

**NOTICE OF
ANNUAL GENERAL MEETING
AND EXPLANATORY STATEMENT**



BONE MEDICAL LIMITED
(ACN 009 109 755)

Time: 4:30pm (WST)
Date: Wednesday, 19 November
2008
Place: Seminar Room 5
Technology Park Function
Centre
2 Brodie Hall Drive
Bentley WA 6102

This Notice of Meeting and Explanatory Statement should be read in its entirety. If Shareholders are in doubt as to how to vote, they should seek advice from their accountant, solicitor or other professional adviser without delay

Notice of Annual General Meeting

Bone Medical Limited (ACN 009 109 755)

Notice is given that an Annual General Meeting of Shareholders of Bone Medical Limited will be held at Seminar Room 5, Technology Park Function Centre, 2 Brodie Hall Drive, Bentley WA 6102 on Wednesday, 19 November 2008 commencing at 4:30pm (WST).

Ordinary Business

Financial and other reports

To receive and consider the Financial Statements of the Company for the year ended 30 June 2008, together with the Directors' Report and the Auditors' Report as set out in the Company's 2008 Annual Report.

Special Business

1. Remuneration Report

To consider, and if thought fit, pass the following resolution as an **advisory only resolution**:

"That the Remuneration Report as detailed in the Directors' Report for the year ended 30 June 2008 be adopted."

2. Re-election of Mr Leon Ivory

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"That Mr Leon Ivory, who retires by rotation in accordance with clause 5.1 of the Company's constitution and being eligible, is re-elected as a director of the Company."

3. Re-election of Mr Barry Walker

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

"That Mr Barry Walker, who retires by rotation in accordance with clause 5.1 of the Company's constitution and being eligible, is re-elected as a director of the Company."

4. Ratification of previous issue of Shares

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

“That, in accordance with Listing Rule 7.4 and for all other purposes, the Shareholders approve and ratify the issue of 2,960,000 Shares on 26 August 2008 to participants in the Placement, as set out in the Explanatory Statement to this Notice of Annual General Meeting.”

Voting Exclusion Statement – Resolution 4

For the purposes of Listing Rule 7.5, the Company will disregard any votes cast on Resolution 4 by any person who participated in all or any of the issues of the above securities and any associate of those persons, unless the vote is cast:

- by a person as a proxy for a person entitled to vote, in accordance with the directions on the proxy form; or
- by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

5. Approval of issue of Shares to Proxima Concepts Limited

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

“That for the purposes of section 208(1) of the Corporations Act, Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 563,875 shares to Proxima Concepts Limited on the terms and conditions and in the manner set out in the Explanatory Statement to this Notice of Annual General Meeting.”

Voting Exclusion Statement – Resolution 5

For the purposes of Listing Rule 10.13.6 and section 224 of the Corporations Act, the Company will disregard any votes cast on Resolution 5 by Proxima Concepts Limited and any of its associates, unless the vote is cast:

- by a person as a proxy for a person entitled to vote, in accordance with the directions on the proxy form; or
- by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

6. Approval of issue of Shares to Proxima Laboratory and Research Services Limited

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

“That for the purposes of section 208(1) of the Corporations Act, Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 436,125 shares to Proxima Laboratory and Research Services Limited on the terms and conditions and in the manner set out in the Explanatory Statement to this Notice of Annual General Meeting.”

Voting Exclusion Statement – Resolution 6

For the purposes of Listing Rule 10.13.6 and section 224 of the Corporations Act, the Company will disregard any votes cast on Resolution 6 by Proxima Laboratory and Research Services Limited and any of its associates, unless the vote is cast:

- by a person as a proxy for a person entitled to vote, in accordance with the directions on the proxy form; or
- by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

7. Approval of the issue of Shares to Leif Jensen

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

“That for the purposes of section 208(1) of the Corporations Act, Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 200,000 Shares to Leif Jensen on the terms and conditions and in the manner set out in the Explanatory Statement to this Notice of Annual General Meeting.”

Voting Exclusion Statement – Resolution 7

For the purposes of Listing Rule 10.13.6 and section 224 of the Corporations Act, the Company will disregard any votes cast on Resolution 7 by Leif Jensen and any of his associates, unless the vote is cast:

- by a person as a proxy for a person entitled to vote, in accordance with the directions on the proxy form; or
- by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

8. Issue of Options to Leon Ivory

To consider and if thought fit to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of section 208(1) of the Corporations Act, Listing Rule 10.11 and all other purposes, approval is given for the Company to allot and issue to Leon Ivory or his nominee 450,000 unquoted options exercisable at \$0.40 on the terms and conditions set out in the Explanatory Statement to this Notice of Annual General Meeting.”

Voting Exclusion Statement – Resolution 8

For the purposes of Listing Rule 10.13.6 and section 224 of the Corporations Act, the Company will disregard any votes cast on Resolution 8 by Leon Ivory and any of his associates, unless the vote is cast:

- by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

9. Issue of Options to Leif Jensen

To consider and if thought fit to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of section 208(1) of the Corporations Act, Listing Rule 10.11 and all other purposes, approval is given for the Company to allot and issue to Leif Jensen 900,000 unquoted options exercisable at \$0.40 on the terms and conditions in the manner set out in the Explanatory Statement to this Notice of Annual General Meeting.”

Voting Exclusion Statement – Resolution 9

For the purposes of Listing Rule 10.13.6 and section 224 of the Corporations Act, the Company will disregard any votes cast on Resolution 9 by Leif Jensen and any of his associates, unless the vote is cast:

- a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

10. Reduction of Share Capital and Accumulated Losses

To consider and, if thought fit to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That in accordance with sections 256B and 258F of the Corporations Act and for all other purposes approval is given for the capital of the Company being reduced by applying an amount of approximately \$74,681,916 being the accumulated losses of the Company against the share capital which is considered permanently lost as set out in the Explanatory Statement of this Notice of Annual General Meeting.”

Explanatory Statement

The accompanying Explanatory Statement forms part of this Notice of Annual General Meeting and should be read in conjunction with it.

Shareholders are specifically referred to the Glossary in the Explanatory Statement which contains definitions of capitalised terms used in this Notice of Annual General Meeting and the Explanatory Statement.

