retained Earnings ( <i>item 8</i> )		
Retained Profits (Accumulated Losses) at the beginning of the financial period	(35,571,372)	(34,612,786)
Net Profit (Loss) attributable to members	(29,766,350)	(958,586)
Retained Profits (accumulated losses) at end of financial period	(65,335,624)	(35,571,372)

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

International Accounting Standards

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

-None

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

- N/A

## REVIEW OF OPERATIONS

The consolidated loss after income tax for the financial year is \$29,764,252 (2004:(\$958,586)) after the writedown of goodwill in the consolidated entity of \$26,873,489 based on a Directors' assessment of the recoverability of the asset.

The year under review has been a significant one for our shareholders. The major changes that have been effectuated in the past fiscal year continue to position our company to be a global player in the multi-billion dollar market for bone and joint diseases.

On 29 July 2004, Revenir Limited received the final instalment for the purchase of the Aliquot Property Management business by Key 2 (\$900,000 plus interest).

On 2 August 2004, the shareholders of Revenir Limited at a general meeting, approved the acquisition of 80% of Bone Limited, a British-based biopharmaceutical company with the issue to the Bone Ltd vendors of 34 million ordinary shares, 1 Class A preference share and 10 million Class B Preference shares as consideration. Concurrent with the shareholders meeting, the Company announced its capital raising under a Prospectus had closed early and oversubscribed raising a total of \$2.5 million. As a result, the Company issued 4.2 million shares at 60 cents per share (post share consolidation).

The ordinary shares of the Company were consolidated on a 1 for 4 basis following the settlement of the Bone Limited acquisition transaction. All shareholders were issued with a bonus issue of 10 million Class C Preference Shares in total.

The settlement date for the acquisition was 23<sup>rd</sup> August, 2004. Revenir Limited changed its name to Bone Medical Limited on 19<sup>th</sup> August, 2004.

There was a change in the activities of the Company during the period from property management of the rent roll business to that of a biopharmaceutical company.

In September 04, we announced the positive results from our Phase I/II human clinical trial with our *Capsitonin*<sup>TM</sup> oral formulation of calcitonin for the indication of osteoporosis. By the end of this past fiscal year, we also completed the dosing of our second clinical trial using our second product in our rich pipeline. The product evaluated in the second trial was *Perthoxal*<sup>TM</sup>, our oral formulation of parathyroid hormone (PTH). *Perthoxal*<sup>TM</sup> is also being evaluated for the treatment of osteoporosis.

The Company was also awarded a \$250,000 grant from the Federal Government's Biotechnology Innovation Fund (BIF), the maximum amount available under the scheme. The grant was awarded to continue work on *Perthoxal*<sup>TM</sup> oral PTH.

The bone remodelling process consists of both bone destruction (resorption) followed by bone formation. Drug products normally are designed to either slow down the resorption process or to enhance the building part of the equation.

*Capsitonin*<sup>TM</sup> oral calcitonin is a drug that down-regulates the resorption process while *Perthoxal*<sup>TM</sup> oral PTH performs by up-regulating bone formation.

Currently, the down-regulating therapeutic agents on the market consist primarily of bisphosphonates and calcitonin. Worldwide bisphosphonate sales in 2004 were US\$3.8 billion and calcitonin revenues were approximately US\$700 million. Calcitonin is currently sold as either a daily nasal spray or daily injectable. A nasal formulation of calcitonin (*Miacalcin*<sup>®</sup>, Novartis) comprises about 70% of the market.

At this time, only one product has been approved by the US FDA to promote bone growth (an up-regulator) and this product (FORTEO™, Eli Lilly) is a daily injectable formulation of parathyroid hormone. Worldwide sales of FORTEO in 2004 were approximately US\$249 million.

