ANNUAL REPORT
2012

calzada

LIMITED

MESSAGE FROM THE CHAIRMAN

Dear Shareholder,

I am pleased to report that Calzada has continued to make sound progress during 2012, with PolyNovo commencing two human pilot clinical trials and Metabolic continuing to investigate commercial applications for its AOD9604 peptide.

Calzada's financial position remains strong, with cash (including amounts held in short term deposits) as at 30 June 2012 of $4.9 million, which is sufficient funding for two years based on current budgeted expenditure.

The highlight of the 2012 financial year was undoubtedly PolyNovo's commencement of human pilot clinical trials aimed at validating our platform technology, NovoSorb™, in the areas of reconstructive surgery and tissue repair. PolyNovo's strategy has been to target markets in which its devices have a demonstrable competitive advantage, can be progressed in a cost effective manner and within relatively short time frames.

The most advanced trial, Vacuum Assisted Closure ("VAC") is seeking to provide a superior negative pressure wound therapy dressing. As this is not classified as an "implantable device" the regulatory pathway is relatively simple and time efficient. This is a 20 patient study, and at the date of this report 11 patients have been treated. We expect the results of this trial to be available prior to the end of calendar 2012.

The second trial utilises PolyNovo's Biodegradeable Temporising Matrix (BTM) to repair free flap donor sites. This is an important step in developing a BTM for use in full thickness burns applications, and proving efficacy for the BTM as a robust tissue scaffold (with potentially wider ranging applications). The BTM is classified as an implantable device, which implies a longer and more rigorous regulatory pathway. To date, recruitment of suitable patients has been slower than anticipated, but we remain cautiously optimistic that the study can be accelerated.

Successfully developing market leading medical devices in these fields will provide opportunities for PolyNovo to target larger and more lucrative market opportunities for its platform technology.

Metabolic has also made important progress in 2012, with its peptide AOD9604 receiving pivotal self-affirmed GRAS (Generally Recognised As Safe) status recognition, conditional on the publication of existing safety data. GRAS status provides the opportunity to have AOD9604 sold in the US market as a food additive and dietary supplement targeting the weight control and obesity markets. Metabolic also reported positive *in-vitro* results for AOD9604 for the potential treatment of osteoarthritis, cartilage repair and muscle loss.

The Metabolic strategy remains to leverage off the substantial amount of safety data generated in the past to target, through a low cost outsourcing strategy, large markets with unmet medical need in both human and veterinary applications.

The year was not without its disappointments, further demonstrating the inherent risks associated with the sector:

- The financial returns from Metabolic's license agreement with Phosphagenic have been well below expectations, generating a disappointing $32,716 in royalty income from the sales of the "BodyShaper™" cellulite cream;

- PolyNovo's collaboration with a major US medical device company concluded without progressing to a license agreement. While disappointing, PolyNovo was not prepared to extend the exclusive relationship without adequate financial compensation; and

- Calzada is committed to ensuring shareholders are kept informed on cost and time frames involved in achieving key milestones and events. While operating costs came in below budget in 2012, in hindsight it is clear that we have been over-optimistic on the time frames relating to our clinical trials and regulatory approvals. The Board and management team are committed to improving this aspect of shareholder communications in 2013.

Finally, I would like to thank our two Chief Executives, Laurent Fossaert and David Kenley, for the commitment they have shown to their business units and all our employees and partners who continue to make a significant contribution to the development and advancement of Calzada.

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David Franklyn

Chairman, Calzada Limited

The Board of Directors of Calzada Limited ("Calzada") resolved to submit the following report together with the consolidated Annual Financial Report in respect of the financial year ended 30th June 2012.

Board of Directors and Senior Management

The names and details of Directors and Senior Management during the year and until the date of this report are contained in this section. Directors were in office for the entire period unless otherwise stated.

Mr David Franklyn (BEcon)

NON-EXECUTIVE CHAIRMAN (EXECUTIVE CHAIRMAN 1ST FEBRUARY 2010 TO 31ST MARCH 2011)

Mr Franklyn is Chairman of Calzada and its 100% owned subsidiary PolyNovo Biomaterials Pty Ltd and has held that title since 16th April 2009.

Mr Franklyn holds an Economics degree from the University of Western Australia and has completed the Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia, now FINSIA.

Mr Franklyn has been involved in the financial services industry for over twenty years. He has extensive experience in the financial analysis of companies, funds management, corporate finance, business management and investor relations. His previous roles include being Head of Research for a national stockbroker and General Manager Corporate Communications for an ASX 200 company.

Mr Franklyn is currently Managing Director of Entrust Funds Management Ltd, a Western Australian based boutique funds management business, and a Non-Executive Director of ASX Listed Nomad Building Solutions Ltd. Mr Franklyn resigned as Non-Executive Director of GoldLink Income Plus on 27th March 2009.

Mr Bruce Rathie (BComm, LLB, MBA, FAIM, FAICD)

NON-EXECUTIVE DIRECTOR

Mr Rathie was appointed a Director of Calzada on 18th February 2010.

Mr Rathie holds degrees in law, commerce and business and has considerable experience as a lawyer having practiced as a solicitor and partner in a major Brisbane based legal firm and then as Senior in-house Counsel to Bell Resources Limited from 1980 to 1985 in aggregate.

He studied for his MBA in Geneva and then went into investment banking in 1986 which subsequently took him to New York for over 2 years returning to Sydney in 1990.

He spent the 90's in investment banking in Sydney, the last 5 years as a Director of Investment Banking at Salomon Brothers/ Salomon Smith Barney where he was Head of the Industrial Franchise Group and also led Salomon's roles in the Federal Government's privatisation of Qantas, Commonwealth Bank (CBA3) and Telstra (T1).

Mr Rathie currently is, in addition to his Non-Executive Director role at Calzada, a Non-Executive Director of ASX listed companies Mungana Goldmines Limited (a gold mining company) and DataDot Technology Limited (an industrial security products company) which he Chairs. He is also a Non-Executive Director of Capricorn Society Limited the largest auto parts cooperative in the Southern Hemisphere with operations in Australia, South Africa and New Zealand, and is also Chairman of EFTPOS Payments Australia Limited the Australian debit card payment company. Mr Rathie resigned as Director of USCOM Limited in August 2011.

Dr John Chiplin (PhD)

NON-EXECUTIVE DIRECTOR

Dr Chiplin was appointed a Director of Calzada on 18th October 2010.

Dr Chiplin is one of the most successful life sciences professionals in the Australian biotech industry. His most recent accomplishment was the corporate re-engineering of Arana Therapeutics (Arana), a world leading antibody developer, which resulted in the mid 2009 acquisition of Arana by Cephalon for $329 million at a 70 percent premium to the market valuation. Immediately prior to running Arana, Dr Chiplin was head of the $300 million ITI Life Sciences investment fund in the United Kingdom and prior to this was co-founder and Chief Executive officer of Geneformatics Inc.

Dr Chiplin has broad-based experience in the life science and technology industries, both from an operational and investment perspective.

Dr Chiplin is a current Non-Executive Director of ASX listed Benitec Ltd and a Director of ScienceMedia. He resigned as Non-Executive Director of Progen Pharmaceuticals in August 2011 and resigned as Non-Executive Director of Healthlinx Ltd in June 2012.

Dr David McQuillan (PhD)

NON-EXECUTIVE DIRECTOR

Dr McQuillan was appointed a Director of Calzada on 6th August 2012.

Dr McQuillan possesses extensive technical, medical, scientific and regulatory knowledge as well as significant mergers and acquisition expertise.

In 2000, Dr McQuillan joined LifeCell Corporation as the Vice-President for Research and Development (R & D). He led LifeCell's R & D team focusing on the creation of market-leading products for reconstructive and plastic surgery applications. Following marketing approval in 2008 for its new reconstructive tissue matrix Strattice™, LifeCell was acquired by Kinetic Concepts Inc ("KCI") for US$1.8 billion. Following the acquisition, Dr McQuillan became the Senior Vice President of the Advanced Research and Technology unit at KCI. Dr McQuillan left KCI in 2011 after its acquisition by a private consortium for US$6.7 billion.

Dr McQuillan is currently a consultant to several leading US based Healthcare Investment Funds that are focused in the fields of regenerative medicine, medical devices and tissue engineering. He is also the Chief Scientific Officer of Humacyte, Inc., Durham, NC.

Dr Stewart Washer (PhD)

CHIEF EXECUTIVE OFFICER

Dr Washer was appointed Chief Executive Officer of Calzada on 23rd November 2010 and ceased employment with Calzada on 7th October 2011.

Dr Washer has 20 years of CEO and Board experience in lifescience companies in the medical and food sectors. He was a Venture Partner with the Swiss Inventages Fund, a €1.5 billion life science fund, funded by Nestle and currently Investment Director with Octa Phillip BioSceince Managers based in Europe and Australia. Dr Washer joined Calzada from his past three years as a company Director and fund manager where he held a number of Board positions including the Chair of Resonance Health Ltd and Hatchtech Pty Ltd.

Dr Washer was the founding CEO of Phylogica (ASX:PYC) Ltd up until 2007. Before this, he was CEO of Celentis Ltd and managed the commercialisation of technology from AgResearch in New Zealand with 650 scientists and $130m revenue.

Dr Washer is currently Chairman of ASX listed iSonea Ltd (ASX:ISN), and a Non-executive Director of ASX Listed Immuron Ltd (ASX:IMC). Dr Washer resigned as a Non-Executive Director of ASX Listed Healthlinx Ltd in July 2012.

Mr Chris Mews (CPA, ACIS)

COMPANY SECRETARY/CHIEF FINANCIAL OFFICER

Mr Mews was appointed Company Secretary of Calzada Ltd on 16th April 2009 and was appointed Chief Financial Officer on 1st September 2009.

Mr Mews has been involved in the financial services industry for over 10 years. Mr Mews is a Certified Practicing Accountant and Chartered Company Secretary and has been Company Secretary and Chief Financial Officer of various listed and unlisted companies.

Principal Activities

Calzada owns 100% of PolyNovo Biomaterials Pty Ltd (PolyNovo) and 100% of Metabolic Pharmaceuticals Pty Ltd (Metabolic). Refer to the review of operations for a full description of the activities of each of these business units.

The parent company has 1.75 full-time employees. Where required, the parent company outsources to expert contractors and consultants to gain access to the best possible expertise for continued advancement of its development assets.

Financial Results

At year end Calzada had cash on hand and cash held in term deposits (including those classified as a financial asset in the Statement of Financial Position) of $4,867,977 (equating to 1.4 cents per share). This is sufficient for around two years funding on current budgeted expenditure.

Calzada reported a net loss after tax of $2,702,726 on revenue of $805,156 for the 2012 financial year. This loss was a decrease of 8% compared with the $2,944,402 after tax loss reported in the prior year.

Major factors in the result were as follows:

- Employee related expenses increased from $1,423,066 to $1,543,631. This increase included costs associated with the departure of Dr Stewart Washer as CEO and includes non-cash expenses associated with issuing options to staff.
- Research and development expenses increased from $871,024 to $1,299,926 over the year on the back of an acceleration of our key projects. This includes the costs of regulatory advice and compliance, ISO 10993 safety studies and commencing 2 pilot human clinical trials for PolyNovo's NovoSorb™. Calzada has also invested research and development funds in advancing AOD9604 as a potential nutraceutical for weight control, culminating in the Company receiving conditional self-affirmed GRAS status in June 2012.
- Total revenue decreased from $914,649 to $805,156. The fall in revenue is predominantly due to a decrease in licence revenue in PolyNovo at the conclusion of the one year feasibility study in December 2011.
- Calzada recognised grant revenue of $218,029 for 2012 (2011; $117,569). This was comprised of $38,953 in PolyNovo from a successful Export Market Development Grant application, recognition of a further $167,928 of grant revenue in NovoSkin from BioSA previously recorded as a financial liability and Grant Revenue of $11,148 (2011; nil) from the Victorian Government.
- Royalty revenue of $32,716 (2011; $14,739) was recognised during the year from sales by Phosphagenics of their BodyShaper™ anti-cellulite product, containing Metabolic's AOD9604 peptide.
- In 2012, Calzada received actual cash inflows in the form of tax benefits of $677,400 (2011:$592,626), relating to the Groups Research and Development tax concession claim.
- A drop in interest income from $381,752 to $325,971 was reported for the period. This reflects primarily lower cash holdings and lower interest rates over the period.
- Net assets at year end totaled $7,988,617 which was down from $10,640,479 held at 30 June 2011. The decline was the result of a decrease in cash on hand and cash held in term deposits (classified as a financial asset in the Statement of Financial Position).

Earnings Per Share

	Cents
Basic loss per share	(0.78)
Diluted loss per share	(0.78)

As the Group made a loss for the year ended 30 June 2012, potential ordinary shares, being options or performance rights to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

Dividends

No amounts have been recommended by the Directors that should be paid by way of dividend by the Group during the current financial year. No cash dividends have been paid or declared by the Group since the beginning of the financial year.

Review of Operations

Calzada has made solid progress in 2012 through the continued development of its two existing business units, PolyNovo Biomaterials (PolyNovo) and Metabolic Pharmaceuticals (Metabolic).

Key highlights for the year

PolyNovo:

✓ Finalised ISO 10993 biocompatibility studies. This is a required step for regulatory purposes;

✓ Successful proof of concept for the Cultured Composite Skin;

✓ Commenced two pilot human clinical trials:

- Vacuum Assisted Closure (“VAC”) trial; and
- Free-flap donor site repair using an implantable BTM.

✓ Optimised the BTM design to further reduce wound contraction and improve reliability;

✓ Continued to make steady progress in the areas of fracture fixation and bone void fillers with our US partner Smith & Nephew; and

✓ Identified several new applications for NovoSorb^{TM} and initiated contact with potential partners.

Metabolic:

✓ AOD9604 received pivotal GRAS status recognition, conditional on publication of our existing safety data;

✓ Positive *in-vitro* results were received from collaborators (Professors Rita Kandel and Marc Grynpas) at Mt Sinai Hospital, Toronto, Canada showing that AOD9604 had potential for application to the treatment of osteoarthritis and cartilage repair and diseases where muscle loss is a dominant factor;

✓ Filed provisional patents for two new potential applications of AOD9604:

- Cartilage disease (such as osteoarthritis) and repair;
- Repair and treatment of muscle diseases; and

✓ Allowance of our AOD9604 bone disease (osteoporosis) and repair patent in Europe, Japan and China.

Upcoming expected key milestones

PolyNovo:

- ✓ Successfully complete the Vacuum Assisted Closure ("VAC") pilot human clinical trial during the second half of calendar 2012, and be in a position to commence partnering discussions with industry participants;
- ✓ Progress and successfully complete the BTM pilot human clinical trial by the end of calendar year 2013; and
- ✓ Finalise ISO 13485 certification, the quality management system for medical devices; and
- ✓ Progress new device opportunities for NovoSorb™.

Metabolic:

- ✓ License to a veterinary company the companion animal applications of AOD9604 for the treatment of joint disease, osteoarthritis and obesity;
- ✓ Conduct partnering discussions to advance AOD9604 as a GRAS food or drink product or dietary supplement in the US market; and
- ✓ Investigate a novel food application for AOD9604 in Europe.

PolyNovo Biomaterials Pty Ltd (PolyNovo)

PolyNovo is focused on developing its state of the art and patented biodegradable polymer platform NovoSorb™ for medical products aimed at reconstructive surgery and tissue repair.

NovoSorb™ is a family of proprietary medical grade polymers that can be utilised to manufacture novel medical devices designed to support tissue repair and then degrade in a defined fashion *in-situ* to harmless by-products. NovoSorb™ has significant advantages over competitor biodegradable polymers in terms of its design flexibility. PolyNovo is able to manufacture NovoSorb™ polymer devices with a range of mechanical properties and flexible degradation times from months to years that are suitable for many different medical applications.

Key differentiating attributes of NovoSorb™:

- Unparalleled range of mechanical properties & degradation times;
- Can be easily tuned to degrade quickly or slowly;
- Wide range of mechanical properties (soft elastic to bone like and rigid);
- Degradation products are harmless;
- Easy manufacture and processing; and
- Strong intellectual property protection.

PolyNovo has two routes to commercialisation through Partner Device Developments, usually by way of licensing, and PolyNovo Device Developments involving joint ventures or in-house developments.

DIFFERENTIATION AND COMPETITIVE ADVANTAGES

NovoSorb™ has significant advantages over existing or emerging solutions;

- ✓ Excellent biocompatibility and safety profile:
    - NovoSorb™ is non-toxic, non-immunogenic and produces safe biodegradation products on erosion;

- ✓ Flexibility enables multiple applications;
  - NovoSorb's™ mechanical properties can be tailored to match specific tissue or application;
  - Rates of degradation can be tailored to match the rate of tissue repair required, or delivery profile, and its qualities ensure effective attachment at the required site;
- ✓ Potential to deliver drugs, biological agents & or cells;
- ✓ Supports tissue regeneration; and
- ✓ NovoSorb™ products can be manufactured using mass production technologies already employed to make high volume medical devices such as VAC dressings.

PolyNovo's focus is on the development of innovative medical devices for a number of medical applications utilising its NovoSorb™ technology. During the period, PolyNovo has remained focused on projects with lower risk and shorter timeframes to reach the clinic. PolyNovo has identified a new application using the NovoSorb™ foam to manufacture dressings for assistance with VAC treatment, leveraging the Biodegradable Temporising Matrix (BTM) Technology developed internally with NovoSkin for the treatment of burns.

Below is a summary of our lead projects:

NOVOSORB™ FOR BURNS AND WOUNDS TREATMENT

PolyNovo formed NovoSkin Pty Ltd, a joint venture company with burns surgeon Associate Professor John Greenwood, for the application and development of NovoSorb™ for a range of burns and wounds treatment products.

NovoSkin is developing two products using NovoSorb™ aimed at the treatment of full thickness burns:

- a Biodegradable Temporising Matrix ("BTM"); and
- a Composite Cultured Skin ("CCS").

The BTM is applied to a major burn to stabilise the wound, minimise drying, contraction and to provide a suitable environment for dermal tissue growth until skin grafts (or in the future with a composite cultured skin) are available and can be applied. We believe the use of BTM will provide a better patient outcome when compared to a skin graft alone. The resulting skin should be more elastic reducing post surgery rehabilitation requirements.

NovoSkin is also working to develop an *in-vitro* composite skin (a form of synthetic skin using NovoSorb™ or CCS) from the patient's own cells. This is a highly challenging area, but if successful would create a paradigm shift in burn treatment, potentially abolishing the need for skin grafts and accompanying painful donor sites in future burn care.