Proxies

Please note that:

- (a) a Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company;
- (c) a Shareholder may appoint a body corporate or an individual as its proxy;
- (d) a body corporate appointed as a Shareholder's proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the Shareholder's proxy; and
- (e) Shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms. If a Shareholder appoints a body corporate as its proxy and the body corporate wishes to appoint an individual as its representative, the body corporate should provide that person with a certificate or letter executed in accordance with the Corporations Act authorizing him or her to act as that company's representative. The authority may be sent to the Company or its share registry in advance of the Annual General Meeting or handed in at the Annual General Meeting when registering as a corporate representative.

Voting Entitlements

In accordance with Regulations 7.11.37 and 7.11.38 of the Corporations Regulations 2001, the Board has determined that a person's entitlement to vote at the Annual General Meeting will be the entitlement of that person set out in the register of Shareholders as at 5.00pm (WST) on 17 November 2008. Accordingly, transactions registered after that time will be disregarded in determining Shareholder's entitlement to attend and vote at the Annual General Meeting.

By Order of the Board of Directors

Mark Clements
Company Secretary
9 October 2008

Explanatory Statement

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's Annual General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the resolutions in the accompanying Notice of Annual General Meeting.

This Explanatory Statement should be read in conjunction with the Notice of Annual General Meeting. Capitalised terms in this Explanatory Statement are defined in the Glossary.

At the Meeting the Chairman will allow a reasonable opportunity for Shareholders to ask questions or make comments on the management and performance of the Company.

To enable Shareholders who cannot attend the Meeting to raise issues and to assist the Board and the auditor of the Company in responding to questions, please submit any questions you may have on the Questions from Shareholders Form and return the form in person or by mail to Unit 1, 5 Turner Avenue, Technology Park, Bentley, Western Australia, 6102 or by fax +61 8 9355 5210 so that it is received no later than 17 November 2008.

As required under section 250PA of the Corporations Act, at the Meeting, the Company will make available those questions directed to the auditor received in writing by 17 November 2008, being questions which the auditor considers relevant to the content of the Independent Auditor's Report or the conduct of the audit of the Financial Report. Every endeavour will be made during the Meeting to answer questions submitted by Shareholders. However, depending on the number and types of questions received, it may not be possible to respond to every submitted question, either at or after the Meeting.

1 Financial and Other Reports

The Corporations Act 2001 requires the Directors of the Company to lay before the Annual General Meeting the Financial Statements, the Directors' Report and the Auditor's Report for the last financial year that ended before the Annual General Meeting.

These reports are contained in the Company's Annual Report for the year ended 30 June 2008 which has been provided to all Shareholders and is also available on the Company's website at www.bone-ltd.com.

Shareholders will be provided with a reasonable opportunity to ask questions or make statements in relation to these reports but no formal resolution to adopt the reports will be put to Shareholders at the Meeting.

2 Resolution 1 – Remuneration Report

The Remuneration Report is set out in the Director's Report (under the heading Remuneration Report) in the Company's Annual Report for the year ended 30 June 2008. This report sets out the Company's remuneration policy and reports on the remuneration arrangements in place for Directors and key executives of the Company.

Section 249L (2) of the Corporations Act requires the Company to inform Shareholders that a resolution on the Remuneration Report will be put at the Annual General Meeting. Section 250R (2) of the Corporations Act requires a resolution that the Remuneration Report to be adopted must be put to a vote. Resolution 1 seeks this approval.

However, in accordance with section 250R (3) of the Corporations Act, Shareholders should note that Resolution 1 is an "advisory only" Resolution which does not bind the Directors of the Company.

Following consideration of the Remuneration Report, the Chairman, in accordance with section 250SA of the Corporations Act, must give Shareholders a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.

3 Resolution 2 and 3 – Re-election of Directors

ASX Listing Rule 14.4 provides that a Director (other than the Managing Director) must not hold office (without re-election) past the third Annual General Meeting following his or her appointment or 3 years, whichever is longer.

Further, clause 5.1 of the Company's constitution requires that at each Annual General Meeting of the Company, one third (or the number nearest to but not exceeding one third) of the Directors and any Director who has held office for 3 years or more must retire from office. A retiring Director is eligible for re-election without the necessity of giving any previous notice of his or her intention to submit himself or herself for re-election.

Mr Leon Ivory and Mr Barry Walker retire in accordance with the Company's Constitution, and being eligible, offer themselves for re-election.

The Board of Directors, with the exception of Leon Ivory and Barry Walker, unanimously recommend that you vote in favour of their re-election under Resolution 2 and Resolution 3, respectively.

Mr Leon Ivory

Mr Leon Ivory has been involved in corporate finance, funds management and venture capital for over 37 years. Leon in 1985 co-founded Western Capital, a venture capital organisation which evolved into one of Australia's first public biotechnology companies.

He served as a director of a number of public companies including Auspharm International Limited, Arbuthnot Latham Bank Ltd (London), Foreign Commerce Bank (Zurich), Cortecs PLC, VRI BioMedical Limited. Leon is former Chairman of Refresh Group Ltd. He is also a director of Kancer Ltd which is based in the United Kingdom.

Mr Barry Walker, M.D.

Barry R Walker, MD, FACP received his BA from Yale University in 1958. He graduated from the College of Physicians and Surgeons of Columbia University after which he completed a medical internship and residency at Temple University Hospital. An NIH Fellowship in renal-electrolyte diseases was completed at the Hospital of the University of Pennsylvania. He is board certified in internal medicine, a Fellow and member of numerous scientific organizations and a co-founder of the American Society of Hypertension for which he served as Vice President and Chairman of the Board. Dr. Walker has been an Adjunct Associate Professor of Medicine at the Hospital of the University of Pennsylvania and the Leonard Davis Institute of the Wharton School, University of Pennsylvania. He also co-authored over one hundred peer reviewed publications.

