

Appendix 4D
Half-year Report for the period ending 31 December 2006

Name of entity

BONE MEDICAL LIMITED

ABN	Reporting Period	Previous Corresponding Period
70 009 109 755	Half year ended 31 December 2006	Half year ended 31 December 2005

(1) Results for Announcement to the Market

Financial Results			\$A
Revenues from ordinary activities (<i>item 2.1</i>)	Down	57.98% to	21,035
Profit (loss) from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Down	18.03% to	(1,330,950)
Net profit (loss) for the period attributable to members (<i>item 2.3</i>)	Down	18.03% to	(1,330,950)
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 (<i>item 2.6</i>): Refer attached Interim Financial Report.			

	Current Period	Previous Corresponding Period
Net tangible assets per ordinary share (<i>Item 3</i>)	1.08 cents	2.35 cents

Details of entities over which control has been gained or lost (*item 4*)

N/A

Details of dividends or distribution payments (*item 5*)

- No dividends or distributions are payable.

Details of dividend or distribution reinvestment plans (*item 6*)

- There is no dividend reinvestment program in operation for Bone Medical Limited

Details of associates and joint venture entities (*item 7*)

- 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 8*)

- International Accounting Standards

Details of any audit dispute or qualification (*item 9*)

-None

This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the company.



**BONE MEDICAL LIMITED
AND CONTROLLED ENTITIES**

ABN 70 009 109 755

INTERIM FINANCIAL REPORT

For the Half-Year ended

31 DECEMBER 2006

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**BONE MEDICAL LIMITED
AND CONTROLLED ENTITIES**
ABN 70 009 109 755

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DIRECTORS' REPORT

Your directors present their report on the financial report of the economic entity, for the half-year ended 31 December 2006.

DIRECTORS

The directors of the Company at any time during or since the end of the half year are:

Paul Hopper

Roger New

Leon Ivory

Barry Walker

Troels Jordansen (appointed 16 November 2006)

Gabriel Chiappini (appointed 18 December 2006)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARIES

The following persons held the position of Company Secretary during the year:

Gabriel Chiappini

FINANCIALS

The consolidated loss after income tax for the financial half year was \$1,330,950 (2005 \$1,623,738). after providing for an income tax benefit of \$249,000 (2005 \$nil). The loss was in line with expectations, with major expenses broadly in line with previous years relating to research and development of the Company's two primary drug candidates in the clinic, Calcitonin (sCT) for osteoporosis and potentially osteoarthritis, Parathyroid Hormone (PTH) for osteoporosis and BN006, its anti TNF downregulator for Rheumatoid Arthritis, and administrative overheads.

OPERATIONS

Bone Medical has made good progress during the period:

- **Successful capital raising of \$1.8m** – completed in November 2006 ,the raising was well supported by existing shareholders;
- **Submitted Phase 2 oral sCT clinical trial protocol and achieved Ethics approval in Qld** – an important milestone for our lead clinical candidate to enter Phase 2 clinical trials;
- **Submitted two Phase 1& 2 Study protocols for sCT & PTH for Ethics approval;**
- **Research report by broker CCZ** – continuing the Company's strategy to increase the institutional investment appeal of Bone Medical;
- **Advanced pre-clinical animal studies on promising TNF down-regulator for rheumatoid arthritis in Germany & UK** – early data from this pre-clinical candidate has provided encouragement to progress to the next stage of testing;
- **Strengthened Board** – appointment of Mr. Gabrielle Chiappini in Perth and Mr. Troels Jordansen in London as non-executive directors;
- **Receipt of Australian Government grants totaling A\$540K**

DIRECTORS' REPORT (continued)

EVENTS POST BALANCE DATE

There has been no material events subsequent to the half-year ended 31 December 2006.