This financial year was characterized by significant gains across the remaining project in our portfolio, including:

- Bone Medical's rheumatoid arthritis programme (BN006) uncovered a new class of therapeutic agents to potentially treat and/or help prevent the disease. The Company has 36 potential drug compounds for testing and development. This discovery is an important outcome as it exhibits a class effect and provides a potential breakthrough in the treatment of inflammatory diseases.
- Studies completed by our collaboration partner, the Institute for Bone & Joint Research (IBJR), demonstrated that the lead candidate from Bone Medical's library of TNF regulators (BN006) can reduce levels of tumour necrosis factor (TNF) in an animal model of its release. BN006 is being developed to regulate TNF levels, the primary contributing factor in rheumatoid arthritis. The current global market for injected anti-TNF products is approximately US\$3.3 billion per annum, with sales expected to grow beyond US\$5 billion by 2005.
- a collaborative testing agreement that was completed with the Institute of Molecular Biosciences (IMB) at the University of Queensland to advance the Company's osteoblast (BN005) and osteoclast (BN008) cell regulation products for the treatment of osteoporosis, a condition of bone fragility. These products are aimed at regulating bone breakdown and bone building by controlling the cells involved in bone destruction and formation. The IMB is recognised nationally and internationally as one of Australia's leading research institutes and a major centre for molecular bioscience research.
- Studies at the IBJR demonstrated that BN007, our product targeting oral tolerisation for rheumatoid arthritis, showed significantly diminished clinical signs, incidence of and histopathological severity of arthritis when compared to that of the positive control but at half the dosage.

In March 05, we announced that the template for operating our business for the remaining calendar year would be guided by six major goals.

Our first commitment is to continue to build upon our Australian base and expand into North America. In recent months, we have set up a US office and have already initiated contacts and conducted meetings with the US financial institutions. Furthermore, discussions with leading pharmaceutical companies for possible licensing and/or development collaborations are continuing. In April of this year, we announced that our company engaged the Bank of New York to serve as a depository bank for a Level One American Depository Receipt (ADR) Program in the US. Currently, US investors can not purchase Bone Medical stock unless they arrange the sale through an Australian stock broker. We anticipate that by August of this year, US investors will be able to purchase Bone Medical stock from their local stockbroker through the ADR program. In addition, many of the US financial institutions require that we have an ADR or US stock listing prior to considering any investment.

Our second commitment is to progress the development of our leading edge osteoporosis treatments through clinical trials. On 31 January, we announced that we had received clearance to commence an 18-subject human Phase I trial with our oral delivery form of parathyroid hormone (PTH). This study has considerably progressed. Fifteen of the eighteen subjects have now completed the dosing regimens and we expect the remaining three to be completed this June. The primary endpoints of the study are safety and tolerability, with secondary endpoints to achieve blood levels of PTH and changes to relevant biomarkers. If we are able to show blood levels of these components with our PTH formulation, we will have

successfully demonstrated that our oral formulation of PTH is bioavailable as a capsule formulation. Currently, the only formulation of PTH available in the market is an injectable drug (FORTEO®, Eli Lilly). We believe that market acceptance of a daily swallowed capsule would have much better acceptance over a daily injectable drug. Furthermore, our PTH drug has been named *Perthoxal™* oral parathyroid hormone (formerly BN003).

The third commitment involves building our working relationship with the US Food & Drug Administration (FDA). In the case of both calcitonin and PTH, the United States accounts for more than 60 percent of the sales of these drugs. We are in the process of preparing the necessary documentation for a pre-IND (Investigational New Drug) meeting with the FDA. The pre-IND meeting will map out the development pathway required to gain regulatory approval in the USA, including clinical endpoints and patient numbers. As you might expect, the paperwork and documentation necessary for such a meeting is no small undertaking. We expect to conduct a face-to-face meeting with the FDA later in the fourth quarter of 2005.

Our fourth commitment is lessening our dependence on outside contractors. In April this year, we announced that we brought the US business development responsibilities in-house and in July of this year, all of our business development activities will be managed by our own staff. Our current development collaborations and contract research organizations are also managed internally. Pending our next round of financing, our company intends to hire a strategic regulatory executive, one of the key roles for any drug development company.

