*.Rules 4.3A*

# Appendix 4E

## Full Year Report

Name of entity

BONE MEDICAL LIMITED

| ABN or equivalent company reference | Financial year ended ('current period') |
|---|---|
| 70 009 109 755 | 30 June 2015 |

## Results for announcement to the market

**(All comparisons to year ended 30 June 2014)**

| | 2015 | 2014 | Change % |
|---|---|---|---|
| Revenues from ordinary activities | 43,090 | 16,844 | Increase by 156% |
| Loss from ordinary activities after tax attributable to members[(1)] | 1,014,541 | 1,131,036 | Decrease by 10.3% |
| Loss for the year attributable to members[(1)] | 1,014,541 | 1,131,036 | Decrease by 10.3% |

| **Dividends (distributions)** | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend<br>Interim dividend | None | - ¢ |
| Previous corresponding period | None | - ¢ |
| Record date for determining entitlements to the dividend | N/A | |

| | **30/06/15** | **30/06/14** |
|---|---|---|
| Net tangible asset backing per ordinary security[(2)] | 0.48 cents | 0.87 cents |

Explanations for the above results and commentary are contained in the director's report and the 30 June 2015 financial statements and accompanying notes.

This report is based on the consolidated financial statements which have been audited by BDO Audit (WA) Pty Ltd.

(1) As detailed in the 30 June 2015 financial statements and accompanying notes, the current year loss, and the change from the prior year result, is mainly due to research and development expenditure ceasing during the year, refer to the Directors Report for further details.

(2) As detailed in the 30 June 2015 financial statements and accompanying notes, change in the net tangible asset backing per ordinary security, is mainly due to the usage of finds raised in the prior period for research and development and due diligence performed on investment opportunities by the Company during the year.

## Compliance statement

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

2 This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on +accounts to which one of the following applies.
*(Tick one)*

| | | | |
|---|---|---|---|
| ☑ | The accounts have been audited. | ☐ | The accounts have been subject to review. |
| ☐ | The accounts are in the process of being audited or subject to review. | ☐ | The accounts have *not* yet been audited or reviewed. |

Sign here: (Company Secretary) Date: 28 August 2015

Print name: Mr Phillip Wingate

Bone Medical

ACN 009 109 755

# ANNUAL REPORT

for the year ended 30 June 2015

**BONE MEDICAL LIMITED**
**ACN: 009 109 755**

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This Annual Report covers Bone Medical Limited ("Bone" or the "Company") and its subsidiaries. The financial report is presented in Australian currency.

Bone Medical Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Bone Medical Limited
Ground Floor
16 Ord Street
West Perth WA 6005

**BONE MEDICAL LIMITED**
**ACN: 009 109 755**

## CORPORATE INFORMATION

**Directors**
Mr Robert Towner
*Non-Executive Chairman*

Mr John Hannaford
*Non-Executive Director*

Mr Phillip Wingate
*Non-Executive Director*

**Company Secretary**
Mr Phillip Wingate

**Home Securities Exchange:**
Australian Securities Exchange Limited
Level 40, Central Park
152 – 158 St George's Terrace
PERTH WA 6000

**ASX Code:** BNE

**Share Registry**
Automic Registry Services
Suite 1a, Level 1
7 Ventnor Avenue
WEST PERTH WA 6005

Telephone: (08) 9324 2099

**Registered Office**
Ground Floor, 16 Ord Street
WEST PERTH WA 6005

Telephone: (08) 9482 0580
Facsimile: (08) 9482 0505

Email: query@bone-ltd.com
Website: www.bone-ltd.com

**Postal Address**
P.O. Box 902
WEST PERTH WA 6872

**Solicitors**
Bellanhouse Legal
PO Box 1770
West Perth WA 6872

**Auditor**
BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

**Bankers**
ANZ
Level 1, 1275 Hay Street
West Perth, WA 6005

## DIRECTORS' REPORT

Your Directors have pleasure in submitting their report together with the financial statements of the Group consisting of Bone Medical Limited and the entities it controlled during the period for the financial year ended 30 June 2015. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

## DIRECTORS

The names and details of Directors in office at any time during the financial year are:

**Mr Robert Towner**
*Non-Executive Director and Chairman – (appointed effective 24 January 2014)*

### EXPERIENCE AND EXPERTISE

Mr Towner has over 20 years corporate advisory and executive experience in the financial markets. Mr Towner is the founder and sole director of Cornerstone Corporate Pty Ltd, a corporate advisory company and has served as a board member of publicly listed and unlisted companies.

Mr Towner's skills include maintaining board awareness of financial markets, corporate governance, capital structuring and working capital requirements. In addition, Mr Towner has considerable experience in public and private capital raising initiatives.

Mr Towner has demonstrated the ability to build a successful life science company. From 2004, Mr Towner was a founding Executive Director of ASX listed bioMD Limited. In 2011, Mr Towner played a major role in the merger of bioMD Limited with then-private Allied Health Care Limited to create Admedus Limited (ASX: AHZ), a diverse healthcare company with a market capitalisation of $200 million.

### OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Managing Director – Triangle Energy (Global) Limited

### OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil

**Mr John Hannaford - B.Com (UWA), CA, F.Fin.**
*Non-Executive Director - (appointed effective 24 January 2014)*

### EXPERIENCE AND EXPERTISE

Mr Hannaford has broad financial experience from several corporate roles in Australia, Asia and Europe with resources companies. Mr Hannaford is principal and director of Corporate Advisory firms Ventnor Capital Pty Ltd and Ventnor Securities Pty Ltd which specialise in the provision of corporate and financial advice to junior resource companies. Mr Hannaford has also been involved with several ASX listings and has acted as Director, Company Secretary and Financial Controller to several of these companies.

Mr Hannaford graduated from the University of Western Australia with a Bachelor of Commerce degree in 1986 majoring in Finance and Economics. He qualified as a Chartered Accountant in 1990, gaining experience with the Arthur Andersen audit division in Perth and in Hong Kong. He completed a Diploma of Applied Finance and Investment with the Securities Institute of Australia and was admitted as an Associate of the Institute in 2003.

### OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Non-Executive Director & Chairman – Orinoco Gold Limited

**DIRECTORS' REPORT (CONTINUED)**

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Non-Executive Director & Chairman – Norwood Systems Limited (formerly Monteray Mining Group Limited) - (appointed 14 June 2006, resigned on 20 January 2015)
Non-Executive Director – Emerald Oil & Gas NL (appointed 14 June 2006, resigned on 16 July 2012)
Non-Executive Chairman – Jaguar Minerals Limited (appointed 20 November 2011, resigned on 19 August 2013)

**Mr Phillip Wingate – B.Com (Curtin), CA**
*Non-Executive Director (Appointed effective 27 November 2014)*
*Company Secretary (Appointed effective 18 February 2014)*

EXPERIENCE AND EXPERTISE
Mr Wingate holds a Bachelor of Commerce Degree from Curtin University Australia and is an Associate of the Institute of Chartered Accountants in Australia. After graduating from University, he started his career in commercial and management accounting with a large private construction group.

Mr Wingate has broad ASX experience through holding company secretarial positions and advising on various M&A and Capital ASX transactions. Mr Wingate has been closely involved with the mining sector in Western Australia and has a strong financial and management reporting background. Mr Wingate is also Company Secretary of ASX listed company Orinoco Gold Limited.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil

**Dr Roger New – BA, PhD**
*Non-Executive Director (Resigned 27 November 2014)*

## PRINCIPAL ACTIVITIES

In November 2014, the Company terminated various License and Research agreements which gave the Company the rights to develop potential therapeutic compounds aimed at preventing and/or treating bone and joint diseases and conditions, especially osteoporosis, osteoarthritis and rheumatoid arthritis..

Following the termination of the License and Research Agreements, the Company's principal activity was the identification of new investment opportunities with the objective of increasing shareholder value.

## RESULTS

The net loss attributable to members of the Company for the year ended 30 June 2015 is $1,014,541 (2014: loss of $1,131,036). The net loss is attributable to the expenditure in relation to research and development technologies of the Company, due diligence costs associated with investment opportunities, and administration costs relating to an ASX Listed entity.

## FINANCIAL POSITION

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has generated a comprehensive loss after tax for the year ended 30 June 2015 of $1,014,541 (2014: loss of $1,131,036), had a net working capital surplus of $1,228,982 (2014: surplus of $2,243,523) at 30 June 2015 and experienced net cash outflows from operating activities for the year of $1,203,857 (2014: $1,290,368). Following the termination of the license and research agreements, the Company's working capital requirements have been significantly reduced.
Accordingly, the Directors believe that there are sufficient funds to meet the Group's working capital requirements.

**DIRECTORS' REPORT (CONTINUED)**

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and have confidence in the Company's ability to raise additional funds if required.

## DIVIDENDS

There were no dividends paid or declared during the year.

## OPERATING AND FINANCIAL REVIEW

Bone Medical Ltd's business has previously focused on the development of products for the treatment of musculoskeletal diseases osteoporosis, osteoarthritis, and rheumatoid arthritis. The Company's product pipeline consisted of three Phase II programs and four preclinical programs that rely on licensed technologies from Proxima Concepts and laboratory development and intellectual property support from Proxima Laboratories and Research Services. The main product development programs were:

| | |
|---|---|
| CaPTHymone: | oral parathyroid hormone for the treatment of osteoporosis |
| Capsitonin: | oral calcitonin for the treatment of osteoarthritis pain |
| BN006: | a novel synthetic oligopeptide with selective TNF-α and IL-6 inhibitory mechanism and the potential for oral administration. |

During the year Bone completed a 9 month evaluation period for these products which included a Human Clinical Trial on the CaPTHymone™ compound and a pre-clinical trial on BN006. These trials were finalised during the year with results announced for the CaPTHymone™ trial on 29 September 2014 and for the pre-clinical trial on BN006 on 9 December 2014.

Following the results of the trials and the completion of the evaluation period, Bone Medical elected to terminate the License Agreements with the Proxima. Bone concluded that it was not in the commercial interests of the Company or its shareholders to continue with the Proxima Group compounds under the current structure and resulting in reduced financial commitments of the Company going forward.

Following termination of the License Agreements with Proxima, the Company commenced reviewing new opportunities for investment and acquisition which could drive future shareholder value. On 12 May 2015, the Company announced the acquisition of geospatial technology company, Takor Group Pty Ltd. The acquisition requires the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules and obtain approval from its shareholders as well as completing a $3 million capital raising. Following successful due diligence on Takor, Bone Directors are preparing the required documents for the meeting of shareholders and the capital raising with these documents expected to be finalised and dispatched in the coming weeks.

## OVERVIEW OF TAKOR

On 11 May 2015 Bone entered into a binding term sheet to acquire 100% of the issued capital of Takor Group Pty Ltd, subject to the satisfaction of a number of conditions precedent outlined below. The change in operations, change of name and the relevant changes to capital below.