Current Outlook:

Progressive clinical data from human trials remains the primary focus of the Company, and to that end it was an important milestone to commence a Phase 2 trial for sCT in Queensland, in February 2007.

sCT is Bone's lead product, and the trial will recruit 35 post menopausal women in a bioequivalence study comparing Bone's oral sCT, against Miacalcin, a calcitonin nasal spray marketed by Novartis. Results from this trial are expected to be available during the fourth quarter.

We are awaiting final Ethics Committee approval, for Bone to conduct two small dosing studies for sCT and PTH in eight post menopausal women, and these trials are also expected to be concluded by the end of the financial year. Following the establishment of the studies at the prestigious Kennedy Institute in London we will be advancing animal studies in their unique rheumatoid arthritis model for our Anti TNF regulator.

Looking ahead, the Board expects further progress to be achieved, and remains positive about the prospects of the Company.

Auditors Declaration

The Auditors Independence Declaration under section 307C of the Corporations Act 2001 is set out on page 5 for the half year ended 31 December 2006.

This report is signed in accordance with a resolution of the Board of Directors.

Director:



Leon Ivory

Date:

28TH February 2007



Chartered Accountants
& Advisers

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28 February 2007

The Directors
Bone Medical Ltd
Suite 2
1 Sarich Way
Technology Park
Bentley WA 6102

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF BONE MEDICAL LIMITED

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully

BDO
Chartered Accountants

M Shafizadeh
Partner



BONE MEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 70 009 109 755
Interim Financial report – 31 December 2006

Consolidated Income Statement For the half year ended 31st December, 2006	Economic Entity	
	31.12.2006	31.12.2005
Revenue from continuing operations	21,035	50,054
Research & development	(1,054,014)	(908,898)
Employee benefits expense	(155,701)	(280,436)
Professional consultants expense	(104,120)	(111,129)
Impairment of goodwill	-	-
Depreciation & amortisation expense	(3,602)	(1,807)
External consultants expense	(128,031)	(84,554)
Legal fees	(6,214)	(81,701)
Travel expense	(13,846)	(9,211)
Business development expense	(17,950)	(1,364)
Public relations expense	-	(24,056)
Other expenses	(117,507)	(170,636)
Loss before income tax	<u>(1,579,950)</u>	<u>(1,623,738)</u>
Income tax benefit	249,000	-
Loss from continuing operations	<u>(1,330,950)</u>	<u>(1,623,738)</u>
Loss attributable to minority equity interest	-	-
Loss attributable to members of the parent entity	<u>(1,330,950)</u>	<u>(1,623,738)</u>
Earnings Per Share		
Basic Loss per share (cents per share)	(1.97)	(3.83)

The consolidated income statement should be read in conjunction with the accompanying notes

BONE MEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 70 009 109 755
Interim Financial report – 31 December 2006

Consolidated Balance Sheet For the half year ended 31st December, 2006	Economic Entity	
	31.12.2006	30.06.2006
ASSETS		
CURRENT ASSETS		
Cash & Cash Equivalents	782,014	220,559
Trade & Other Receivables	265,958	304,706
TOTAL CURRENT ASSETS	1,047,972	525,265
NON-CURRENT ASSETS		
Property Plant & Equipment	24,986	25,979
Intangible Assets - Goodwill	1,956,599	1,956,599
TOTAL NON-CURRENT ASSETS	1,981,585	1,982,578
TOTAL ASSETS	3,029,557	2,507,843
LIABILITIES		
CURRENT LIABILITIES		
Trade & Other Payables	345,251	283,894
TOTAL CURRENT LIABILITIES	345,251	283,894
NON-CURRENT LIABILITIES		
Trade & Other Payables	-	-
TOTAL NON-CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	345,251	283,894
NET ASSETS	2,684,306	2,223,949
EQUITY		
Contributed Equity	10,057,990	8,274,883
Accumulated Losses	(7,690,884)	(6,359,934)
Reserves	317,200	309,000
Parent entity interest	2,684,306	2,223,949
Minority interest	-	-
TOTAL EQUITY	2,684,306	2,223,949