The fifth commitment is to restructure our board of directors to procure US expertise to guide commercial development at the fastest possible rate. In April 2005, Wayne Fritzsche joined our board. Mr. Fritzsche has over 30 years of experience in the pharmaceutical industry in the USA and will be instrumental in providing guidance as we raise capital in the US. Michael Perrott resigned his board seat in May after serving a vital strategic role in our move to the Australian stock exchange in August 2004 following our merger with Revenir Ltd. In June, Paul Hopper joined the board. Mr Hopper has dual experience with raising capital in both the US and Australian markets and has 25 years of experience in the public company markets, primarily in the healthcare and biotechnology sectors. Both Mr Fritzsche and Mr Hopper reside in the US (Florida and California). Furthermore, Glen Travers, the founder of Bone Medical, resigned his position on the board this June and has been replaced by Dr Roger New. Dr New is a world-class scientist in the area of drug delivery and will serve a valuable function in providing us with scientific expertise and direction. Dr New has more than 30 years of experience in the field of drug delivery and is the Chief Scientific Officer of Bone Medical.

Our sixth commitment is to raise capital in Australia prior to raising funds in the USA. Currently, we are in the process of a small capital raise in Australia and plan to raise significant more capital in the US once our ADR program is finalised. To better position our company for financing, we are in the process of converting our B preference shares into ordinary shares, thereby simplifying our stock ownership structure. In a general meeting of B shareholders held on 10 June 2005, a resolution to allow this change was passed with 94% of proxies lodged in favour of the resolution and no opposing votes. This matter is now to be put to the ordinary shareholders at a general meeting.

We hope to report at the end of calendar year 2005 that we have substantially attained each of the above goals. In addition, we believe that simplifying our stock structure will also make our company more attractive to investors. We thank you all for your past support and look forward to sharing prosperous years with you in the future.

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2005**

	CONSOLIDATED	
	Year Ending 30.06.05 \$	Year Ending 30.06.04 \$
Other Revenue from ordinary activities	<u>350,249</u>	<u>2,188,985</u>
Employee expenses and Director fees	(426,798)	(459,764)
Corporate and management contractors	(297,371)	(5,484)
Carrying value of assets disposed	(2,171)	(1,715,070)
Depreciation and amortisation expenses	(1,414)	(261,644)
Goodwill written down	(26,873,489)	-
Research and Development expenditure	(1,836,598)	-
Other expenses from ordinary activities	(678,758)	(705,609)
Loss from ordinary activities before income tax expense	<u>(29,766,350)</u>	<u>(958,586)</u>
Income tax expense relating to ordinary activities	-	-
Loss from ordinary activities after related income tax	<u>(29,766,350)</u>	<u>(958,586)</u>
Net Loss to Outside Equity Interests	<u>2,098</u>	<u>-</u>
Loss attributable to members of the parent entity other than those resulting from transactions with owners as owners	<u>(29,764,252)</u>	<u>(958,586)</u>
<b>Earnings Per Share</b>	<b>Note</b>	
Basic loss per share (cents per share)	3	
	<u>(64.54)</u>	<u>(4.72)</u>

The statement of financial performance should be read in conjunction with the accompanying notes

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2005**

		Consolidated	
		30.06.05	30.06.04
		\$	\$
<b>Current Assets</b>	<b>Note</b>		
Cash assets		1,678,590	1,306,735
Receivables		27,940	938,608
<b>Total Current Assets</b>		<b>1,706,530</b>	<b>2,245,343</b>
<b>Non-Current Assets</b>			
Plant & equipment		12,020	2,171
Goodwill	6	1,961,299	-
Other		-	178,616
<b>Total Non-Current Assets</b>		<b>1,973,319</b>	<b>180,787</b>
<b>Total Assets</b>		<b>3,679,849</b>	<b>2,426,130</b>
<b>Current Liabilities</b>			
Payables		222,147	181,615
Loans		1,098	-
<b>Total Current Liabilities</b>		<b>223,245</b>	<b>181,615</b>
<b>Total Liabilities</b>		<b>223,245</b>	<b>181,615</b>
<b>Net Assets</b>		<b>3,456,604</b>	<b>2,244,515</b>
<b>Shareholders' Equity</b>			
<b>Parent Equity</b>			
Contributed equity	5	68,765,846	37,815,887
Accumulated losses		(65,335,624)	(35,571,372)
<b>Total Parent Equity</b>		<b>3,430,222</b>	<b>2,244,515</b>
<b>Outside Equity Interest</b>			
Outside Equity Interests		26,382	-
<b>Total Equity</b>		<b>3,456,604</b>	<b>2,244,515</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2005**