While Senior Vice President for Clinical Research and Development at Wyeth-Ayerst Research, he was responsible for establishing and supervising research and development, bio-statistics, data and financial management in the United States, Canada, South America, Japan and Europe. Other management responsibilities have included strategic planning for all aspects of corporate research and development including mergers and acquisitions. More recently, over the past fifteen years, he has consulted for venture capital and investment firms (e.g., Alex. Brown/Deutsche Bank, Morgan Stanley, Philadelphia Ventures and Liberty Ventures, Philadelphia) on matters of technology assessment and due diligence. He has consulted with major pharmaceutical, biotech and medical device firms in the areas of regulatory, reimbursement issues and new product strategic planning. He is currently the Senior Vice President of Regulatory and Clinical Development for a biotech company, Yaupon Therapeutics, Inc.

4 Resolution 4 – Ratification of previous Issue of Shares

4.1 Background to Placement

On 11 August 2008, the Company announced to ASX that it had successfully raised \$1,040,000 pursuant to the Placement of 4,160,000 Shares to strategic investors including (subject to Shareholder approval) the Company's Chairman Mr Leif Jensen and major shareholder Proxima Concepts Limited. On 26 August 2008, 2,960,000 Shares were allotted to non related parties of the Company pursuant to the Placement. The funds raised are for working capital and to support the Company's commercialisation of biopharmaceutical projects.

Shareholder approval is sought to ratify and approve the issue of the securities.

4.2 Ratification of previous issue of Shares pursuant to the Placement

Listing Rule 7.1 imposes a limit on the number of shares that the Company may issue within a 12 month period without shareholder approval. The limit is 15% of the Company's capital at the beginning of the 12 month period (**15% Limit**), adjusted by issues of securities during this period. Listing Rule 7.4 permits the approval of previous issues of securities made without prior shareholder approval, provided the issue did not breach Listing Rule 7.1. The effect of shareholder approval pursuant to Listing Rule 7.4 is that the prior issue is treated as having been made with shareholder approval for the purposes of Listing Rule 7.1.

As outlined in Resolution 4 of the Notice of Annual General Meeting, Shareholder approval is sought pursuant to Listing Rule 7.4 and all other purposes, for the issue of the 2,960,000 Shares on 26 August 2008 pursuant to the Placement in order to restore the Company's 15% placement capacity that was reduced by the issue of these Shares.

The Shares under the Placement were issued at \$0.25 per Share.

The shares rank equally with all other Shares on issue.

Listing Rule 7.5 requires certain information to accompany the Notice of Annual General Meeting in relation to approval sought under Listing Rule 7.4. This information is set out below:

- (i) On 26 August 2008, the Company allotted and issued 2,960,000 Shares at an issue price of \$0.25 per Share. The Shares to be issued to these parties shall rank equally with all other Shares on issue.
- (ii) The names of the persons to whom the Shares were issued are set out in the following table:

Person to whom Shares were issued	Shares
John Oakley Clinton & Lillian A Clinton < Clinton Self Managed Super A/C >	920,000
George F Lee	100,000
Salvatore Biundo & Suzanne Ellen Biundo < The Allebasi Superannuation Fund A/C>	20,000
Hopsure Services Pty Ltd Super Fund	100,000
Lornley Holdings Pty Ltd T.L. Oxley Super Fund	100,000
Peter John Neumann & Carolyn Fleur Neumann <Neumann Superannuation Fund A/C>	210,000
TF & JM Robinson Pty Ltd	150,000
Shaun Anthony Johnson & Sandra Colleen Johnson <SA + SC Johnson Family A/C>	80,000
Gordon Scott Edwards	40,000
Barbara Fay Hams < Barbara Hams Superannuation Fund A/C>	80,000
Damere Pty Ltd < Walker Superannuation Fund A/C >	180,000
Mervan Phillip Howe & Brenda May Edwards < Mervan Home Superannuation Fund A/C >	80,000
William Francis Hutch < Hutch Superannuation Fund A/C>	100,000
Prime Focus Investments Pty Ltd < Crannage Superannuation Fund A/C >	100,000
Dennis Mifsud	200,000
David Stoup	400,000
Howlett Retirement Fund	100,000
Total	2,960,000

- (iii) The Company will use the funds raised for working capital and to support the Company's commercialisation of biopharmaceutical projects.

The Directors unanimously recommend that Shareholders vote in favour of Resolution 4 to provide the Company with flexibility in capital management and allow the Company to issue further securities if opportunities arise.

5 Resolutions 5, 6 and 7 – Approval for Issue of Shares to Proxima Concepts Ltd, Proxima Laboratory and Research Services Limited and Leif Jensen

Pursuant to the Company's announcement on 11 August 2008, Proxima Concepts Ltd (**Proxima**), Proxima Laboratory and Research Services Limited (**Proxima Laboratory**) and Leif Jensen agreed (subject to Shareholder approval) to subscribe for the following number of Shares under the Placement:

- 563,875 Shares to Proxima (Resolution 5);
- 436,125 Shares to Proxima Laboratory (Resolution 6); and
- 200,000 Shares to Leif Jensen, a director of the Company (Resolution 7).

Proxima currently holds approximately 52.99% of the total issued Shares and Dr Roger New is a director of Proxima and a director of the Company (as Proxima's representative on the Board of the Company).

Proxima Laboratory is a wholly owned subsidiary of Proxima.

5.1 Section 208 of the Corporations Act

Section 208(1) of the Corporations Act prohibits a company from giving a financial benefit to a related party without the approval of shareholders by a resolution passed at a general meeting at which no votes are cast in relation to the resolution in respect of any shares held by the related party or by an associate of the related party.

A "related party" for the purposes of the Corporations Act is defined widely. It includes a director of a public company and specified members of the director's family. It also includes an entity over which a director maintains control and an entity that at a particular time believes or has reasonable grounds to believe that it is likely to become a related of the public company.

A "financial benefit" for the purposes of the Corporations Act is also widely defined and includes the issue of securities or the grant of an option to acquire securities in a public company.

5.2 ASX Listing Rule 10.11

Listing Rule 10.11 provides that except in certain circumstances (which do not apply in the present case), the issue of securities to a "related party" of the Company is required to be approved by Shareholders. The term "related party" is defined for these purposes to include a related part within the meaning of section 208 of the Corporations Act and a person whose relationship with the entity or a related part is, in ASX's opinion, such that approval should be obtained.

5.3 Shareholder Approval

The Board of the Company consider that Proxima does not control the Company and, consequently, both Proxima and Proxima Laboratory are not "related parties" of the Company for the purposes of the Corporations Act of the Listing Rules.