Results to date strongly suggest that the NovoSorb™ BTM could form the basis of an elegant two-stage burn treatment strategy.

NovoSkin was successful in receiving a $240,000 grant from Bio-Innovation South Australia to fund both of the devices pre-clinical testing.

(1) Biodegradable Temporising Matrix

Additional animal studies were completed during the period, with the aim to optimise the BTM design and prepare for the pilot human clinical trial. The results were again extremely positive and demonstrated:

- The optimised design showed a further improved resistance to contraction;
- Ability to skin graft at day 28, resulting in a supple and elastic skin;
- No spontaneous membrane delamination, a common issue with the existing products; and
- The membrane can be removed in one piece (surgeon friendly).

These results strongly indicate that BTM has the potential to be marketed as a viable alternative to existing dermal replacement matrix products. The potential market for these products is estimated to exceed $200 million.

(2) Composite Cultured Skin (CCS)

NovoSkin completed two CCS *in-vivo* studies. The first study in October 2011 resulted in the successful application of several CCS on BTM implanted sites, therefore proving the two stage treatment concept. This study also evaluated the possibility of using an epithelial cells suspension on integrated BTM at different stages, before the membrane delamination by injecting the suspension under the membrane and after delamination. As expected, both methods failed to generate an epithelium to cover the newly formed dermis, further demonstrating the need for a bilayer structure (dermal and epidermal) to achieve a successful outcome. The study completed in April 2012 leveraged the newly optimised BTM and yielded very promising results, indicating in principle that the BTM/CCS treatment of full thickness wounds could effectively abolish the need for skin graft.

During the period the company conducted the standard biocompatibility testing required for implantable devices designed to degrade *in-vivo*. These studies were undertaken by independent laboratories in Germany, the USA and Australia and, together with the pre-clinical studies, will form part of our regulatory package. The BTM device successfully passed the following tests:

- Pyrogens;
- Genotoxicity;
    - *In- vitro* mouse lymphoma assay;
    - Ames test;
- Cytotoxicity (*in-vitro*);
- Irritation test (intracutaneous reactivity);
- Skin sensitisation (test for delayed-type hypersensitivity);
- Test for local effects after Subcutaneous implantation (28 days);
- Implantation combined with assessment of subchronic systemic toxicity (90 days); and
- Implantation combined with assessment of chronic systemic toxicity (180 days).

Associate Professor John Greenwood received Ethics Committee approval for a 10 patient pilot human trial, using BTM to repair free-flap donor sites. The Ethics Committee suggested the use of free-flap donor sites as they are very similar to full thickness debrided burn's wounds. This model is ideal as it will allow investigators to test the safety and efficacy of BTM in a large surgically created wound without interference from co-morbidities usually experienced by patients with extensive burns such as shock, smoke inhalation etc.

NOVOSORB™ FOR VACUUM ASSISTED CLOSURE WOUND DRESSINGS

PolyNovo's joint venture company with burns surgeon Associate Professor John Greenwood, has developed a Vacuum Assisted Closure (VAC) dressing leveraging off the BTM work.

Associate Professor John Greenwood received Ethics Committee approval for a 20 patient VAC human trial, comparing PolyNovo's NovoSorb™ dressing to the gold standard treatment Granufoam™. This trial commenced in February 2012. At the date of this report eleven patients have been enrolled and of these patients five had completed their eight week treatment. Importantly no patient treated with NovoSorb™ had any adverse reaction and required replacement with the control material Granufoam™.

The VAC dressing application is particularly attractive to PolyNovo as:

- VAC dressings are not classified as an implant and therefore have a relatively simpler regulatory pathway in both the US and Europe, enabling us to receive the necessary regulatory approvals in a shorter timeframe;
- FDA Safety Communication (Serious Complications Associated with Negative Pressure Wound Therapy Systems) listed several issues with the dressings used in current VAC treatment. As part of the surveillance process the FDA continues to work with manufacturers to ensure the development, testing and promulgation of methods for reducing the identified risks associated with these devices and to minimise the complications from adverse events that may occur in the course of normal usage. For this reason, positive results from the VAC trial should provide us with a valuable marketing tool; and
- VAC dressings are a large, established market which is expected to continue to grow steadily year on year.

FRACTURE FIXATION AND BONE VOID FILLERS

PolyNovo has two development programs with the US based medical device company Smith & Nephew covering Fracture Fixation and Bone Void Fillers. Additionally Smith & Nephew secured a US Government grant to create and develop a NovoSorb™ fracture putty to repair load bearing fractures caused by battlefield trauma. All three projects are controlled by Smith and Nephew. PolyNovo has developed formulations that are currently being tested in bone fracture animal trials.

Metabolic Pharmaceuticals Pty Ltd (Metabolic or AOD9604)

Metabolic's major asset is AOD9604 which has potential applications in the treatment of obesity, bone, cartilage and muscle diseases and repair. AOD9604 is a small 16 amino acid peptide modelled on one active segment of human growth hormone. It has proven to have an excellent safety and tolerability record following formal pre-clinical development and testing in a total of six human clinical trials involving 925 humans. To date a total of over 1,400 humans and animals have been dosed with AOD9604, either orally or by injection, without evidence of any safety issues.

Metabolic has adopted a low cost out-licensing strategy to derive value from the substantial past investment in the clinical development of AOD9604.

The following key initiatives are being pursued to generate shareholder value:

GRAS STATUS PRODUCTS IN THE US MARKET

In June this year AOD9604 received pivotal self-affirmed GRAS status recognition, conditional on publication of our existing safety data. Under a full GRAS status, AOD9604 can be legally added to foods & drinks and eventually dietary supplements in the US market, which allow for partnering and licensing discussions with companies marketing those products in the US. Such products can be launched once Metabolic has published its existing safety data in a peer-reviewed journal. Two journal papers are currently under preparation.

The benefits to Metabolic of deriving value from AOD9604 in this way are:

- GRAS products are faster and cheaper to get to market; and
- The dietary supplement market for fat reduction, health and well-being is large and growing. We will be able to sell into this market after offering AOD9604 as a food or drink ingredient.

With success in the US market, it is then planned to pursue expansion into European over the counter ("OTC") markets via a novel food application and possibly via similar paths into Australia and key Asian markets.

BODYSHAPER™

Metabolic has granted Phosphagenics Ltd a restrictive license to the use of AOD9604 solely in a topically delivered cosmetic product aimed at reducing cellulite and the size of fat cells localised under the skin. Phosphagenics, with assistance from Metabolic, developed a product within 18 months and successfully launched BodyShaper™ into the market in May 2011. Whilst royalties received from sales to date have been disappointing, it is hoped Phosphagenics will be able to increase these with successful world-wide marketing/product sales penetration and with an extended product range.

BodyShaper™ is now being sold throughout Australia in Myer and David Jones stores, Pulse Pharmacies, Priceline, Terry White Chemists and on the TVSN shopping network. BodyShaper™ has also been launched in Asia through the A.S. Watson's Group and the Korean Drug Company's distribution networks in Singapore, South Korea and Northern Asia.

Metabolic receives royalties from Phosphagenics on worldwide sales of this product and a share of any sub-licensing revenue that may be received.

BLACK MARKET USE OF AOD9604

The Company has previously investigated and reported the manufacture of AOD9604 in China, the US and other countries and sales of AOD9604 over the internet. While Calzada does not intend to pursue these manufacturers at the current time we will continue to monitor key developments. The emergence and anecdotal evidence of significant growth of the Black Market suggests there is significant demand for AOD9604.

AOD9604 AS A POTENTIAL TREATMENT FOR BONE DISORDERS

In February 2011, Metabolic received positive *in-vitro* data from Mt Sinai hospital in Toronto, Canada confirming that AOD9604 has an ability to stimulate bone formation in cell cultures utilising human mesenchymal stem cells. Metabolic has previously received positive *in-vivo* results in four separate rat models of osteoporosis. Utilising these positive results together with the existing substantial human clinical safety data enables Metabolic to seek partnering interest in bone disease and repair applications. Examples include use as a biologic, such as a bone morphogenic protein (BMP) type product, stem cell growth factors or coatings to improve the fixation of medical devices. The potential osteoporosis application is proving problematic in terms of attracting partner interest due to the very lengthy and costly human clinical trials which must be conducted to gain regulatory approval in the US market.

AOD9604 AS A POTENTIAL TREATMENT FOR OSTEOARTHRITIS AND CARTILAGE AND MUSCLE REPAIR

AOD9604 has shown positive results in *in-vitro* tests completed in March 2012 at the Mt. Sinai Hospital in Toronto, Canada. These studies, conducted in separate cartilage and muscle cell experiments, were designed to assess the potential of AOD9604 to treat and repair cartilage and muscle. The positive results provide early stage data showing that AOD9604 has potential to promote cartilage creation as required to treat osteoarthritis and may have a capacity to repair and enhance muscle formation. This may be particularly useful in diseases where muscle mass loss is a dominant factor such as sarcopenia. Utilising this new data together with the existing substantial human clinical safety data package provides AOD9604 with the potential to proceed straight to a phase 2 human clinical development for these new applications.

VETERINARY APPLICATIONS

Many of the diseases and applications identified above also have relevance to companion animals. Two large market examples include obesity and osteoarthritis. Due to the comprehensive safety package already established by Metabolic, it may be possible to seek regulatory approval for the use of AOD9604 in a veterinary product after completing just one successful proof of concept trial in a domestic pet model.

SUMMARY

The potential uses of AOD9604 outlined above target application in various conditions, trauma and injuries with very large markets and where there are limited or inadequate treatment options. Metabolic is utilising a low cost out-licensing and partnering strategy to unlock value in AOD9604 with the aim of generating substantial royalty and partnering income from one or more of these opportunities.

Significant Changes in the State of Affairs

Except as otherwise set out in this report, the Directors are unaware of any significant changes in the state of affairs or principal activities of the Company that occurred during the period under review.

Financial Results and Position

The loss by the Group for the year ended 30 June 2012 after income tax benefit of $128,090 was $2,702,726 (2011: $2,944,402). This result has been achieved after fully expensing all research and development costs. Revenue for the period totaled $805,156 (2011: $914,649), including interest revenue of $325,971 (2011: $381,752), grant revenue of $218,029 (2011: $117,569), sales of materials of $115,280 (2011: $100,964) and license revenue of $93,639 (2011:$ 287,237).

The Group has no borrowings and at year end had cash on hand and cash held in term deposits (classified as a financial asset in the Statement of Financial Position) of $4,867,977 (2011:$ 7,216,242).

Strategic Overview and Likely Developments

Strategically Calzada's focus is to maximise the value of its existing assets, being PolyNovo and Metabolic (AOD9604).

As detailed in the Review of Operations above, PolyNovo is now positioned to create significant value within Calzada through entering two pilot human clinical trials with our first biodegradable medical devices made from NovoSorb™; BTM for full thickness burns treatment and BTM for Vacuum Assisted Closure. PolyNovo has an external partnership with Smith and Nephew. Smith and Nephew are conducting tests on NovoSorb™ as a medical device for three bone repair applications. The combination of 'first in man' for NovoSorb™ and a major commercial license will validate the large underlying value of NovoSorb™ and cement our advanced position in the valuable area of tissue scaffolds and tissue engineering.

Calzada continues to look for opportunities to unlock value to the Metabolic asset portfolio (primarily AOD9604). The current focus is on the OTC market, although opportunities to accelerate the pharmaceutical development of AOD9604 without placing a significant financial burden on Calzada are being considered.

Significant Events After the Balance Date

Except as otherwise set out in this report, the Directors are unaware of any significant events which occurred after the balance sheet date 30 June 2012.

Indemnification and Insurance of Directors and Officers

During the period under review, the Company indemnified its Directors, Company Secretary and Executive Officers in respect of any acts or omissions giving rise to a liability to another person (other than the Company or a related party) unless the liability arose out of conduct involving a lack of good faith. In addition, the Company indemnified the Directors and the Company Secretary against any liability incurred by them in their capacity as Directors or Company Secretary in successfully defending civil or criminal proceedings in relation to the Company. No monetary restriction was placed on this indemnity.

The Company has insured its Directors, Company Secretary and Executive Officers for the period under review. Under the Company's Directors' and Officers' Liability Insurance Policy, the Company shall not release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the Company relies on section 300(9) of the *Corporations Act 2001* to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

Inherent Risks of Investment in Biotechnology Companies

There are many inherent risks associated with the development of pharmaceutical and medical products to a marketable stage. The clinical trial process is designed to assess the safety and efficacy of a drug or medical device prior to commercialisation and a significant proportion of drugs and medical devices fail one or both of these criteria. Other risks include uncertainty of patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development, the obtaining of necessary regulatory authority approvals and difficulties caused by the rapid advancements in technology.

Companies such as Calzada are dependent on the success of their research projects and on the ability to attract funding to support these activities. Investment in research and development projects cannot be assessed on the same fundamentals as trading and manufacturing enterprises. Further, access to capital and funding for the Company and its projects going forward cannot be guaranteed. Thus investment in Companies specialising in these, such as Calzada, must be regarded as highly speculative. Calzada strongly recommends that professional investment advice be sought prior to such investments.

Forward-looking statements

Certain statements in this Annual Report contain forward-looking statements regarding the Company's business and the therapeutic and commercial potential of its technologies and products in development. Any statement describing the Company's goals, expectations, intentions or beliefs is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those risks or uncertainties inherent in the process of discovering, developing and commercialising drugs and medical devices that can be proven to be safe and effective for use in humans, and in the endeavor of building a business around such products and services. Calzada undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. Actual results could differ materially from those discussed in this Annual Report. As a result you are cautioned not to rely on forward-looking statements.

Environmental Regulation

Calzada is not subject to significant environmental regulations.

Board Monitoring

The Board monitors the Company's overall performance, from the implementation of its strategic plan through to the performance of the Group against operating plans and financial budgets. For further details regarding Calzada's Board and Committees refer to the Corporate Governance Statement in this Directors' Report.

Board and Committee Meetings

The number of meetings of the Board of Directors, Board Committees and Director attendance at those meetings during the year under review was:

	Full Board		Audit Committee		Remuneration Committee[2]	
Directors	**Meetings attended**	**Meetings eligible to attend**	**Meetings attended**	**Meetings eligible to attend**	**Meetings attended**	**Meetings eligible to attend**
Total number of meetings held	10		2[1]		-	
Mr David Franklyn	10	10	2	2	–	–
Mr Bruce Rathie	10	10	2	2	–	–
Dr John Chiplin	10	10	–	–	–	–
Dr David McQuillan[3]	–	–	–	–	–	–

[1]An audit planning meeting was held in June 2012, however that meeting was not considered to be a properly convened audit committee meeting due to a quorum not being formed.

[2]Calzada does not have an established Remuneration Committee due to the small size of the business and the Board. The Board acts as the Remuneration Committee and addresses such issues during the year as they arise.

[3]Dr McQuillan was appointed as a Director on the 6th August 2012 and therefore did not attend any board or committee meetings for the year ended 30 June 2012.

Directors' Shareholdings and Declared Interests

At 30 June 2012, the Directors of Calzada collectively hold 1,000,000 shares in the Company. As at the date of this report the interests of the Directors in the Company's shares are:

Name	Shares held directly	Shares held indirectly
Directors:		
Mr David Franklyn	–	–
Mr Bruce Rathie	–	1,000,000
Dr John Chiplin	–	–
Dr David McQuillan	–	–
Total:	**–**	**1,000,000**

As at 30 June 2012 and as at the date of this report, no Director has an interest in any contract or proposed contract with Calzada other than as disclosed below or in the Group's 2012 Annual Report. Further details of the equity interests of Directors can be found in the Remuneration Report in this Directors' Report and Note 23 (C) of the Annual Financial Report.

Entrust Funds Management Ltd (Entrust) was engaged on 1st September 2009 to the termination of the agreement on 18th April 2011 to provide financial, ASX reporting and company secretarial services.

Compensation while the contract was in effect was as follows:

- Compensation is a fixed fee of $175,000 per year;
- Termination requires six months written notice;
- No performance based cash bonuses; and
- No share-based compensation or long-term incentives.

Oliver Stevens (former Non-executive director) was an employee of Entrust up until the date of his resignation and David Franklyn is a Director of Entrust, and therefore had an interest in the services contract with Entrust Funds Management Ltd.

The services agreement between Entrust and Calzada was terminated on 18th April 2011 by mutual agreement without penalty to the Company.

The Directors received the following declaration from the auditor of Calzada Limited.

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Auditor's Independence Declaration to the Directors of Calzada Limited

In relation to our audit of the financial report of Calzada Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Don Brumley
Partner
24 August 2012

Non-Audit Services

During the period under review the amount received, or due and receivable for non-audit services provided by the Group's auditor, Ernst & Young, were:

Preparation of tax returns	$17,570
Accounting and tax advice relating to deferred tax assets and deferred tax liabilities	$6,420
Preparation and lodgment of Research and Development tax concession application	$43,650

The Directors are satisfied that the provision of non-audit services during the current period is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

CORPORATE GOVERNANCE STATEMENT

Introduction

The Board of Calzada is responsible for the corporate governance of the Group and guides and monitors the business on behalf of its shareholders. The Board has strived to reach a balance between industry best practice and appropriate policies for Calzada in terms of its size, stage of development and role in the biotechnology industry. Calzada performed a review of its Board policies and governance practices with reference to the eight Principles of Good Corporate Governance and the Best Practice Recommendations (Recommendations) established by the ASX Corporate Governance Council. The Recommendations are not mandatory and cannot, in themselves, prevent corporate failure or poor corporate decision-making. They are intended to provide a reference point for companies about their corporate governance structures and practices.

The Directors have considered each of the core Principles and Recommendations during the period under review. There are instances where the Company would not benefit from compliance with the Recommendations, and in some instances the Company has not had the resources to comply. The Recommendations that were not adopted are discussed in this Corporate Governance Statement.

Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION 1.1

The role of the Board is to represent the interests of shareholders, by providing the Group with good governance and strategic direction. Calzada has adopted a Board Charter setting out the matters reserved to them, including their function and responsibilities. The Board Charter is available at www.calzada.com.au in the Corporate Governance section.

Calzada delegates authority to Senior Management for the day-to-day running of the business as per agreed delegations.

Currently Calzada has 1.75 full time employees. Calzada's 100% owned subsidiary PolyNovo employs an additional 4 full time staff. Senior Management of PolyNovo and Metabolic Pharmaceuticals Pty Ltd report directly to the Calzada board via the Chairman.