	<b>Total 30.06.05 \$</b>	<b>Total 30.06.04 \$</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	-	460,766
Payments to suppliers and employees	(3,062,772)	(1,095,372)
Interest received	132,424	44,923
	<b>(2,930,348)</b>	<b>(589,683)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of plant and equipment	(10,996)	(11,087)
Payment for acquisition of Rent Rolls	-	(118,808)
Payment for development of software	-	(90,000)
Proceeds from disposal of investments	900,000	715,523
Proceeds from sale of plant and equipment	-	28,207
Payment of costs associated with the future acquisition of Bone Limited		(59,827)
	<b>889,004</b>	<b>464,008</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from issue of shares	2,520,000	554,396
Capital raising costs and issue of shares under the Bone transaction costs	(323,762)	-
Government Grant Income	216,961	-
	<b>2,413,199</b>	<b>554,396</b>
Net increase (decrease) in cash held	371,855	428,721
Cash at the beginning of the year	1,306,735	878,014
<b>Cash at the end of the Year</b>	<b>1,678,590</b>	<b>1,306,735</b>

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2005**

1. Summary of Significant Accounting Policies

The significant accounting policies, which have been adopted in the preparation of this financial report, are:

(a) Basis of Accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The accounts have been prepared in accordance with historical cost conventions and on an accrual basis to reflect net fair values.

(b) Changes in Accounting Policies

There have been no changes in accounting policies adopted during the year.

(c) Principles of Consolidation

The financial report is prepared on a consolidated basis. The group comprises Bone Medical Limited, the principal entity, and its subsidiaries Bone Ltd and Owein Pty Ltd.

The balances and effects of transactions between controlled entities included in the consolidated financial statements have been eliminated.

(d) Cash Flows

For the purpose of the statement of cash flows, cash includes cash on hand, at bank and bank bills maturing in 30 days with bank.

(e) Recoverable Amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down on the basis of use of asset.

(f) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount, less a provision for any uncollected debts where considered appropriate. Bad debts are written off as incurred.

(g) Property, Plant and Equipment

Property, plant and equipment is recorded in the accounts at cost less a provision for depreciation. The written down value approximates fair value for these assets. Depreciation has been applied on a straight line basis and is based on the estimated useful life according to the Australian Taxation Office's depreciation schedules. The rates vary depending on the item of property, plant & equipment.

Average depreciation periods are:

	2005	2004
Property, plant & equipment	4 years	4 years

(h) Research and Development Costs

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where research and development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits. Unamortised costs are reviewed at each reporting date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

(i) Goodwill

On consolidation, goodwill is recorded as the excess of purchase consideration over net tangible assets acquired during an acquisition. This value is reviewed by the Directors to ensure the carrying amount reflects the recoverable amount.

(j) Trade and Other Payables

Liabilities and trade creditors of the entity are carried at cost, which is the fair value of the consideration to be paid in the future for the goods and services received. For the current period, payables to related parties are carried at the principal amount. Interest when charged by the lender, is recognised as an expense on an accrual basis.

(k) Patent Development Expenses Written Off

Patent development and exploitation costs are currently expensed as incurred. It is considered that there is considerable value in the patents but as there is no accurately determined direct relationship with currently forecast future cash flows, it has been resolved that these costs should be written off as incurred.

(l) Taxation

Income taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(m) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sales Revenue

Revenue for the consolidated entity includes income from government grant funding. This funding is brought to account as and when the grant income is received.

Interest

Control of the right to receive interest for the provision of, or investment in, those assets.  
Sale of Assets Other than Goods Control of the asset has passed to the buyer.

(n) Share Capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising from the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(o) Earnings Per Share

Basic earnings per share is determined by dividing the operating profit after tax and after preference dividends by the weighted average number of ordinary shares outstanding during the financial year.

The diluted loss per share has not been disclosed as the effect of any conversion of shares is not deemed to be dilutive.

(p) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(q) Foreign Currency Transactions

Transactions in foreign currencies of the entity within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and receivable by the entities within the consolidated entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

Exchange gains and losses are brought to account in determining the profit or loss for the year.