However, out of an abundance of caution and to avoid the possibility that Proxima and/or Proxima Laboratory are considered to be "related parties" for the purposes of the Corporations Act, the Company is seeking the approval of Shareholders under section 208 of the Corporations Act and Listing Rule 10.11 in respect of the Shares to proposed to be issued to Proxima (pursuant to Resolution 5) and Proxima Laboratory (pursuant to Resolution 6) as if they were "related parties" for the purposes of those provisions.

Additionally, as Leif Jensen is a director of the Company, he is a "related party" of the Company and the Company is seeking the approval of Shareholders under section 208 of the Corporations Act and Listing Rule 10.11 in respect of the Shares to proposed to be issued to Leif Jensen (pursuant to Resolution 7).

Accordingly, the following information is provided in accordance with section 219 of the Corporations Act and Listing Rule 10.13 to enable Shareholders to assess the merits of Resolutions 5, 6 and 7.

- (a) The Company will issue:
- 563,875 Shares to Proxima (pursuant to Resolution 5);
 - 436,125 Shares to Proxima Laboratory (pursuant to Resolution 6); and
 - 200,000 Shares to Leif Jensen, a director of the Company (pursuant to Resolution 7),

as soon as practicable after the date of this Meeting, but in any event no later than 1 month after the date of the Meeting.

- (b) The Shares proposed to be issued under Resolutions 5, 6 and 7 will be issued at \$0.25 per Share. The Shares will rank equally with all other Shares on issue. On 30 June 2008 the Company announced that it had agreed to undertake a Placement (which included the Shares proposed to be issued under Resolutions 5, 6 and 7) and at the close of trading on ASX on 30 June 2008, the Share price was \$0.24.

- (c) The amount payable by Proxima and Proxima Laboratory for the issue of the Shares (pursuant to Resolutions 5 and 6) will be offset against and in consideration for the extinguishment of approximately:

- 91% of the total debts owed by the Company to Proxima, as at the date the Placement was entered into, being 30 June 2008, and based on an issue price of \$0.25 per Share; and
- 40% of the total debts owed by the Company Proxima Laboratory, as at the date the Placement was entered into, being 30 June 2008, and based on an issue price of \$0.25 per Share .

Accordingly, no funds will be raised by the Company in respect of the issue of Shares to Proxima and Proxima Laboratory pursuant to Resolutions 5 and 6.

- (d) The funds raised from the issue of Shares to Leif Jensen pursuant to Resolution 7 will be used for working capital and to support the Company's portfolio of biopharmaceutical development projects.

- (e) The Directors, other than:
- (i) in respect of Resolution 5 and 6, Dr Roger New, as Proxima's and Proxima Laboratory's representative on the Board of the Company; and

- (ii) in respect of Resolution 7, Mr Leif Jensen,

who abstain from providing a recommendation due to their personal interest in the respective Items, unanimously recommend that Shareholders vote in favour of Resolutions 5, 6 and 7 to allow the Company to complete the issue of Shares to Proxima, Proxima Laboratory and Leif Jensen.

- (f) As a Director of the Company Leif Jensen receives payments of \$25,000 per annum which are fees paid to him as Non Executive director and \$25,000 per annum which are fees paid to him as Non Executive Chairman.

As approval of Shareholders is being sought in respect of Resolutions 5, 6 and 7 pursuant to Listing Rule 10.11, under exception 14 to Listing Rule 7.2, Shareholder approval under Listing Rule 7.1 is not required.

6 Resolution 8 – Issue of Options to Leon Ivory

Resolution 8 is an ordinary resolution which seeks approval for the issue of Options to Leon Ivory who is a Director of the Company, or his nominee. The issue of Options pursuant to Resolution 8 is an incentive to the future performance of Leon Ivory in his capacity as a Director and constitutes the giving of a financial benefit to a related party which requires approval from Shareholders under the Corporations Act and the Listing Rules.

6.1 Corporations Act

Section 208 of the Corporations Act prohibits a company from giving a financial benefit to a related party without prior shareholder approval. An explanation of section 208 of the Corporations Act is set out in section 5.1 of this Explanatory Statement.

The issue of Shares to Mr Leon Ivory or his nominee as a Director or his nominee as contemplated by Resolution 8 constitutes the provision of a financial benefit to a related party of the Company.

Accordingly, the following information is provided in accordance with section 219 of the Corporations Act to enable Shareholders to assess the merits of Resolution 8.

(a) **The related party to whom the proposed Resolution would permit the financial benefit to be given**

The Options to be issued under Resolution 8 are to be issued to Leon Ivory, a Director of the Company, or his nominee.

(b) **The nature of the financial benefit**

The nature of the financial benefit is the proposed issue of 450,000 Options exercisable at \$0.40. The Options will be issued for no consideration and will be issued on the terms and conditions set out in this Explanatory Statement and in Annexure A

(c) **Black-Scholes Valuation**

ASIC requires that a dollar value be placed on all of the Options to be issued to Leon Ivory. ASIC has indicated the Black-Scholes option price calculation method is acceptable. This method is designed to value listed securities that are freely tradeable and hence it is not entirely appropriate or reliable in this instance. Nevertheless, values for the 450,000 Options exercisable at \$0.40 have been estimated using the Black-Scholes method.

In determining these values, the following assumptions have been made:

- (i) A price per Share of \$0.26 being the market price per Share as at the date of the valuation.
- (ii) The 450,000 Options will be exercisable at \$0.40.
- (iii) The \$0.40 Options expire 3 years from the date of issue.

- (iv) All the Options are exercisable at any time, but it is assumed that they will be exercised on the last day of the exercise period.
- (v) Price volatility of the Shares is approximately 60%, which reflects the uncertainty regarding the future performance of the Company.
- (vi) The average current risk free interest rate used is 5.75% on the basis of expiry dates of 3 years from the date of issue.
- (vii) The valuation date is 23 September 2008.

Based on the assumptions set out above, the implied "value" being received by Mr Leon Ivory or his nominee in respect of the 450,000 Options to be issued under Resolution 8 is \$37,492.

(d) **Directors' recommendations**

Leon Ivory declines to make a recommendation in relation to Resolution 8 as he has a material personal interest in its outcome.