The consolidated balance sheet should be read in conjunction with the accompanying notes

BONE MEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 70 009 109 755
Interim Financial report – 31 December 2006

Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2006

	Note	Issued Capital Ordinary \$	Issued Capital Convertible Preference \$	Retained Earnings \$	Option Premium Reserve \$	Minority Equity Interests \$	Total \$
Balance at 1.7.2005		5,871,850	800,000	(3,577,458)	331,130	26,382	3,451,904
Loss attributable to members of parent entity		-		(1,623,738)	-	-	(1,623,738)
Ordinary shares issued during the year		1,576,651		-	-	-	1,576,651
Options forfeited during the year		-		-	(30,330)	-	(30,330)
Purchase of minority shareholders interest		26,382		-	-	(26,382)	-
Balance at 31.12.2005		<u>7,474,883</u>	<u>800,000</u>	<u>(5,201,196)</u>	<u>300,800</u>	<u>-</u>	<u>3,374,487</u>
Balance at 1.7.2006		7,474,883	800,000	(6,359,934)	309,000	-	2,223,949
Loss attributable to members of parent entity		-		(1,330,950)	-	-	(1,330,950)
Ordinary shares issued during the year		1,783,107		-	-	-	1,783,107
Options issued during the year		-		-	8,200	-	8,200
Balance at 31.12.2006		<u>9,257,990</u>	<u>800,000</u>	<u>(7,690,884)</u>	<u>317,200</u>	<u>-</u>	<u>2,684,306</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

BONE MEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 70 009 109 755
Interim Financial report – 31 December 2006

Consolidated Cash Flow Statement
for the half-year ended 31 December 2006

	Note	Economic Entity	
		31.12.2006	31.12.2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from government grants inclusive of goods & services tax		291,236	11,909
Payments to suppliers & employees inclusive of goods & services tax		(1,531,316)	(1,634,152)
Interest received		21,035	39,229
		<hr/>	
Net cash (outflow) from operating activities		<u>(1,219,045)</u>	<u>(1,583,014)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchase of property, plant & equipment		(2,608)	(5,738)
		<hr/>	
Net cash (outflow) from investing activities		<u>(2,608)</u>	<u>(5,738)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares & other equity securities		1,783,107	1,575,611
		<hr/>	
Net cash inflow from financing activities		<u>1,783,107</u>	<u>1,575,611</u>
Net increase (decrease) in cash & cash equivalents		561,455	(13,141)
Cash & cash equivalents at beginning of the half year		220,559	1,678,590
		<hr/>	
Cash & cash equivalents at the end of half year		<u><u>782,014</u></u>	<u><u>1,665,449</u></u>

The above consolidated cash flow statements should be read in conjunction with the accompanying notes

BONE MEDICAL LIMITED AND CONTROLLED ENTITIES

ABN 70 009 109 755

Interim Financial report – 31 December 2006

NOTES TO FINANCIAL REPORTS

Note 1: Basis of Preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Bone Medical Limited and its controlled entities during the half-year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The accounting policies adopted are consistent with those of the previous financial year & corresponding interim reporting period.

Accounting Policies

(a) Going Concern

The accounts have been prepared on a going concern basis. Future capital raisings will be required in order to continue the research and development of the company's products and technology to achieve a position where they can commercialise or market the products and technology.

In common with biotechnology companies, the company's operations are subject to risk & uncertainty due primarily to the nature of research, development and commercialisation to be undertaken.

The ability of the company to continue as a going concern is dependent upon the company raising significant further capital sufficient to meet the company's expenditure commitments.

The company is required to raise significant additional funding in order to continue to research and develop the company's products and technology to achieve a position where they can commercialise or market the products and technology.

The Directors and senior management have prepared a cash flow forecast for the foreseeable future reflecting the above mentioned expectations and their effect upon Bone Medical Limited or controlled entities. The achievement of the forecast is dependant upon the future capital raising the outcome of which is uncertain.