## 2. LOSS FROM ORDINARY ACTIVITIES

	Consolidated	
	30.06.05	30.06.04
	\$	\$
<b>REVENUE</b>		
These include the following items:		
<b>Revenue from operating activities</b>		
Rendering of Services	-	457,505
Government Grant Income	216,961	-
<b>Revenue from non-operating activities</b>		
Proceeds on disposal of investments	-	1,650,000
Proceeds on disposal of plant & equipment	-	28,207
Interest Income	132,424	53,253
Other	864	20
<b>TOTAL REVENUE</b>	<b>350,249</b>	<b>2,188,985</b>
<b>EXPENDITURE</b>		
These include the following items :-		
Employee expenses and Director fees	(426,798)	(459,764)
Corporate and management contractors	(297,371)	(5,484)
Carrying value of assets disposed	(2,171)	(1,715,070)
Depreciation and amortisation expenses	(1,414)	(261,664)
Goodwill written down	(26,873,489)	-
Research and Development expenditure	(1,836,598)	-
Other expenses from ordinary activities	(678,758)	(705,609)
<b>TOTAL EXPENDITURE</b>	<b>(30,116,599)</b>	<b>(3,147,571)</b>

## 3. EARNINGS PER SHARE

The earnings per share calculation has used the post consolidation number of shares from 1 July 2004. The diluted loss per share has not been disclosed as the effect of any conversion of shares is not deemed to be dilutive.

#### 4. ACQUISITION OF SUBSIDIARY

On 23 August 2004 the Company acquired 80% of Bone Limited, a British based biopharmaceutical company with the issue to the Bone Ltd vendors of 34 million ordinary shares, 1 Class A preference share and 10 million Class B Preference shares as consideration. The ordinary shares of the Company were consolidated on a 1 for 4 basis following the settlement of the Bone Limited acquisition transaction. All shareholders were issued with a bonus issue of 10 million Class C Preference Shares in total. The settlement date for the acquisition was 23<sup>rd</sup> August, 2004. Revenir Limited changed its name to Bone Medical Limited on 19<sup>th</sup> August, 2004.

	<b>Consolidated</b>	
	<b>30.06.05</b>	<b>30.06.04</b>
	<b>\$</b>	<b>\$</b>
<b>5. CONTRIBUTED EQUITY</b>		
Issued and paid up capital		
58,226,291 (30.06.2004: 24,106,897) ordinary shares, fully paid	68,765,846	37,815,887
9,999,204 (2004: nil) Class C Preference Shares	-	-
300,000 (2004:nil) Employee Options (g)	-	-
1,000,000 (2004: nil) Options (h)	-	-
	68,765,846	37,815,887
<u>Ordinary shares</u>		
Balance at the beginning of the period	37,815,887	37,815,887
Consolidation of Capital 1 for 4 (a)	-	-
4,200,000 shares issued under Prospectus (b)	2,520,000	-
Issue of 34,000,000 Shares to Bone Vendors (c)	20,400,000	-
Conversion of 1 Class A Preference share to 10 m shares (d)	7,100,000	-
Conversion of 10m Class B Preference shares to 3,999,990 ordinary shares (i)	1,199,997	-
Less :- Capital raising costs	(270,038)	-
Balance 58,226,291 ordinary shares at year end (30.06.2004: 24,106,897 )	68,765,846	37,815,887
<u>Preference Shares</u>		
1 Class A Preference Share issued – Bone Acquisition	-	-
Conversion of 1 Class A Preference Share (d)	-	-
Balance Class A preference Shares at year end	-	-
10,000,004 Class B Preference shares issued – Bone Acquisition (e)	100,000	-
Conversion of all Class B Preference shares to ordinary shares(i)	(100,000)	-
Balance Class B Preference Shares at year end	-	-

	<b>Consolidated</b>	
	<b>30.06.05</b>	<b>30.06.04</b>
	<b>\$</b>	<b>\$</b>
9,999,204 Class C Preference shares issued – Bone Acquisition – Bonus issue (f)	-	-
Balance Class C Preference Shares at year end	<u>-</u>	<u>-</u>

