Bone Medical

6 March 2012

Ms Fiona Murphy
Adviser, Listings (Perth)
ASX Compliance Pty Limited
Level 8, Exchange Plaza
2 The Esplanade
PERTH WA 6000

Dear Fiona,

We refer to your letter to our Company Secretary of 2 March 2012 in relation to the Company's reviewed Appendix 4D and Half Year Financial Report for the period ended 31 December 2011 (**Half Year Report**).

In that regard, we have provided our responses to your questions as follows;

1. The Board actively monitors and reviews the Company's financial situation and funding prospects and believes that the Company will continue to operate as a going concern and have access to sufficient funding in order to continue to sustain its business activities, advance its objectives, and research and develop the Company's products and technology to a point where these can be commercialised. This belief is based on a combination of existing funding sources, continuing efforts to raise new funds, and steps to reduce the Company's liabilities.

(i) Convertible Note

As announced to ASX on 5 October 2010, the Company entered into a convertible note funding agreement with La Jolla Cove Investors Inc. (**La Jolla**) for US$6,000,000 (4 consecutive notes of US$1,500,000 (**Convertible Notes**)) (**Funding Agreement**).

Under the Funding Agreement the Company has issued to La Jolla one convertible note with a face value of US$1,500,000 (**Initial Convertible Note**) of which approximately US$1.373 million has been drawn down to date.

On 20 February 2012, shareholders approved the issue and allotment of the remaining shares pursuant to the Initial Convertible Note to La Jolla at a price not less than 80% of the volume-weighted average of the closing sale price of shares on the ASX on 5 trading days on which sales are recorded immediately preceding the date of issue to La Jolla.

The funds raised from the issue will be used for working capital.

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(ii) US Capital Markets

The Company continues to pursue its strategy of building a presence in the US industry and capital markets and to raise US-based investment.

(iii) Directors, consultants and major shareholders

The Company has long term relationships with its current directors and consultants and major shareholders, Proxima and PLRS currently providing services or licences to the Company and it is expected these supportive relationships will be maintained going forward such that fees will continue to be deferred until the Company has sufficient working capital.

It is also noted that directors and the majority of consultants have agreed to continue to defer their fees until the Company is in a stronger financial position.

These initiatives are expected to allow the Company to focus working capital on its operating needs and upon progressing the Company's projects.

2. Consistent with the Biotechnology industry in general, the Company expects that the operating cash flows may continue to be negative until the Company completes a licencing transaction with a strategic partner or commercialises its projects following further clinical development. This is common to biotechnology companies in the development phase.

   However, the Board has put in place the following key funding initiatives to ensure the Company has sufficient funds to continue its operations;

   (a) The Company has a Funding Agreement with La Jolla for US$6 million and following the appointment of Mr Young as CEO, La Jolla agreed to increase their minimum monthly payments of the Initial Convertible Note issued on 19 January 2011 to at least US$100,000 per month. Approximately US$1.373 million has been drawn down to date;

   (b) The Company continues to pursue its strategy of building a presence in the US industry and capital markets and to raise US-based investment;

   (c) Directors, consultants and major shareholders, Proxima and PLRS have agreed to convert part or all of outstanding fees owed to equity on terms approved by shareholders.

As a result of these initiatives, the Board has continued to conclude that the Company has sufficient existing access to funds as well as prospective access to new investment and means of continuing to mitigate its liabilities to consider it a viable going concern.

3. The Company's actual revenues and expenses have not substantially differed from the Company's anticipated revenues and expenses for the half year ended 31 December 2011. The Company's expenditure has been managed in accordance with the availability of working capital throughout the period ended 31 December 2011. As stated in the Half Year Report, all three of the Company's products are expected to attract considerable partnering or acquisition potential from industry as they progress along their respective pre-clinical and clinical testing development pathway and this will translate into future revenue generation.

4. N/A

5. The Company has achieved several capital raising initiatives to allow it to maintain its business objectives, namely;

   (a) Directors, consultants and major shareholders, Proxima and PLRS have agreed to convert part or all of their outstanding obligations to fully paid ordinary shares, subject to terms approved by shareholders. Until conversion, these amounts are considered deferred;

   (b) Mr Peter Young, a New York-based life sciences resource with extensive experience in the pharmaceutical, biotech, and specialty pharma sectors, was appointed as CEO and has continued to implement Bone Medical's US business and capital strategy;

   (c) Following the appointment of Mr Young as CEO, La Jolla agreed to increase their minimum monthly payments of the Initial Convertible Note issued on 19 January 2011 to at least US$100,000 per month. Approximately US$1.373 million has been drawn down to date;

   (d) The Board is continuing to actively evaluate and explore a range of partnering and financing opportunities to create value for all shareholders and that there is an expectation that the Company will shortly be in a position to provide details of financing activities involving new investors and the historical support of the major shareholders.

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6. The Company can confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1.

7. The Company continues to pursue capital raising opportunities. The Company believes that as the international biotech sector continues to improve, the Company will continue to pursue current and other funding initiatives with financiers to raise enough funds to progress the Company's projects.

   As such, the Company's expenditure has been managed in accordance with the availability of working capital in the year to date and this will continue until sufficient working capital funding is available to the Company.

Should you have any questions in relation to the above, please do not hesitate to contact me.

On behalf of the Board of Bone Medical Limited.

Yours sincerely,

Peter Young
CEO and Managing Director

ASX Compliance Pty Limited
ABN 26 087 780 489
Level 8 Exchange Plaza
2 The Esplanade
PERTH WA 6000

GPO Box D187
PERTH WA 6840

Telephone 61 8 9224 0000
Facsimile 61 8 9221 2020
www.asx.com.au

2 March 2012

Mr. Mark Clements
Company Secretary
Bone Medical Limited
c/- Ledger Corporate
Level 3, 46 Ord Street
West Perth, WA 6005

By e-mail: mark@balion.com.au

Dear Mark,

Bone Medical Limited (the "Company")

I refer to the Company's reviewed Appendix 4D and half-year financial report for the half-year ended 31 December 2011, released to ASX Limited ("ASX") on 29 February 2012 (the "Half-year Report").

ASX notes that the Company has reported the following as at 31 December 2011:

1. Net loss for the period attributable to members of $889,982.

2. Total current assets of $35,529.

3. Total current liabilities of $1,392,991.

4. Net assets of -$2,991,300.

ASX notes the convertible note conversions which occurred subsequent to the reporting period, but the funds raised do not cover current liabilities. Further the auditor has noted that the Company will have to seek additional funding to fulfill its present obligations.

ASX listing rule 12.2 provides, that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

The note to the listing rule states the composition of the balance sheet, relative size of liabilities to assets and access to funds are some of the indicators of an entity's financial condition.

ASX notes the comments in the Half-year Report regarding continuation of the Company as a going concern (including those from the auditor).

In light of the information contained in the Half-year Report, please respond to each of the following questions.

1. Is it possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the half-year indicated by the Half-year Report, the Company may not have sufficient cash to fund its activities in the near term? Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Half-year Report and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?

3. To what extent have the Company's actual revenues and expenses in the half-year, as reported in the Half-year Report, matched the Company's anticipated revenues and expenses for that reporting period?

4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.

5. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?

6. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

7. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response may be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me on **facsimile number (08) 9221 2020 or by email to fiona.murphy@asx.com.au**. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, **not later 5:00pm WST on Tuesday, 6 March 2012.**

If you have any queries, please contact me on (08) 9224 0054.

Yours sincerely,

[sent electronically without signature]

Fiona Murphy
Adviser, Listings (Perth)