



Bone Medical

Dear Shareholder

In my letter to Shareholders on 14 March 2005, I outlined the future direction of our company with six objectives. I'm pleased to now report that since this commitment, our company has made considerable progress.

First, I want to thank you for remaining shareholders of Bone Medical. As you are no doubt aware, biotechnology stock prices as a group have been suppressed in recent months, despite a number of companies reporting positive news. However, I believe in the longer term, therapeutic companies that continue to progress their lead products through human clinical trials with positive efficacy and safety results should reflect stock price appreciation for investors.

While we all have been weathering the storm of biotech, the management of Bone Medical has been very focused on achieving the deliverables that I outlined in my prior Shareholder Letter and I would like to share these with you.

Our first commitment is to continue to build upon our Australian base and expand into North America. In recent months, we have set up a US office and have already initiated contacts and conducted meetings with the US financial institutions. Furthermore, discussions with leading pharmaceutical companies for possible licensing and/or development collaborations are continuing. In April of this year, we announced that our company engaged the Bank of New York to serve as a depository bank for a Level One American Depository Receipt (ADR) Program in the US. Currently, US investors can not purchase Bone Medical stock unless they arrange the sale through an Australian stock broker. We anticipate that by August of this year, US investors will be able to purchase Bone Medical stock from their local stockbroker through the ADR program. In addition, many of the US financial institutions require that we have an ADR or US stock listing prior to considering any investment.

Our second commitment is to progress the development of our leading edge osteoporosis treatments through clinical trials. On 31 January, we announced that we had received clearance to commence an 18-subject human Phase I trial with our oral delivery form of parathyroid hormone (PTH). This study has considerably progressed. Fifteen of the eighteen subjects have now completed the dosing regimens and we expect the remaining three to be completed this June. The primary endpoints of the study are safety and tolerability, with secondary endpoints to achieve blood levels of PTH and changes to relevant biomarkers. If we are able to show blood levels of these components with our PTH formulation, we will have successfully demonstrated that our oral formulation of PTH is bioavailable as a capsule formulation. Currently, the only formulation of PTH available in the market is an injectable drug (FORTEO[®], Eli Lilly). We believe that market acceptance of a daily swallowed capsule would have much better acceptance over a daily injectable drug.

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Furthermore, our PTH drug has been named *Perthoxal*TM oral parathyroid hormone (formerly BN003).

The third commitment involves building our working relationship with the US Food & Drug Administration (FDA). In the case of both calcitonin and PTH, the United States accounts for more than 60 percent of the sales of these drugs. We are in the process of preparing the necessary documentation for a pre-IND (Investigational New Drug) meeting with the FDA. The pre-IND meeting will map out the development pathway required to gain regulatory approval in the USA, including clinical endpoints and patient numbers. As you might expect, the paperwork and documentation necessary for such a meeting is no small undertaking. We expect to conduct a face-to-face meeting with the FDA later in 2005.

Our fourth commitment is lessening our dependence on outside contractors. In April this year, we announced that we brought the US business development responsibilities in-house and in July of this year, all of our business development activities will be managed by our own staff. Our current development collaborations and contract research organizations are also managed internally since my last Shareholder Letter. Pending our next round of financing, our company intends to hire a strategic regulatory executive, one of the key roles for any drug development company.

The fifth commitment is to restructure our board of directors to procure US expertise to guide commercial development at the fastest possible rate. In April 2005, Wayne Fritzsche joined our board. Mr. Fritzsche has over 30 years of experience in the pharmaceutical industry in the USA and will be instrumental in providing guidance as we raise capital in the US. Michael Perrott resigned his board seat in May after serving a vital strategic role in our move to the Australian stock exchange in August 2004 following our merger with Revenir Ltd. In June, Paul Hopper joined the board. Mr Hopper has dual experience with raising capital in both the US and Australian markets and has 25 years of experience in the public company markets, primarily in the healthcare and biotechnology sectors. Both Mr Fritzsche and Mr Hopper reside in the US (Florida and California). Furthermore, Glen Travers, the founder of Bone Medical, resigned his position on the board this June and has been replaced by Dr Roger New. Dr New is a world-class scientist in the area of drug delivery and will serve a valuable function in providing us with scientific expertise and direction. Dr New has more than 30 years of experience in the field of drug delivery and is the Chief Scientific Officer of Bone Medical.

Our sixth commitment is to raise capital in Australia prior to raising funds in the USA. Currently, we are in the process of a small capital raise in Australia and plan to raise significant more capital in the US once our ADR program is finalised. To better position our company for financing, we are in the process of converting our B preference shares into ordinary shares, thereby simplifying our stock ownership structure. In a general meeting of B shareholders held on 10 June 2005, a resolution to allow this change was passed with 94% of proxies lodged in favour of the resolution and no opposing votes. This matter is now to be put to the ordinary shareholders at a general meeting.

Once again, I am most appreciative of your support and look forward to working on your behalf as our company progresses with our quest to become a world class provider of therapies for bone and joint disease.

Michael T Redman

Chairman and CEO