- a) On 23 August, 2004 the existing ordinary share capital (24,106,897 ordinary shares) were consolidated on a 1 for 4 basis as approved at the General Meeting which resulted in there being 6,026,301 ordinary shares on issue in total.
- b) Under the Prospectus, on 23 August 2004, 4,200,000 ordinary shares were issued and allotted at \$0.60 per share and \$2,500,000 was raised.
- c) On 23 August, 2004, 4 million ordinary shares were issued to the Bone limited preference shareholders as consideration for their 4 million Bone Limited preference shares under the Bone acquisition. Additionally, 30 million ordinary shares were issued to the Bone Limited ordinary shareholders as consideration for their 24 million Bone Limited ordinary shares under the Bone acquisition. All were issued at a deemed issue price of \$0.60.
- d) On 23 August, 2004 1 Class A Preference Share was issued to the Bone ordinary shareholder. This converted to 10,000,000 ordinary shares on 27 September, 2004 upon the positive human clinical trial outcome of the BN002 oral calcitonin. This was issued at the deemed issue price of \$0.71 being the market value at the date of issue.
- e) On 23 August 2004, 10,000,004 Class B Preference Shares were issued to the Bone vendors at a deemed issue price of \$0.01.
- f) On 23 August 2004, following the Bone acquisition, 9,999,204 Class C Preference Shares were issued as a bonus issue to all shareholders at a nil deemed issue price.
- g) 300,000 Employee Options were issued at 1 December 2004 exercisable at \$0.60 per share before 1 December 2009.
- h) 1,000,000 options were issued at 23 August, 2004 exercisable at \$0.50 per share before 1 July 2008.
- i) On 2 May 2005, the Directors approved the early conversion of all 10,000,004 Class B Preference shares to 3,999,990 ordinary shares. This was subsequently approved by shareholders on 12 July 2005 at a general meeting.

## 6. GOODWILL

	30.06.05	30.06.04
	\$	\$
Goodwill at acquisition of Bone Ltd	27,733,726	-
Goodwill written down	<u>(25,773,492)</u>	<u>-</u>
Carrying value of Goodwill	<u>1,961,299</u>	<u>-</u>

On consolidation, goodwill is recorded as the excess of purchase consideration over net tangible assets acquired during the acquisition of Bone Limited. This value has now been reviewed by the Directors to ensure the carrying amount reflects the recoverable amount.

**7. CHANGE IN ACTIVITIES**

There was a change in the activities of the Company during the period from the technology business associated with the management of properties to that of a biopharmaceutical company .

**8. SEGMENT INFORMATION**

The Company has predominantly undertaken all its business activities in the biopharmaceutical segment in Australia Europe and the USA.

**9. CONTINGENT LIABILITIES**

There are no contingent liabilities at reporting date.

**10. SUBSEQUENT EVENTS**

The 10,000,004 Class B Preference Shares were converted at a discount to 3,999,990 ordinary shares on 12 July, 2005 following shareholder approval at a general meeting held on that date.

On 2 September, 2005, Bone Medical Limited acquired the remaining 6,000,000 ordinary shares (20%) held by Proxima Concepts Limited under a Share Purchase Agreement for no consideration. Bone Limited is now a wholly owned subsidiary of Bone Medical Limited.

On 8 August, 2005 Bone Medicals Level One American Depository Receipt (AR) program was granted with The Bank of New York acting as the depository bank. Receipts are tradable in the over-the-counter (OTC) market under the code BMEDY.

## **AASB 1047 disclosure: International Financial Reporting Standards**

Australia is currently preparing for the introduction of Australian equivalents of International Financial Reporting Standards (AIFRS) effective for financial years commencing on or after 1 January 2005. Consequently, the company's consolidated financial report for the half-year ending 31 December 2005, and the company's consolidated financial report for the year ending 30 June 2006 will be prepared under AIFRS. In those statements, comparative information will also be required to be stated under AIFRS.

The Company's directors, along with its auditors and advisers, are assessing the significance of these changes and preparing for their implementation. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at the date of transition and to the re-computation of the effects of the business combination. These will form the basis of accounting for AIFRS in the future, and is required when Bone Medical prepares its first fully AIFRS compliant financial report.

Set out below are the key areas where accounting policy will change on adoption of AIFRS. Quantified impacts have not been disclosed as analysis has not been completed in all areas, and therefore disclosure of piecemeal information may be misleading and not fully represent the impact of transition. The key potential implications of the conversion to AIFRS for the Bone Medical group are discussed below.