In late 2011, Takor started research and development in the field of mobile mapping technologies, particularly offline systems for broad scale use in industries such as defence, environmental and conservation, disaster management, transport and mining.

In March 2014, Takor was commissioned to assist in the search for the missing flight MH370. Takor's ability to efficiently use its proprietary image analysis technology to comb through hundreds of satellite images, assessing locations of potential wreckage was featured by the Wall Street Journal and the West Australian.

Takor's proprietary geospatial technology provides businesses and consumers with intelligence via capturing, utilising and analysing all types of spatial or geographical data available in the market. The business operates in a rapidly growing geospatial sector, worth over US$100 billion per annum in revenues worldwide and forecast to grow (2013, December, Industry Recap, *Geospatial World Magazine, Volume 4 Issue 5)*.

Takor has the clear vision of democratising the geospatial and location based technology industry globally and filling the gap between existing legacy systems.

**DIRECTORS' REPORT (CONTINUED)**

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

Takor's most advanced geospatial technology platform is Mappt®, an Android based mobile mapping and data collection solution for businesses, government and academia. Since launching in 2013, Mappt® has provided superior mapping to companies all over the world, from governments and environmental organisations to wildlife societies and universities.

Mappt® has over 2,000 users in 83 different countries. Its user base is represented by major global organisations across telecommunications, exploration & mining, military, academia, research organisations, and various local governments and NGOs across the world. Mappt®'s easy to use interface and feature rich performance allows users to manage location based information quickly and simply in the office or in the field.

Key benefits of Mappt® include:

- Low entry cost
- Is standalone - no expensive and often complex requirements for desktop companion software
- Can work completely offline without the need for WiFi or 3/4G connections making it perfect for remote areas and disaster relief etc
- Open to 3rd party apps such as Google Drive, Dropbox and even regular email

The app is now ready for rapid scale and commercialisation across organisations and applications worldwide. The key use of funds to be raised is to execute marketing and sales initiatives to achieve growth targets set for the business. Moving forward, the Company plans to develop a software development kit (SDK) for Mappt® to allow end users, and/or industrial customers to easily customise the product to meet their specific requirements.

In addition, the platform is planning the release of a new satellite intelligence product to financial and retail markets – Takor will begin commercialisation of this offering in the 2016 financial year. Mappt® is available for trial download, and by subscription from the Google Play store.

Takor's second core application is Kojai™, a location based social media app for Apple's iOS.

Kojai™ allows users to geo-tag photos and posts for Facebook and Twitter to share moments and places with friends. The images posted on social media are accompanied by a unique mini map, pin pointing where the photo was taken. Traditionally, social media has been based on a timeline, for example, newest information and posts appear first. Kojai™ is different by adding a new dimension to the user experience based on location. This provides a unique sharing experience, and has earned it an App Store rating of 4.5 stars. Kojai™ has proved popular in both the US and Europe. Takor will be committing development expenditure focusing on resourcing the further expansion of this product into these key user markets.

## TAKOR TRANSACTION TERMS

The key terms of the agreement are as follows:

- The company to loan funds of $300,000 to Takor, after the completion of the mutual 4 week due diligence period (ended 17 June 2015 – paid on the 27 July 2015);
- Consideration of 387 million ordinary fully paid shares in Bone (on a pre-consolidated basis);
- Repayments of loans incurred by Takor totalling $266,000[(1)], of which $100,000 will be paid within 7 days of completion of the due diligence;
- 20 million share options in Bone (on a pre-consolidation basis) to be issued to employees and executives under the company's Employee Share Option Plan; and
- 350 million performance shares to be issued to the founder and major shareholder Mr Amir Farhand (on a pre-consolidation basis) which will convert to fully paid ordinary shares upon the achievement of the following Milestones
- Change of Company name to Takor Group Limited
- Amir Farhand to be appointed Managing Director of the Company and Non-Executive Director's Mr Robert Towner and Phillip Wingate to be replaced by Mr Guy Perkins and Mr Ivan Gustavino of Takor

**DIRECTORS' REPORT (CONTINUED)**

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

(1) The $100,000 was paid on 27 July 2015, with the remaining $166,000 to be payable when the acquisition is completed.

| Milestone | Number of Shares to be Issued |
|---|---|
| **Milestone 1:** upon the achievement of $1.5 million in revenue in any 12 month period | 175 million |
| **Milestone 1:** upon the achievement of $5 million in revenue in any 12 month consecutive period | 175 million |

***Condition Precedent***

The Transaction is subject to a number of conditions being satisfied, including:

1. Mutual due diligence (concluded 17 June 2015);
2. All Takor shareholders sign agreements to transfer 100% of their shareholdings, which will include simple warranties as to tile of shares and no encumbrances;
3. The major shareholder of Takor will be required to sign a management share sale agreement which will include additional warranties by management, typical to this type of transaction;
4. Bone raising a minimum of $3 million in conjunction with re-complying with Chapters 1 & 2 of the ASX Listing Rules. If required the Company will seek shareholder approval for a share consolidation so that minimum capital raising price is 2.00 cents per share or greater following the consolidation. GMP securities Australia Pty Ltd (GMP) to be appointed as Lead Manager to the capital raising;
5. Bone shareholder approval; and
6. ASX approval.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In November 2014 the company exited the contracts in regards to the research and development of products for the treatment of musculoskeletal diseases osteoporosis, osteoarthritis, and rheumatoid arthritis and began searching for a new avenue to provide benefit for shareholders.

On 11 May 2015 Bone entered into a binding term sheet to acquire 100% of the issued capital of Takor Group Pty Ltd, subject to the satisfaction of a number of conditions precedent outlined below. The change in operations, change of name and the relevant changes to capital are outlined above.

## EVENTS SINCE THE END OF THE FINANCIAL YEAR

In relation to the Takor transaction two payments were made subsequent to year end for a total of $400,000.

- Payment of $300,000 on 27 July 2015, as per the term sheet after the completion of the 4 week mutual due diligence period.

- Payment of $100,000 on 27 July 2015, as per the term sheet to assist Takor in the repayment of loans.

20,000 unlisted options exercisable at 66.4 cents and 52,711 unlisted options exercisable at $5.00 subsequently expired on 2 July 2015.

No other matters or circumstances have arisen since the end of the period which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

**DIRECTORS' REPORT (CONTINUED)**

## ENVIRONMENTAL REGULATION

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the year ended 30 June 2015 the Directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company has paid a premium of $3,500 excluding GST (2014: 8,504) to insure the Directors and secretary of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

## DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in ordinary shares and unlisted options of the Company were:

| | **Shares** | | **Options** | |
|---|---|---|---|---|
| **Director** | **Held Directly** | **Held Indirectly** | **Held Directly** | **Held Indirectly** |
| Mr Robert Towner | - | 5,000,000 | - | 6,850,000 |
| Mr John Hannaford | - | 10,000,000 | - | 2,000,000 |
| Mr Phillip Wingate(2) | 500,000 | - | - | - |
| Dr Roger New(1) | 569,523 | - | 118,750 | - |
| **Total** | **1,069,523** | **15,000,000** | **118,750** | **8,850,000** |

(1) Dr Roger New resigned on the 27 November 2014, amount showing was balance as final directors interest as at 27 November 2015
(2) Mr Phillip Wingate was appointed as a Non-Executive Director effective 27 November 2014

## MEETINGS OF DIRECTORS

The number of meetings of the Company's Directors held during the year and the numbers of meetings attended by each Director are:

| **Board of Directors** | **Meetings Attended** | **Meetings Eligible to Attend** |
|---|---|---|
| Mr Robert Towner | 4 | 5 |
| Mr John Hannaford | 5 | 5 |
| Dr Roger New (1) | 1 | 1 |
| Mr Phillip Wingate(2) | 4 | 4 |

(1) Dr Roger new resigned as a Non-Executive Director effective the 27 November 2014.
(2) Mr Phillip Wingate was appointed as a Non-Executive Director effective 27 November 2014

Due to the size of the entity and the board, all members of the board act as the Remuneration, Nomination and Audit Committees and meetings for each were held in conjunction with the Board meetings. The Audit Committee met twice during the year and Remuneration and Nomination met once during the year.

**DIRECTORS' REPORT (CONTINUED)**

## REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company for the year ended 30 June 2015. The information contained in this report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The information provided includes remuneration disclosures that are required under Accounting Standard AASB 124 "Related Party Disclosures". These disclosures have been transferred from the Financial Report.

This remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company, and includes the following specified executives in the Company:

Key Management Personnel

Directors:

Mr Robert Towner (Non-Executive Chairman)
Mr John Hannaford (Non-Executive Director)
Dr Roger New (Non-Executive Director) (resigned 27 November 2014)
Mr Phillip Wingate (Non-Executive Director) (appointed 27 November 2014)

Remuneration Policy

The Company recognises the importance of structuring the remuneration packages of its Directors' and Executives so as to attract and retain people with the qualifications, skills and experience to help the company achieve the required objectives. However, the Company understands that whilst it is still in its current phase, a prudent position must be observed in the total remuneration expense.

All remuneration paid to Directors and Executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

Remuneration Governance

The Board has established a Remuneration Committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for Executive Directors, other senior Executives and Non-Executive Directors. The Corporate Governance Statement provides further information on the role of this committee.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct.

Non-Executive Director Remuneration

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

The total amount paid to Non-Executive Directors is determined by the board from time to time for presentation to and resolution by shareholders in General Meeting. The current approved maximum aggregate remuneration payable to Non-Executive Directors is $300,000 per year.

The Directors are paid a set amount per year and apart from reimbursement of expenses incurred on the company's behalf, are not eligible for any additional payments.

## REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Remuneration

Remuneration packages for the Chief Executive Officer and senior Executives are designed by the Remuneration Committee and approved by the Board. The remuneration policy, setting the terms and conditions for the Executive Directors and other senior Executives, was developed by the Remuneration Committee and approved by the board.

Senior Executives when employed receive a fixed salary, and from time to time, options and bonus payments based on the achievement of specified individual performance criteria.

Performance-Based Remuneration

There is no correlation between the company's performance and remuneration paid to its Executive Directors, Non-Executive Directors and Executive employees. When the board deems it appropriate to, share based payments are issued to Directors and Executives.

The use of derivatives or other hedging arrangements for unvested securities of the company or vested securities of the company which are subject to escrow arrangements is prohibited. Where a director or other senior executive uses derivatives or other hedging arrangements over vested securities of the company, this will be disclosed.

Executive Service Contracts

There were no service agreements in place throughout the year.

*Non-Executive Directors*

Upon appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the policies and terms, including compensation, relevant to the office of Director.