In the event that sufficient capital raising at an amount and timing necessary to meet the future budgeted operational and investing activities of the company is unfavourable the Directors believe that they will be able to contain the operating and investment activities sufficiently to ensure that Bone Medical Limited or controlled entities can meet its debts as and when they become due and payable.

In the unlikely event that the events referred to above result in a negative outcome, then the going concern basis of accounting may not be appropriate with the result that the Group may have to realise its assets and extinguish its liabilities other than in the normal course of business and in amounts different from that stated in the financial report.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or classification of liabilities that might be necessary should Bone Medical Limited or controlled entities not be able to continue as a going concern.

BONE MEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 70 009 109 755
Interim Financial report – 31 December 2006

NOTES TO FINANCIAL REPORTS (continued)

Note 2: Profit for the half-year

There were no items included in the loss for the half-year that that were considered to be unusual because of their nature size or incidence

Note 3: Segment Information

In the half-year ending 31st December 2006 & 31st December 2005, the Company has predominantly undertaken all its business activities in the biopharmaceutical segment in Australia.

Note 4: Contingent Liabilities

License agreement obligations:-

Under the license agreement between Bone Limited and Axxess Limited the following terms apply: £1,030,000 is payable to Axxess Limited as a lump sum payment upon either of the following events occurring:-

- Bone Limited will be required to pay 50% of any licensing fees received from the commercialisation of the technology, up to the total fee due.
- If Bone Medical commences a phase III human clinical trial and has at least AUD5 million cash in the bank or
- Raises a cumulative total of AUD15 million in new capital, then the full fee would become due less any instalments paid.

If by the 4th January 2006 the licence payment has not been paid in full, a monthly interest charge is payable on the unpaid balance at a rate equal to the 30 day London Interbank Offer Rate (LIBOR) on the 4th day of each month plus 2%.

As at the date of this report, no claim for this interest has been received by the company.

Note 5: Dividends

No dividends were declared during the half year.

Note 6: Discontinued Operation

2006

There were no discontinued operations in the half-year ended 31st December, 2006

2005

There were no discontinued operations in the half-year ended 31st December, 2005.

Note 7: Events occurring after the balance sheet date

There have been no significant events after the balance sheet date being 31st December, 2006.

Note 8: Equity securities issued

	2006 Shares	2005 Shares	2006 \$	2005 \$
Issues of ordinary shares during the half-year				
Ordinary shares issued by prospectus		6,064,041		1,576,651
Ordinary shares issued by private placement	6,604,101		1,783,107	
	6,604,101	6,064,041	1,783,107	1,576,651

Directors' Declaration

The directors of the company declare that:

- (1) The financial statements & notes set out on pages 6 to 11:
 - (a) comply with accounting standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true & fair view of the economic entity's financial position as at 31 December, 2006 and of its performance for the half-year ended on that date.

- (2) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as & when they become due & payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Leon Ivory
Director

Perth, Western Australia
28th February, 2007

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF BONE MEDICAL LTD

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bone Medical Ltd, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year (in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission).

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bone Medical Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Bone Medical Ltd on 28 February 2007 would be in the same terms if provided to the directors as at the date of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bone Medical Ltd is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1, there is significant uncertainty whether Bone Medical Limited and controlled entities will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the company and the group not continue as going concerns.

The company will need to raise significant further capital in order to meet the expenditure commitments to continue to research and develop the company's products and technology.

Inherent Uncertainty Regarding Recoverability of Goodwill.

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in the financial statements, there is goodwill on consolidation as at 31 December 2006 with a carrying value of \$1,956,599. This amount is recoverable based upon Bone Medical Limited and controlled entities being able to continue as a going concern as outlined in the above paragraph.

The amount is also dependent upon the company being able to successfully exploit the company's products and technology at amounts in excess of the carrying value of the goodwill.

BDO

Chartered Accountants



M Shafizadeh

Partner

Perth, Western Australia

Dated this 28th day of February 2007