

Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 1/7/96. Origin: Appendix 5. Amended 1/7/98, 1/9/99, 1/7/2000, 30/9/2001, 11/3/2002, 1/1/2003.

Name of entity

Bone Medical Limited

ABN

70 009 109 755

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

- | | | |
|---|-----------------------------------------------------------------------------------------------|------------------------------------------------|
| 1 | +Class of +securities issued or to be issued | Employee Options
Fully paid ordinary shares |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued | 2,000,000 options
3,999,990 ordinary shares |

+ See chapter 19 for defined terms.

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3 Principal terms of the +securities (eg, if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)

3,999,990 fully paid ordinary shares that are restricted as follows :-

3,582,062 to 3/9/06

417,928 to 30/8/05.

Terms of 2,000,000 employee options as follows :-

Tranche 1 - These 500,000 Employee Options vest after 12 months' continuous employment of Mr Redman with the Company (ie, 28 February 2006) and expire after 3 years, on 28 February 2009. They are exercisable at 65 cents each.

Tranche 2 - 500,000 Employee Options which vest either in the following circumstances:

- upon the receipt by the Company, within 9 months of Mr Redman's employment, of US\$5 million in capital investment; and
- such capital investment is achieved primarily as a result of Mr Redman's efforts in organising and concluding the capital raising, or
- upon a Takeover which is defined as the date when 51% of the shareholders of the Company have accepted an offer for at least AUD\$0.60 per share; the offer involves a minimum consideration of at least US\$25 million and the offer is for at least 51% of the Company,

at an exercise price determined by the 90 days average as of the date the US\$5 million capital investment is received by the Company or the date the Takeover occurs.

With respect to Tranche 2, the Company may, in its absolute discretion, deem that a portion of the 500,000 Employee Options has vested if the US\$5 million capital investment is received by the Company within 10 to 12 months of Mr Redman's employment, as a result of Mr Redman's efforts.

Tranche 3 - 500,000 Employee Options which vest either upon the formal announcement of a deal described as follows:

- procured primarily as a result of Mr Redman's introduction of the party to the Company;
- with an international biopharmaceutical company;
- funding any of the following Company projects (as described at www.bonemedical.com.au):
 - Capsitonin™ Oral Calcitonin;
 - Oral Parathyroid Hormone BN003; or
 - TNF Regulators BN006;
 - with a minimum value of US\$1 million in upfront payments; and
 - accepted by the Company's Board of Directors; or
 - upon a Takeover,

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

i. If Tranches 2 and 3 vest because of a Takeover, Mr Redman has 14 days from the date of vesting within which to exercise any of these Employee Options.

Tranche 4 - 500,000 Employee Options which vest after 12 months' continuous employment of Mr Redman with the Company (ie, 28 February 2006) and expire after 3 years, on 28 February 2009. They are exercisable at 48 cents each.

+ See chapter 19 for defined terms.

<p>4 Do the +securities rank equally in all respects from the date of allotment with an existing +class of quoted +securities?</p> <p>If the additional securities do not rank equally, please state:</p> <ul style="list-style-type: none"> • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment 	<p>No</p> <p>Employee Options do not rank equally with an existing class of quoted securities. They will rank equally in all respects with other ordinary shares upon exercise of the options to acquire ordinary shares in the company.</p> <p>Ordinary shares will rank equally with quoted ordinary shares once restriction period ends.</p>				
<p>5 Issue price or consideration</p>	<p>Nil</p>				
<p>6 Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)</p>	<p>Issue of Director Options pursuant to Employment Contract</p> <p>Conversion of 10,000,004 Class B Preference shares to 3,999,990 ordinary shares as approved by shareholders at General Meeting on 12 July 1005</p>				
<p>7 Dates of entering +securities into uncertificated holdings or despatch of certificates</p>	<p>20th July 2005</p>				
<p>8 Number and +class of all +securities quoted on ASX (including the securities in clause 2 if applicable)</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 2px;">Number</th> <th style="text-align: left; padding: 2px;">+Class</th> </tr> </thead> <tbody> <tr> <td style="padding: 2px;">16,307,267</td> <td style="padding: 2px;">BNE Ordinary fully paid shares</td> </tr> </tbody> </table>	Number	+Class	16,307,267	BNE Ordinary fully paid shares
Number	+Class				
16,307,267	BNE Ordinary fully paid shares				

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	Number	+Class	
9	Number and +class of all	2,072,277	BNEAI Ordinary fully paid
	+securities not quoted on ASX	417,928	shares restricted to 30/8/05
	(including the securities in clause 2	715,781	Ordinary fully paid shares
	if applicable)	35,846,757	restricted to 30/8/05
		3,582,062	BNEAM Class C
		7,691,968	Preference shares restricted
		1,000,000	to 30/8/05
		300,000	BNEAO Ordinary fully
		1,591,455	paid ordinary shares
		500,000	restricted to 3/9/06
		500,000	Ordinary fully paid
		500,000	ordinary shares restricted
		500,000	to 3/9/06
	500,000	BNEAU Class C	
	500,000	Preference shares restricted	
	500,000	to 3/9/06	
	500,000	BNEAW Options expiring	
	500,000	1/7/08 restricted to 3/9/06	
	500,000	ex 50c	
	500,000	Employee options exp	
	500,000	1/12/09 ex 60c	
	500,000	Class C Preference Shares	
	500,000	unrestricted	
	500,000	Employee options exp	
	500,000	28/2/09 ex 65c	
	500,000	Employee options exp	
	500,000	28/2/09 ex 48c	
	500,000	Tranche 3 Employee	
	500,000	Options granted 19/7/05	
	500,000	exercisable on	
	500,000	performance milestones	
	500,000	being met and exercise	
	500,000	price being 30 day average	
	500,000	of ordinary shares on ASX	
	500,000	prior to milestone date.	
	500,000	Tranche 2 Employee	
	500,000	Options granted 19/7/05	
	500,000	exercisable on	
	500,000	performance milestones	
	500,000	being met and exercise	
	500,000	price being 90 day average	
	500,000	of ordinary shares on ASX	
	500,000	prior to milestone date	
10	Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)		

+ See chapter 19 for defined terms.