The key terms of the Non-Executive Director service agreements are as follows:

- Term of agreement – ongoing subject to annual review.
- Directors' Fees of $40,000 per annum plus statutory superannuation.
- Chairman Fees of $55,000 per annum plus statutory superannuation.
- There is no notice period stipulated to terminate the contract by either party.

Remuneration of Key Management Personnel

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures)* of Bone Medical Limited are set out in the following table.

DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### Key Management Personnel of Bone Medical Limited

| 2015 | Short Term Benefits | | Post-Employment Benefits | Share Based Payments | | |
|---|---|---|---|---|---|---|
| Key Management Personnel | Salary and Fees $ | Non-Monetary $ | Super-annuation $ | Options $ | Total $ | Performance Related % |
| **Non-Executive Directors** | | | | | | |
| R. Towner | 55,000 | - | 5,225 | - | 60,225 | - |
| J. Hannaford | 40,000 | - | 3,800 | - | 43,800 | - |
| R. New [(1)] | 16,666 | - | - | - | 16,666 | - |
| P. Wingate [(2)] | 23,778 | - | 2,259 | - | 26,037 | - |
| **Total Non-Executive Directors** | 135,444 | - | 11,284 | - | 146,728 | - |
| **Other KMP** | | | | | | |
| - | - | - | - | - | - | - |
| **Total** | **135,444** | **-** | **11,284** | **-** | **146,728** | **-** |

[(1)] Dr Roger new resigned as a Non-Executive Director effective the 27 November 2014.
[(2)] Mr Phillip Wingate was appointed as a Non-Executive Director effective 27 November 2014

| 2014 | Short Term Benefits | | Post-Employment Benefits | Share Based Payments | | |
|---|---|---|---|---|---|---|
| Key Management Personnel | Salary and Fees $ | Non-Monetary $ | Super-annuation $ | Options $ | Total $ | Performance Related % |
| **Non-Executive Directors** | | | | | | |
| R. Towner | 24,100 | - | 2,229 | - | 26,329 | - |
| J. Hannaford | 17,527 | - | 1,621 | - | 19,148 | - |
| R. New | 32,500 | - | - | - | 32,500 | - |
| L. Ivory | 14,394 | - | - | - | 14,394 | - |
| P. Brooks | 14,394 | - | - | - | 14,394 | - |
| **Total Non-Executive Directors** | 102,915 | - | 3,850 | - | 106,765 | - |
| **Other KMP** | | | | | | |
| P. Young | 135,700 | - | - | 450,000 | 585,700 | 76.83 |
| **Total** | **238,615** | **-** | **3,850** | **450,000** | **692,465** | **64.99** |

**DIRECTORS' REPORT (CONTINUED)**

## REMUNERATION REPORT (AUDITED) (CONTINUED)

Shareholdings of Key Management Personnel

The movement in the number of ordinary shares of Bone Medical Limited held, directly, indirectly or beneficially, by each Director and Key Management Personnel, including their personally-related entities for the year ended 30 June 2015 is as follows:

| Directors | Held at 1 July 2014 | Debt Conversion | Movement during the year | Options Exercised | Held at 30 June 2015 |
|---|---|---|---|---|---|
| R. Towner | 7,500,000 | - | (2,500,000) | - | 5,000,000 |
| J. Hannaford | 10,000,000 | - | - | - | 10,000,000 |
| R. New | 569,523 | - | - | - | 569,523 (1) |
| P. Wingate | 500,000 (2) | - | - | - | 500,000 (2) |
| **Total** | **18,569,523** | **-** | **(2,500,000)** | **-** | **16,069,523** |

(1) Dr Roger New resigned as Non-Executive Director effective 27 November 2014, balance showing is final director's interest on resignation date.
(2) Mr Phillip Wingate was appointed as a Non-Executive Director effective 27 November 2014.

Option holdings of Key Management Personnel

The movement in the number of options of Bone Medical Limited held, directly, indirectly or beneficially, by each Director and Key Management Personnel, including their personally-related entities for the year ended 30 June 2015 is as follows:

| Directors | Held at 1 July 2014 | Movement during the year | Granted as Compensation | Options Exercised | Held at 30 June 2015 | Vested and Exercisable at 30 June 2015 |
|---|---|---|---|---|---|---|
| R. Towner | 7,050,000 | (200,000) | - | - | 6,850,000 | 6,850,000 |
| J. Hannaford | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 |
| R. New (1) | 125,709 | (6,959) | - | - | 118,750 (1) | 118,750 |
| P. Wingate(2) | - | - | - | - | - (2) | - |
| **Total** | **9,175,709** | **(206,959)** | **-** | **-** | **8,968,750** | **8,968,750** |

(1) Dr Roger New resigned as Non-Executive Director effective 27 November 2014, balance showing is final director's interest on resignation date.
(2) Mr Phillip Wingate was appointed as a Non-Executive Director effective 27 November 2014.

Other transactions with Key Management Personnel
Transactions with other key management personnel are made on normal commercial terms and conditions and at market rates.

i. *Proxima Laboratory & Research Services Limited: (Dr Roger New – Non-Executive Director)*

The contract with Proxima Laboratory & Research Services Limited of which Dr Roger New is a Director, is for the supply of research, laboratory & management services to the Company. Dr New is a director of both Bone Limited & Bone Medical Limited.

A total of $324,928 was paid in cash to this entity for the year ended 30 June 2015 (2014: $250,457). No amounts were payable to Proxima Laboratory & Research Services Limited at 30 June 2015 (2014: $nil).

**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

*ii. Proxima Concepts Limited: (Dr Roger New – Non-Executive Director)*

Proxima Concepts Limited of which Dr Roger New is a Director provided licencing services in relation to the Axcess technology. Dr New is a Director of both Bone Limited & Bone Medical Limited.

A total of $19,498 was paid in cash to this entity for the year ended 30 June 2015 (2014: $26,121). No amounts were payable to Proxima Concepts Limited at 30 June 2015 (2014: $3,255).

*iii. Cornerstone Corporate Pty Ltd (Mr Robert Towner – Non-Executive Chairman)*

The Company entered into an agreement with Cornerstone Corporate to provide corporate administration services to the Company commencing from 1st February 2014. A total amount of $60,893 (GST Inclusive) was paid to Cornerstone Corporate for advisory services for the year ended 30 June 2015 (2014: $13,200). A total amount of $3,000 (GST Exclusive) was payable to Cornerstone Corporate at 30 June 2015 (2014: $3,300).

*iv. Ventnor Capital Pty Ltd (Mr John Hannaford – Non-Executive Director)*

The Company entered into an agreement with Ventnor Capital Pty Ltd, a Company of which Mr John Hannaford is a Director, to provide the Company with company secretarial services, office accommodation and accounting services to the Company commencing from February 2014. A total amount of $157,606 (GST Inclusive) was paid to Ventnor Capital for the above services for the year ended 30 June 2015 (2014: $25,025). A total amount of $26,459 (GST Inclusive) was payable to Ventnor Capital at 30 June 2015 (2014: $19,764).

Loans to Key Management Personnel
No loans have been made to key management personnel, including their personally related parties, of Bone Medical Limited.

Voting and comments made at the Company's 2014 Annual General Meeting
Bone Medical Limited received more than 99% of "yes" votes on its remuneration report for the 2014 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

***********END OF AUDITED REMUNERATION REPORT***********

**LIKELY DEVELOPMENTS & EXPECTED RESULTS OF OPERATIONS**

Other than as disclosed elsewhere in this report, there are no likely developments in the operations of the Company that were not finalised at the date of this report.

**AUDITOR**

BDO Audit (WA) Pty Ltd continues in office in accordance with Section 327 of the *Corporation Act 2001*.

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* for the year ended 30 June 2015 has been received and can be found on page 18.

**PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought to or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

During the year, the auditors did not provide any non-audit services to the Group.

## SHARE OPTIONS

Shares under Option

At the date of this report there are 31,809,201 unissued shares under option outstanding.

| Date Granted | Expiry Date | Exercise Price | Number of shares under option |
|---|---|---|---|
| 28 November 2012 | 28 November 2015 | $0.664 | 5,800 |
| 13 January 2014 | 31 December 2016 | $0.04 | 25,803,401 |
| 13 January 2014 | 31 December 2016 | $0.03 | 6,000,000 |
| **Total** | | | **31,809,201** |

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

No ordinary shares were issued as a result of the exercise of share options during the current year (2014: nil).

Signed in accordance with a resolution of the Directors.

Robert Towner
Non-Executive Chairman

Perth
28 August 2015

## CORPORATE GOVERNANCE STATEMENT

Bone Medical Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company has adopted systems of control and accountability as the basis for the administration of corporate governance.

The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. The Corporate Governance Statement has been structured with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2014 Amendments 3rd edition to the extent that they are applicable to the Company.

Information about the Company's corporate governance practices at 30 June 2015 is set out below.

## THE BOARD OF DIRECTORS

The Board is ultimately accountable for the performance of the company and provides leadership and sets the strategic objectives of the company. It appoints all senior executives and assesses their performance on at least an annual basis. It is responsible for overseeing all corporate reporting systems, remuneration frameworks, governance issues, and stakeholder communications. Decisions reserved for the Board relate to those that have a fundamental impact on the company, such as material acquisitions and takeovers, dividends and buybacks, material profits upgrades and downgrades, and significant closures.

Management is responsible for implementing Board strategy, day-to-day operational aspects, and ensuring that all risks and performance issues are brought the Boards attention. They must operate within the risk and authorisation parameters set by the Board.

The Company's Constitution provides that the number of Directors shall not be less than three. There is no requirement for any shareholding qualification.

If the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the Company's activities will be determined within the limitations imposed by the Constitution and as circumstances demand.

Mr Robert Towner is Chair of the Board and is considered to be an independent director of the company.

The Board reviews its performance annually, as well as the performance of individual Committees and individual directors (including the performance of the Chairman as Chairman of the Board). The criteria for determining the identification and application of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities. The use of an external facilitator may be utilised periodically to assist in the review process. The review for the current financial year occurred in June and was led by the Chairman. The process included collective Board discussions and individual interviews conducted by the Chairman. The review of the Chairman's role was conducted by the rest of the Board.

The Board's skills matrix indicates the mix of skills, experience and expertise that are considered necessary at Board level for optimal performance of the Board. The matrix reflects the Board's objective to have an appropriate mix of industry and professional experience including skills such as leadership, governance, strategy, finance, risk, IT, HR, policy development, international business and customer relationship. External consultants may be brought it with specialist knowledge to address areas where this is an attribute deficiency in the Board.

CORPORATE GOVERNANCE STATEMENT

## THE BOARD OF DIRECTORS (CONTINUED)

Directors are initially appointed by the full Board, subject to election by shareholders at the next Annual General Meeting. Under the Company's Constitution the tenure of a Director (other than Managing Director, and only one Managing Director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for the year and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the appointment may be revoked on notice.