The remaining Directors recommend that Shareholders approve Resolution 8.

(e) **Directors' interest on outcome of proposed Resolution**

Leon Ivory has a material personal interest in the subject matter of Resolution 8.

The remaining Directors do not have a material personal interest in the subject matter of Resolution 8.

(f) **Any other information that is reasonably required by the members to make a decision and that is known to the Company or any of its Directors**

Leon Ivory currently directly holds 2,014 Class C Preference shares, 11,176 Shares and indirectly holds 499,509 Shares, 4,000 Options and 80,596 Class C Preference shares.

If all the Options proposed to be issued to Leon Ivory or his nominee under Resolution 8 are exercised and no other Shares are issued to him in the meantime, the number of Shares held by him would increase by 450,000.

If Leon Ivory or his nominee exercised all Options to be issued under Resolution 8, and no other Shares were issued by the Company (including Shares pursuant to the exercise of Options to acquire Shares or Options referred to in this Explanatory Statement), Leon Ivory would hold 1.15% of the currently issued Shares of the Company which means the issue of the Options to Mr Ivory will have a dilution effect on the existing Shareholders of the Company by approximately 0.53%.

As a Director of the Company Leon Ivory receives payments of \$25,000 per annum which are fees paid to him as Non Executive director and \$108,000 per annum for corporate and administration services.

The purpose of the proposed issue of Options to Leon Ivory is to provide cost effective consideration to Leon Ivory for his ongoing commitment and contribution to the Company in his role as a Director. The Board does not consider that there is any significant opportunity cost to the Company or benefits forgone by the Company in issuing the Options to Leon Ivory pursuant to Resolution 8. The Board also considers that the terms upon which the issue is proposed are reasonable in the circumstances, given the

necessity to attract the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves.

6.2 ASX Listing Rule 10.11

Listing Rule 10.11 provides that except in certain circumstances (which do not apply in the present case), the issue of securities to a "related party" of the Company is required to be approved by Shareholders. The term "related party" is defined for these purposes to include a related part within the meaning of section 208 of the Corporations Act and a person whose relationship with the entity or a related part is, in ASX's opinion, such that approval should be obtained.

As noted in section 6.1 of this Explanatory Statement, Leon Ivory, as a director of the Company, is a related party of the Company for the purposes of Listing Rule 10.11. Accordingly, the Company seeks Shareholder approval under Listing Rule 10.11 for the issue of the Options referred to in Resolution 8.

The issue price and terms are set out above. No funds will be raised from the issue. Funds will be raised on the eventual exercise of the Options; however, there is no guarantee that the Options will be exercised at any time in the future.

The Options will be issued to Leon Ivory or his nominee as soon as practicable after the date of the meeting or in any event no later than 1 month after the date of the Meeting.

As approval of Shareholders is being sought in respect of Resolution 8 pursuant to Listing Rule 10.11, under exception 14 to Listing Rule 7.2, Shareholder approval under Listing Rule 7.1 is not required.

7 Resolution 9 – Issue of Options to Leif Jensen

Resolution 9 is an ordinary resolution which seeks approval for the issue of 900,000 Options to Leif Jensen who is a Director of the Company, or his nominee. The issue of Options pursuant to Resolution 9 is part of his remuneration package recommended by the remuneration committee and approved by the Board on 23 May 2008 as an incentive to the future performance of Leif Jensen in his capacity as Chairman on the following terms:

900,000 Options over fully paid ordinary shares exercisable at \$ 0.40 per share, to be issued on the following basis;

- (a) 300,000 Options vesting 12 months after issue and expiring 3 years from the date of issue;
- (b) 300,000 Options vesting 24 months after issue, expiring 4 years from the date of issue and subject to 24 months continuous service as Chairman; and
- (c) 300,000 Options vesting 36 months after issue, expiring 5 years from the date of issue and subject to 36 months continuous service as Chairman.

7.1 Corporations Act

Section 208 of the Corporations Act prohibits a company from giving a financial benefit to a related party without prior shareholder approval. An explanation of section 208 of the Corporations Act is set out in section 5.1 of this Explanatory Statement.

The issue of Shares to Mr Leif Jensen as a Director as contemplated by Resolution 9 constitutes the provision of a financial benefit to a related party of the Company.

Accordingly, the following information is provided in accordance with section 219 of the Corporations Act to enable Shareholders to assess the merits of Resolution 9.

(a) **The related party to whom the proposed Resolution would permit the financial benefit to be given**

Leif Jensen, a Director of the Company.

(b) **The nature of the financial benefit**

The nature of the financial benefit is the proposed issue of 900,000 Options exercisable at \$0.40. The options will be issued for no consideration and will be issued on the terms and conditions set out in this Explanatory Statement and in Annexure B.

(c) **Black-Scholes Valuation**

ASIC requires that a dollar value be placed on all of the Options to be issued to Mr Jensen. ASIC has indicated the Black-Scholes option price calculation method is acceptable. This method is designed to value listed securities that are freely tradeable and hence it is not entirely appropriate or reliable in this instance. Nevertheless, values for the 900,000 Options exercisable at \$0.40 have been estimated using the Black-Scholes method.

In determining these values, the following assumptions have been made:

- (i) A price per Share of \$0.26 being the market price per Share as at the date of the valuation.
- (ii) The 900,000 Options will be exercisable at \$0.40.
- (iii) The Options may be exercised as follows:
 - (A) 300,000 Options vesting 12 months after issue and expiring 3 years from the date of issue;
 - (B) 300,000 Options vesting 24 months after issue, expiring 4 years from the date of issue and subject to 24 months continuous service as Chairman; and
 - (C) 300,000 Options vesting 36 months after issue, expiring 5 years from the date of issue and subject to 36 months continuous service as Chairman.
- (iv) All the Options are exercisable at any time (subject to the vesting conditions set out above), but it is assumed that they will be exercised on the last day of their respective exercise periods.
- (v) Price volatility of the Shares is approximately 60% which reflects the uncertainty regarding the future performance of the Company.
- (vi) The average current risk free interest rate used is as follows:
 - (A) 5.75% on the basis of expiry date of 3 years from the date of issue after a vesting period of 12 months;
 - (B) 6.25% on the basis of expiry date of 4 years from the date of issue after a vesting period of 24 months; and
 - (C) Ranges between 6.25% and 6.00% on the basis of expiry dates of 5 years from the date of issue after a vesting period of 36 months.