RECOMMENDATION 1.2

Calzada conducts a formal review of the Senior Executives within the group on an annual basis. The Remuneration Committee has been performed by the full Board as from 1 May 2011 due to a reduction in the size of the Board. The Charter of the Remuneration Committee includes the evaluation of the performance of Senior Management and Executives in consultation with the Board. The Board has assumed all the functions as outlined in the Remuneration Committee charter.

Principle 2: Structure the Board to add value

RECOMMENDATION 2.1

The Board has adopted the Council's recommended criteria for assessing Director independence. To be assessed as independent, a Director must fulfill a number of criteria as outlined in the ASX Corporate Governance Principles. As at the date of this report all Directors are considered independent.

The Company provides the Board with access to independent professional advice at the Company's expense, unless the Board determines otherwise.

Mr Franklyn has no commercial agreements with Calzada and is not a substantial holder of shares in the Company. As such Mr Franklyn is considered independent. Mr Rathie has no commercial agreements with Calzada and is not a substantial holder of shares in the Company. As such Mr Rathie is considered independent. Dr Chiplin has no commercial agreements with Calzada and is not a substantial holder of shares in the Company. As such Dr Chiplin is considered independent. Dr McQuillan has no commercial agreements with Calzada and is not a substantial holder of shares in the Company. As such Dr McQuillan is considered independent.

As at the date of this Directors' Report, the Board of Calzada is comprised of four Directors, with a combination of commercial acumen and experience in the biotechnology industry. The relevant qualifications and details of each Director are documented in this Directors' Report under the section titled Board of Directors and Senior Management.

The independence and tenure of each Director in office as at the date of this Directors' Report is described in the table below:

Director	Position	Independence	Area of expertise
David Franklyn (appointed in April 2009)	Chairman, Non-executive Director	Independent	Managing Director of Entrust Funds Management with extensive experience in company valuation and analysis, corporate finance and investor relations.
Bruce Rathie (appointed in February 2010)	Non-executive Director	Independent	Extensive experience across a wide range of industries including biotech, legal, financial, investment, strategy and commercial expertise and is an experienced Non-Executive Director.
John Chiplin (appointed in October 2010)	Non-executive Director	Independent	Extensive experience across a wide range of biotechnology companies.
Dr David McQuillan (appointed in August 2012)	Non-executive Director	Independent	Extensive experience across a wide range of biotechnology companies in the USA.

Calzada has agreed to indemnify its Directors against certain liabilities and to maintain Directors and Officers insurance coverage.

Role of the Chair

RECOMMENDATION 2.2

The Chairman is considered to be independent. The Chairman is non executive at the date of this report.

RECOMMENDATION 2.3

The role of the Chairman and Chief Executive Officer are not performed by the same person as at the date of this report.

Nomination Committee

RECOMMENDATION 2.4

The Board performed the role of the nomination committee due to the small size of the company. Any new Director is considered by the full board to ensure the best qualified person is appointed regardless of gender.

Evaluation of the Board

RECOMMENDATION 2.5

The Board is responsible for reviewing its own performance. A review of the performance of the Board is conducted by the Chairperson and Directors on an ongoing basis and also through an annual self assessment process. All Directors have access to continuing education and are provided with the information they need to discharge their responsibilities effectively. The Company Secretary plays an integral role in supporting the Board by monitoring Board policy and procedures, and coordinating meeting documentation.

Principle 3: Promote ethical and responsible decision-making

RECOMMENDATION 3.1

Calzada distributes its code of conduct to all employees and Directors. The Code of Conduct documents the practices necessary to maintain confidence in the Company's integrity and these practices are in line with the Council's guidelines on good corporate governance.

The Code of Conduct Policy covers the following:

- compliance with the law;
- acting honestly and with integrity;
- to not place themselves in situations which result in a conflict of interest;
- use the Company's assets responsibly and in the best interests of the Company; and
- to be responsible and accountable for their actions.

RECOMMENDATION 3.2

The Board has established a Gender Diversity Policy. Calzada's Gender Diversity Policy is publicly available at www.calzada.com.au.

RECOMMENDATION 3.3

In adopting a Gender Diversity Policy the following objectives were considered:

- establishing a committee to oversee diversity;
- improve the proportion of women within executive management where appropriate; and
- mentoring and development programs, including all employed women in networking initiatives in the industry and field where applicable.

RECOMMENDATION 3.4

Calzada currently employs 5.75 full time employees of which 0.75 is female. There are no women in senior executive positions. As at the date of this report the Board of Calzada does not contain a female member. Calzada is an Equal Opportunity Employer and actively encourages diversity in the workplace.

Principle 4: Safeguard integrity in financial reporting
Calzada's Audit Committee

RECOMMENDATION 4.1

The Board has established an Audit Committee which operates under a formal Charter approved by the Board. It is the Board's responsibility to ensure that an effective control framework exists within the entity. This includes ensuring that there are internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Group to the Audit Committee. The full Board is ultimately responsible for the Group's financial reporting.

The Audit Committee provides the Board with additional assurance regarding the reliability of financial information for inclusion in the Annual Financial Report and Half Year Report, and is responsible for the nomination of the external auditor and reviewing the scope and quality of the annual statutory audit and half-year statutory review.

RECOMMENDATION 4.2 - 4.4

Listed companies audit committees are recommended to have:

- at least three Directors in their Audit Committee;
- audit committee comprising of only Non-Executive Directors;
- the majority of members are to be independent; and
- the committee should be chaired by a Director other than the chairperson of the Board.

Whilst one of the four criteria recommended for the composition of Audit Committees has not been met, Calzada does not believe it was disadvantaged given that the members possess the relevant financial skills and experience to perform the responsibilities of the committee.

Current membership of Calzada's Audit Committee addresses the criteria provided in Recommendation 4.2 as follows – the committee comprises two Directors, all of whom are non-executive Directors and all are considered independent. The Chair of the Audit Committee is independent.

The current members of the Audit Committee are:

- Mr Bruce Rathie – Chairman
- Mr David Franklyn

The members of the Audit Committee are financially literate and have substantial public company experience. Details of the qualifications of Audit Committee members are included in this Directors' Report in the Board of Directors and Senior Management section. The partner of the Company's external auditor is invited to attend Audit Committee meetings as required. For details of the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Board and Committee Meetings section in this Directors' Report.

There is a formal charter for the Audit Committee which is available at www.calzada.com.au.

Principle 5: Make timely and balanced disclosure

Calzada's Market Disclosure Protocol reflects the recommendations by the Council regarding continuous disclosure. The Company ensures that there is an appropriate balance in its disclosure of information by using a Board approach where possible to formulate its announcements. Calzada's announcements are made in a timely manner, are factual, do not omit material information and expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Company provides commentary in relation to its Annual Financial Report and provides a full review of operations for the reporting period in its Annual Report as required by the ASX Listing Rules. All ASX announcements are available at asx.com.au.

Principle 6: Respect the rights of shareholders
Shareholder Communications

RECOMMENDATION 6.1

Calzada communicates regularly with its shareholders, using ASX announcements, Company newsletters, the Annual Report, the Annual General Meeting and the Company's website. Access to ASX announcements is available to shareholders by using links available on the company's website.

Policies and procedures regarding the governance of the Company are available at www.calzada.com.au in the Corporate Governance section.

The Company has encouraged shareholders to elect to receive communications electronically. This serves the best interests of shareholders by facilitating the delivery of shareholder communications by electronic means, thus reducing costs and protecting the environment. Shareholders are encouraged to ask questions or provide feedback to the Company by email, phone or fax as well as at the Company Annual General Meeting. Contact details of senior executives are provided on ASX announcements and newsletters.

There is a formal Communications Policy which is available at www.calzada.com.au in the Corporate Governance Section.

Principle 7: Recognise and manage risk
Calzada has implemented a formal risk management system

RECOMMENDATION 7.1 - 7.2

Biotechnology is an inherently risky industry. Calzada has a formal risk management policy and a risk register. This approach to risk management involves identifying, assessing and managing the risks that affect the business, whilst at the same time considering these risks in the context of the Group's values, objectives and strategies.

Risks are analysed and where possible reduced, but it is not always possible to completely mitigate all the risks faced by a biotechnology company.

As Calzada has a relatively small Board, the sought after efficiencies will not be derived from a formal risk committee structure. Ultimate responsibility for risk oversight and risk management has been delegated to senior management, with the full Board overseeing the procedure.

Calzada's policy for risk management is available at www.calzada.com.au in the Corporate Governance Section.

The Chief Financial Officer has given a declaration to the Board regarding the Company's Annual Financial Report

RECOMMENDATION 7.3

The Chief Financial Officer has given a declaration to the Board concerning the Company's Annual Financial Report required under section 295A of the *Corporations Act 2001*.

Principle 8: Encourage enhanced performance
Calzada's Remuneration Committee

RECOMMENDATION 8.1

The Company does not have an established Remuneration Committee due to the small size of the business and the Board (4). Should the Board increase in size then the re-establishment of a Remuneration Committee will be considered.

The Board is responsible for determining, recommending and reviewing compensation arrangements for the Directors themselves, the Chairman and Senior Executives consistent with ASX Principle 8.

A summary of the remuneration policy for Directors and Senior Executives is set out in the Remuneration Report which forms part of the Directors Report. The Remuneration Report includes details of the remuneration of Directors and key management executives of the Company and the Group.

Calzada's policies are available on the internet

The following policies and statements can be downloaded from the Corporate Governance section of the Company's website www.calzada.com.au:

- Annual Corporate Governance Statement
- Audit Committee Charter
- Board Charter
- Code of Conduct
- Communications Policy
- Market Disclosure Protocol
- Performance Evaluation Process for Directors and Executives
- Gender Diversity Policy
- Risk Management Policy
- Share Trading Policy

Remuneration Report (Audited)

This report outlines compensation arrangements in place for the Key Management Personnel of Calzada, and explains how these arrangements are linked to company performance.

Key Management Personnel

The Key Management Personnel of Calzada are Directors and Senior Managers of the Group. The following persons had the authority and responsibility for planning, directing and controlling the activities of the Company and the Group, directly or indirectly, during the financial year:

NON-EXECUTIVE DIRECTORS

- Mr David Franklyn – *Currently Non-Executive Chairman (appointed 16th April 2009). Commenced as Executive Chairman 1st February 2010 and ceased as Executive Chairman 31st March 2011.*
- Mr Oliver Stevens – *Non-Executive Director (appointed 16th April 2009) resigned 31st March 2011.*
- Mr George Cameron-Dow – *Non-Executive Director (appointed 16th April 2009) resigned 22nd November 2010.*
- Mr Bruce Rathie – *Non-Executive Director (appointed 18th February 2010).*
- Dr John Chiplin – *Non-Executive Director (appointed 18th October 2010).*
- Dr David McQuillan – *Non-Executive Director (appointed 6th August 2012).*

SENIOR MANAGERS (INCLUDING EXECUTIVE DIRECTORS)

- Mr David Franklyn – *Currently Non-executive Chairman (appointed 16th April 2009). Commenced as Executive Chairman 1st February 2010 and ceased as Executive Chairman 31st March 2011.*
- Mr Stewart Washer – *Chief Executive Officer (commenced employment 23rd November 2010 and ceased employment on 7th October 2011).*
- Mr Chris Mews – *Chief Financial Officer/Company Secretary, appointed CFO 1st September 2009 and held title of Company Secretary since 16th April 2009*.
- Mr David Kenley – *Chief Executive Officer of Metabolic Pharmaceuticals Pty Ltd (appointed 18th February 2010).*
- Mr Laurent Fossaert – *Chief Executive Officer PolyNovo Biomaterials Pty Ltd (appointed permanent CEO of PolyNovo on 18th February 2010)*.

Calzada's compensation policy for Key Management Personnel is designed to provide competitive and appropriate rewards that are transparent and fully aligned to shareholder interests. In accordance with corporate governance best practice, the Company has structured its compensation policy for Non-Executive Directors distinctly from its policy for Senior Managers.

Compensation Policy – Non-Executive Directors

The Board determines the compensation of Non-Executive Directors based on market practice, director duties and accountability. The Company's compensation policy is designed to attract and retain competent and suitably qualified Non-Executive Directors, and the structure of their compensation endeavours to ensure that Directors' interests are aligned with the interests of shareholders. Non-Executive Directors are paid a set fee plus statutory superannuation where appropriate and are reimbursed for out-of-pocket expenses incurred as a result of their directorship or any special duties. Non-Executive Directors are encouraged to own shares in Calzada however they do not currently participate in the Company's equity plans.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is approved by shareholders. Total Non-Executive Directors' fees including superannuation paid during the 30 June 2012 year amounted to $170,800. This excludes fees paid to KMP's related parties. The fees paid to Calzada's Non-Executive Directors are considered within the average range for similar sized companies in the biotechnology industry, and these amounts are reviewed periodically. The Board has a fee pool for Directors to $300,000. Mr Franklyn was Non-Executive Chairman for the full 2012 financial year. During the 2011 period Mr Franklyn's board fee was reflected in his executive agreement, as such no Director fee was paid to him over and above this amount. Mr Franklyn was Non-Executive Chairman from 1st April 2011 to the end of the 2011 financial year during which time he was paid a Director Fee of $75,000 and superannuation of $6,750. The Chairman receives additional fees in recognition of the responsibilities attaching to that role. During the year, Calzada held 10 Board meetings and 2 Audit Committee meetings.

Compensation – Senior Managers (including Executive Directors)

Calzada's compensation policy for Senior Managers is set by the Board and is designed to link performance and retention strategies to ensure:

- the balance between fixed and variable (performance) components for each position is appropriate in light of internal and external factors;
- the set individual objectives will result in sustainable beneficial outcomes;
- that all performance compensation components are appropriately linked to measurable personal, business unit or Company performance; and
- that total compensation (that is, the sum of fixed and variable components) for each Senior Manager is fair, reasonable and market competitive.

Generally, there are three components of Senior Management compensation provided, as follows:

1. fixed annual compensation comprising salary and benefits, superannuation and non-monetary benefits;
2. short-term performance incentive, through cash bonuses; and
3. medium and long-term incentive, through participation in the Calzada Employee Share Option Plan ("the Plan").

The proportion of total compensation that is subject to performance conditions, provided through short-term and long-term incentives vary in accordance with the following guidelines:

	Cash Bonus (Short-Term Incentive)	**Performance Rights (Medium and Long-Term Incentive)**
Chief Executive Officer	25%	30%
Senior Management	25%	20%
All other employees	15%	10%

A market review of the fees paid to all Directors and Senior Management was conducted in reference to market available data. It was concluded that remuneration was set within market rates.

Fixed Annual Compensation

Senior Managers are offered a market competitive base salary which reflects their competencies, job description as well as the size of the Group. Base salary was reviewed against market data for comparable positions. Adjustments to base salary are made based on significant role responsibility changes, pay relativities to market and relative performance in the role.

Short-Term Incentives (STIs)

Short-Term Incentives in the form of cash bonuses are reviewed annually based upon individual performance and achievement of objectives.

The individual objectives and key performance indicators are set by the Board in consultation with the Chairman. Individual performance hurdles and the achievement of corporate goals were assessed to determine the bonus payment. This assessment also takes into account how Senior Managers performed their role with regard to the Company's core values. The performance evaluation of the Chief Executive Officer of each business unit is conducted by the Board. Any STI payment is made at the completion of the financial year. All STIs achieved and entitled at 30 June 2012 have been included in the remuneration report under the relevant KMP or Director.

Medium and Long-Term Incentives

Calzada's medium and long-term incentive policy for Senior Management is focused on encouraging high-quality performance and long-term retention. Carefully designed and performance linked equity incentive plans are widely recognised as an effective way of providing incentives to Executives.

Calzada Employee Share Option Plan

During the financial year no employees received option allocations under the Calzada Employee Share Option Plan. These options have an expiry date between 12 and 36 months from the grant date, generally with staggered vesting terms based on anniversary periods, subject to continuing service. These options were granted for zero consideration, and were granted at the discretion of the Board. These options cannot be transferred and will not be quoted on the ASX Limited. There are 12,135,000 options outstanding at 30 June 2012 (2011: 15,335,000), with 3,200,000 options having been forfeited during the period.

The options issued to Dr Stewart Washer are not subject to any employment or hurdle conditions. Upon departing the Group 3,200,000 of these options were forfeited. All other options issued during the period are subject to continued employment with Calzada.

At the Company's Annual General Meeting (AGM) held in November 2011 Calzada received votes against the resolution to adopt the 30 June 2011 remuneration report totaling more than 25% of total votes cast.

No specific comments on the 30 June 2011 remuneration report have been communicated to the board.

The Board undertook a review of the remuneration framework with the following actions resulting:

1. No increase in Director remuneration has occurred since April 2009, when total board remuneration was reduced.

2. In respect to the review of staff remuneration, all KPI bonuses paid in this financial year were in place prior to the AGM.

3. Staff reviews were performed following the AGM and prior to 30 June 2012, where all remuneration was benchmarked to industry guidelines.

4. No options were granted to Directors or employees during the year ending 30 June 2012.

5. All KPIs were set in line with goals that result in a clear benefit to the Company.

Details of Compensation for Key Management Personnel

For the year ended 30 June 2012, details of the compensation for Key Management Personnel are set out in the table below.