## COMMITTEES OF THE BOARD

In view of the size and resources available to the Company, it is not considered that a separate remuneration committee would add any substance to this process, as such the board as a whole acts in regards to the responsibilities of the Audit, Remuneration and Nomination Committees. For further information regarding the Remuneration Policy and Audit, Nomination and Remuneration Committee Charters visit the website www.bone-ltd.com.

The role of the Audit Committee is to:

- Monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgements;
- Review the Company's internal financial control systems and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems;
- Monitor and review the external audit function including matters concerning appointment and remuneration, independence and non-audit services; and
- Perform such other functions as assigned by law, the Company's constitution, or the Board.

The Nomination and Remuneration Committee may obtain independent advice on the appropriateness of remuneration packages.

The Board has established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards. The board encourages the external auditor to attend the Annual General Meeting to address any shareholder questions that may arise.

## INDEPENDENCE

Given the Company's present size and scope, it is currently not Company's policy to have a majority of independent Directors. Directors have been selected to bring specific skills and industry experience to the Company. The Board has an expansive range of relevant industry experience, financial, legal and other skills and expertise to meet its objectives. All current board members are independent Directors. Furthermore, the Chair of the board is a Non-Executive Director.

When determining the independent status of each Director the board has considered whether the Director:

- Is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company.
- Is employed, or has previously been employed in an executive capacity by the Company, and there has not been a period of at least three years between ceasing such an employment and serving on the board.
- Has within the last three years been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the services provided.
- Is a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
- Has a material contractual relationship with the Company other than as a Director.
- During the financial year both Mr John Hannaford and Mr Robert Towner had service contracts with the Company, which are considered no to impair their respective independence.

## APPOINTMENTS TO OTHER BOARDS

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

## INDEPENDENT PROFESSIONAL ADVICE

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to Directors' rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

## GENDER DIVERSITY

The Company has not adopted an express policy specifically addressing the achievement of gender diversity. Due to the current limited size of the Board, the Board does not consider it necessary to have a gender diversity policy, but will consider adopting a policy in the future. Furthermore, the Company has not set any objectives for achieving gender diversity. Should a gender diversity policy be considered appropriate for the Company in the future due to increases in size of the organisation, the policy will specifically deal with the objectives for achieving diversity.

The Company's corporate code of conduct provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace.

The Group currently has no female board members or senior executives.

## CONTINUOUS REVIEW OF CORPORATE GOVERNANCE

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as Directors of the Company. Such information must be sufficient to enable the Directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The Directors recognise that as a business that there are inherent risks and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

## CODE OF CONDUCT

The Company has adopted a Code of Conduct for Company executives that promote the highest standards of ethics and integrity in carrying out their duties to the Company.

The Code of Conduct can be found on the Company's website at www.bone-ltd.com.

## RISK MANAGEMENT SYSTEMS

The identification and management of risk, including calculated risk-taking activity is viewed by management as an essential component in creating shareholder value. Whilst there is currently no risk committee in accordance with recommendation 7.1 (a) the board as a whole is employed to oversee the Company's risk management framework as explained below.

Management is responsible for developing, maintaining and improving the Company's risk management and internal control system. A register of material business risks has been established, risks have been analysed and evaluated, risk management processes and controls are in place and reporting schedules developed. Management provides the board with periodic reports identifying areas of potential risks and the safeguards in place to efficiently manage material business risks. These risk management and internal control systems are in place to protect the financial statements of the entity from potential misstatement, and the Board is responsible for satisfying itself annually, or more frequently as required, that management has developed a sound system of risk management and internal control. A review has taken place during this reporting period.

**CORPORATE GOVERNANCE STATEMENT**

## RISK MANAGEMENT SYSTEMS (CONTINUED)

Strategic and operational risks are reviewed at least annually as part of the forecasting and budgeting process. The Company has identified and actively monitors risks inherent in the industry in which the Company operates.

The Board also receives a written assurance from the Chairman and Company Secretary that to the best of their knowledge and belief, the declaration provided to the Board in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control, and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the Chairman and Company Secretary can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in internal control procedures.

## SECURITY HOLDERS

Investors may inspect the company's governance and Shareholder Communications policies via the website www.bone-ltd.com which lay out the options to receive communications from, and send communications to, the entity and its security registry electronically.

## ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Board has reviewed its current practices in light of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2014 Amendments 3rd edition with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

The following table sets out the ASX Corporate Governance Guidelines with which the Company does not comply:

| | ASX Principle | Reference/comment |
|---|---|---|
| **Principle 1: Lay solid foundations for management and oversight** | | |
| 1.5 | The Board should establish a policy concerning diversity | The Company does not have an express policy specifically addressing the achievement of gender diversity. Due to the current limited size of the Board, the Board does not consider it necessary to have a gender diversity policy, but will consider adopting a policy in the future.<br><br>The Company's Corporate Governance Plan includes a corporate code of conduct, which provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace. |
| **Principle 1: Lay solid foundations for management and oversight** | | |
| 1.7 | A listed entity should:<br>a) have and disclose a process for periodically evaluating the performance of its senior executives; and<br>b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process | During the financial year there were no senior executives. The Company will develop a process for periodically evaluating senior executives and disclose periodically these evaluations when required. |

## CORPORATE GOVERNANCE STATEMENT

| | ASX Principle | Reference/comment |
|---|---|---|
| **Principle 2: Structure of the board to add value** | | |
| 2.1 | The Board should establish a nomination committee | The Board has no formal nomination committee. Acting in its ordinary capacity from time to time as required, the Board carries out the process of determining the need for, screening of and appointing of new Directors under a specific charter. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to this process.. |
| **Principle 4: Safeguard integrity in corporate reporting** | | |
| 4.1 | The Board should establish an audit committee | The Board has no formal audit committee. Acting in its ordinary capacity from time to time as required, and under a specific charter the Board carries out the process for ensuring the safeguard the integrity of its corporate reporting, including the process of appointing and removing and external auditor and the rotation of the audit engagement partner. In view of the size and resources available to the Company, it is not considered that a separate audit committee would add any substance to this process. |
| **Principle 8: Structure of the board to add value** | | |
| 8.1 | The Board should establish a remuneration committee | The Board has no formal remuneration committee. Acting in its ordinary capacity from time to time as required, and under a specific charter the Board carries out the process for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive In view of the size and resources available to the Company, it is not considered that a separate remuneration committee would add any substance to this process. |

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DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF BONE MEDICAL LTD

As lead auditor of Bone Medical Ltd for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bone Medical Ltd and the entities it controlled during the period.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 28 August 2015

**BONE MEDICAL LIMITED**
**ACN: 009 109 755**

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2015

| | Note | 2015 $ | 2014 $ |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Debt forgiveness | 5 | - | 100,663 |
| Finance revenue | 4 | 43,090 | 16,844 |
| **Total revenue** | | **43,090** | **117,507** |
| | | | |
| Employee benefits expense | 7 | (146,728) | (174,614) |
| Finance charges expense | | (1,027) | (1,321) |
| Finder fee | 6 | - | (150,000) |
| Foreign exchange losses | 6 | (14,133) | (30,476) |
| Other expenses | | (102,482) | (82,307) |
| Professional consultant expense | | (306,169) | (252,859) |
| **Total expenses** | | **(570,539)** | **(691,577)** |
| | | | |
| **Loss before income tax expense** | 6 | **(527,449)** | **(574,070)** |
| | | | |
| Income tax benefit | 8 | - | - |
| | | | |
| **Loss after income tax for the year on continuing operations** | | (527,449) | (574,070) |
| | | | |
| Loss for the year from discontinued operations | 26 | (487,092) | (556,966) |
| | | | |
| **Loss after income tax for the year ended** | | **(1,014,541)** | **(1,131,036)** |
| | | | |
| Other Comprehensive Income for the year: | | | |
| | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Other Comprehensive income for the period, net of tax | | - | - |
| **Total Comprehensive Loss for the year attributed to members of Bone Medical Limited continued operations** | | (1,014,541) | (1,131,036) |
| | | | |
| Loss per share for the year attributable to members of Bone Medical Limited: | | | |
| | | | |
| Basic and diluted loss per share – from continuing operations(cents) | 18 | (0.20) | (0.46) |
| Basic and diluted loss per share – from discontinued operations(cents) | 18 | (0.19) | (0.45) |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

**BONE MEDICAL LIMITED**
**ACN: 009 109 755**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

| | Note | 2015 $ | 2014 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash & cash equivalents | 9 | 1,308,734 | 2,512,591 |
| Trade and other receivables | 10 | 11,831 | 40,778 |
| **Total Current Assets** | | **1,320,565** | **2,553,369** |
| **Total Assets** | | **1,320,565** | **2,553,369** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | 66,658 | 163,251 |
| Trade and other payables – discontinued operations | 26 | 24,925 | 146,595 |
| **Total Current Liabilities** | | **91,583** | **309,846** |
| **Total Liabilities** | | **91,583** | **309,846** |
| **Net Assets** | | **1,228,982** | **2,243,523** |
| **EQUITY** | | | |
| Contributed equity | 13 | 25,657,926 | 25,657,926 |
| Reserves | 14 | 1,780,391 | 1,780,391 |
| Accumulated losses | 14 | (26,209,335) | (25,194,794) |
| **Total Equity** | | **1,228,982** | **2,243,523** |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

| | Note | Contributed Equity $ | Accumulated Losses $ | Other Reserves $ | Translation Reserve $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2013** | | **21,372,360** | **(24,063,758)** | **190,222** | **-** | **(2,501,176)** |
| **Total comprehensive loss for the year** | | | | | | |
| Loss for the year – continuing operations | | - | (574,070) | - | - | (574,070) |
| Loss for the year – discontinued operations | | | (556,966) | | | (556,966) |
| Total other comprehensive income | | - | - | - | - | - |
| Total comprehensive loss for the year | | - | (1,131,036) | - | - | (1,131,036) |
| **Transaction with equity holders:** | | | | | | |
| Ordinary shares issued net of costs | 13 | 4,285,566 | - | - | - | 4,285,566 |
| Options issued during the year | 14 | - | - | 1,590,169 | - | 1,590,169 |
| **Balance at 30 June 2014** | | **25,657,926** | **(25,194,794)** | **1,780,391** | **-** | **2,243,523** |
| **Balance at 1 July 2014** | | **25,657,926** | **(25,194,794)** | **1,780,391** | **-** | **2,243,523** |
| **Total comprehensive loss for the year** | | | | | | |
| Loss for the year – continuing operations | | - | (527,449) | - | - | (527,449) |
| Loss for the year – discontinued operations | | - | (487,092) | - | - | (487,092) |
| Total other comprehensive income | | - | - | - | - | - |
| Total comprehensive loss for the year | | - | (1,014,541) | - | - | (1,014,541) |
| **Balance at 30 June 2015** | | **25,657,926** | **(26,209,335)** | **1,780,391** | **-** | **1,228,982** |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