(vii) The valuation date is 23 September 2008.

Based on the assumptions set out above, the implied "value" being received by Mr Leif Jensen in respect of the 900,000 Options to be issued under Resolution 9 is as follows:

Exercise Price	Expiry Period	Indicative Value (\$)
\$0.40	3 Years after 12 months Vesting Period	\$30,941
\$0.40	4 Years after 24 months Vesting Period	\$40,921
\$0.40	5 Years after 36 months Vesting Period	\$48,010
Total Value		\$119,872

(d) **Directors' recommendations**

Mr Leif Jensen declines to make a recommendation in relation to Resolution 9 as he has a material personal interest in its outcome.

The remaining Directors recommend that shareholders approve Resolution 9.

(e) **Directors' interest on outcome of proposed Resolution**

Mr Leif Jensen has a material personal interest in the subject matter of Resolution 9.

The remaining Directors do not have a material personal interest in the subject matter of Resolution 9.

(f) **Any other information that is reasonably required by the members to make a decision and that is known to the Company or any of its Directors**

Leif Jensen currently holds 742,400 Shares and 742,400 Options in the Company, indirectly through Leith Health Care A/S.

If all the Options proposed to be granted to Leif Jensen under Resolution 9 are exercised and no other Shares are issued to him in the meantime, the number of Shares issued to him would increase by 900,000.

If Leif Jensen exercised all Options referred to in Resolution 9, and no other Shares were issued by the Company (including Shares pursuant to the exercise of Options to acquire Shares or Options referred to in this Explanatory Statement), Leif Jensen would hold 1.95% of the currently issued Shares of the Company which means the issue of the Options to Leif Jensen will have a dilution effect on the existing Shareholders of the Company by approximately 1.06%.

As a Director of the Company Leif Jensen receives payments of \$25,000 per annum which are fees paid to him as Non Executive director and \$25,000 per annum which are fees paid to him as Non Executive Chairman.

The purpose of the proposed issue of Options to Leif Jensen under Resolution 9 is to provide cost effective consideration to Leif Jensen for his ongoing commitment and contribution to the Company in his role as a Director. The Board does not consider that there is any significant opportunity cost to the Company or benefits forgone by the Company in issuing the Options to Leif Jensen pursuant to Resolution 9. The Board also considers that the terms upon which the issue is proposed are reasonable in

the circumstances, given the necessity to attract the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves.

7.2 ASX Listing Rule 10.11

Listing Rule 10.11 provides that except in certain circumstances (which do not apply in the present case), the issue of securities to a "related party" of the Company is required to be approved by Shareholders. The term "related party" is defined for these purposes to include a related part within the meaning of section 208 of the Corporations Act and a person whose relationship with the entity or a related part is, in ASX's opinion, such that approval should be obtained.

As noted in section 7.1 of this Explanatory Statement, Leif Jensen, as a director of the Company, is a related party of the Company for the purposes of Listing Rule 10.11. Accordingly, the Company seeks Shareholder approval under Listing Rule 10.11 for the issue of the Options referred to in Resolution 9.

The issue price and terms are set out above. No funds will be raised from the issue. Funds will be raised on the eventual exercise of the Options; however, there is no guarantee that the Options will be exercised at any time in the future.

The Options will be issued to Leif Jensen as soon as practicable after the date of the meeting or in any event no later than 1 month after the date of the Meeting.

As approval of Shareholders is being sought in respect of Resolution 9 pursuant to Listing Rule 10.11, under exception 14 to Listing Rule 7.2, Shareholder approval under Listing Rule 7.1 is not required.

8 Resolution 10 – Reduction of Share Capital and Accumulated Losses

Resolution 10 is an ordinary resolution which seeks Shareholder approval for the to reduce the share capital of the Company, in accordance with sections 256B and 258F of the Corporations Act by a portion of the accumulated losses of the Company being approximately \$74,681,916. The proposed capital reduction will not involve the cancellation of any Shares.

The purpose of the capital reduction is to reduce the amount of capital on issue where the value has been permanently lost or not represented by available assets, provided that the Company does not cancel any Shares.

The Company has accumulated these losses following a write down of goodwill, amounts relating to discontinued operations prior to 2004 and research and development and intellectual property protection costs written off due to inherent uncertainty of a commercial outcome.

The pro forma financial implications for the Company of the proposed capital reduction are summarised below:

EQUITY	30 June 2008-10-09 Balance	Reduction	Pro Forma Balance
Issued capital	75,514,821	(74,681,916)	832,905
Accumulated Losses	(74,681,916)	74,681,916	0
Reserves	140,226	0	140,226
	973,131	0	973,131

The Company proposes to effect the reduction of capital by debiting the Company's capital account by the amount of the Company's accumulated losses, being approximately \$74,681,916. Under this capital reduction the Company will not be returning any capital to Shareholders or cancelling any Shares. It will essentially be an accounting entry which will take immediate effect from the passing of Resolution 10.

The capital reduction does and will not materially prejudice the Company's ability to pay its creditors, has no direct negative impact on Shareholders (or their shareholding), is not selective between Shareholders and will not affect the number of Shares on issue. The Company does not have any partly paid Shares or convertible securities on issue which may be affected by the capital reduction. Additionally, the capital reduction will not affect the rights of existing option holders.

Section 256B of the Corporations Act

In Resolution 10, the Company proposes to alter the capital of the Company by reducing the amount of capital on issue where the value has been permanently lost by applying an amount of approximately \$74,681,916 being a portion of the accumulated losses of the Company. Under section 256B of the Corporations Act, a reduction of capital of this nature must be approved by a resolution passed at a general meeting of the Company.

Accordingly, the Company is seeking Shareholder approval under section 256B of the Corporations Act for the capital reduction proposed under Resolution 10.

Taxation Considerations

There is no taxation implications for Shareholders as a result of this share capital reduction because the reduction of share capital is being effected without a payment being made to Shareholders or a change in their shareholding in the Company. No part of the reduction of share capital will be treated as, or deemed to be a dividend to the Shareholders and no adjustment will be required to a Shareholder's cost base for their Shares in the Company.