Table A		**Short-Term**				**Post Employment**	**Long-Term**	**Termination Benefits (including superannuation)**	**Share-based payments**	**Total**
Directors		**Cash Salary & Fees**	**Cash bonus**	**Con-sulting Fees**	**Non-monetary benefits**	**Super-annuation**	**Long Service Leave**		**Options & Performance Rights**	
Mr David Franklyn (Chairman / Non-Executive Director)[1]	**2012**	**75,000**	**-**	**-**	**-**	**6,750**	**-**	**-**	**-**	**81,750**
	2011	158,940	-	-	-	13,500	-	-	-	172,440
Mr Oliver Stevens (Non-Executive Director)[2]	**2012**	**-**	-	-	-	**-**	-	-	-	**-**
	2011	30,000	-	-	-	1,500	-	-	-	31,500
Mr George Cameron-Dow (Non-Executive Director)[3]	**2012**	**-**	-	**-**	-	-	-	-	-	**-**
	2011	15,778	-	100,000	-	-	-	-	-	115,778
Mr Bruce Rathie (Non-Executive Director)[4]	**2012**	**45,000**	-	-	**-**	**4,050**	**-**	**-**	**-**	**49,050**
	2011	42,053	-	-	-	3,788	-	-	-	45,871
Dr John Chiplin (Non-Executive Director)[5]	**2012**	**40,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40,000**
	2011	28,772	-	-	-	-	-	-	-	28,772
Dr David McQuillan (Non-Executive Director)[10]	**2012**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2011	-	-	-	-	-	-	-	-	-
Sub total compensation for Directors	**2012**	**160,000**	**-**	**-**	**-**	**10,800**	**-**	**-**	**-**	**170,800**
	2011	275,573	-	100,000	-	18,788	-	-	-	394,361

		Short-Term				Post Employment	Long-Term	Termination Benefits (including superannuation)	Share-based payments	Total	Short-Term and Long Term
		Cash Salary & Fees	Cash bonus	Con-sulting Fees	Non-monetary benefits	Super-annuation	Long Service Leave		Options & Performance Rights		% performance related
Other Key Management Personnel											
Dr Stewart Washer (Chief Executive Officer)[6]	**2012**	**80,453**	**-**	**-**	**-**	**7,241**	**-**	**272,500**	**(13,067)**	**347,127**	**(4%)**
	2011	181,923	8,750	-	-	16,373	-	-	30,187	237,233	16%
Mr David Kenley (Chief Executive Officer – Metabolic Pharmaceuticals Pty Ltd)[7]	**2012**	**-**	**31,500**	**228,900**	**-**	**-**	**-**	**-**	**34,382**	**294,782**	**22%**
	2011	-	-	233,912	-	-	-	-	15,651	249,563	6%
Mr Laurent Fossaert (Chief Executive Officer – PolyNovo Biomaterials Pty Ltd)[8]	**2012**	**235,000**	**-**	**-**	**-**	**21,150**	**3,924**	**-**	**8,773**	**268,847**	**3%**
	2011	217,500	34,000	-	-	21,538	5,626	-	13,569	292,233	16%
Mr Chris Mews (CFO/Company Secretary)[9]	**2012**	**175,000**	**28,000**	**-**	**-**	**18,270**	**3,513**	**-**	**6,567**	**231,350**	**15%**
	2011	35,897	-	138,542	-	3,231	-	-	4,894	182,564	3%
Sub total compensation for Other Key Management Personnel	**2012**	**490,453**	**59,500**	**228,900**	**-**	**46,661**	**7,437**	**272,500**	**36,655**	**1,142,106**	**8%**
	2011	435,320	42,750	372,454	-	41,142	5,626	-	64,301	961,593	11%
Total compensation for all Key Management Personnel	**2012**	**650,453**	**59,500**	**228,900**	**-**	**57,461**	**7,437**	**272,500**	**36,655**	**1,312,906**	
	2011	710,893	42,750	472,454	-	59,930	5,626	-	64,301	1,355,954	

1 Mr David Franklyn was appointed Chairman and Non Executive Director on 16th April 2009, and Executive Chairman on 1st March 2010. Mr Franklyn ceased being an Executive Chairman on 31st March 2011. Mr Franklyn in his role as Executive Chairman was paid $175,000 per annum.

2 Mr Oliver Stevens was appointed as Non Executive Director on 16th April 2009 and resigned on 31st March 2011.

3 Mr George Cameron-Dow was appointed Non Executive Director on 16th April 2009 and resigned on 22nd November 2010. Mr Cameron-Dow provided consulting services to Calzada and PolyNovo. This was paid through SG Corporate Pty Ltd, an entity associated with Mr Cameron-Dow.

4 Mr Bruce Rathie was appointed as Non Executive Director on 18th February 2010.

5 Dr John Chiplin was appointed as Non Executive Director on 18th October 2010.

6 Dr Stewart Washer was appointed Chief Executive Officer of Calzada on 23rd November 2010 and ceased employment on 7th October 2011. He was paid $300,000 per annum plus superannuation of 9%. Dr Washer could earn up to an extra 25% of his base salary as a bonus each year if he achieved set KPIs.

7 Mr David Kenley was appointed as Non Executive Director on 16th April 2009. Mr Kenley resigned as Non Executive Director on 18th February 2010. Mr Kenley's services as CEO of Metabolic Pharmaceuticals Pty Ltd are contracted through a services agreement between Calzada and Lateral Innovations Pty Ltd.

8 Mr Laurent Fossaert was appointed permanent CEO of PolyNovo on 18th February 2010. Previously he held the role of COO of PolyNovo and was acting CEO.

9 Mr Chris Mews was appointed as Company Secretary on 16th April 2009 and Chief Financial Officer on 1st September 2009.

10 Dr David McQuillan was appointed as Non Executive Director on 6th August 2012, therefore earned nil compensation during 2012.

COMPENSATION BY CATEGORY: KEY MANAGEMENT PERSONNEL

	30 June 2012 $	30 June 2011 $
Short-Term	938,853	1,226,097
Post Employment - Superannuation	57,461	59,930
Long-Term	7,437	5,626
Termination Benefits	272,500	-
Share-based Payments	36,655	64,301
	1,312,906	1,355,954

Fair Value of Share-Based Compensation

(A) FAIR VALUE OF OPTIONS

The fair value of options included in compensation Table A were determined using a binomial approximation model. This model takes into account, as at grant date, the exercise price and expected life of the option, the vesting criteria, the current price of the underlying share and its expected volatility, expected dividends and the risk-free interest rate for the expected life of the option. These options were issued pursuant to the Calzada Employee Share Option Plan and have an expiry date between 12 and 36 months from grant, generally with staggered vesting terms based on anniversary periods. The option-pricing model values each of these vesting portions separately. Accordingly the amortised share-based compensation disclosed in Table A includes the apportioned value of the options during the year. A breakdown of the fair value of each grant of option included in Key Management Personnel share-based compensation is set out in Table B.

Table A provides the following details:

a. the pricing model assumptions used in calculating the fair value of each option;
b. the fair value of each option included in the compensation of each of the Key Management Personnel for the year ended 30 June 2012; and
c. the date when options may be exercised, subject to conditions.

Table A 2012 Financial Year		**Options Granted on 23 November 2010**	**Options Granted on 23 November 2010**	**Options Granted on 15 December 2010**	**Options Granted on 15 December 2010**	**Options Granted on 29 April 2011**	**Options Granted on 29 April 2011**	**Options Granted on 29 April 2011**	**TOTAL**
Exercise Price		$0.04	$0.06	$0.04	$0.06	$0.04	$0.06	$0.085	
Risk-free interest rate		6.06%	6.06%	6.06%	6.06%	6.16%	6.16%	6.16%	
Volatility		80%	80%	80%	80%	60%	60%	60%	
Expiry Date:		23 Nov 2013	23 Nov 2013	1 Dec 2013	1 Dec 2013	1 Dec 2013	1 Dec 2013	1 April 2014	
Dividend yield		-	-	-	-	-	-	-	
Average Fair Value per option (cents)		0.75	0.50	0.87	0.61	3.0	2.1	1.4	
NAME	Number and value of Options for the year ended 30 June 2012								
Dr Stewart Washer [2]	Number of options granted	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2012	-	-	-	-	-	-	-	-
Mr David Kenley	Number of options granted	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2012	-	-	$4,640[1]	$3,253[1]	$4,648	$3,110	-	$15,651
Mr Laurent Fossaert	Number of options granted	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2012	-	-	$8,127	$5,442	-	-	-	$13,569
Mr Chris Mews	Number of options granted	-	-	-	-	-	-	-	-
	Value for year ended 30 June 2012	-	-	-	-	-	-	$4,894	$4,894
VESTING PROPORTIONS		50% - 23.11.10[2]	50% - 23.11.10[2]	33% - 15.12.10	33% - 15.12.10	50% - 01.02.12	50% - 01.02.12	33% - 29.04.11	
		-	-	33% - 15.12.11	33% - 15.12.11	50% - 01.02.13	50% - 01.02.13	33% - 01.04.12	
		-	-	34% - 15.12.12	34% - 15.12.12	-	-	34% - 01.04.13	

1. In respect of the December 2010 options granted to David Kenley, the remaining expense was recorded in 2012 as a result of his vesting conditions.
2. Upon Dr Stewart Washer's departure from the group 3,200,000 unvested options were forfeited. The remaining 3,200,000 of Dr Washer's options which had already vested were sold to Mr David Kenley, 1,422,222 options, Mr Chris Mews, 355,556 options, and the remaining 1,422,222 options to an independent third party. The sale was on commercial terms.

Table B provides the following details:

a. the pricing model assumptions used in calculating the fair value of each option;
b. the fair value of each option included in the compensation of each of the Key Management Personnel for the year ended 30 June 2011; and
c. the date when options may be exercised, subject to conditions.

Table B 2011 Financial Year		**Options Granted on 23 November 2010**	**Options Granted on 23 November 2010**	**Options Granted on 15 December 2010**	**Options Granted on 15 December 2010**	**Options Granted on 29 April 2011**	**Options Granted on 29 April 2011**	**Options Granted on 29 April 2011**	**TOTAL**
Exercise Price		$0.04	$0.06	$0.04	$0.06	$0.04	$0.06	$0.085	
Risk-free interest rate		6.06%	6.06%	6.06%	6.06%	6.16%	6.16%	6.16%	
Volatility		80%	80%	80%	80%	60%	60%	60%	
Expiry Date:		23 Nov 2013	23 Nov 2013	1 Dec 2013	1 Dec 2013	1 Dec 2013	1 Dec 2013	1 April 2014	
Dividend yield		-	-	-	-	-	-	-	
Average Fair Value per option (cents)		0.75	0.50	0.87	0.61	3.0	2.1	1.4	
NAME	Number and value of Options for the year ended 30 June 2011								
Dr Stewart Washer	Number of options granted	3,200,000	3,200,000	-	-	-	-	-	6,400,000
	Value for year ended 30 June 2011	$18,307	$11,880	-	-	-	-	-	$30,187
Mr David Kenley	Number of options granted	-	-	533,333	533,333	1,066,667	1,066,667	-	3,200,000
	Value for year ended 30 June 2011	-	-	$4,640	$3,253	$4,648	$3,110	-	$15,651
Mr Laurent Fossaert	Number of options granted	-	-	1,600,000	1,600,000	-	-	-	3,200,000
	Value for year ended 30 June 2011	-	-	$8,127	$5,442	-	-	-	$13,569
Mr Chris Mews	Number of options granted	-	-	-	-	-	-	1,000,000	1,000,000
	Value for year ended 30 June 2011	-	-	-	-	-	-	$4,894	$4,894
VESTING PROPORTIONS		50% - 23.11.10	50% - 23.11.10	33% - 15.12.10	33% - 15.12.10	50% - 01.02.12	50% - 01.02.12	33% - 29.04.11	
		50% - 23.11.11	50% - 23.11.11	33% - 15.12.11	33% - 15.12.11	50% - 01.02.13	50% - 01.02.13	33% - 01.04.12	
		-	-	34% - 15.12.12	34% - 15.12.12			34% - 01.04.13	

Options and Performance Rights granted as part of compensation

During the year ended 30 June 2012 no options (2011:15,535,000) were granted, no options were cancelled (2011; 200,000), 3,200,000 were forfeited (2011; nil).

Table C and D provides a breakdown of each share-based payment included in the compensation of Key Management Personnel for the year ended 30 June 2012 and 30 June 2011.

Table C 2012 Financial Year	**Grant date**	**Grant number**	**Average Fair Value per option at grant date**	**Fair Value of options granted during the year**	**Value of options forfeited/forfeited during the year**	**Value of options exercised during the year**	**Value of options yet to be expensed**	**Fair Value of options included in remuneration during the year**	**% compensation consisting of options during the year**
Dr Stewart Washer									
• Options	23 November 2010	6,400,000	$0.0063	-	$20,160	-	-	($13,067)	(4%)
Mr David Kenley									
• Options	15 December 2010	1,066,667	$0.0074	-	-	-	-	$17,191	6%
• Options	29 April 2011	2,133,333	$0.0255	-	-	-	$12,244	$17,191	6%
Mr Laurent Fossaert									
• Options	15 December 2010	3,200,000	$0.0074	-	-	-	$1,338	$8,773	3%
Mr Chris Mews									
• Options	29 April 2011	1,000,000	$0.014	-	-	-	$2,139	$6,567	3%
TOTAL		**13,800,000**		**-**	**$20,160**	**-**	**$15,721**	**$36,655**	

Table D 2011 Financial Year	Grant date	Grant number	Fair Value per option at grant date	Fair Value of options granted during the year	Value of options forfeited/forfeited during the year	Value of options exercised during the year	Value of options yet to be expensed	Fair Value of options included in remuneration during the year	% compensation consisting of options during the year
Dr Stewart Washer									
• Options	23 November 2010	6,400,000	$0.0063	$39,520	-	-	$9,333	$30,187	13%
Mr David Kenley									
• Options	15 December 2010	1,066,667	$0.0074	$7,893	-	-	-	$7,893	3%
• Options	29 April 2011	2,133,333	$0.0255	$54,294	-	-	$46,536	$7,758	3%
Mr Laurent Fossaert									
• Options	15 December 2010	3,200,000	$0.0074	$23,680	-	-	$10,111	$13,569	5%
Mr Chris Mews									
• Options	29 April 2011	1,000,000	$0.014	$13,600	-	-	$8,706	$4,894	3%
TOTAL		**13,800,000**		**$138,987**	**-**	**-**	**$74,686**	**$64,301**	

Options and Performance Rights granted and vested during the year ended 30 June 2012

Table E		**Performance Rights**		**Options**	
		Number of Performance Rights granted during the year	**Number of Performance Rights vested during the year**	**Number of Options granted during the year**	**Number of Options vested during the year**
Key Management Personnel					
Dr Stewart Washer	2012	–	–	–	–
	2011	–	–	6,400,000	3,200,000
Mr David Kenley	2012	–	–	–	1,066,666
	2011	–	–	3,200,000	1,066,667
Mr Laurent Fossaert	2012	–	–	–	1,066,666
	2011	–	–	3,200,000	1,066,667
Mr Chris Mews	2012	–	–	–	333,333
	2011	–	–	1,000,000	333,333

Shares Issued to Key Management Personnel on exercise of compensation Options or Rights during the year ended 30 June 2012

No shares were issued to Key Management Personnel on exercise of compensation Options or Rights during the year ended 30 June 2012 (2011; Nil).

Group Performance

Calzada has designed its compensation policies to ensure significant linkage between rewards and specific achievements that are intended to improve shareholder wealth. In assessing the link between Group performance and compensation policy, it must be recognised that biotechnology companies generally do not make a profit until a drug or device is licensed or commercialised, either of which takes a number of years.

Furthermore, the biotechnology sector as a whole is highly volatile, significantly driven by market sentiment and inherently high risk. Therefore, the direct correlation of compensation policy and key financial performance measures such as Total Shareholder Return (TSR), Net Earnings Per Share or Company Earnings, in the view of the Board, are inappropriate. As an alternative, key milestones are a more meaningful measure of performance to correlate levels of compensation. These milestones are discrete achievements that can be used to evaluate Calzada's progress towards commercialising its various projects.

Calzada's annual expenditure is predominantly impacted by research and development expenses. The Group has not made a profit and therefore no dividends have been declared, nor has there been a return of capital. The Group's performance is based on its key milestones, such as progress towards clinical trials, securing funding and licensing deals. Such milestones have been directly linked to the performance conditions set within the short-term incentives that form a significant proportion of Senior Management compensation. The Board continues to review the Group's compensation policy to ensure competitive and appropriate rewards that endeavor to result in greater shareholder wealth.

Board Performance

Evaluating Board performance is an important element of the Board's monitoring role, especially with regard to the long-term growth of the Company and shareholder wealth. The Board conducts an ongoing self-evaluation process to determine whether the Board and its Committees are functioning effectively.

Service Contracts

COMPANY SECRETARY AND CFO

From the 1st September 2009 until the 18th April 2011 the Company Secretary and CFO was employed under an ongoing services contract with Entrust Funds Management Ltd. This contract was terminated by mutual agreement on the 18th April 2011 without penalty to the Company. Terms of the contract were as follows;

From 1st September 2009 until 30th June 2010 Entrust received $175,000 per annum under the service agreement.

From 1st July 2010 until 18th April 2011 the Company Secretary and CFO service terms were as follows:

- Compensation was set at $175,000 per year;
- Termination requires six months written notice;
- No performance based cash bonuses; and
- No share-based compensation or long-term incentives.

Details of the qualifications and experience of the Company Secretary/Chief Financial Officer are set out in the Board of Directors section in this Directors' Report.

CHIEF EXECUTIVE OFFICER

Dr Stewart Washer was appointed Chief Executive Officer of Calzada on 23rd November 2010 and ceased employment on 7th October 2011.

Terms of his contract were as follows:

- Salary of $300,000 per annum;
- Superannuation of 9%;
- Termination payment of one year's salary;
- 25% of base salary as a bonus each year if he achieved set KPIs; and
- 6,400,000 Options in total, details of these options are set out in the Remuneration Report.

Details of the qualifications and experience of the Chief Executive Officer are set out in the Board of Directors section in this Directors' Report.

Other Information

LOANS TO DIRECTORS AND EXECUTIVES

No loans have been made to Directors of Calzada or to any of the other Key Management Personnel, including their personally related entities.

This Directors' Report, incorporating the Corporate Governance Statement and Remuneration Report, has been signed in accordance with a Resolution of the Directors made on 23rd August 2012.

Mr David Franklyn

Chairman

24th August 2012

CALZADA LIMITED

(A.C.N. 083 866 862)

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2012

In accordance with a resolution of the Directors of Calzada Limited, I state that:

1. In the opinion of the Directors:

   (a) The financial report and the Remuneration Report included in the Directors' report, of the Company and of the Group are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company and the Group's financial position as at 30 June 2012 and of their performance for the year ended on that date;

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

      (iii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board.

   (b) There are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2012.