BONE MEDICAL LIMITED
ACN: 009 109 755

## CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2015

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | $ | $ |
| **CASHFLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest received | | 56,343 | 3,591 |
| Other working capital | | (477,777) | (509,039) |
| Austinvest settlement | | (122,750) | - |
| Net cash from continuing operations | | **(544,184)** | **(505,448)** |
| Net cash (used in) discontinued operations | 26 | (659,673) | (784,920) |
| **Net cash used in operating activities** | 19 | **(1,203,857)** | **(1,290,368)** |
| **CASHFLOWS FROM FINANCING ACTIVITIES** | | **-** | **-** |
| **CASHFLOWS FROM FINANCING ACTIVITIES** | | | |
| Capital raising costs | | - | (247,331) |
| Proceeds from borrowings | | - | 342,289 |
| Proceeds from issue of shares & other equity securities | 13 | - | 3,821,500 |
| Repayment of borrowings | | - | (114,969) |
| **Net cash provided by financing activities** | | **-** | **3,801,489** |
| Net increase/(decrease) in cash held | | (1,203,857) | 2,511,121 |
| Cash and cash equivalents at beginning of financial year | | 2,512,591 | 1,470 |
| **Cash and cash equivalents at end of financial year** | 9 | **1,308,734** | **2,512,591** |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

## NOTE 1: REPORTING ENTITY

Bone Medical Limited (the “Company”) is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2015 comprises the Company and its subsidiaries (collectively referred to as the “Group”).

A description of the nature of the Company’s operations and its principal activities is included in the Directors’ Report which does not form part of this financial report.

## NOTE 2: BASIS OF PREPARATION

This General Purpose Financial Report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (including Australian Interpretations) and the *Corporations Act 2001*.

The Financial Statements and Notes of the Company comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Financial Statements and Notes comply with International Financial Reporting Standards.

Bone Medical Limited is a company limited by shares. The financial report is presented in Australian currency. Bone Medical Limited is a for-profit entity.

This Financial Report was approved by the Board of Directors on 28 August 2015.

<u>Financial Position</u>

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has generated a comprehensive loss after tax for the year ended 30 June 2015 of $1,014,541 (2014: loss of $1,131,036), had a net working capital surplus of $1,228,982 at 30 June 2015 (2014: surplus of $2,243,523) and experienced net cash outflows from operating activities for the year of $1,203,857 (2014: $1,290,368). The Company’s cash position at 30 June 2015 was $1,308,734 (2014: $2,512,591).

Accordingly, the Directors believe that there are sufficient funds to meet the Group’s working capital requirements.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and have confidence in the Company’s ability to raise additional funds if required.

<u>Historical cost convention</u>

These financial statements have been prepared under the historical cost convention.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Principles of Consolidation

***Subsidiaries***

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bone Medical Limited (parent entity) as at 30 June 2015 and the results of all subsidiaries for the year then ended. Bone Medical Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of Bone Medical Limited.

### (b) Segment Reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Board of directors. The Board, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic steering committee.

### (c) Foreign Currency Transactions and Balances

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars which is Bone Medical Limited's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Foreign Currency Transactions and Balances (Continued)

- Assets and liabilities for each reporting date presented are translated at the closing rate at the date of that statements of financial position;
- Income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the Profit and Loss, as part of the gain or loss on sale where applicable.

### (d) Revenue Recognition

Interest income is recognised on a time proportion basis using the effective interest method. All revenue is stated net of the amount of goods and services tax (GST).

### (e) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met.

Government grants relating to costs are deferred and recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

### (f) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Income Tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Bone Medical Limited has not elected to consolidate the Group under the Tax Consolidation Regime, however, the Company may elect to do so in the future.

### (g) Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### (h) Cash and Cash Equivalents

For statements of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statements of financial position.

### (i) Financial Assets

*(i) Classification*

The only type of financial assets held by the Group is loans and receivables.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included within trade and other receivables (Note 10) in the consolidated statement of financial position.

*(iii) Recognition and de-recognition*

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Financial Assets (Continued)

*(iv) Subsequent measurement*

Loans and receivables are carried at amortised cost using the effective interest method.

*(v) Impairment*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

### (j) Intangibles

*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

*(ii) Research and development costs*

Research expenditure is recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure that does not meet these criteria are recognised as an expense incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

*(iii) Patent development expenses written off*

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

### (k) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are recognised initially at fair value and subsequently at amortised cost. The amounts are unsecured.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest income.

### (m) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

*(i) Share based payments*

The group issues share-based compensation by way of options. The grant of shares and options is recognised as an expense in the Statement of Profit and Loss and Other Comprehensive Income. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

### (n) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

### (o) Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statements of financial position are stated inclusive of the amount of GST receivable or payable. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statements of financial position.

### (q) Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### (r) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

### (s) Parent Entity Information

The financial statements for the parent entity, Bone Medical Limited, disclosed in Note 20 have been prepared on the same basis as the consolidated financial statements.

### (t) Profit or loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale

Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the statement of profit or loss and other comprehensive income. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale, is further analysed in Note 26.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Critical Accounting Estimates and Significant Judgments

The directors evaluate estimates and judgments incorporated in the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*(i) Deferred tax assets*

The Group expects to have carried forward tax losses which have not been recognised as deferred tax assets as it is not considered sufficiently probable that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

*(ii) Patent and development costs*

Non capitalisation of patent costs and development costs – Due to the high element of risk & uncertainty associated with the development of pharmaceutical products the Group elects to expense all patent costs and all development costs. This is consistent with other companies in the Biotech industry in the same stage of development as Bone Medical Limited.

*(iii) Impairment*

The investments held by the parent entity in its subsidiaries continue to be impaired as of 30 June 2015 as the board has acknowledged it yet to commercialise the company's projects and the decision was previously made to write down the assets carrying value.

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

### (v) New accounting standards and interpretations

In the year ended 30 June 2015, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting year.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change is necessary to Group accounting policies.

### (w) Standards and Interpretations not yet adopted

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2015. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change necessary to Group accounting policies.

**AASB 9** ***Financial Instruments***

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The effective date is for annual reporting periods beginning on or after 1 January 2018.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) Standards and Interpretations not yet adopted (continued)

*The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.*

**AASB 15** ***Revenue from Contracts with Customers***

AASB 15 replaces AASB 118: Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. In summary, AASB 15:

- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time at a point in time;
- provides a new and more detailed fuidance on specific topics (eg multiple element arrangements, variable pricing, rights of return and warranties); and
- expands and improves disclosures about revenue.

*The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2018.*

## NOTE 4: FINANCE REVENUE

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Finance Revenue** | | |
| Interest revenue | 43,090 | 16,844 |
| **Total Finance Revenue** | **43,090** | **16,844** |

## NOTE 5: FORGIVENESS OF DEBTS (OTHER INCOME)

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Forgiveness of Debts** | | |
| Forgiveness of Payables | - | 778,064 |
| Forgiveness of La Jolla Convertible Note | - | 275,648 |
| Forgiveness of debts reclassified as discontinued operations[1] | - | (953,049) |
| **Total Forgiveness of Debts** | **-** | **100,663** |

[1] Debt forgiveness which relates to discontinued operations has been reclassified, see Note 26 for details

## NOTE 6: EXPENSES

Loss before Income Tax includes the following specific expenses:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Foreign exchange losses | 14,133 | 30,476 |
| Directors and management | 146,728 | 106,764 |
| Finder fee share issue | - | 150,000 |

## NOTE 7: EMPLOYEE BENEFITS

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Wages, salaries and superannuation | 135,444 | 174,614 |
| Employee entitlements: | 11,284 | - |
| Share based payments – CEO options(1) | - | - |
| **Total employee benefits** | **146,728** | **174,614** |

(1) The valuation of the issue of CEO Options is disclosed in Note 15: Share Based Payments. These have been reclassified in the June 2015 financial report as part of discontinued operations. Furthermore the CEO wages were also reclassified. See detail of Note 26.

## NOTE 8: INCOME TAX

| **(a) Income tax expense** | **2015 $** | **2014 $** |
|---|---|---|
| Current tax benefit[(1)] | - | - |
| Income tax benefit | - | - |

[(1)] Tax benefit received during the year and prior year related to Research and Development which has been classified under discontinued operations in Note 26

### (b) Reconciliation of tax expense to net profit before tax

| | | |
|---|---|---|
| Loss before tax | (1,014,541) | (1,231,319) |
| Tax at the statutory rate of 30% (2014: 30%): | (304,362) | (369,396) |
| Non-deductible expenses | - | 180,000 |
| Expenditure deductible for tax purposes | (14,840) | (14,840) |
| Effect of tax losses and tax offsets not recognised as deferred tax assets | 319,202 | 204,236 |
| Income tax benefit | - | - |

### (c) Unrecognised deductible temporary differences

| | | |
|---|---|---|
| Tax losses | 6,551,923 | 6,329,164 |
| | **6,551,923** | **6,329,164** |

No deferred tax asset is recognised in the statements of financial position as it is not probable that the Group will derive tax profits in the future to allow utilisation of the income tax benefits represented by the deferred tax asset. If tax profits are derived in future years, the tax losses and other tax benefits will be able to be offset against this income subject to the Company continuing to meet the relevant statutory tests.

## NOTE 9: CASH AND CASH EQUIVALENTS

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Reconciliation to Statement of Financial Position** | | |
| Cash at bank | 1,308,734 | 2,512,591 |
| Total cash and cash equivalents(1) | **1,308,734** | **2,512,591** |

(1) Cash at bank is subject to floating interest rates at an effective interest rate of 1.30% (2014: 0.34%).

The Company's exposure to interest rate risks on cash and cash equivalents is detailed in Note 18.

### (a) Reconciliation of Cash

Cash at the end of the financial year as shown in the Consolidated Statement of Cash Flows is reconciled to items in the Consolidated Statement of Financial Position as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Total cash and cash equivalents | **1,308,734** | **2,512,591** |

## NOTE 10: TRADE AND OTHER RECEIVABLES

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Current | | |
| Other receivables: | | |
| Interest receivable | - | 13,253 |
| Other receivables(1) | 10,071 | 16,276 |
| Prepaid expenses(2) | 1,760 | 11,249 |
| Total trade and other receivables (net of GST) | **11,831** | **40,778** |

(1) Other receivables are non-trade receivables, are non-interest bearing and have an average term of 3 months and generally receivable from the ATO for GST.