Recommendation

All Directors recommend that Resolution 10 be approved by Shareholders as it will allow the Company to reduce its accumulated losses from past activities and provide the Company with a 'clean slate' to retain all or any future net profits and enable the Company to be in a position to consider paying dividends.

GLOSSARY

In this Explanatory Statement, the following terms have the following meaning unless the context otherwise requires:

\$ means Australian dollars.

ASIC means the Australian Securities and Investment Commission.

ASX Listing Rules or **Listing Rules** means the listing rules of ASX.

ASX means ASX Limited (ABN 98 008 624 691).

Board means the board of directors of the Company.

Company or **Bone** means Bone Medical Limited (ACN 009 109 755).

Constitution means the constitution of the Company.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Existing Shareholder means the holder of an Existing Share.

Existing Shares means the 83,441,627 issued fully paid Shares in the Company currently on issue.

Explanatory Statement means the explanatory statement accompanying the Notice, including Annexure A.

Annual General Meeting or **Meeting** means the annual general meeting of the Shareholders to be held at 4.30pm (WST) on 19 November 2008 at Seminar Room 5, Technology Park Function Centre, 2 Brodie Hall Drive, Bentley, Western Australia.

Notice means the notice of annual general meeting accompanying the Explanatory Statement.

Option means an option to acquire a Share.

Placement means the issue of up to 4,160,000 shares as announced to the ASX on 11 August 2008.

Resolution means a resolution contained in the Notice.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of Shares.

WST means Western Standard Time.

Annexure A

Terms and conditions of Options to be issued under Resolution 8

The Options will be issued on the following terms and conditions:

- (a) The exercise price of each Option is \$0.40 each (**Exercise Price**).
- (b) The Options are exercisable on or before the date which is 3 years from the date on which the options are issued (**Expiry Date**).
- (c) Each Option will automatically lapse if not exercised on or before the Expiry Date.
- (d) Each Option shall entitle the holder to subscribe for and to be allotted one Share in the capital of the Company upon exercise of the Option and payment to the Company of the Exercise Price.
- (e) An Option may be exercised by the option holder at any time prior to the Expiry Date by sending a completed and signed notice of exercise, together with the payment of the Exercise Price and the statement for the Option, to the Company's Share Registry. If the option holder holds more than one Option, the Options may be exercised in whole or in part.
- (f) A notice of exercise is only effective when the Company has received the full amount of the Exercise Price in cash or cleared funds.
- (g) Subject to any restrictions in the ASX Listing Rules, within 14 days of receipt of a properly executed notice of exercise and the required application moneys, the number of Shares specified in the notice will be allotted.
- (h) Each statement will bear a suitable form of notice of exercise of the Options, endorsed on the back of the statement, for completion by the option holder (if required). If the Options comprised in any such statement are exercised in part only, before the Expiry Date, the Company will issue the option holder with a fresh statement for the balance of the Options held and not yet exercised.
- (i) The period during which the Options may be exercised will not be extended.
- (j) The option holder is not entitled to participate in new issues of securities offered to Shareholders. The option holder can participate in new issues of securities offered to Shareholders if the Option is exercised before the relevant record date for that new issue.
- (k) If from time to time before the expiry of the Options the Company makes an issue of Shares to the holders of Shares by way of capitalisation of profits or reserves (a "bonus issue"), other than in lieu of a dividend payment, then upon exercise of an Option the option holder will be entitled to have issued to it, in addition to the Shares which it is otherwise entitled to have issued to it upon such exercise, additional Shares in the Company. The number of additional Shares is the number of Shares which would have been issued to it under that bonus issue ("bonus shares") if on the date on which entitlements were calculated it had been registered as the holder of the number of Shares which it would have been registered as holder if immediately before that date it had exercised its Options. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon

issue will rank equally in all respects with the other Shares allotted upon exercise of the Options.

- (l) In the event of any reconstruction (including consolidation, subdivision, reduction, cancellation or return) of the issued capital of the Company before the expiry of any Options, all rights of the option holder, will be reconstructed (as appropriate) in accordance with the Listing Rules applying to a re-organisation of capital at the time of the re-organisation.
- (m) Shares allotted pursuant to the exercise of the Options will rank equally with the then issued Shares of the Company.
- (n) Should the Company at any time over the life of the Option be readmitted to the ASX and an option holder exercises Options post the readmission date, the Company undertakes to apply for official quotation by ASX of all Shares allotted pursuant to the exercise of any Options, within 10 business days of the date of allotment of those Shares.
- (o) Other than as referred to above, the Option does not confer the right to a change in Exercise Price, or a change to the number of underlying securities over which it can be exercised.

Annexure B

Terms and conditions of Options to be issued under Resolution 9

The Options will be issued on the following terms and conditions:

- (a) The exercise price of each Option is \$0.40 each (**Exercise Price**).
- (b) The Options are exercisable in the following circumstances:
 - (i) 300,000 Options exercisable on or after the date that is 12 months after the date the Options are issued and expiring 3 years from the date of issue;
 - (ii) 300,000 Options exercisable on or after the date that is 24 months after the date the Options are issued, expiring 4 years from the date of issue and subject to 24 months continuous service as Chairman; and
 - (iii) 300,000 Options exercisable on or after the date that is 36 months after the date the Options are issued, and subject to 36 months continuous service as Chairman. (**Expiry Date**)
- (c) Each Option will automatically lapse if not exercised on or before the relevant Expiry Date.
- (d) Each Option shall entitle the holder to subscribe for and to be allotted one Share in the capital of the Company upon exercise of the Option and payment to the Company of the Exercise Price.
- (e) An Option may be exercised by the option holder at any time prior to the expiry date by sending a completed and signed notice of exercise, together with the payment of the Exercise Price and the statement for the Option, to the Company's Share Registry. If the option holder holds more than one Option, the Options may be exercised in whole or in part.
- (f) A notice of exercise is only effective when the Company has received the full amount of the Exercise Price in cash or cleared funds.
- (g) Subject to any restrictions in the ASX Listing Rules, within 14 days of receipt of a properly executed notice of exercise and the required application moneys, the number of Shares specified in the notice will be allotted.
- (h) Each statement will bear a suitable form of notice of exercise of the Options, endorsed on the back of the statement, for completion by the option holder (if required). If the Options comprised in any such statement are exercised in part only, before the relevant Expiry Date, the Company will issue the option holder with a fresh statement for the balance of the Options held and not yet exercised.
- (i) The period during which the Options may be exercised will not be extended.
- (j) The option holder is not entitled to participate in new issues of securities offered to Shareholders. The option holder can participate in new issues of securities offered to Shareholders if the Option is exercised before the relevant record date for that new issue.