On behalf of the Board,

Mr David Franklyn, Chairman

24th August 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	30 June 2012 $	30 June 2011 $
Finance revenue	4(A)	325,971	381,752
Government grant income	4(B)	218,029	117,569
Licence revenue		93,639	287,237
Sale of materials		115,280	100,964
Other Income		19,521	12,388
Royalty revenue		32,716	14,739
Total revenue		805,156	914,649
Other income			
Research and development concession		677,400	592,626
Operating leases	4(E)	(327,793)	(311,070)
Employee related expenses	4(C)	(1,543,631)	(1,423,066)
Research and development expenses		(1,299,926)	(871,024)
Depreciation and amortisation expense	4(D)	(228,015)	(239,558)
Corporate administrative and overhead expenses	4(F)	(913,164)	(1,416,693)
Impairment expense – available for sale asset	10	-	(8,750)
Loss on sale of available for sale assets		-	(222,600)
Loss on disposal of fixed asset		(843)	-
Net loss before income tax		(2,830,816)	(2,985,486)
Income tax benefit	5	128,090	41,084
Net loss for the period		(2,702,726)	(2,944,402)
Other comprehensive income			
Net fair value gains/(loss) on available for sale assets	10	10,000	(543,084)
Disposal of available for sale assets	10	-	222,600
Reversal of deferred tax liability on disposal of available for sale assets	15(B)	-	96,145
Total comprehensive income/(loss) for the period		(2,692,726)	(3,168,741)
Loss for the period is attributable to:			
Non controlling interest	16	(3,251)	(27,265)
Owners of the parent		(2,699,475)	(2,917,137)
		(2,702,726)	(2,944,402)
Total comprehensive income/(loss) for the period is attributable to:			
Non controlling interest	16	(3,251)	(27,265)
Owners of the parent		(2,689,475)	(3,141,476)
		(2,692,726)	(3,168,741)
Basic loss per share (cents per share)	6	(0.78) cents	(0.84) cents
Diluted loss per share (cents per share)	6	(0.78) cents	(0.84) cents

Note: Research and Development concession income was recorded in the year ended 30 June 2011 year as an income tax benefit. This amount has been re classified for the year ended 30 June 2011 as other income.

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	30 June 2012 $	30 June 2011 $
CURRENT ASSETS			
Cash and cash equivalents	7	3,007,977	3,456,242
Receivables	8	66,726	227,713
Prepayments		-	203,603
Other financial asset	22	1,860,000	3,760,000
Total current assets		4,934,703	7,647,558
NON-CURRENT ASSETS			
Available-for-sale financial assets	10	26,250	16,250
Plant and equipment	11	1,291,957	1,470,992
Intangible assets	24	2,519,788	2,519,788
Other assets	9	136,404	116,883
Total non-current assets		3,974,399	4,123,913
Total assets		8,909,102	11,771,471
CURRENT LIABILITIES			
Trade and other payables	13	518,979	489,632
Provisions	14(A)	56,236	48,408
Financial liability	4(B)	-	167,928
Total Current Liabilities		575,215	705,968
NON-CURRENT LIABILITIES			
Provisions	14(B)	52,701	38,078
Deferred tax liability	5	72,118	200,208
Deferred rent liability		220,451	186,738
Total non-current liabilities		345,270	425,024
Total liabilities		920,485	1,130,992
Net assets		7,988,617	10,640,479
EQUITY			
Contributed equity	15(A)	90,358,605	90,358,605
Reserves	15(B)	1,165,532	1,114,668
Retained earnings/(Accumulated losses)	15(C)	(83,495,953)	(80,796,478)
Parent interests		**8,028,184**	**10,676,795**
Non controlling interest	16	**(39,567)**	**(36,316)**
Total equity		7,988,617	10,640,479

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Contributed equity $	Gains/ (Losses) on available-for-sale financial assets $	Other reserves $	Acquisition of non controlling interest Reserve $	Deferred tax on available -for-sale assets $	Retained earnings $	Owners of the parent	Non controlling interest $	Total $
As at 30 June 2010	**90,358,605**	**337,984**	**1,507,325**	**(477,596)**	**(96,145)**	**(77,879,341)**	**13,750,832**	**(9,051)**	**13,741,781**
- Loss for the period	-	-	-	-	**-**	(2,917,137)	(2,917,137)	(27,265)	**(2,944,402)**
- Other comprehensive income	-	(320,484)[1]	-	-	96,145	-	(224,339)	-	**(224,339)**
- Total comprehensive income for the period	-	(320,484)	-	-	96,145	(2,917,137)	(3,141,476)	(27,265)	**(3,168,741)**
- Share based payments	-	-	67,439	-	**-**	-	67,439	-	**67,439**
As at 30 June 2011	**90,358,605**	**17,500**	**1,574,764**	**(477,596)**	**-**	**(80,796,478)**	**10,676,795**	**(36,316)**	**10,640,479**
- Loss for the period	-	-	-	-	-	(2,699,475)	(2,699,475)	(3,251)	**(2,702,726)**
- Other comprehensive income	-	10,000	-	-	-	-	10,000	**-**	**10,000**
- Total comprehensive income for the period	-	10,000	-	-	-	(2,699,475)	(2,689,475)	(3,251)	**(2,692,726)**
- Share based payments	-	-	40,864	-	-	-	40,864	**-**	**40,864**
As at 30 June 2012	**90,358,605**	**27,500**	**1,615,628**	**(477,596)**	**-**	**(83,495,953)**	**8,028,184**	**(39,567)**	**7,988,617**

The accompanying notes form part of these financial statements

[1] This includes the net fair value loss during the period of ($543,084) as well as disposal of available for sale assets of $222,600.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

	Note	30 June 2012 $	30 June 2011 $
Payments to suppliers and employees		(3,736,742)	(3,888,714)
Receipt of government grants		42,253	76,569
Sundry income		-	3,229
Income from sale of materials		119,360	94,189
Receipts from research and development tax benefit		677,400	592,626
Receipts from licence revenue		184,143	192,013
Receipts from royalty revenue		47,702	-
Net cash outflows from operating activities	7	(2,665,884)	(2,930,088)
Interest received		371,237	333,041
Payments for plant and equipment		(57,618)	(39,802)
Proceeds on sale of fixed assets		4,000	-
Acquisition of available-for-sale assets		-	(432,716)
Term deposits		1,900,000	(3,700,000)
Sale of available-for-sale assets		-	4,137,646
Net cash inflows/(outflows) from investing		2,217,619	298,169
Financial liability		-	105,504
Cash flows from financing activities		-	105,504
Net increase/(decrease) in cash and cash equivalents		(448,265)	(2,526,415)
Cash and cash equivalents at beginning of period		3,456,242	5,982,657
Cash and cash equivalents at end of period	7	3,007,977	3,456,242

The accompanying notes form part of these financial statements

1. Corporate Information

The financial report of Calzada Limited (the Company) and its controlled entities (the Group) for the year ended 30th June 2012 was authorised for issue in accordance with a resolution of the Directors on 24th August 2012.

Calzada Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on ASX Limited (ASX code: CZD).

The Company operates predominantly in one industry and one geographical segment, those being the pharmaceutical and healthcare industry and Australia respectively. Relevant financial information is presented in the Statement of Financial Position and Statement of Comprehensive Income.

2. Summary of Significant Accounting Policies

(A) BASIS OF PREPARATION

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and other mandatory professional reporting requirements.

The financial report has been prepared on an historical cost basis, except for available-for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars.

The financial statements of the Group have been prepared on a going concern basis. The Group's operations are subject to major risks due primarily to the nature of research, development and commercialisation to be undertaken. These risks may materially impact the financial performance and position of the Group, including the value of recorded assets and the future value of the shares, options and performance rights issued. The going concern basis assumes that future capital raisings will be available to enable the Company to undertake the research, development and commercialisation of its projects and that the subsequent commercialisation of the developed products will be successful. The financial statements take no account of the consequences, if any, of the inability of the Company to obtain adequate funding nor of the effects of unsuccessful research, development and commercialisation of the Group's projects.

(B) STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2012. These are outlined in the table following.

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ended 30 June 2012.

Reference	Title	Summary	Application date of standard*	Impact	Application date for Group*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	The Directors have considered the impact of this amendment in relation to the 31 December 2012 financial result. No material change to the manner in which the Groups financial result is expected.	1 July 2012

Reference	Title	Summary	Application date of standard*	Impact	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: -The change attributable to changes in credit risk are presented in other comprehensive income (OCI) -The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2015

Reference	Title	Summary	Application date of standard*	Impact	Application date for Group*
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2013

Reference	Title	Summary	Application date of standard*	Impact	Application date for Group*
AASB 119	Employee Benefits	The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2013
Annual Improvements 2009–2011 Cycle	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items addressed by this standard are relevant to Calzada: IAS 1 Presentation of Financial Statements • Clarification of the requirements for comparative information IAS 32 Financial Instruments: Presentation • Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2013

Reference	Title	Summary	Application date of standard*	Impact	Application date for Group*
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.	1 July 2013	The Directors are in the process of considering the impact of this amendment however it is not expected to result in a material change to the manner in which the Groups financial result is determined.	1 July 2013

Note:

** Designates the beginning of the applicable reporting period unless otherwise stated.*

(C) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Calzada Limited and its subsidiaries as at 30 June 2012 (the Group).

The subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and ceases to be consolidated from the date on which control is transferred out of the Group.

The investment's in the subsidiaries held by Calzada Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

Acquisitions of subsidiaries prior to 30 June 2009 were accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

The non controlling interest not held by the Group is allocated their share of net loss after tax in the Statement of Comprehensive Income (profit and loss) and is presented within equity in the consolidated Statement of Financial Position, separately from parent shareholders' equity.

(D) BUSINESS COMBINATION

For business combinations entered into prior to 30 June 2009, the purchase method of accounting was used to account for all business combinations regardless of whether equity instruments or other assets acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity. All other transaction costs are expensed.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the Statement of Comprehensive Income (profit and loss), but only after a reassessment of the identification and measurement of the net assets acquired.

(E) INTANGIBLE ASSETS

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. The intangible assets carried by the Group, being Intellectual Property assets, are infinite lived and are subject to annual impairment testing (see note 2(F) for methodology). Following initial recognition, intangible assets are carried at cost less any impairment losses.

Internally generated intangible assets are not capitalised and expenditure is recognised in the Statement of Comprehensive Income (profit or loss) in the year in which the expenditure is incurred.

(F) IMPAIRMENT OF INTANGIBLE ASSETS

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.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

(G) SHARE-BASED PAYMENTS

Share-based payment transactions

The Company provides benefits to employees in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There was one plan in place that provided these benefits for the period:

(i) The Calzada Employee Share Option Plan.

Information relating to the Company's share-based payment plans is set out in note 12 and the Remuneration Report section of the Directors' Report.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of the options granted under the Calzada Employee Share Option Plan is determined by using a binomial model.

The fair value of options is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employee becomes conditionally entitled to the option. At each reporting date, the number of options that are expected to vest is revisited. The employee benefit expense recognised each period takes into account the most recent estimate of the number of options that are expected to vest.

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted.

Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12.

(H) PLANT AND EQUIPMENT

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Office equipment	3 to 10 years
Laboratory plant and equipment	3 to 13.33 years
Leasehold improvements	12 years

(I) PLANT AND EQUIPMENT IMPAIRMENT

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to fair value.

An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income (profit and loss).

Derecognition and disposal

Plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income (profit and loss) in the period the item is derecognised.

(J) RESEARCH AND DEVELOPMENT COSTS

Research and patent costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available-for-use or sale. No development expenditure has been capitalised.

(K) INVESTMENTS

Available-for-sale investment

After initial recognition, investments which are classified as available-for-sale are measured at fair value. For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on balance date. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in Other Comprehensive Income (Equity) is included in the Statement of Comprehensive Income (profit and loss). Once impaired, in subsequent periods, any further decrease in the investment is recorded in the Statement of Comprehensive Income (profit and loss). Any increase in the fair value of the investment is recorded in Other Comprehensive Income (Equity).

(L) IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

If there is objective evidence that an available-for-sale investment is impaired, such as a decline in the market value that is significant or prolonged, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from Other Comprehensive Income (Equity) to the Statement of Comprehensive Income (profit and loss).

(M) CASH AND CASH EQUIVALENTS

Cash at bank and short-term deposits mature in three months or less and are stated at nominal value.

(N) EMPLOYEE LEAVE BENEFITS

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date and pro-rata long service leave for employees with over seven years of service, are recognised in current liabilities provisions in respect of employees' services up to the reporting date. Wages, salaries, annual leave and long service leave are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for pro-rata long service leave for employees with less than seven years of service are recognised in non-current liabilities provisions and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

(O) OPERATING LEASES

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

(P) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

For interest revenue, the specific recognition criteria must be met before revenue is recognised is the control of the right to receive the interest payment.

Interest receivable, being interest accrued, and GST recoverable are recorded at amortised cost and due to the short-term nature of these receivables they equate to face value.

Sales of materials are recognised when they are shipped to suppliers.

(Q) GOVERNMENT GRANTS

Government grants are recognised at their fair value when the grant is received and all attaching conditions have been complied with.

Research and Development Concession revenue is recognised when the application is lodged with the Australian Taxation Office.

(R) TRADE AND OTHER PAYABLES

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of those goods and services. The amounts are unsecured and are normally settled on 30-day terms. Due to the short-term nature of these payables they equate to fair value.

(S) INCOME TAX

Deferred income tax is provided on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. It is considered probable that taxable profits will be available, if a deferred tax asset can be offset against a deferred tax liability relating to the same tax authority.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Income taxes relating to items recognised directly in equity are recognised in Other Comprehensive Income (Equity) and not in the Statement of Comprehensive Income (profit and loss).

(T) SIGNIFICANT ACCOUNTING, ESTIMATES AND ASSUMPTIONS

DEFERRED TAX LIABILITY

The deferred tax liability (DTL) arising from the carrying value of PolyNovo intangible assets is offset by deferred tax assets (DTA's) recognised for unused tax losses where the continuity of ownership test would be passed and for temporary differences. Significant management judgement is required to determine the amount of the DTA which can be used to offset the impact of the DTL. Further details on taxes are disclosed in note 5.

SHARE BASED PAYMENTS

Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12.

IMPAIRMENT OF INTANGIBLES

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount of the intangible asset has been determined by assigning a value to each current project in the pipeline using a probability adjusted net present value method. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 24.

(U) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST (if any) included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis (i.e. including GST) and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed exclusive of the amount of GST recoverable from, or payable to, the taxation authority.

(V) EARNINGS PER SHARE (EPS)

Basic EPS is calculated as net profit/(loss) attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit/(loss) attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

As the Group incurred a loss for the period under review and in the prior year comparison, potential ordinary shares, being options and performance rights to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

(W) CONTRIBUTED EQUITY

Ordinary shares are classified as equity and recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(X) FOREIGN CURRENCY TRANSLATION

Foreign currency items are translated to Australian currency on the following basis:

- Transactions are converted at exchange rates approximating those in effect at the date of the transaction; and
- Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

Exchange differences relating to monetary items are included in the Statement of Comprehensive Income (profit and loss).

(Y) COMPARATIVES

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(Z) SECURITY DEPOSITS

Security deposits are recorded at amortised cost in the Statement of Financial Position.

(AA) HELD-TO-MATURITY INVESTMENTS

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the Statement of Comprehensive Income (profit or loss) when the investments are derecognised or impaired, as well as through the amortisation process.

3. Segment Information

The chief operating decision maker is the Chairman.

(A) DESCRIPTION OF SEGMENTS

For management purposes reportable segments are as follows:

Corporate – the corporate entity of the Group is responsible for all corporate expenses aside from the rent on the laboratory and premises located in Port Melbourne, which is the responsibility of PolyNovo.

PolyNovo Biomaterials Pty Ltd – PolyNovo owns and develops a suite of state of the art biodegradable polymers that have potential applications across numerous medical fields.

Metabolic Pharmaceuticals Pty Ltd – Metabolic's major asset is the AOD9604 peptide which has potential applications in the treatment of obesity and osteoporosis.

The Chairman monitors the operating results of the business segments separately for the purpose of making decisions about resource allocation. Segment performance is evaluated based on progressing technology within each business segment in accordance with budgeted expenditure, consistent with the presentation of the segment information below.

(B) GEOGRAPHICAL AREAS

The Group operates in only one geographical area.

2012	**Corporate $**	**PolyNovo Biomaterials Pty Ltd $**	**Metabolic Pharmaceuticals Pty Ltd[1] $**	**Intersegment Eliminations $**	**Consolidated Group $**
Sales of materials	-	115,280	-	-	115,280
Other revenues from externals	-	93,639	32,716	-	126,355
Government grant revenue	-	218,029	-	-	218,029
Interest revenue	317,325	8,646	-	-	325,971
Other revenue	-	19,521	-	-	19,521
Research and development concession	-	474,850	202,550	-	677,400
Total segment revenue	**317,325**	**929,965**	**235,266**	**-**	**1,482,556**
Depreciation	(5,821)	(222,194)	-	-	(228,015)
Operating leases	-	(327,793)	-	-	(327,793)
Employee related expenses	(956,013)	(586,791)	(827)	-	(1,543,631)
Research and development	-	(665,231)	(634,695)	-	(1,299,926)
Finance and administration	(482,057)	(390,691)	(40,416)	-	(913,164)
Loss on disposal of fixed asset	(843)	-	-	-	(843)
Income tax (expense)/benefit	-	128,090	-	-	128,090
Net loss for the period	**(1,127,409)**	**(1,134,645)**	**(440,672)**	**-**	**(2,702,726)**
Segment Assets	**13,319,370**	**4,140,646**	**2,499**	**(8,553,413)**	**8,909,102**
Segment Liabilities	**366,071**	**2,628,068**	**648,477**	**(2,722,131)**	**920,485**

[1]All transactions for Metabolic are incurred by Corporate. For the purposes of this disclosure we have separated all revenues and expenses that apply to the operations of Metabolic.

2011	Corporate $	PolyNovo Biomaterials Pty Ltd $	Metabolic Pharmaceuticals Pty Ltd[1] $	Intersegment Eliminations $	Consolidated Group $
Sales of materials	-	100,964	-	-	100,964
Other revenues from externals	-	287,237	14,739	-	301,976
Government grant revenue	-	117,569	-	-	117,569
Interest revenue	375,110	6,642	-	-	381,752
Other revenue	-	12,388	-	-	12,388
Research and development concession	-	526,075	66,551	-	592,626
Total segment revenue	**375,110**	**1,050,875**	**81,290**	**-**	**1,507,275**
Operating leases	-	(311,070)	-	-	(311,070)
Employee related expenses	(701,977)	(721,089)	-	-	(1,423,066)
Research and development	-	(446,127)	(424,897)	-	(871,024)
Depreciation	(17,227)	(222,331)	-	-	(239,558)
Finance and administration	(1,121,699)	(294,994)	-	-	(1,416,693)
Impairment expense – available for sale assets	(8,750)	-	-	-	(8,750)
Loss on sale of available for sale assets	(222,600)	-	-	-	(222,600)
Income tax (expense)/benefit	-	41,084	-	-	41,084
Net loss for the period	**(1,697,143)**	**(903,652)**	**(343,607)**	**-**	**(2,944,402)**
Segment Assets	**13,984,571**	**4,705,333**	**-**	**(6,918,433)**	**11,771,471**
Segment Liabilities	**163,037**	**1,854,825**	**-**	**(886,870)**	**1,130,992**

[1]All transactions for Metabolic are incurred by Corporate. For the purposes of this disclosure we have separated all revenues and expenses that apply to the operations of Metabolic.