(2) Prepaid expenses relate to expenditure which have been pre-paid at year end and settle within 12 months.

The above amounts do not bear interest and their carrying amount is equivalent to their fair value.

No trade and other receivables were impaired during the current year (2014: nil).

The Group's exposure to credit and market risks related to trade and other receivables are disclosed in Note 17.

## NOTE 11: INTANGIBLE ASSETS

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Cost of Goodwill | - | 1,956,599 |
| Write off of Goodwill | - | (1,956,599) |
| Net carrying value | **-** | **-** |

The board has recognised that the Company's technologies have yet to be successfully exploited across the range of projects, thus the decision was previously made to write down the asset's carrying value in accordance with the requirements of AASB 136 *Impairment of Assets*.

## NOTE 12: TRADE AND OTHER PAYABLES

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Current: | | |
| Trade payables (1) | 33,388 | 133,658 |
| Sundry payables & accrued expenses | 33,270 | 29,593 |
| | **66,658** | **163,251** |

(1) Trade payables are non-interest bearing and are normally settled on 30-day terms. The amount is net of the $24,925 as at June 2015 (2014: $146,595) owing as part of discontinued operations, see Note 26 for detail.

## NOTE 13: CONTRIBUTED EQUITY

| | No. | $ |
|---|---|---|
| **(a) Issued and Paid Up Capital** | | |
| Fully paid ordinary shares | **257,796,569** | **25,657,926** |
| | | |
| **(b) Movements in fully paid shares on issue** | | |
| Balance as at 1 July 2014 | 257,769,569 | 25,657,926 |
| **Balance as at 30 June 2015** | **257,796,569** | **25,657,926** |
| | | |
| **(c) Issued Options** | | |
| Unlisted Options | **31,881,912** | **1,780,391** |
| | | |
| **(d) Movements in options on issue** | | |
| Balance as at 1 July 2014 | **32,039,035** | **1,780,391** |
| Less: Expiry of Unlisted Options on 9 July 2014 | (128,903) | - |
| Less: Expiry of Unlisted Options on 21 October 2014 | (20,000) | - |
| Less: Expiry of Unlisted Options on 6 June 2015 | (8,220) | - |
| **Balance as at 30 June 2015** | **31,881,912** | **1,780,391** |

20,000 unlisted options exercisable at 66.4 cents and 52,711 unlisted options exercisable at $5.00 subsequently expired on 2 July 2015.

## NOTE 13: CONTRIBUTED EQUITY (CONTINUED)

| | No. | $ |
|---|---|---|
| **(a) Issued and Paid Up Capital** | | |
| Fully paid ordinary shares | **257,796,569** | **25,657,926** |
| | | |
| **(b) Movements in fully paid shares on issue** | | |
| Balance as at 1 July 2013 | 1,024,663,823 | 21,372,360 |
| Issue of EMT Management Settlement Shares @ $0.001 per Share | 52,000,000 | 52,000 |
| Issue of Placement Shares @ $0.0004 per Share | 8,750,000,000 | 3,500,000 |
| Issue of Oversubscribed Placement Shares @ $0.0004 per Share | 803,750,000 | 321,500 |
| Issue of Converting Loan Shares @ $0.0002 per Share | 1,000,000,000 | 200,000 |
| Issue of Debt Conversion Shares @ $0.001 per Share | 859,310,671 | 859,310 |
| Issue of La Jolla Shares @ $0.001 per Share | 250,085,646 | 250,086 |
| Issue of Finder's Fee Shares @ $0.001 per Share(1) | 150,000,000 | 150,000 |
| Less: 50:1 Consolidation | (12,632,013,571) | - |
| Less: Capital Raising Costs | - | (1,047,330) |
| **Balance as at 30 June 2014** | **257,796,569** | **25,657,926** |
| | | |
| **(c) Issued Options** | | |
| Unlisted Options | **32,039,035** | **1,780,391** |
| | | |
| **(d) Movements in options on issue** | | |
| Balance as at 1 July 2013 | 13,081,368 | 190,222 |
| Issue of Debt Conversion Options (1) | 340,169,461 | 340,169 |
| Issue of Proponent Options (1) | 500,000,000 | 500,000 |
| Issue of Bridge Options (1) | 300,000,000 | 300,000 |
| Issue of CEO Options (1) | 450,000,000 | 450,000 |
| Less: Expiry of Unlisted Options on 27 November 2013 | (300,000) | - |
| Less: 50:1 Consolidation | (1,570,891,794) | - |
| Less: Expiry of Unlisted Options on 1 March 2014 | (20,000) | - |
| **Balance as at 30 June 2014** | **32,039,035** | **1,780,391** |

(1) The valuation of the issue of these securities is disclosed in Note 15: Share Based Payments.

128,903 unlisted options exercisable at $10.00 each subsequently expired on 9th July 2014.

**Ordinary Shares**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

## NOTE 13: CONTRIBUTED EQUITY (CONTINUED)

### Capital Risk Management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to progress development of its technologies toward commercialisation, so as to provide returns to shareholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The Group monitors capital on the basis of available working capital. The Group relies upon investment funding and equity raising in order to meet its working capital requirements so it may develop its technologies to a stage whereby future commercial benefits can be derived.

## NOTE 14: RESERVES & ACCUMULATED LOSSES

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Option reserve | 54,126 | 54,126 |
| Share based payments reserve | 1,726,265 | 1,726,265 |
| | **1,780,391** | **1,780,391** |
| **Option reserve** | | |
| Balance at beginning of year | 54,126 | 54,126 |
| Balance at end of year | **54,126** | **54,126** |
| **Share based payments reserve** | | |
| Balance at beginning of year | 1,726,265 | 136,096 |
| Issue of debt Conversion Options | - | 340,169 |
| Issue of Proponent Options | - | 500,000 |
| Issue of Bridge Options | - | 300,000 |
| Issue of CEO options | - | 450,000 |
| Expiry options 9 July 2014 | - | - |
| Expiry Options 21 October 2014 | - | - |
| Expiry Options 6 June 2015 | - | - |
| Balance at end of year | **1,726,265** | **1,726,265** |

### Option Reserve

The option reserve includes the following:

- Options issued in exchange for cash.

### Share Based Payments Reserve

The share based payments includes the following:

- Items recognised as expenses on valuation of employee and director share options but not exercised.
- Options issued to non-related parties in exchange for cash or services but not yet exercised.

## NOTE 14: RESERVES & ACCUMULATED LOSSES (CONTINUED)

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Accumulated Losses** | | |
| Movements in accumulated losses were as follows: | | |
| Balance at beginning of year | (25,194,794) | (24,063,758) |
| Net loss for the year – continuing operations | (527,449) | (674,733) |
| Net loss for the year – discontinued operations | (487,092) | (456,303) |
| **Balance at end of year** | **(26,209,335)** | **(25,194,794)** |

## NOTE 15: SHARE BASED PAYMENTS

**Expenses arising from share-based payment transactions**
Total expenses arising from share-based payment transactions recognised during the year were as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Share-based payments: | | |
| **Expensed in the Consolidated Statement of Profit or Loss** | | |
| Consulting and contracting expenses | | |
| 150,000,000 (pre-consolidation) Ordinary shares issued as finder's fees[(1)] | - | 150,000 |
| Employee expenses | | |
| 450,000,000 (pre-consolidation) Unlisted Options issued to the CEO | - | 450,000 |
| **Total** | **-** | **600,000** |
| **Recognised Directly in Equity** | | |
| Consulting and contracting expenses | | |
| 300,000,000 (pre-consolidation) Unlisted Options issued to consultants | - | 300,000 |
| 500,000,000 (pre-consolidation) Unlisted Options issued to consultants | - | 500,000 |
| Other | | |
| 340,1691461 (pre-consolidation) Unlisted Options to debt conversion creditors | - | 340,169 |
| **Total** | - | 1,140,169 |
| **Total Share Based Payments** | **-** | **1,740,169** |

(1) Valued at the closing ASX quoted price on the date of shareholder approval, being 0.1 cent on 13 January 2014.

There was no movement of options issued under share based payment reserve during the current period.

## NOTE 15: SHARE BASED PAYMENTS (CONTINUED)

During the year no options were exercised to take up ordinary shares. As at the year end the Company had a total of 31,881,912 (2014: 32,039,035) unissued ordinary shares on which options are outstanding with a weighted average exercise price of 4.7 cents (2014: 9 cents). Exercise prices are $0.03 to $5 in respect to options outstanding at 30 June 2015. (2014: $0.03 to $10.00)

The weighted average remaining contractual life of all share options outstanding at the end of the year is 1.50 years (2014: 2.49 years).

## NOTE 16: RELATED PARTY TRANSACTIONS

### (a) Parent Entities

The parent entity of the Group is Bone Medical Limited. The ultimate Australian parent entity in the group is Bone Medical Limited which at 30 June 2015 owns 100% of the issued ordinary shares of Owein Pty Ltd (incorporated in Australia and 100% of the issued ordinary shares of Bone Limited (incorporated in Jersey, Channel Islands).

### (b) Subsidiaries

Interests in subsidiaries are set out in Note 23 Subsidiaries**.**

### (c) Loans Due to Subsidiaries

Loans between entities in the wholly owned Group are not interest bearing are payable upon demand.

### (d) Key Management Personnel Compensation

Information on remuneration of all Directors and Key Management Personnel is contained in the Remuneration Report within the Directors' Report. Please refer to page 10 of the Directors' Report for Key Management Personnel remuneration information.

The aggregated compensation paid to Directors and Key Management Personnel of the Group is as follows:

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| Short term employee benefits | 135,444 | 238,615 |
| Post-employment benefits | 11,284 | 3,850 |
| Share based payments | - | 450,000 |
| **Total** | **146,728** | **692,465** |

### (e) Loans to Key Management Personnel

No loans have been made to key management personnel, including their personally related parties, of Bone Medical Limited.

## NOTE 16: RELATED PARTY TRANSACTIONS (CONTINUED)

### (f) Other transactions with Key Management Personnel

Transactions with other related parties are made on normal commercial terms and conditions and at market rates.

i. *Proxima Laboratory & Research Services Limited: (Dr Roger New – Non-Executive Director)*

The contract with Proxima Laboratory & Research Services Limited of which Dr Roger New is a Director, is for the supply of research, laboratory & management services to the Company. Dr New is a director of both Bone Limited & Bone Medical Limited.

A total of $324,928 was paid in cash to this entity for the year ended 30 June 2015 (2014: $250,457). No amounts were payable to Proxima Laboratory & Research Services Limited at 30 June 2015 (2014: $nil).

*ii. Proxima Concepts Limited: (Dr Roger New – Non-Executive Director)*

Proxima Concepts Limited of which Dr Roger New is a Director provided licencing services in relation to the Axcess technology. Dr New is a Director of both Bone Limited & Bone Medical Limited.