Part 2 - Bonus issue or pro rata issue

- | | | |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| 11 | Is security holder approval required? | |
| 12 | Is the issue renounceable or non-renounceable? | |
| 13 | Ratio in which the +securities will be offered | |
| 14 | +Class of +securities to which the offer relates | |
| 15 | +Record date to determine entitlements | |
| 16 | Will holdings on different registers (or subregisters) be aggregated for calculating entitlements? | |
| 17 | Policy for deciding entitlements in relation to fractions | |
| 18 | Names of countries in which the entity has +security holders who will not be sent new issue documents

<small>Note: Security holders must be told how their entitlements are to be dealt with.
Cross reference: rule 7.7.</small> | |
| 19 | Closing date for receipt of acceptances or renunciations | |

+ See chapter 19 for defined terms.

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|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| 20 | Names of any underwriters | |
| 21 | Amount of any underwriting fee or commission | |
| 22 | Names of any brokers to the issue | |
| 23 | Fee or commission payable to the broker to the issue | |
| 24 | Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of +security holders | |
| 25 | If the issue is contingent on +security holders' approval, the date of the meeting | |
| 26 | Date entitlement and acceptance form and prospectus or Product Disclosure Statement will be sent to persons entitled | |
| 27 | If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders | |
| 28 | Date rights trading will begin (if applicable) | |
| 29 | Date rights trading will end (if applicable) | |
| 30 | How do +security holders sell their entitlements <i>in full</i> through a broker? | |
| 31 | How do +security holders sell <i>part</i> of their entitlements through a broker and accept for the balance? | |

+ See chapter 19 for defined terms.

- 32 How do +security holders dispose of their entitlements (except by sale through a broker)?
- 33 +Despatch date

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

- 34 Type of securities
(tick one)
- (a) Securities described in Part 1
- (b) All other securities
Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

Tick to indicate you are providing the information or documents

- 35 If the +securities are +equity securities, the names of the 20 largest holders of the additional +securities, and the number and percentage of additional +securities held by those holders
- 36 If the +securities are +equity securities, a distribution schedule of the additional +securities setting out the number of holders in the categories
1 - 1,000
1,001 - 5,000
5,001 - 10,000
10,001 - 100,000
100,001 and over
- 37 A copy of any trust deed for the additional +securities

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Entities that have ticked box 34(b)

38 Number of securities for which
 +quotation is sought

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39 Class of +securities for which
 quotation is sought

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40 Do the +securities rank equally in all
 respects from the date of allotment
 with an existing +class of quoted
 +securities?

If the additional securities do not
 rank equally, please state:

- the date from which they do
- the extent to which they
 participate for the next dividend,
 (in the case of a trust,
 distribution) or interest payment
- the extent to which they do not
 rank equally, other than in
 relation to the next dividend,
 distribution or interest payment

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41 Reason for request for quotation
 now

Example: In the case of restricted securities, end of
 restriction period

(if issued upon conversion of
 another security, clearly identify that
 other security)

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	Number	+Class
42 Number and +class of all +securities quoted on ASX (including the securities in clause 38)		

+ See chapter 19 for defined terms.

Quotation agreement

- 1 +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

- 2 We warrant the following to ASX.
 - The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.

 - There is no reason why those +securities should not be granted +quotation.

 - An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

 - Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.

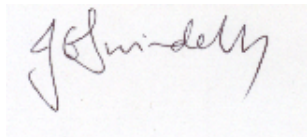
 - We warrant that if confirmation is required under section 1017F of the Corporations Act in relation to the +securities to be quoted, it has been provided at the time that we request that the +securities be quoted.

 - If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

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- 3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.
- 4 We give ASX the information and documents required by this form. If any information or document not available now, will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.



Sign here: _____ Date: .19 July, 2005....
(~~Director~~/Company secretary)

Print name: JANE SWINDELLS

Capital Structure 19/07/05:

Quoted securities :-

16,307,267 ordinary shares fully paid
(including 6,080,966 ordinary shares subject to voluntary escrow until 30/8/05)

Unquoted :-

1,591,455 Class C Preference Shares
300,000 Employee Options exercisable at \$0.60 each on or before 1st December 2009
500,000 Employee Options exercisable at \$0.65 each on or before 28 February 2009
500,000 Employee Options exercisable at \$0.48 each on or before 28 February 2009
500,000 Employee Options granted 19 July 2005 exercisable on performance milestones being met and exercise price being 90 day average of ordinary shares on ASX prior to milestone date.
500,000 Employee Options granted 19 July 2005 exercisable on performance milestones being met and exercise price being 30 day average of ordinary shares on ASX prior to milestone date.

ASX Restricted securities for 24 months from official quotation until 3/9/06:-

39,428,819 ordinary shares fully paid
7,691,968 Class C Preference Shares
1,000,000 options exercisable at \$0.50 each on or before 1 July 2008

ASX restricted securities for 12 months from their date of issue 30/8/04 until 30/8/05:-

2,490,205 ordinary shares fully paid
715,781 Class C preference Shares

Total 58,226,291 ordinary shares on issue.

+ See chapter 19 for defined terms.

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