4. Revenues and Expenses

	30 June 2012 $	30 June 2011 $
(A) REVENUE		
Finance revenue	325,971	381,752
Details of finance revenue:		
Term deposit interest	285,096	367,324
Bank account interest	40,875	14,428
	325,971	381,752
(B) GOVERNMENT GRANT INCOME		
Government grants	218,029	117,569

NOVOSKIN GRANT

Revenue

Grant revenue was recorded during the period in respect to the NovoSkin project. NovoSkin recognised $167,928 (2011; $41,000) in the Statement of Comprehensive Income (profit and loss) during the period, that was recorded as a financial liability at 30 June 2011, by fulfilling required conditions of the agreement.

Financial liability

Conditions of the grant agreement enabled Bio Innovation South Australia to convert grant monies into equity in NovoSkin by an agreed date, dependant on the approval of the South Australian Government. No instruction had been received from Bio Innovation South Australia by the required date. As such an amount of $167,928 previously recognised as a financial liability at 30 June 2011 has been recognised at 30 June 2012 as grant revenue.

GOVERNMENT GRANT INCOME

An Export Market Development Grant of $38,953 (2011; $76,569) was received in 2012 from the Federal Government. There were no unfulfilled conditions or contingencies attaching to this grant.

Grant monies of $11,148 (2011; $nil) was received in 2012 from the Victorian State Government. There were no unfulfilled conditions or contingencies attaching to this grant.

The Group did not benefit directly from any other forms of Government assistance in 2011 and 2012.

LICENCE REVENUE

During the period the Group's one year licence extension with a major US based medical device Company expired and was not renewed. Licence Revenue of $93,639 in respect to this agreement was recognised in the Statement of Comprehensive Income for the period (2011; $287,237).

(C) EMPLOYEE RELATED EXPENSES

	30 June 2012 $	30 June 2011 $
Wages and salaries	(959,009)	(1,112,888)
Severance payments (including superannuation)	(272,500)	-
Superannuation	(88,807)	(94,100)
Share-based payment (expense)/credit (See Note 12)	(40,864)	(67,439)
Directors' fees	(160,000)	(135,383)
Long service leave provision	(14,624)	(8,223)
Annual leave provision	(7,827)	(5,033)
	(1,543,631)	(1,423,066)

(D) DEPRECIATION AND AMORTISATION EXPENSE

Depreciation – office equipment	(28,887)	(39,600)
Depreciation – laboratory equipment	(89,943)	(91,852)
Depreciation – leasehold improvements	(109,185)	(108,106)
	(228,015)	(239,558)

(E) RENTAL EXPENSE RELATING TO OPERATING LEASES

Minimum lease payments – Laboratory & administration	(327,793)	(311,070)
	(327,793)	(311,070)

(F) OTHER ADMINISTRATIVE AND OVERHEAD EXPENSES

Insurances	(78,412)	(88,654)
Accounting and audit fees	(167,520)	(168,216)
Investor relations & share registry expenses	(93,582)	(67,365)
Legal fees	(53,382)	(270,187)
Consultants and contractors	(219,532)	(364,649)
Travel	(88,571)	(207,413)
Other	(212,165)	(250,209)
	(913,164)	(1,416,693)

5. Income Tax

(A) INCOME TAX BENEFIT / (INCOME TAX EXPENSE)

	30 June 2012 $	30 June 2011 $
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	128,090	41,084
Income tax benefit / (income tax expense)	128,090	41,084

Income Tax Recognised Directly In Equity

Deferred tax expense		
Available for sale asset	-	(96,145)

Reconciliation Of Income Tax Expense To Prima Facie Tax Payable

Net loss before income tax expense	(2,830,816)	(2,985,486)
Prima facie tax calculated at 30% (2011: 30%)	(849,245)	(895,646)
Tax effect of amounts which are not included in accounting loss:		
Research and development	540,000	300,000
Non-assessable rental deposit	(5,856)	(3,101)
Non-assessable grant income	(202,801)	(177,788)
Tax effect of amounts which are not deductible:		
Share based payments	12,259	20,232
Accounting loss on available for sale assets	-	66,780
Other	1,917	(65,334)
	(503,726)	(754,857)
Current year tax losses not brought to account	276,795	641,940
Current year temporary differences not brought to account	98,841	71,833
Income tax benefit / (income tax expense)	128,090	41,084

(B) DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets	692,100	576,837
Deferred tax liabilities	(764,218)	(777,045)
Net deferred tax assets /(liabilities)	(72,118)	(200,208)

DEFERRED TAX BALANCES REFLECTS TEMPORARY DIFFERENCES ATTRIBUTABLE TO:

Amounts recognised in Profit and Loss		
Recognised tax losses	515,681	327,177
Recognised on temporary differences	176,419	249,660
Allowance for doubtful debts	(8,282)	(21,109)
Available for sale assets	-	-
Amount recognised due to acquisition of PolyNovo	(755,936)	(755,936)
Net deferred tax assets /(liabilities)	(72,118)	(200,208)

Movement in temporary differences during the year:

Balance as of 1 July	(200,208)	(337,436)
Credit to profit and Loss	128,090	41,083
Charged to equity	-	96,145
Net deferred tax assets /(liabilities) as 30 June	(72,118)	(200,208)

(C) DEFERRED TAX ASSETS NOT BROUGHT TO ACCOUNT

	30 June 2012 $	30 June 2011 $
Unrecognised, unconfirmed tax losses for which no deferred tax asset has been recognised	76,544,121	75,495,537
Deductible temporary differences - no deferred tax asset has been recognised	329,470	239,447
	76,873,591	75,734,984
Potential tax benefit at 30%	23,062,077	22,720,495

The availability of the tax losses held by the Group in future periods is uncertain and will be dependent on the Group satisfying strict requirements with respect to continuity of ownership and the same business test imposed by income tax legislation. The recoupment of available tax losses as at 30 June 2012 is contingent upon the following:

(a) the Group deriving future assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised;
(b) the conditions for deductibility imposed by tax legislation continuing to be complied with; and
(c) there being no changes in tax legislation which would adversely affect the Group from realising the benefit from the losses.

Given the Group's history of recent losses with the exceptions of that noted in (D) below, the Group has not recognised a deferred tax asset with regard to unused tax losses, as it has not been determined that the Group will generate sufficient taxable profit against which the unused tax losses can be utilised.

In the prior year consideration was given to Calazda's ability to satisfy the tax loss recoupment tests for losses incurred in the 2003 and earlier income years. On re-assessment tax losses of approximately $26 million were forfeited.

(D) INCOME TAX BENEFIT

The income tax benefit arises due to the recording of deferred tax assets that are available in the current year to offset against deferred tax liabilities from temporary differences.

6. Earnings Per Share (EPS)

Basic EPS amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Basic EPS:

30 June 2012	(0.78) cents per share
30 June 2011	(0.84) cents per share

Diluted EPS:

30 June 2012	(0.78) cents per share
30 June 2011	(0.84) cents per share

	30 June 2012	30 June 2011
The following reflects the income and share data used in the calculation of basic and diluted EPS:		
Net loss used in calculating basic and diluted EPS attributable to equity holders of the parent entity	($2,699,475)	($2,917,137)
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	346,632,277	346,632,277
Potential ordinary shares that are not dilutive and are excluded from the calculation of diluted EPS	1,507,614	1,692,389

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

7. Cash and Cash Equivalents

Reconciliation of cash at the end of the year

	30 June 2012 $	30 June 2011 $
Cash at bank and in hand (i)	507,977	1,456,242
Short-term deposits (ii)	2,500,000	2,000,000
	3,007,977	3,456,242

Notes:

(i) Cash at bank earns interest at floating rates based on daily bank deposit rates.

(ii) Short-term deposits mature within 3 months and have interest rates at 5.05% (2011: short-term deposit mature within 3 months and have interest rates at 5.69%).

For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprises Cash at Bank and investments in Short-term deposits as listed above. The Group has no borrowings.

RECONCILIATION OF NET LOSS AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	30 June 2012 $	30 June 2011 $
Net Loss	(2,702,726)	(2,944,402)
Adjustments for non-cash items:		
Depreciation	228,015	239,558
Share-based payment expense	40,864	67,439
Loss on sale of available for sale assets	-	222,600
Impairment of investment in Available-for-sale asset	-	8,750
Interest	(325,971)	(381,752)
Income tax benefit /(expense)	-	96,145
Loss on sale of fixed asset	(843)	-
Change in assets and liabilities during the financial year:		
(Increase)/decrease in prepayments	203,603	7,762
(Increase)/decrease in receivables	160,987	(93,054)
(Increase)/decrease in other assets	(60,992)	(10,339)
Increase/(decrease) in payables	63,060	31,117
Increase/(decrease) in provisions	22,451	4,316
Increase/(decrease) in unearned revenue/financial liability	(167,928)	(41,000)
Increase/(decrease) in deferred taxes	(128,090)	(137,228)
Net cash outflows from operating activities	(2,665,884)	(2,930,088)

8. Receivables (Current)

	30 June 2012 $	30 June 2011 $
Interest receivable	25,105	70,363
GST recoverable	17,788	33,670
Licence revenue receivable	-	92,658
Royalty revenue receivable	2,499	14,739
Sundry receivables	21,334	16,283
	66,726	227,713

9. Other Assets (Non-Current)

NON-CURRENT

	30 June 2012 $	30 June 2011 $
Security deposit	136,404	116,883

The non-current security deposit relates to PolyNovo's long term lease of premises in Port Melbourne.

10. Available-for-Sale Financial Asset – Investment in Shares

	30 June 2012 $	30 June 2011 $
Balance at beginning of year	16,250	4,382,162
Purchase of Avexa shares - cost	-	323,568
Gain/(impairment) of available-for-sale financial asset - Neuren	10,000	(8,750)
Revaluation of Investment during the period - Avexa	-	(543,084)
Sale of Avexa shares during the period	-	(4,137,646)
Balance at end of year	26,250	16,250

The Company's available-for-sale financial asset's consists of fully paid ordinary shares held in Neuren Pharmaceuticals Limited ("Neuren") a company listed on the Australian Securities Exchange.

After initial recognition, the available-for-sale investments are recorded at fair value with movements in fair value recorded in equity until the investment is deemed impaired or otherwise sold or disposed of.

At 30 June 2008 the Company deemed the investment in Neuren impaired due to a significant and prolonged decline in the market price of Neuren's shares. Due to this objective evidence that the investment in Neuren was impaired, an amount comprising the difference between its cost and its current value was transferred from equity to the Statement of Comprehensive Income (profit and loss).

From 1 July 2009 to 30 June 2010 there was a further decrease in the fair value of the investment in Neuren which was recorded in the Statement of Comprehensive Income (profit and loss).

From 1 July 2010 to 30 June 2011 there was a further decrease in the fair value of the investment in Neuren which was recorded in the Statement of Comprehensive Income (profit and loss).

From 1 July 2011 to 30 June 2012 there was an increase in the fair value of the investment in Neuren which was recorded as Other Comprehensive Income (equity).

DISPOSAL OF AVAILABLE FOR SALE ASSETS

During the 2011 period Calzada sold its entire shareholding in the ASX Listed Avexa Limited (ASX code: AVX). On disposal, the cumulative loss of $222,600 previously recognised in equity was recognised in Other Comprehensive Income at 30 June 2011.

The amount recognised in the income statement for the period 30 June 2011 of $222,600 represents the difference between the amount paid for the shares of $4,360,246 and the amount which the Company received as a result of selling their interest in Avexa, being $4,137,646. This being a loss on sale of the 'available for sale' financial asset.

11. Plant and Equipment

	30 June 2012 $	30 June 2011 $
OFFICE EQUIPMENT		
(i) Cost		
Opening balance	169,154	337,551
Additions	10,496	17,587
Disposals and write-off of equipment	(4,479)	(185,984)
Closing balance	175,171	169,154
(ii) Accumulated Depreciation		
Opening balance	(69,756)	(212,221)
Depreciation for the year	(28,887)	(39,600)
Disposals and write-off of equipment	-	182,065
Closing balance	(98,643)	(69,756)
Net book value – Office equipment	76,528	99,398
LABORATORY PLANT AND EQUIPMENT		
(i) Cost		
Opening balance	557,574	538,677
Additions	42,963	18,897
Closing balance	600,537	557,574
(ii) Accumulated Depreciation		
Opening balance	(256,747)	(164,895)
Depreciation for the year	(89,942)	(91,852)
Closing balance	(346,689)	(256,747)
Net book value – Laboratory plant and equipment	253,848	300,827
LEASEHOLD IMPROVEMENTS		
(i) Cost		
Opening balance	1,327,257	1,326,712
Additions	-	545
Closing balance	1,327,257	1,327,257
(ii) Accumulated Depreciation		
Opening balance	(256,490)	(148,384)
Depreciation for the year	(109,186)	(108,106)
Closing balance	(365,676)	(256,490)
Net book value – Leasehold improvements	961,581	1,070,767
Net book value – Plant and equipment	1,291,957	1,470,992

12. Share-Based Payments

(A) EMPLOYEE SHARE-BASED PAYMENT PLANS

The Company provided benefits to employees in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). There were benefits provided during the period under the following plan:

(i) The Calzada Employee Share Option Plan.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The expense recognised in the Statement of Comprehensive Income (profit and loss) in relation to share-based payments is disclosed in Note 4(c).

No current employees have performance rights.

(i) Employee Share Option Plan

In November 2008, shareholders approved the Employee Share Option Plan where the Company may, at the discretion of management, grant options over the ordinary shares of Calzada Limited to Directors, Executives and members of staff of the Company. The options, granted in the 2011 year, were granted in accordance with performance guidelines established by the Directors of Calzada Limited. The options were granted for varying terms ranging from 12 to 36 months and are exercisable on vesting dates between the date of grant and expiry date.

In November 2011 shareholders approved a revised Employee Share Option Plan.

The options granted to Dr Stewart Washer were not subject to any employment or hurdle conditions. All other options issued during the period are subject to continued employment with Calzada.

The fair value of the options granted under the Calzada Employee Share Option Plan are determined by using a binomial approximation model. This model takes into account, as at grant date, the exercise price and expected life of the option, the vesting criteria, the current price of the underlying share and its expected volatility, expected dividends and the risk-free interest rate for the expected life of the option. These options, issued pursuant to the Calzada Employee Share Option Plan, have an expiry date between 12 and 36 months from grant, generally with staggered vesting terms based on anniversary periods. The option-pricing model values each of these vesting portions separately.

The assumptions used to obtain a fair value for options, which form part of current or prior year expense, are listed in the following table:

	Date options granted			
	23 Nov 2010	**15 Dec 2010**	**29 Apr 2011**	**29 Apr 2011**
Binomial Option Pricing Model Variables				
Exercise price	$0.04 $0.06	$0.04 $0.06	$0.04 $0.06	$0.085
Risk-free interest rate	6.06%	6.06%	6.16%	6.16%
Volatility	80%	80%	60%	60%
Expiry date	23/11/13	01/12/13	01/12/13	01/04/14
Dividend yield	-	-	-	
Average fair value per option	$0.0625	$0.0074	$0.0255	$0.0140

Option grants - No options were granted during the year ended 30 June 2012.

(A) INFORMATION WITH RESPECT TO THE NUMBER OF OPTIONS GRANTED UNDER THE CALZADA EMPLOYEE SHARE OPTION PLAN IS AS FOLLOWS:

(i) Employee Options over Ordinary Shares (No. of Options) at 30 June 2012.

Date of Issue			**23/11/10[2]**	**15/12/10[1]**	**29/04/11**	**29/04/11**	**Total**
On issue at beginning of the year			6,400,000	5,801,667	2,133,333	1,000,000	15,335,000
Issued during the year			-	-	-	-	-
Exercised during the year			-	-	-	-	-
Expired unexercised during the year			-	-	-	-	-
Forfeited/Forfeited during the period			(3,200,000)	-	-	-	(3,200,000)
On issue at balance date			3,200,000	5,801,667	2,133,333	1,000,000	12,135,000
Issued subsequent to balance date			-	-	-	-	-
Exercised subsequent to balance date			-	-	-	-	-
Forfeited/Forfeited subsequent to balance date			-	-	-	-	-
On issue at date of Directors' Report			3,200,000	5,801,667	2,133,333	1,000,000	12,135,000
Current number of recipients			3[2]	6	1	1	
Exercise price			$0.04	$0.04	$0.04	$0.085	
			$0.06	$0.06	$0.06	-	
Exercise period:	From		23/11/10	15/12/10	29/04/11	29/04/11	
	To		23/11/11	01/12/13	01/12/13	01/04/13	
Expiration date			23/11/13	01/12/13	01/12/13	01/04/14	
The following proportions vest from the dates shown:							
		50%	23/11/10		01/02/12		
		50%	23/11/11		01/02/13		
		33%		15/12/10		29/04/11	
		33%		01/12/11		01/04/12	
		34%		01/12/12		01/04/13	

[1]100% of options granted in December 2010 to Mr David Kenley vested on 15/12/2010.

[2]Upon Dr Stewart Washer's departure from the group 3,200,000 unvested options were forfeited. The remaining 3,200,000 of Dr Stewart Washer's options which had already vested were sold to Mr David Kenley (1,422,222 options), Mr Chris Mews (355,556 options), and the remaining 1,422,222 options to an independent third party. The sale was on commercial terms.

(ii) Employee Options over Ordinary Shares (No. of Options) at 30 June 2011.

