

Chairman's Address to Annual General Meeting 25th November 2009

Bone Medical is a development stage specialty pharmaceutical company leveraging its proprietary oral drug delivery and drug discovery technology for bone and joint diseases, namely **Osteoporosis, Osteoarthritis** and **Rheumatoid Arthritis**. Bone's management is focused on forging collaborations with pharmaceutical companies who will share ongoing development for Capsitonin, Bone's lead program now entering Phase 2B clinical trials for osteoporosis.

Bone's pipeline offers an attractive balance with more advanced lower risk development with **Capsitonin** and **CaPTHymone** targeting established osteoporosis markets along with early-stage NCE (new chemical entities) **BN006** for the very large rheumatoid arthritis market with potential major valuation step up with limited investment.

Capsitonin Phase 2b

With lead product, Capsitonin, poised to enter Phase 2b for two indications – with FDA regulatory guidance now for shorter, less expensive clinical trials, Bone Medical is well positioned to maximize the opportunity for the patented Axxess oral drug delivery technology. Moreover, Bone's pipeline also has several NCEs including a potential blockbuster, BNE006, an orally active antiTNF for Rheumatoid Arthritis which has attracted the interest of some of the largest U.S. pharmaceutical company's with the best pain pipelines in the industry.

Investment highlights include the following:

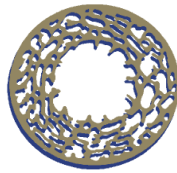
1. Large market opportunities with clear unmet needs.

Bone is focused on providing oral delivery for the treatment of the following musculoskeletal diseases: Osteoporosis, Osteoarthritis and Rheumatoid Arthritis opportunities:

- a. Osteoporosis: 200M worldwide US\$14 Billion and Osteoarthritis: 60M worldwide US\$ 40 Billion,
- b. Rheumatoid arthritis: prevalence: 2M Americans < US\$ 20 Billion

BNE006 Model: Although early in Bone's development pipeline, this NCE is orally available with a unique mechanism of action that offers clear advantages over current injectable anti TNF alpha class and is emerging as Bone Medical's crown jewel.

- Target market: projected \$20B anti-TNF alpha market
- Outlicensing BNE006 assumed no sooner than Q2'2010
- Marketing: Specialty pharma model with rheumatology sales force of 100+



By 2020 it is estimated that 20% of the US population (60 million Americans) will have arthritis. There are an estimated 103 million people with arthritis and rheumatism across Europe, about 14% of the population.

In 2000, arthritis costs in Australia were estimated to total almost \$9 billion (\$2.2 billion in direct costs and \$6.7 billion in indirect costs).

2. Oral Technology works with strong I.P. in drug delivery and drug discovery technology platforms:

- a. Phase I and 2 clinical data across multiple drugs, published in peer review journals
- b. Drug delivery (AcessTM): ACESS 2 patent issued October 09 – for Capsitonin
- c. Drug discovery: MozaicTM and LexiconTM

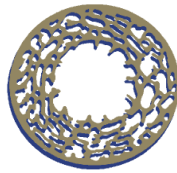
3. Favorable, lower cost, rapid approval process: FDA Provides Clarity: No Fracture studies required – supports lower cost, faster time to market.

In August 2009, Bone Medical announced that the company received a formal response from the US FDA to the IND application filed in June for CapsitoninTM, its oral formulation of the approved osteoporosis drug salmon calcitonin. The FDA advised that Bone Medical has an open IND and a clear regulatory pathway including a 12-month Phase III study with a primary endpoint of change in bone mineral density, avoiding the need to focus on collecting bone fracture data in multi-year studies, as is required with new drugs for this chronic condition.

Outlook

The global financial market has of recent been stabilising with renewed interest in the International Biotech sector. Bone Medical has several initiatives with leading corporate financiers and remains confident of raising enough funds to progress the company. We have highlighted today the key projects for Bone going forward:

- **Progress product in clinical testing**
 - Capsitonin® in Phase III for osteoporosis
 - CaPTHymone® in Phase II for osteoporosis
 - Capsitonin® in Phase II for osteoarthritis



- **Progress projects in pre-clinical testing**
 - BN006 in pre-clinical and clinical Phase I
 - A renewed focus on pre-clinical development of the Osteoblast, BN005 and Osteoclast, BN008 projects
- Maintain close contact with shareholder base
- Grow shareholder value with an increased exposure to the US capital markets.
- Recruit a US based CEO

We would like to thank the shareholders of Bone Medical Ltd for their continued support during 2009 and we look forward to updating you on exciting news over the coming months.

Yours sincerely,

Leon Ivory - Joint CEO

Leif Jensen - Joint CEO