A total of $19,498 was paid in cash to this entity for the year ended 30 June 2015 (2014: $26,121). No amounts were payable to Proxima Concepts Limited at 30 June 2015 (2014: $3,255).

*iii. Cornerstone Corporate Pty Ltd (Mr Robert Towner – Non-Executive Chairman)*

The Company entered into an agreement with Cornerstone Corporate to provide corporate administration services to the Company commencing from 1st February 2014. A total amount of $60,863 (GST Inclusive) was paid to Cornerstone Corporate for advisory services for the year ended 30 June 2015 (2014: $13,200). A total amount of $3,000 (GST Exclusive) was payable to Cornerstone Corporate at 30 June 2015 (2014: $3,300).

*iv. Ventnor Capital Pty Ltd (Mr John Hannaford – Non-Executive Director)*

The Company entered into an agreement with Ventnor Capital Pty Ltd, a Company of which Mr John Hannaford is a Director, to provide the Company with company secretarial services, office accommodation and accounting services to the Company commencing from February 2014. A total amount of $157,606 (GST Inclusive) was paid to Ventnor Capital for the above services for the year ended 30 June 2015 (2014: $25,025). A total amount of $26,459 (GST Inclusive) was payable to Ventnor Capital at 30 June 2015 (2014: $19,764).

### (g) Loans to Key Management Personnel

No loans have been made to key management personnel, including their personally related parties, of Bone Medical Limited.

## NOTE 17: FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to a variety of financial risks: market risk (including interest rate risk, currency risk, credit risk and liquidity risk). The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. Risk management is carried out by the Board of Directors.

**Financial Risk**

The main risks the Group is exposed to through financial instruments are market risk (including currency risk, interest rate risk, price risk), liquidity risk, and credit risk.

The Group and the parent entity hold the following financial instruments:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 1,308,734 | 2,512,591 |
| Other receivables | 11,831 | 40,778 |
| | **1,320,565** | **2,553,369** |
| **Financial liabilities** | | |
| Trade and other payables | 91,538 | 309,846 |
| **Total financial liabilities at amortised cost** | **91,538** | **309,846** |

**(a) Market Risk**

(i) *Foreign Exchange Risk*

The group operates internationally and is exposed to foreign exchange risk arising mainly from its exposure to the British pound and United States dollar. The Group may also be exposed to one-off transactional flows which occur on an ad hoc basis in other foreign exchange currencies.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency, and changes in value of convertible note liability and convertible note derivative. The risk is measured using sensitivity analysis and cashflow forecasting. The Group does not hedge any foreign exchange risks.

Foreign exchange risk is managed by the Board with an overall responsibility to minimising its effect on the expenditure of the Group.

*Group Sensitivity*

Based on the financial instruments held at 30 June 2015, had the Australian dollar weakened/strengthened by 10% against the USD and GBP, the effect to the Group's and Parent's Statement of Profit or Loss and Other Comprehensive Income ('SPLOCI') for the year is shown in the table below. This is based on management's assessment of current and future market conditions given the possibility that the AUD may increase/decrease by 10% against GBP and/or USD in the current financial year.

The carrying amounts of the group and parent entity's financial assets and liabilities are all denominated in Australian dollars.

## NOTE 17: FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Cash flow interest rate risk

The Group's main interest rate risk arises from interest bearing cash deposits.

As at reporting date the Group had the following variable rate contingent deferred licence fee liability:

| | 30 June 2015 | | 30 June 2014 | |
|---|---|---|---|---|
| | Weighted average interest rate % | GBP | Weighted average interest rate % | GBP |
| Contingent Licensing Fee[1] | - | - | 2.52% | £850,856 |

[1] This Licencing Fee is no longer a liability of the Company as at 30 June 2015, as it was part of the discontinued operations which were exited in November 2014.

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

| 2015 | Weighted Average Effective Interest Rate | Balance |
|---|---|---|
| **Financial Assets** | | AUD |
| Cash & cash equivalents | 1.30% | 1,308,734 |
| **Total Financial Assets** | | **1,308,734** |
| **Contingent Financial Liabilities** | | GBP |
| Contingent Financial Liabilities | - | - |
| **Total Contingent Financial Liabilities** | | **-** |

| 2014 | Weighted Average Effective Interest Rate | Balance |
|---|---|---|
| **Financial Assets** | | AUD |
| Cash & cash equivalents | 3.61% | 2,512,591 |
| **Total Financial Assets** | | **2,512,591** |
| **Contingent Financial Liabilities** | | GBP |
| Contingent Financial Liabilities | 2.52% | £850,856 |
| **Total Contingent Financial Liabilities** | | **£850,856** |

The Group invests surplus cash in at call or term deposit accounts with internationally recognised financial institutions. Interest rate risk is managed by the selection of term deposit interest rates and terms that reflect management's market expectations, to terms not exceeding 12 months. Funds are only held at call when it is reasonably expected that those amounts will be required prior to existing term deposits reaching maturity.

*Group Sensitivity*

If the weighted average interest rates had changed on the instruments in the above tables by plus/minus 75 basis points the effect to the Groups post-tax loss for the year would have been $9,815 lower/higher (2014: $11,538 lower/higher).

## NOTE 17: FINANCIAL RISK MANAGEMENT (CONTINUED)

The method used to arrive at the possible change of 75 basis points was conservatively based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, there was a bias towards a decrease in interest rate ranging between 0 to 50 basis points. It is considered that 75 basis points is a 'reasonably possible' estimate as it more than accommodates for the maximum variations inherent in the interest rate movement over the past five years.

### (b) Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as receivables for subsidiaries. The Board manages credit risk by ensuring that the banks and financial institutions where cash and deposits are held are independently rated parties with a minimum rating of 'A'.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 42. The credit quality of financial assets that are neither past due or impaired can be assessed by reference to historical information about counterparty default risk. All financial assets are with customers with no history of default and have been customers for greater than six months.

### (c) Liquidity Risk and Liquidity Risk Management

Prudent liquidity risk management implies maintaining sufficient cash to support the activities of the Company. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows.

The Board monitors rolling forecasts of the Company's liquidity on the basis of expected cash flow.

*Maturities of financial liabilities*

The tables below analyse the Group's and the parent entity's financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 6 months | 6 - 12 months | Greater than 12 months | Total contractual Cashflows | Carrying Amount |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Group - At 30 June 2015** | | | | | |
| Financial liabilities | 91,583 | - | - | 91,583 | 91,583 |
| **Group - At 30 June 2014** | | | | | |
| Financial liabilities | 226,942 | 82,904 | - | 309,846 | 309,846 |

### (d) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

## NOTE 17: FINANCIAL RISK MANAGEMENT (CONTINUED)

**(d) Fair Value Estimation (Continued)**

Estimated discounted cash flows are used to determine the fair value of unlisted investments in subsidiaries. The carrying value of payables is a reasonable approximation of their fair values due to the short-term nature. There are no financial instruments carried at fair value.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Quotes prices in active markets for identical assets and liabilities (level 1)

(b) Inputs other than quotes prices included within level 1 that are observable for the asset of liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The company repaid and settled the convertible note liability during the 2014 financial year (2014: $nil, level 2).

## NOTE 18: LOSS PER SHARE

| | 2015 $ | 2014 $ |
|---|---|---|
| **Continuing operations** | | |
| Basic and diluted profit & (loss) per share – cents | (0.20) | (0.46) |
| Loss used in the calculation of basic and diluted loss per share | (527,449) | (574,070) |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic loss per share | 257,796,569 | 124,405,219 |
| Weighted average number of ordinary shares outstanding during the year used in calculation of diluted loss per share | 257,796,569 | 124,405,219 |

Options outstanding during the year have not been taken into account in the calculation of the weighted average number of ordinary shares as they are considered anti-dilutive.

| | 2015 $ | 2014 $ |
|---|---|---|
| **Discontinued operations** | | |
| Basic and diluted profit & (loss) per share – cents | (0.19) | (0.45) |
| Loss used in the calculation of basic and diluted loss per share | (487,092) | (566,966) |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic loss per share | 257,796,569 | 124,405,219 |
| Weighted average number of ordinary shares outstanding during the year used in calculation of diluted loss per share | 257,796,569 | 124,405,219 |

Options outstanding during the year have not been taken into account in the calculation of the weighted average number of ordinary shares as they are considered anti-dilutive.

## NOTE 19: OPERATING CASH FLOW INFORMATION

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Reconciliation of Profit / Loss for the Year to Net Cash Flows used in Operations** | | |
| Loss for the year | (1,014,541) | (1,131,036) |
| Adjustments for: | | |
| Non-cash finance costs | - | (24,502) |
| Share based payments | - | 600,000 |
| Forgiveness of Debts | - | (1,053,712) |
| Changes in assets and liabilities: | | |
| (Increase) / decrease in trade and other receivables | 19,458 | 683 |
| Increase / (decrease) in trade and other payables | (218,263) | 328,470 |
| Increase / (decrease) in prepayments | 9,489 | |
| Net cash flows used in operations | **(1,203,857)** | **(1,290,368)** |

## NOTE 20: PARENT ENTITY DISCLOSURES

As at 30 June 2015, and throughout the year then ended, the parent company of the Group was Bone Medical Limited.

| | Company<br>2015<br>$ | Company<br>2014<br>$ |
|---|---|---|
| Current Assets | 1,320,565 | 2,553,369 |
| Total Assets | 1,320,565 | 2,553,369 |
| Current Liabilities | 1,949,949 | 2,168,211 |
| Total Liabilities | 1,949,949 | 2,168,211 |
| Share Capital | 13,043,623 | 13,043,623 |
| Options Reserve | 1,780,391 | 1,780,391 |
| Accumulated Losses | (14,438,856) | (13,307,820) |
| Loss of the Parent Entity | (1,014,541) | (1,131,036) |

## NOTE 20: PARENT ENTITY DISCLOSURES (CONTINUED)

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Unlisted Investments at Cost** | $ | $ | $ | $ |
| Shares in controlled entities- Bone Medical Inc. | - | - | - | - |
| Shares in controlled entities – Owein Pty Ltd | - | - | 1,426,850 | 1,426,850 |
| Less : impairment provision | - | - | (1,426,850) | (1,426,850) |
| Shares in controlled entities – Bone Ltd | - | - | 28,948,708 | 28,948,708 |
| Less : impairment provision | - | - | (28,948,708) | (28,948,708) |
| | - | - | - | - |

The Company acknowledges that it is yet to commercialise the Company's technologies, and thus a decision was made to write down the asset's carrying value.

## NOTE 21: SEGMENT INFORMATION

AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes by the chief operating decision maker.