Date of Issue			**23/11/10**	**15/12/10**[1]	**29/04/11**	**29/04/11**	**Total**
On issue at beginning of the year			-	-	-	-	-
Issued during the year			6,400,000	6,001,667	2,133,333	1,000,000	15,535,000
Exercised during the year			-	-	-	-	-
Expired unexercised during the year			-	-	-	-	-
Forfeited/Forfeited during the period			-	(200,000)	-	-	(200,000)
On issue at balance date			6,400,000	5,801,667	2,133,333	1,000,000	15,335,000
Issued subsequent to balance date			-	-	-	-	-
Exercised subsequent to balance date			-	-	-	-	-
Forfeited/Forfeited subsequent to balance date			-	-	-	-	-
On issue at date of Directors' Report			6,400,000	5,801,667	2,133,333	1,000,000	15,335,000
Current number of recipients			1	6	1	1	
Exercise price			$0.04	$0.04	$0.04	$0.085	
			$0.06	$0.06	$0.06	-	
Exercise period:	From		23/11/10	15/12/10	29/04/11	29/04/11	
	To		23/11/11	01/12/13	01/12/13	01/04/13	
Expiration date			23/11/13	01/12/13	01/12/13	01/04/14	
The following proportions vest from the dates shown:							
		50%	23/11/10		01/02/12		
		50%	23/11/11		01/02/13		
		33%		15/12/10		29/04/11	
		33%		01/12/11		01/04/12	
		34%		01/12/12		01/04/13	

[1]100% of options issued in December 2010 to Mr David Kenley vested on 15/12/2010.

(B) Information relating to Options exercised by employees during the year ended 30 June 2012

There were no options exercised by employees of the Company during the year ended 30 June 2012 (2011:Nil).

(C) PERFORMANCE RIGHTS GRANTS – NO PERFORMANCE RIGHTS WERE GRANTED DURING THE YEAR ENDED 30 JUNE 2012 OR 30 JUNE 2011.

(i) There were no Employee Performance Rights over Ordinary Shares (No. of Performance Rights) as at 30 June 2012 (2011:Nil).

(D) EXPENSES/(BENEFIT) ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

	30 June 2012 $	**30 June 2011 $**
Options granted under Employee Share Option Plan	40,864	67,439
	40,864	67,439

13. Trade and Other Payables (Current)

	30 June 2012 $	30 June 2011 $
Trade Creditors and Payables (i)	415,692	426,414
Other Payables	103,287	249,956
Total Trade and Other Payables	518,979	676,370

Note:

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

14. Provisions (Current & Non-Current)

	30 June 2012 $	30 June 2011 $
(A) CURRENT PROVISIONS – ANNUAL LEAVE		
Annual leave at beginning of year	48,408	52,315
Increase/(Decrease) in provision during the year	7,828	(3,907)
Annual leave at end of year	56,236	48,408
Total Current Provisions	56,236	48,408
(B) NON-CURRENT PROVISIONS – LONG SERVICE LEAVE		
Long service leave at beginning of year	38,078	29,855
Accrued long service leave	14,623	11,342
Provision no longer required	-	(3,119)
Long service leave at end of year	52,701	38,078
Total Non-Current Provisions	52,701	38,078

15. Contributed Equity and Reserves

(A) MOVEMENT IN CONTRIBUTED EQUITY

	30 June 2012 $	30 June 2011 $
Contributed equity at beginning of year	90,358,605	90,358,605
Shares issued during the year	-	-
Contributed equity at end of year	90,358,605	90,358,605
	Number of Shares	
On issue at start of year	346,632,277	346,632,277
Shares issued during the year (i)	-	-
On issue at end of year	346,632,277	346,632,277

Terms and conditions of contributed equity

Ordinary Shares attract the right to receive notice of and attend and vote at all general meetings of the Company, to receive dividends as declared and, in the event of winding up the Company, to participate equally in the distribution of the assets (both capital and surplus), subject to any amounts unpaid on shares. Each Ordinary Share entitles the holder to one vote, either in person or by proxy, at a meeting of the Company.

(i) Securities issued or granted during the year ended 30 June 2012

Ordinary Fully Paid Shares:

- No shares were granted during the period ended 30 June 2012.

Performance Rights and Options Granted:

- No performance rights were granted during the period ended 30 June 2012.
- No options were granted during the period ended 30 June 2012.

(ii) Securities issued or granted during the year ended 30 June 2011

Ordinary Fully Paid Shares:

- No shares were granted during the period ended 30 June 2011.

Performance Rights and Options Granted:

- No performance rights were granted during the period ended 30 June 2011.
- 15, 535,000 options were granted during the period ended 30 June 2011.

(B) RESERVES

	30 June 2012 $	30 June 2011 $
Share based payments reserve (i)	1,615,628	1,574,764
Gains/(losses) on available-for-sale financial assets (ii)	27,500	17,500
Deferred tax on available-for-sale financial assets (iii)	-	-
Acquisition of non controlling interest reserve (iv)	(477,596)	(477,596)
Balance at end of period	1,165,532	1,114,668

(i) Share Based Payments Reserve

	30 June 2012 $	30 June 2011 $
Balance at beginning of period	1,574,764	1,507,325
Share-based payments movement	40,864	67,439
Balance at end of period	1,615,628	1,574,764

This reserve represents the nominal consideration paid for subscriber or employee options and the fair value of options and performance rights.

(ii) Gains/(Losses) on Available-for-sale Financial Assets Reserve	30 June 2012 $	30 June 2011 $
Opening balance	17,500	337,984
Unrealised gain/(loss) on available-for-sale financial assets	10,000	(543,084)
Reversal of unrealised loss on available-for-sale financial assets	-	222,600
Balance at end of period	27,500	17,500

Refer note 10 for details of the purpose of this reserve account.

(iii) Deferred Tax on Available-for-sale Financial Assets	**30 June 2012 $**	**30 June 2011 $**
Opening balance	-	(96,145)
Deferred tax on available-for-sale financial assets	-	-
Reversal of deferred tax on available-for-sale financial assets	-	96,145
Balance at end of period	-	-

(iv) Acquisition of Non Controlling Interest Reserve	**30 June 2012 $**	**30 June 2011 $**
Opening balance	(477,596)	(477,596)
Acquisition of non controlling interest	-	-
Balance at end of year (i)	(477,596)	(477,596)

(i) This reserve represents the premium paid by Calzada Limited for the non-controlling interest in PolyNovo Biomaterials Pty Ltd.

	30 June 2012 $	**30 June 2011 $**
(C) ACCUMULATED LOSSES		
Accumulated losses at beginning of year	(80,796,478)	(77,879,341)
Net loss attributable to members of the parent	(2,699,475)	(2,917,137)
Accumulated losses at end of financial year	(83,495,953)	(80,796,478)

16. Non Controlling Interests

	30 June 2012 $	**30 June 2011 $**
Opening balance	(36,316)	(9,051)
Contributed equity	-	-
Acquisition of NCI	-	-
Current year share of accumulated losses	(3,251)	(27,265)
Balance at end of year	(39,567)	(36,316)

In 2010 the Group together with Skin Pty Ltd formed two joint venture companies, NovoSkin Pty Ltd and NovoWound Pty Ltd, holding an 80% share in each with the remaining 20% interest held by Skin Pty Ltd, a company associated with renowned burns surgeon Associate Professor John Greenwood.

NovoSkin and NovoWound are developing a Biodegradable Temporising Matrix ("BTM") product aimed at the treatment of full thickness burns.

17. Commitments and Contingencies

OPERATING LEASE COMMITMENTS – COMPANY AS LESSEE

The Group has entered into commercial office and laboratory leases. These leases have an initial term of 12 years with a further 5 year option after that time. Future minimum rentals payable under non-cancellable operating leases are as follows:

	30 June 2012 $	**30 June 2011 $**
Not later than one year	234,752	225,723
Later than one year, but not later than five years	1,036,741	996,866
Later than five years	864,883	1,139,510
	2,136,376	2,362,099

CONTINGENCIES

The Directors were not aware of any other contingent liabilities or contingent assets at 30 June 2012. There has been no change since that date.

18. Related Party Disclosures

Similar to that disclosed in the Key Management Personnel disclosures section of the financial statements (Note 23) and the Remuneration Report section of the Directors' Report, there were the following transactions with related parties during the year.

Entrust Funds Management Ltd, an entity associated with Mr Franklyn, did not receive payments for the period ended 30 June 2012 (2011; $155,208). Payments received in 2011 were in respect to Director Fees and consulting fees for the provision of administration, accounting and corporate secretarial services. Mr Mews was an employee of Entrust Funds Management Ltd until 18th April 2011 during which time he was remunerated by Entrust. Mr Mews was employed directly by Calzada from 18th April 2011. Entrust did not receive payments from Calzada for the current financial year (2011; $138,542).

SG Corporate Pty Ltd of which George Cameron-Dow is a Director was engaged by Calzada Limited to provide Consulting services. There were no consulting fees (2011;$100,000) paid by Calzada during the financial year. Fees were charged at commercial rates in respect to payments made in the 2011 year. The agreement between Calzada and SG Corporate Pty Ltd expired during the period ended 30 June 2011 and was not renewed. Mr Cameron-Dow received no Non-Executive Directors fees (2011;$15,778) during the year ended 30 June 2012.

Lateral Innovations Pty Ltd, an entity associated with Mr David Kenley received payments in the amount of $228,900 (2011;$233,912). These payments were in respect to consulting services to Metabolic Pharmaceuticals Pty Ltd, PolyNovo Biomaterials Pty Ltd and Calzada Limited.

Other than as noted above, there were no further transactions with related parties during the period under review.

19. Events after the Balance Sheet Date

The Directors are not aware of any matters or circumstances since the end of the financial year, not otherwise dealt with in this report which have 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.

20. Auditor's Remuneration

The auditor of Calzada Limited is Ernst & Young.

Amounts received or due and receivable by Ernst & Young for:

	30 June 2012 $	30 June 2011 $
An audit or review of the financial reports of the entity:		
- Half-year and full-year audits	95,000	85,046
Other services in relation to the entity:		
- Preparation of tax returns	17,570	17,500
- Accounting and tax advice relating to availability of tax losses and tax consolidation	-	1,620
- Accounting and tax advice in respect to Deferred Tax Assets and Deferred Tax Liabilities	6,420	-
- Preparation and lodgement of Research and Development tax concession application, AusIndustry review and overseas applications	43,650	17,500
Total for entity auditors	162,640	121,666

The Directors are satisfied that the provision of non-audit services during the current period is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

21. Parent Entity Information

	30 June 2012 $	30 June 2011 $
Information relating to Calzada Ltd:		
Current assets	4,730,213	6,961,826
Total assets	13,319,370	13,984,571
Current liabilities	361,428	163,038
Total liabilities	366,071	163,038
Issued capital	90,358,605	90,358,605
Retained earnings	(79,048,434)	(78,129,336)
Total reserves	1,643,128	1,574,765
Total shareholders' equity	12,953,299	13,821,534
Profit/(loss) of the parent entity	(919,099)	(2,136,896)
Total comprehensive income/(loss) of the parent entity	(909,099)	(224,339)
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries	-	-
Details of any contingent liabilities of the parent entity – refer note 17		
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	-	-

22. Financial Risk Management Objectives and Policies

(A) FINANCIAL INSTRUMENTS

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, financial liability, other financial asset and available for sale financial assets.

	30 June 2012 $	30 June 2011 $
Cash and cash equivalents	3,007,977	3,456,242
Trade and other receivables	66,726	227,713
Other financial asset (classified as held to maturity)[1]	1,860,000	3,760,000
Trade and other payables	739,430	676,370
Financial liability	-	167,928

[1] At 30 June 2012 and 30 June 2011, the carrying value of these held-to-maturity assets approximated fair value.

(B) AVAILABLE-FOR-SALE FINANCIAL ASSETS – INVESTMENT IN SHARES

	30 June 2012 $	30 June 2011 $
Available-for-sale financial asset	26,250	16,250

The Group's available-for-sale financial asset at 30 June 2012 consists of 1,250,000 fully paid ordinary shares held in Neuren Pharmaceuticals Limited ('Neuren'), a company listed on the Australian Securities Exchange (ASX Code: NEU).

(C) RISK MANAGEMENT POLICY

The Group has a formal risk management policy and a risk management system. This approach to risk management involves identifying, assessing and managing the risks that affect the business, whilst at the same time considering these risks in the context of the Group's values, objectives and strategies. The Board is responsible for overseeing the implementation of the risk management system, and reviews and assesses the effectiveness of the Group's implementation of that system.

The Group seeks to ensure that its exposure to undue risk which is likely to impact its financial performance, continued growth and survival is minimised in a cost effective manner.

(D) SIGNIFICANT ACCOUNTING POLICIES

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables represents their fair values determined in accordance with the accounting policies disclosed in Note 2.

The carrying amount of the available-for-sale investments are determined as the market price of the shares at the close of business on balance date. The accounting policy relating to available-for-sale investments is disclosed in Note 2.

The accounting policy relating to the other financial asset is disclosed in Note 2. This represents amounts held in term deposits that mature greater than 3 months.

Interest revenue on cash and cash equivalents and foreign exchange movements on trade and other receivables and other payables are disclosed in Note 4.

The Financial liability for 2011 is disclosed in note 4(B). This represents conditions of the NovoSkin grant agreement that enable Bio Innovation South Australia to convert grant monies into equity in NovoSkin dependant on the approval of the South Australian Government.

(E) CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares or reduce its capital, subject to the provisions of the Company's Constitution and any relevant regulatory requirements. The capital structure of the Group consists of equity attributed to equity holders of the Group comprising contributed equity, reserves and accumulated losses as disclosed in note 15. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Group's Management, the Board monitors the need to raise additional equity from the equity markets.

(F) FINANCIAL RISK MANAGEMENT

The main financial risks the Group is exposed to through its operations are:

- Interest rate risk
- Credit risk
- Liquidity risk
- Other price risk

Interest Rate Risk

Interest rate risk is where the value of a financial instrument may fluctuate as a result of changes in market interest rates.

The Group is exposed to interest rate risks via the cash and cash equivalents that it holds. To date all cash and cash equivalents have been held by the National Australia Bank. The objective of managing interest rate risk is to minimise the Group's exposure to fluctuations in interest rate that might impact its interest revenue and cash flow. To manage interest rate risk, the Group locks a portion of the Group's cash and cash equivalents into term deposits. The maturity of term deposits is determined based on the Group cash flow forecast. Interest rate risk is considered when placing funds on term deposit. The Group considers the reduced interest rate received by retaining cash and cash equivalents in the Group's operating account compared to placing funds on term deposit. This consideration also takes into account the costs associated with early withdrawal of a term deposit should access to cash and cash equivalents be required.

The Group's exposure to interest rate risk and the weighted average interest rates on the Group's financial assets and financial liabilities is as follows:

2012	Weighted Average Effective Interest Rate	Floating Interest Rate $	Fixed interest rate 0 – 90 days $	Fixed Interest Rate 91-365 days $	Fixed Interest Rate 1 to 5 years $	Fixed Interest Rate Over 5 Years $	Non-Interest Bearing $	Total $
Financial assets:								
Cash and cash equivalents	5.05%	507,977	2,500,000	-	-	-	-	**3,007,977**
Other financial assets	5.03%	-	-	1,860,000	-	-	-	**1,860,000**
Receivables	-	-	-	-	-	-	66,726	**66,726**
Total financial assets:		**507,977**	**2,500,000**	**1,860,000**	**-**	**-**	**66,726**	**4,934,703**
Financial liabilities:								
Trade and other Payables	-	-	-	-	-	-	518,979	**518,979**
Total financial liabilities:		**-**	**-**	**-**	**-**	**-**	**518,979**	**518,979**

2011	Weighted Average Effective Interest Rate	Floating Interest Rate $	Fixed interest rate 0 – 90 days $	Fixed Interest Rate 91-365 days $	Fixed Interest Rate 1 to 5 years $	Fixed Interest Rate Over 5 Years $	Non-Interest Bearing $	Total $
Financial assets:								
Cash and cash equivalents	5.29%	1,456,242	2,000,000	-	-	-	-	**3,456,242**
Other financial assets	5.92%	-	-	3,760,000	-	-	-	**3,760,000**
Receivables	-	-	-	-	-	-	227,713	**227,713**
Total financial assets:		**1,456,242**	**2,000,000**	**3,760,000**	**-**	**-**	**227,713**	**7,443,955**
Financial liabilities:								
Trade and other Payables	-	-	-	-	-	-	489,632	**489,362**
Financial liability	-	-	-	-	-	-	167,928	**167,928**
Total financial liabilities:		-	-	-	-	-	**657,560**	**657,560**

There has been no change to the Group's exposure to interest rate risk or the manner in which it manages and measures its risk in the year ended 30 June 2012.

The analysis below details the impact on the Group's loss after tax if the interest rate associated with cash and cash equivalents and deposits included in other financial assets was to fluctuate by the margins below, assuming all other variables had remained constant:

	Higher/(Lower) 2012	(Higher)/Lower 2011
+ 1% (100 basis points)	43,600	72,061
- 1% (100 basis points)	(43,600)	(72,061)

Credit risk

Credit risk is where a counterparty may default on its contractual obligations resulting in a financial loss to the Group.

The Group is exposed to credit risk via its cash and cash equivalents and receivables. To reduce risk exposure for the Group's cash and cash equivalents, they are placed with the Group's main bankers, the National Australia Bank (S&P Rating AA/A-1+, Moody's rating Aa1/P-1). A change to the Group's bankers requires Board approval.

In recent years the Group has had minimal trade and other receivables, with the majority of its cash receipts being provided via shareholder investment. The Group's receivables at 30 June 2012 largely relate to accrued interest and license revenue receivable.

There are no significant concentrations of credit risk within the Group.

The analysis of trade and other receivables is as follows.

2012	0-30 days $	30-60 days $	60-90 days $	90+ day $	Total $
Trade and other receivables	52,097	-	8,002	6,627	**66,726**

2011	0-30 days $	30-60 days $	60-90 days $	90+ day $	Total $
Trade and other receivables	162,564	14,740	50,409	-	**227,713**

Liquidity risk

Liquidity risk is where the Group may encounter difficulty in raising funds to meet its financial liabilities.

The Group is exposed to liquidity risk via its trade and other payables. Responsibility for liquidity risk rests with the Board who regularly review liquidity risk by monitoring undiscounted cash flow forecasts and actual cash flows provided to them by the Group's management at board meetings to ensure that the Group continues to be able to meet its debts as and when they fall due. Contracts are not entered into unless the Board is satisfied that there is sufficient cash flow to fund the additional commitment. The Board determines when reviewing the undiscounted cash flow forecasts whether the Group needs to raise additional working capital from its existing shareholders, the equity capital markets or any other available sources.

Analysis of trade and other payables, performed on a contractual basis, is as follows.