The areas disclosed are management's best estimates of the impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the areas disclosed due to (a) ongoing work being undertaken by the directors and advisers; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations.

### ***Date of Transition***

As Bone Limited will be treated as the 'in-substance' acquirer and Bone Medical Limited as the 'in-substance' acquiree under AIFRS, the consolidated financial statements will reflect Bone Limited as the continuing entity, rather than Bone Medical Limited. Accordingly, the transition date to AIFRS for the consolidated entity will be 1 April 2004, being the date of transition to AIFRS for Bone Limited. The date of transition for the parent entity will be 30 June 2005.

The net profit for the year ended 30 June 2005 will also be impacted as a result of (i) the change in the classification of the business combination, (ii) the change in the transition date and the comparative period, and (iii) the non-amortisation of goodwill.

### ***Business Combinations***

During the financial year ended 30 June 2005 Bone Medical Limited acquired a controlling interest in Bone Limited. Under AASB 3 *Business Combinations*, an acquirer is required to be identified for all business combinations. The acquirer is the combining entity that obtains control of the other combining entity. It has been determined that Bone Limited (the legal subsidiary of Bone Medical Limited) was the acquiring entity in this transaction. In applying the requirements of AASB 3, the business combination will be remeasured so as reflect the fair values of the assets, liabilities and contingent liabilities of Bone Medical Limited in the consolidated financial statements. As a result of the reverse acquisition accounting, goodwill

recognised on the business combination under current Australian Accounting Standards (AGAAP) is expected to be significantly reduced at the date of the business combination.

Under AASB 3 goodwill will no longer be amortised but will be subject to annual impairment testing. This will result in a change in the Company's accounting policy, which presently amortises goodwill over its useful life not exceeding twenty years. Under the new policy, amortisation will no longer be charged. However, post the transition date goodwill will be expensed immediately to the extent it is impaired.

Under AIFRS the initial goodwill recognised on the business combination will be significantly lower than under AGAAP. The impairment recognised under AGAAP is therefore not required. However, the revised goodwill will be subject to an annual test for impairment in accordance with AASB 136.

### ***Taxation***

Currently the Group adopts the liability method of tax effect accounting whereby the income tax expense is based upon the accounting profit adjusted for permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit.

Under AASB 112 *Income Taxes* the Group will be required to adopt the balance sheet approach under which temporary differences will be identified for each asset and liability and deferred tax recognised in respect of these temporary differences. Temporary differences arise from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

Currently to bring to account a future income tax benefit in relation to past tax losses requires an assessment that future taxable profits are "virtually certain". On adoption of AASB 112 the test changes to "probable" future taxable profits.

It is believed this will have no impact on the total equity as at the date of transition or on the comparative reporting period.

### ***Impairment of Assets***

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of its net selling price and value in use. This will result in a change in the group's current accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater.

As at the date of transition no impairment write-downs will need to be recognised under AIFRS. In addition (as stated above) the impairment of the revised goodwill will be subject to an impairment test in accordance with AASB136.

Reliable estimation of the future financial effects of this change in accounting policy is not practicable because the conditions under which impairment will be assessed are not known.

### ***Financial instruments***

The consolidated entity has made an election in relation to the transitional exemptions allowed by AASB 1 *First-time Adoption of Australian Equivalents to International Financial*

*Reporting Standards* relating to the application of AASB 132 *Financial Instruments: Presentation and Disclosure* and AASB 139 *Financial Instruments: Recognition and Measurement*.

As a result of this election, the consolidated entity will not apply AASB 132 and AASB 139 to the comparative financial information presented in its first set of AIFRS compliant financial statements.

Management is in the process of determining the impact that adopting AASB 132 and 139 would have on the financial statements of the group.

***Share based payments***

The group does not currently recognise an expense for options issued to employees. On adoption of AIFRS the group will be required to determine the fair value of the equity instruments issued to employees, including deferred shares and options, as remuneration and recognise an expense in the income statement.

During the year 300,000 employee share options were issued. These were valued at \$0.30 per option, giving rise to a total expense of \$90,990 to be spread over the expected vesting period. This will give rise to a decrease in net profit during the vesting period. However, it will have no impact on total equity.