Up until November 2014 the Company was still in the research and development phase of operations, it was yet to commercialise its projects and therefore had no major customers in the reportable segment. During the months of November through to June expenditure was incurred in relation to the Takor acquisition which has been disclosed separately in the segment note below. The company's primary operations, financial reporting and stock market quotation is in Australia.

The Group's chief operation decision makers have been identified as the Board of Directors. Operating segments are reported in a manner that is consistent with the internal reporting provided to the Board of directors.

The Board of Directors reviews the financial and operating performance of the primarily from a Transactional, Research and Development (discontinued operation) and a corporate perspective.

## NOTE 21: SEGMENT INFORMATION (CONTINUED)

The segment report for the reporting period ending 30 June 2015 is as follows:

| 2015 | Transactional $ | Research & Development $ | Corporate $ | Consolidated $ |
|---|---|---|---|---|
| **Segment Performance** | | | | |
| Interest received | - | - | 43,090 | 43,090 |
| Net other costs | (177,775) | (487,092) | (392,764) | (1,057,631) |
| Segment net profit / (loss) before tax as per statement of profit or loss and other comprehensive income | (177,775) | (487,092) | (349,674) | (1,014,541) |
| **Segment Assets** | | | | |
| Total assets as per statement of financial position | - | - | 1,320,565 | 1,320,565 |
| **Segment Liabilities** | | | | |
| Total liabilities as per statement of financial position | - | (24,925) | (66,658) | (91,583) |

| 2014 | Research & Development $ | Corporate $ | Consolidated $ |
|---|---|---|---|
| **Segment Performance** | | | |
| Interest received | - | 16,844 | 16,844 |
| Other income | - | 1,053,712 | 1,053,712 |
| Net other costs | (866,066)[1] | (1,335,526) | (2,201,592) |
| Segment net profit / (loss) before tax as per statement of profit or loss and other comprehensive income | (866,066)[1] | (264,970) | (1,131,036) |
| **Segment Assets** | | | |
| Total assets as per statement of financial position | - | 2,553,369 | 2,553,369 |
| **Segment Liabilities** | | | |
| Total liabilities as per statement of financial position | 146,595 | 163,251 | 309,846 |

[1] Includes R&D tax offset received $100,283 in June 2014 financial year, this has been offset against expenses as this is a discontinued operation, see note 26 for further details.

## NOTE 22: AUDITOR'S REMUNERATION

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| *Amounts payable to auditor* | | |
| Audit and review services - payable to Somes Cooke | - | 18,300 |
| Audit and review services - payable to BDO Audit (WA) Pty Ltd | 25,997 | 28,729 |
| BDO - Non-audit services | 10,980 | - |
| | **36,977** | **47,029** |

There were no non-audit services provided by auditors during the year.

## NOTE 23: SUBSIDIARIES

| Name of Entity | Country of Incorporation | Class of Shares | Equity Holding | |
|---|---|---|---|---|
| | | | 2015 | 2014 |
| | | | % | % |
| Bone Limited | Jersey, Channel Islands | Ordinary | 100 | 100 |
| | | Preference | 100 | 100 |
| Owein Pty Ltd | Australia | Ordinary | 100 | 100 |

The proportion of ownership interest is equal to the proportion of voting power held.

## NOTE 24: EVENTS OCCURRING AFTER THE REPORTING PERIOD

In relation to the Takor transaction two payments were made subsequent to year end for a total of $400,000.

- Payment of $300,000 on 27 July 2015, as per the term sheet after the completion of the 4 week mutual due diligence period.
- Payment of $100,000 on 27 July 2015, as per the term sheet to assist Takor in the repayment of loans.

20,000 unlisted options exercisable at 66.4 cents and 52,711 unlisted options exercisable at $5.00 subsequently expired on 2 July 2015.

No other matters or circumstances have arisen since the end of the period which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## NOTE 25: CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities that may arise from the Group's operations as at 30 June 2015.

## NOTE 26: ASSETS AND DISPOSAL GROUPS CLASIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

In November of 2014, management decided to discontinue Medical research and development based on the continuing poor resulted of clinical trials. This decision was taken in line with the Group's strategy to focus on information technology. Consequently, assets and liabilities allocable to Bone Medical Ltd and subsidiaries were classified as a disposal group.

Revenue and expenses, gains and losses relating to the discontinuation of this subgroup have been eliminated from profit or loss from the Group's continuing operations and are shown as a single line item on the face of the statement of profit or loss and other comprehensive income (see loss for the year from discontinued operations). Operating profit of Bone Medical Limited and subsidiaries' until the date of change of strategy and the profit or loss is summarised as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Debt forgiveness (revenue) | - | 953,049 |
| Employee benefits expense | - | (517,850) |
| Research and Development | (410,541) | (966,349) |
| Consultants expense | (76,551) | (126,099) |
| **(Loss) from discontinued operations after tax** | **(487,092)** | **(556,966)** |
| | | |
| **(Loss) for the year from discontinued operations** | **(487,092)** | **(556,966)** |

The carrying amounts of assets and liabilities in these discontinued operations are summarised as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| *Current liabilities:* | | |
| Trade and other payables | 24,925 | 146,595 |
| **Liabilities classified as discontinued operations** | **24,925** | **146,595** |

Cash flows generated by Bone Medical Limited and subsidiaries for the reporting periods under review until the disposal are as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| *Operating activities* | | |
| Research and Development | (659,673) | (784,920) |
| **Cash flows from discontinued operations** | **(659,673)** | **(784,920)** |

## DIRECTORS' DECLARATION

In the Directors' opinion:

a) the financial statements and notes set out on pages 24 to 50, and the Remuneration Report in the Directors' Report are in accordance with the *Corporations Act 2001,* including:

i. giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date; and

ii. complying with Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements;

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration is made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the year ended 30 June 2015.

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

On behalf of the Board

Robert Towner
Non-Executive Chairman

Perth
28 August 2015

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# INDEPENDENT AUDITOR'S REPORT

To the members of Bone Medical Limited

## Report on the Financial Report

We have audited the accompanying financial report of Bone Medical Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Stat*ements, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Bone Medical Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Bone Medical Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Bone Medical Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 28 August 2015

**BONE MEDICAL LIMITED**
**ACN: 009 109 755**

## ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

## SHAREHOLDINGS

The issue capital of the Company at 18 August 2015 is 257,796,569 ordinary fully paid shares. All ordinary shares carry one vote per share.

## TOP 20 SHAREHOLDERS AS AT 18 AUGUST 2015

| | | No. of Shares Held | % Held |
|---|---|---|---|
| 1 | PROXIMA LABORATORY AND RESEARCH SERVICES LIMITED | 17,469,639 | 6.78% |
| 2 | THORNBURY NOMINEES PTY LTD | 13,566,671 | 5.26% |
| 3 | MR HAI TAO ZHANG & MRS MIAO MIAO GUO <M & H SUPER FUND A/C> | 10,000,000 | 3.88% |
| 4 | J & TW DEKKER PTY LTD | 9,859,197 | 3.82% |
| 5 | MR GREGORY PETER WILSON | 9,000,000 | 3.49% |
| 6 | RIVERVIEW CORPORATION PTY LTD | 8,000,000 | 3.10% |
| 7 | MR RAFFAELE DE MARIA | 6,654,623 | 2.58% |
| 8 | MR MICHAEL BENEDICT COOKSON | 5,000,000 | 1.94% |
| 9 | MR YEQIAN GENG & MRS YAN HUO | 4,500,000 | 1.75% |
| 10 | MR KONSTANTINOS BAGIARTAKIS | 3,825,000 | 1.48% |
| 11 | MR PHILIP TAYLOR | 3,600,000 | 1.40% |
| 12 | MS KAM LING HOI | 3,500,000 | 1.36% |
| 13 | MR OMEED MEHDIZADEH | 3,333,332 | 1.29% |
| 14 | MR CHRISTOPHER ANDREW MARNEY | 3,127,314 | 1.21% |
| 15 | MISS MARIANNA NICOLINA ROSSI & MR PHILIP DAVID LAWSON | 2,852,448 | 1.11% |
| 16 | GRAZIAN PTY LTD | 2,801,090 | 1.09% |
| 17 | MR RICHARD EDWARD POOLE | 2,569,132 | 1.00% |
| 18 | AUSTIN 4 PTY LTD R&S TOWNER SUPER FUND A/C | 2,500,000 | 0.97% |
| 19 | NEFCO NOMINEES PTY LTD | 2,500,000 | 0.97% |
| 20 | CORNERSTONE CORPORATE PTY LTD | 2,500,000 | 0.97% |
| | | **117,158,446** | **45.45%** |

| **Shares Range** | **No. of Holders** | **No. of Shares** |
|---|---|---|
| 1 – 1,000 | 949 | 89,837 |
| 1,001 – 5,000 | 130 | 389,983 |
| 5,001 – 10,000 | 84 | 691,133 |
| 10,001 – 100,000 | 328 | 16,511,883 |
| 100,001 and over | 290 | 240,113,733 |
| | **1,781** | **257,796,569** |
| Number holding less than a marketable parcel at $0.019 per share | 886 | 44,106 |

| Shareholders by Location | **No. of Holders** | **No. of Shares** |
|---|---|---|
| Australian holders | 1,776 | 257,678,962 |
| Overseas holders | 5 | 117,607 |
| | **1,781** | **257,796,569** |

## ASX ADDITIONAL INFORMATION (CONTINUED)

### VOTING RIGHTS

**Ordinary Shares**
On a show of hands, every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

**Options**
Options carrying no voting rights. Options convert to one ordinary share upon exercise.

### SUBSTANTIAL SHAREHOLDERS AS AT 18 August 2015

| | | No. of Shares Held | % Held |
|---|---|---|---|
| 1 | PROXIMA LABORATORY AND RESEARCH SERVICES LIMITED | 17,469,639 | 6.78% |
| 2 | THORNBURY NOMINEES PTY LTD | 13,566,671 | 5.26% |

### OPTION HOLDINGS

The Company has the following classes of options on issue at 18 August 2015 as detailed below. Options do not carry any rights to vote.

| Terms | No. of Options |
|---|---|
| Unlisted Options exercisable at $0.664 each expiring on or before 28 November 2015 | 5,800 |
| Unlisted Options exercisable at $0.04 each expiring on or before 31 December 2016 | 25,803,402 |
| Unlisted Options exercisable at $0.03 each expiring on or before 31 December 2016 | 6,000,000 |

### UNLISTED OPTIONS

| Options Range | Options | |
|---|---|---|
| | No. of Holders | No. of |
| 1 – 1,000 | - | - |
| 1,001 – 5,000 | - | - |
| 5,001 – 10,000 | 2 | 15,142 |
| 10,001 – 100,000 | 21 | 1,192,664 |
| 100,001 and over | 19 | 30,601,125 |
| | **42** | **31,809,201** |