- (k) If from time to time before the expiry of the Options the Company makes an issue of Shares to the holders of Shares by way of capitalisation of profits or reserves (a "bonus issue"), other than in lieu of a dividend payment, then upon exercise of an Option, the option holder will be entitled to have issued to it, in addition to the Shares which it is otherwise entitled to have issued to it upon such exercise, additional Shares in the Company. The number of additional Shares is the number of Shares which would have been issued to it under that bonus issue ("bonus shares") if on the date on which entitlements were calculated it had been registered as the holder of the number of Shares which it would have been registered as holder if immediately before that date it had exercised its Options. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank equally in all respects with the other Shares allotted upon exercise of the Options.
- (l) In the event of any reconstruction (including consolidation, subdivision, reduction, cancellation or return) of the issued capital of the Company before the expiry of any Options, all rights of the option holder, will be reconstructed (as appropriate) in accordance with the Listing Rules applying to a re-organisation of capital at the time of the re-organisation.
- (m) Shares allotted pursuant to the exercise of the Options will rank equally with the then issued Shares of the Company.
- (n) Should the Company at any time over the life of the Option be readmitted to the ASX and an option holder exercises Options post the readmission date, the Company undertakes to apply for official quotation by ASX of all Shares allotted pursuant to the exercise of any Options, within 10 business days of the date of allotment of those Shares.
- (o) Other than as referred to above, the Option does not confer the right to a change in Exercise Price, or a change to the number of underlying securities over which it can be exercised.

PROXY FORM
Shareholder Details

Name:

Address:

Contact Telephone No:

Contact Name (if different from above):

Appointment of Proxy

I/We being a shareholder/s of Bone Medical Limited and entitled to attend and vote hereby appoint the following proxy/proxies to attend and act on my/our behalf and to vote in accordance with my/our following directions at the Annual General Meeting of Bone Medical Limited to be held at Seminar Room 5 on 19 November 2008 at 4.30 pm (WST) and at any adjournment of that meeting.

 The Chairman
of the meeting

(mark with an 'X')

IMPORTANT:

If the Chairman of the meeting is your proxy, or if appointed your proxy by default and you do not wish to direct him/her how to vote on any of these resolutions, you must mark this box with an "X". By marking this box, you acknowledge that the Chairman of the meeting may exercise your proxy on those resolutions (for which you have not given a direction) even if he/she has an interest in the outcome of the resolution and that votes cast by him/her, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote on any of these resolutions, the Chairman of the meeting will not cast your votes on the resolutions (for which you have not given a direction) on a show of hands or on a poll. The Chairman of the meeting intends to vote undirected proxies in favour of each resolution.

OR

If the person you are appointing as your proxy is someone other than the Chairman of the meeting:

Write the name of that person in the box below.

 %

You must specify the % of your votes that you authorise your proxy to exercise if:

If you hold 2 or more Shares in Bone Medical Limited you may appoint a second proxy:

Write the name of your second proxy in the box below.

 %

- (a) you have only appointed 1 proxy and do not want him/her to exercise all of your votes; or
(b) if you have appointed 2 proxies under this proxy form.

If you do not name a proxy or your named proxy fails to attend the meeting, the Chairman of the meeting will be appointed as your proxy to attend and act on your behalf and to vote in accordance with the following directions at the Annual General Meeting of Bone Medical Limited to be held at Seminar Room 5 on 19 November 2008 at 4.30 pm (WST) and at any adjournment of that meeting.

Voting directions to your proxy - Please mark only one of the boxes with an "X" for each resolution to indicate your directions.

Special Business		For	Against	Abstain
Resolution 1.	Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2.	Re-election of Mr Leon Ivory	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3.	Re-election of Mr Barry Walker	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4.	Ratification of previous issue of shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5.	Approval of the issue of shares to Proxima	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6.	Approval of the issue of shares to Proxima Laboratory	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7.	Approval of the issue of shares to Leif Jensen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8.	Approval of the issue of options to Leon Ivory	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9.	Approval of the issue of options to Leif Jensen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10.	Reduction of Capital and Accumulated Losses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you mark the "Abstain" box with an "x" for a particular resolution, you are directing your proxy not to vote on your behalf on a show of hands or on a poll.

PLEASE SIGN HERE
implemented

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented

Individual or Shareholder 1

**Sole Director and
Sole Company Secretary**
Shareholder 2

Director
Shareholder 3

Director/Company Secretary

How to complete this Proxy Form

1. Your Name and Address

Please print your name and address as it appears on your holding statement and the Company's share register. If Shares are jointly held, please ensure the name and address of each joint shareholder is indicated. Shareholders should advise the Company of any changes. Shareholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2. Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the Company.

3. Votes on Resolutions

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each Resolution. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any Resolution by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given Resolution, your proxy may vote as he or she chooses. If you mark more than one box on a Resolution your vote on that Resolution will be invalid.

4. Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy please write the name of that person.

To appoint a second proxy you must state (in the appropriate box) the percentage of your voting rights which are the subject of the relevant proxy. If the Proxy Form does not specify a percentage, each proxy may exercise half your votes. Fractions of votes will be disregarded.

5. Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all of the shareholders should sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the company's share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting a "Certificate of Appointment of Corporate Representative" should be produced prior to admission.

6. Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address given below not later than 48 hours before the commencement of the meeting. i.e. no later than 4.30pm (WST) on 17 November 2008. Any Proxy Form received after that time will not be valid for the scheduled meeting.

This Proxy Form (and any Power of Attorney and/or second Proxy Form) may be sent or delivered to the Company's Registry at Security Transfer Registrars Pty Limited, 770 Canning Highway, APPLECROSS WA 6153 or sent by facsimile to the Registry on +61 (08) 9315 2233.

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