2012	**0-30 days $**	**30-60 days $**	**60-90 days $**	**90+ day $**	**Total $**
Trade and other payables	472,002	17,980	462	28,535	**518,979**

2011	**0-30 days $**	**30-60 days $**	**60-90 days $**	**90+ day $**	**Total $**
Trade and other payables	346,659	103,102	18,970	20,901	**489,632**

Other price risk – Available-for-sale financial asset

The Group's available-for-sale financial asset at 30 June 2012 consists of 1,250,000 fully paid ordinary shares held in Neuren Pharmaceuticals Limited ('Neuren'), a company listed on the Australian Securities Exchange (ASX Code: NEU), and therefore subject to price risk associated with fluctuations in the market price.

The Board has determined that there is no effective instrument available to efficiently manage its exposure to price fluctuations of an equity investment such as these that are by their nature inherently speculative. Accordingly it regularly monitors its investment in these assets by following the material disclosed by Neuren to the ASX.

After initial recognition, the available-for-sale investments are recorded at fair value with movements in fair value recorded in equity until the investment is deemed impaired or otherwise sold or disposed of.

At 30 June 2008 the Company deemed the investment in Neuren impaired due to a significant and prolonged decline in the market price of Neuren's shares. Due to this objective evidence that the investment in Neuren was impaired, an amount comprising the difference between its cost and its current value was transferred from equity to the Statement of Comprehensive Income (profit and loss).

From 1 July 2009 to 30 June 2010 there was a further decrease in the fair value of the investment in Neuren which was recorded in the Statement of Comprehensive Income (profit and loss).

From 1 July 2010 to 30 June 2011 there was a further decrease in the fair value of the investment in Neuren which was recorded in the Statement of Comprehensive Income (profit and loss).

During 2011 Calzada sold its entire shareholding in the ASX Listed Avexa Limited (ASX code: AVX). On disposal, the cumulative loss of $222,600 previously recognised in equity was recognised in Other Comprehensive Income at 30 June 2011.

From 1 July 2011 to 30 June 2012 there was an increase of $10,000 in the fair value of the investment in Neuren which was recorded as Other Comprehensive Income (Equity).

The analysis below indicates the impact on the Group's loss after tax and equity had the market price of the investment in Neuren (2011: Neuren) fluctuated by the margins below:

	Higher/(Lower) 2012 $	Higher/(Lower) 2011 $
Equity: Share Price + 20% Share Price – 20%	5,250 (5,250)	3,250 (3,250)
Profit and Loss: Share Price + 20% Share Price – 20%	- -	- -

The major methods and assumptions in estimating fair value of financial instruments were disclosed in note 2(K) of the significant accounting policies section.

At 30 June 2012, the carrying value of debt and equity investments which fair values were determined directly, in full or in part, by reference to published price quotations amounted to $26,250 (2011: $16,250).

The table below analyses financial instruments carried at fair value. The different levels have been defined as follows:

Fair value measurements recognised in the statement of financial position

Level 1

Level 1 fair value measurements are those instruments valued based on quoted prices in active markets.

Level 2

Level 2 fair value measurements are those instruments based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Level 3 fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data.

30 June 2012	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	26,250	-	-	26,250
Total	**26,250**	**-**	**-**	**26,250**

30 June 2011	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	16,250	-	-	16,250
Total	**16,250**	**-**	**-**	**16,250**

23. Key Management Personnel Disclosures

The Key Management Personnel compensation disclosures required by the *Corporations Act 2001* are provided in the Remuneration Report in the Directors' Report.

(A) DETAILS OF KEY MANAGEMENT PERSONNEL

The Key Management Personnel of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the 2012 and 2011 financial years. Unless otherwise indicated they were Key Management Personnel during the whole of the financial years. The Key Management Personnel are:

(i) Directors

- Mr David Franklyn[1] - *Chairman (Non-Executive) – appointed 16th April 2009.*
- Mr George Cameron-Dow - *Director (Non-Executive) – appointed 16th April 2009, resigned 22nd November 2010.*
- Mr Oliver Stevens - *Director (Non-Executive) – appointed 16th April 2009, resigned 31st March 2011.*
- Mr Bruce Rathie - *Director (Non-Executive) – appointed 18th February 2010.*
- Dr John Chiplin - *Director (Non-Executive) – appointed 18th October 2010.*

(ii) Other Key Management Personnel

- Dr Stewart Washer - *Chief Executive Officer – appointed 23rd November 2010, ceased employment 7th October 2011.*
- Mr David Kenley - *Chief Executive Officer of Metabolic Pharmaceuticals Pty Ltd* – appointed *18th February 2010.*
- Mr Chris Mews - *Chief Financial Officer/Company Secretary – appointed CFO 1st September 2009 and held title of Company Secretary since 16th April 2009*.
- Mr Laurent Fossaert - *Chief Executive Officer of PolyNovo – appointed permanent CEO on 18th February 2010. Prior to this time he was COO and acting CEO of PolyNovo*.

1. David Franklyn was Executive Chairman from 1st March 2010 to 31st March 2011.

(B) OPTION AND PERFORMANCE RIGHTS HOLDINGS OF KEY MANAGEMENT PERSONNEL

(i) Option holdings of Key Management Personnel are listed in the following table:

30 June 2012	Balance at beginning of year	Granted as compen-sation	Options exercised	Net change other	Balance at end of year	Total vested at end of year	Total exer-cisable at end of year	Total Not exer-cisable at end of year	Total vested during year
Directors									
No Directors hold options in the Group	-	-	-	-	-	-	-	-	-
Other Key Management Personnel									
Dr Stewart Washer	6,400,000	-	-	(6,400,000)	-	-	-	-	-
Mr Laurent Fossaert	3,200,000	-	-	-	3,200,000	2,133,333	2,133,333	1,066,667	1,066,666
Mr David Kenley[1]	3,200,000	-	-	1,422,222	4,622,222	3,555,555	3,555,555	1,066,667	1,066,666
Mr Chris Mews[1]	1,000,000	-	-	355,556	1,355,556	1,022,222	1,022,222	333,333	333,333
Total	**13,800,000**	**-**	**-**	**(4,622,222)**	**9,177,778**	**6,711,110**	**6,711,110**	**2,466,667**	**2,466,665**

1. Upon Dr Stewart Washer's departure from the group 3,200,000 unvested options were forfeited. The remaining 3,200,000 of Dr Stewart Washer's options which had already vested were sold to Mr David Kenley, 1,422,222 options, Mr Chris Mews, 355,556 options, and the remaining 1,422,222 options to an independent third party. The sale was on commercial terms.

30 June 2011	Balance at beginning of year	Granted as compen-sation	Options exercised	Net change other	Balance at end of year	Total vested at end of year	Total exer-cisable at end of year	Total Not exer-cisable at end of year	Total vested during year
Directors									
No Directors hold options in the Group	-	-	-	-	-	-	-	-	-
Other Key Management Personnel									
Dr Stewart Washer	-	6,400,000	-	-	6,400,000	3,200,000	3,200,000	3,200,000	3,200,000
Mr Laurent Fossaert	-	3,200,000	-	-	3,200,000	1,066,667	1,066,667	2,133,333	1,066,667
Mr David Kenley	-	3,200,000	-	-	3,200,000	1,066,667	1,066,667	2,133,333	1,066,667
Mr Chris Mews	-	1,000,000	-	-	1,000,000	333,333	333,333	666,667	333,333
Total	**-**	**13,800,000**	**-**	**-**	**13,800,000**	**5,666,667**	**5,666,667**	**8,133,333**	**5,666,667**

(ii) Performance Rights holdings of Key Management Personnel

No performance rights were granted to Key Management Personnel for the year ending 30 June 2012 or 30 June 2011. There are no performance rights on issue as at 30 June 2012 (2011; Nil).

(C) SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

Details of the movements in the number of ordinary shares in Calzada Limited held during the financial year by each Director and other Key Management Personnel, including their personally-related entities, are set out below:

Shares held in Calzada Limited

		Balance at beginning of year	Granted as compen-sation	On exercise of options or Performance Rights	Net change other	Balance at end of year
Directors						
Mr. David Franklyn [(a)]	**2012**	**59,713,219**	-	-	**(59,713,219)**	**-**
	2011	59,713,219	-	-	**-**	59,713,219
Mr Oliver Stevens[(IV)]	**2012**	**-**	-	-	**-**	**-**
	2011	-	-	-	-	-
Mr. George Cameron-Dow [(iii)]	**2012**	**-**	-	-	**-**	**-**
	2011	300,000	-	-	(300,000)	-
Mr Bruce Rathie [(vi) (c)]	**2012**	**1,000,000**	-	-	**-**	**1,000,000**
	2011	500,000	-	-	500,000	1,000,000
Dr John Chiplin [(ii)]	**2012**	**-**	-	-	**-**	**-**
	2011	-	-	-	-	-
Other Key Management Personnel						
Mr. David Kenley [(b)(iii)]	**2012**	**20,453,088**	-	-	**2,883,646**	**23,336,734**
	2011	10,835,198	-	-	9,617,890	20,453,088
Dr Stewart Washer [(I)]	**2012**	**-**	-	**-**	**-**	**-**
	2011	-	-	-	-	-
Mr Chris Mews [(v) (e)]	**2012**	**-**	-	**-**	**152,344**	**152,344**
	2011	-	-	-	-	-
Mr Laurent Fossaert [(vii) (d)]	**2012**	**3,749,153**	-	**-**	**1,421,121**	**5,170,274**
	2011	90,000	-	-	3,659,153	3,749,153
Total	**2012**	**84,915,460**	-	**-**	**(55,256,108)**	**29,659,352**
	2011	71,438,417	-	-	13,477,043	84,915,460

Notes:

(a), (b) (c) (d) and (e) shares held indirectly included in balance at 30th June 2012 - (a) - (b) 17,386,994 (c) 1,000,000 (d) 2,721,710 and (e) 152,344. 30th June 2011 - (a) 59,713,219, (b) 17,386,994 (c) 1,000,000 (d) 421,510 and (e) nil.

(i) Dr Stewart Washer was appointed as Chief Executive Officer on 22nd November 2010 and ceased employment on 7th October 2011.

(ii) Dr John Chiplin was appointed as Director on 18th October 2010.

(iii) Mr David Kenley, Chief Executive Officer of Metabolic, was appointed as Director on 16th April 2009 and resigned on 18th February 2010 and Mr George Cameron-Dow was appointed as Director on 16th April 2009 and resigned as Director on 22nd November 2010.

(iv) Mr Oliver Stevens was appointed as Director on 16th April 2009 and resigned on 31st March 2011.

(v) Mr Chris Mews was appointed Company Secretary on 16th April 2009 and CFO on 1st September 2009.

(vi) Mr Bruce Rathie was appointed as Director on 18th February 2010.

(vii) Mr Fossaert was appointed permanent CEO on 18th February 2010. Prior to this time he was COO and acting CEO of PolyNovo.

(D) LOANS TO KEY MANAGEMENT PERSONNEL

No loans have been made to Directors of Calzada or to any other Key Management Personnel, including their personally-related entities.

(E) OTHER TRANSACTIONS WITH DIRECTORS

SG Corporate Pty Ltd of which George Cameron-Dow is a Director was engaged by Calzada Limited to provide Consulting services. The agreement between Calzada and SG Corporate Pty Ltd expired during the period ended 30th June 2011 and was not renewed. Consulting fees of nil were paid by Calzada during the financial year (2011; $100,000). These fees were charged at commercial rates. Mr Cameron-Dow received non executive directors fees of nil during the year ended 30th June 2012 (2011; $15,778).

Entrust Funds Management Ltd ("Entrust") was engaged on 1st September 2009 by Calzada to provide financial, ASX reporting and company secretarial services. Oliver Stevens was an employee and David Franklyn is a Director of Entrust, and therefore have an interest in the services contract with Entrust Funds Management Ltd. Compensation was as follows:

- Compensation is a fixed fee of $175,000 per year;
- Termination requires three months written notice;
- No performance based cash bonuses; and
- No share-based compensation or long-term incentives.

The contract was terminated by mutual agreement on 18th April 2011 without penalty to the Company.

Total Director and consulting fees paid to Entrust during 2012 was nil (2011; $155,208).

Lateral Innovations Pty Ltd of which David Kenley is a Director was engaged by Calzada Limited to provide consulting services to Metabolic Pharmaceuticals Pty Ltd. Consulting and Director fees of $228,900 (2011; $233,912) were paid by Calzada during the financial year.

24. Intangible assets

	30 June 2012 $	30 June 2011 $
Intangible assets	2,519,788	2,519,788

These intangible assets were acquired through the business combination formed with PolyNovo Biomaterials Pty Ltd, on 17th December 2008. These assets are indefinite lived and are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

The impairment assessment at 30 June 2012 took into consideration a valuation report prepared by an independent third party.

The valuation report was prepared by assigning a value to each current project in the Group's pipeline using a probability adjusted net present value method. In arriving at a valuation for each project, various assumptions were made depending on the individual project. The assumptions for each project fell in the range as outlined below:

Growth rate	3% to 5%
Valuation date	30 June 2012
After tax discount rate	15%
Royalty on sales	5% to 30%
Market penetration	20% to 40%

Growth rate: derived from published data on growth in incidence of the relevant indications and historical growth of products being sold into those conditions.

After tax discount rate: is the Calzada CAPM with a premium of about 3% due to uncertainty in cash flows (this is after probability adjustments to cash flows ranging from 36 to 72%).

Royalty on sales: is as stipulated in agreements, or past agreements, with collaborators.

Market penetration: is a best estimate considering quality of proposed products relative to competitive offerings, where competitors exist, number of competitive products and what commercial partners would expect to justify further investment in development.

A sensitivity analysis was performed where the value of each assumption changed by 10%. In this instance, the value placed on the Intellectual Property was still above the carrying value.

Consideration was also given to recent transactions in the field of each project and the market capitalisations of ASX Listed Company's with similar technology. The report concluded that the value of the Intellectual Property is in excess of the current carrying value as at 30 June 2012.

The Directors considered this valuation report as at 30 June 2012 and the development of the Groups projects over the last 12 months in forming a view on the value of the Groups Intellectual Property. It is the opinion of the Directors that no impairment of the Intellectual Property is necessary as at 30 June 2012.

25. Controlled entities

The consolidated financial statements incorporated the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy in Note 2:

	Country of incorporation	Percentage Owned	
		2012 %	2011 %
Company:			
Calzada Limited	Australia		
Subsidiaries of Calzada Limited:			
PolyNovo Biomaterials Pty Ltd	Australia	100	100
Metabolic Pharmaceuticals Pty Ltd	Australia	100	100
NovoSkin Pty Ltd	Australia	80	80
NovoWound Pty Ltd	Australia	80	80

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Independent auditor's report to the members of Calzada Limited

Report on the financial report

We have audited the accompanying financial report of Calzada Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, 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 judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. 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 have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration 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 Calzada 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 2012 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 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 23 to 34 of the directors' report for the year ended 30 June 2012. 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 Calzada Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Don Brumley
Partner
Melbourne
24 August 2012

Additional information required by the Australian Securities Exchange is as follows:

Ordinary Shares

There are 346,632,277 ordinary shares on issue held by 5,595 shareholders. Each ordinary share carry's one vote per share.

Top 20 Shareholders as at 22nd August 2012

Shareholder	Number of shares	%
Trust Company Ltd <MOF Account>	68,615,095	19.79
Lateral Innovations Pty Ltd <Trust Account>	11,886,666	3.43
Monash Investment Holdings Pty Ltd	9,607,520	2.77
HSBC Custody Nominees (Australia) Ltd	6,073,751	1.75
Ms Suzanne Kenley	5,250,328	1.51
Mr David Kenley	4,935,474	1.42
CSIRO	4,081,250	1.18
Dr Gavin James Shepherd and Mrs Catherine Shepherd <Shepherd Investment Account>	4,000,000	1.15
Lappin Consulting Pty Ltd <Super Fund Account>	3,568,734	1.03
Navigator Australia Ltd <MLC Investment Account>	3,413,370	0.98
Mr Brian Gordon Alfred Matthews	3,000,000	0.87
Professor Frank Ng	2,975,000	0.86
JP Morgan Nominees Australia Limited <Cash Income Account>	2,573,705	0.74
Semblance Pty Ltd <Graeme Mutton Retirement S/Fund>	2,550,000	0.74
Mr Chris Dawborn <Haskali Super Fund>	2,367,964	0.68
Mrs Jo-Anne Robyn Wade	2,247,468	0.65
Mr Lewis Max Rayner	2,200,000	0.64
Mr Anthony Kittel and Mrs Michele Therese Kittel <Kittel Family Super Account>	2,172,454	0.63
Octagonal Superannuation Pty Ltd	2,000,000	0.58
Fossaert Nominees Pty Ltd <Fossaert Super Fund Account>	1,771,710	0.51
Totals	**145,290,489**	**41.91**

Unquoted securities

Options over unissued shares

A total of 12,135,000 options over ordinary shares are on issue held by eight individual holders. All options were issued under the Calzada Employee Share Option Plan. There are no options on issue to Directors as at the date of this report. Options do not carry a right to vote.

Range of Shareholders as at 22nd August 2012

	No. of Holders	No. of shares
1 - 1000	760	524,022
1,001 – 5,000	1,795	5,338,207
5,001 – 10,000	919	7,561,574
10,001 – 100,000	1,714	55,871,307
100,001 and over	407	277,337,167
Number of holders with less than a marketable parcel	3,525	13,954,064

Voting rights

Clauses 45 to 54 of the Company's constitution stipulate the voting rights of members. In summary but without prejudice to the provisions of the Constitution, every member present in person or by representative, proxy or attorney shall have one vote on a show of hands and on a poll have one vote for each share held by the member.

Substantial Shareholders

Name of shareholding	No. of shares
Trust Company Ltd <MOF Account>	68,615,095
Mr David Kenley	23,336,734

Quotation of the Company's Shares

Calzada has been granted official quotation for its shares on the Australian Securities Exchange (ASX Code: CZD).

Corporate Directory

ABN 96 083 866 862

Non-Executive Chairman
Mr David Franklyn

Non-Executive Directors
Mr Bruce Rathie
Dr John Chiplin
Dr David McQuillan

Company Secretary
Mr Chris Mews

Registered Office
Unit 2/320 Lorimer St
Port Melbourne
Victoria 3207
Tel: 03 8681 4050
Fax: 03 8681 4099

Share Registry
Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston St
Abbotsford, Victoria 3067
Telephone: 1300 850 505

Auditors
Ernst & Young
8 Exhibition St
Melbourne Victoria

Bankers
NAB
Perth, Western Australia

Lawyers
Corrs Chambers Westgarth
Perth, Western Australia

Website
www.calzada.com.au

Stock Exchange
Calzada shares are quoted on ASX Limited (ASX Code: CZD)