PolyNovo

Annual Report 2017

PolyNovo Limited ABN 96 083 866 862

Improving outcomes. Changing lives.

NovoSorb™ BTM is now available for sale in the United States, Australia, New Zealand and South Africa. We expect further countries to be announced in the near term. The hospital evaluation process can be prolonged, however we are well placed to close these sales and realise revenue.

Our global reach is expanding with additional markets coming on stream. FY18 will see revenues from multiple markets with additional distribution arrangements established. A direct sales team has been employed in the US by PolyNovo North America LLC.

United States

PolyNovo is establishing a solid foundation for future growth with evaluations progressing in more than 25 hospitals. Our direct sales team are delivering excellent support and service to these hospitals and the surgical teams.

$3.6m

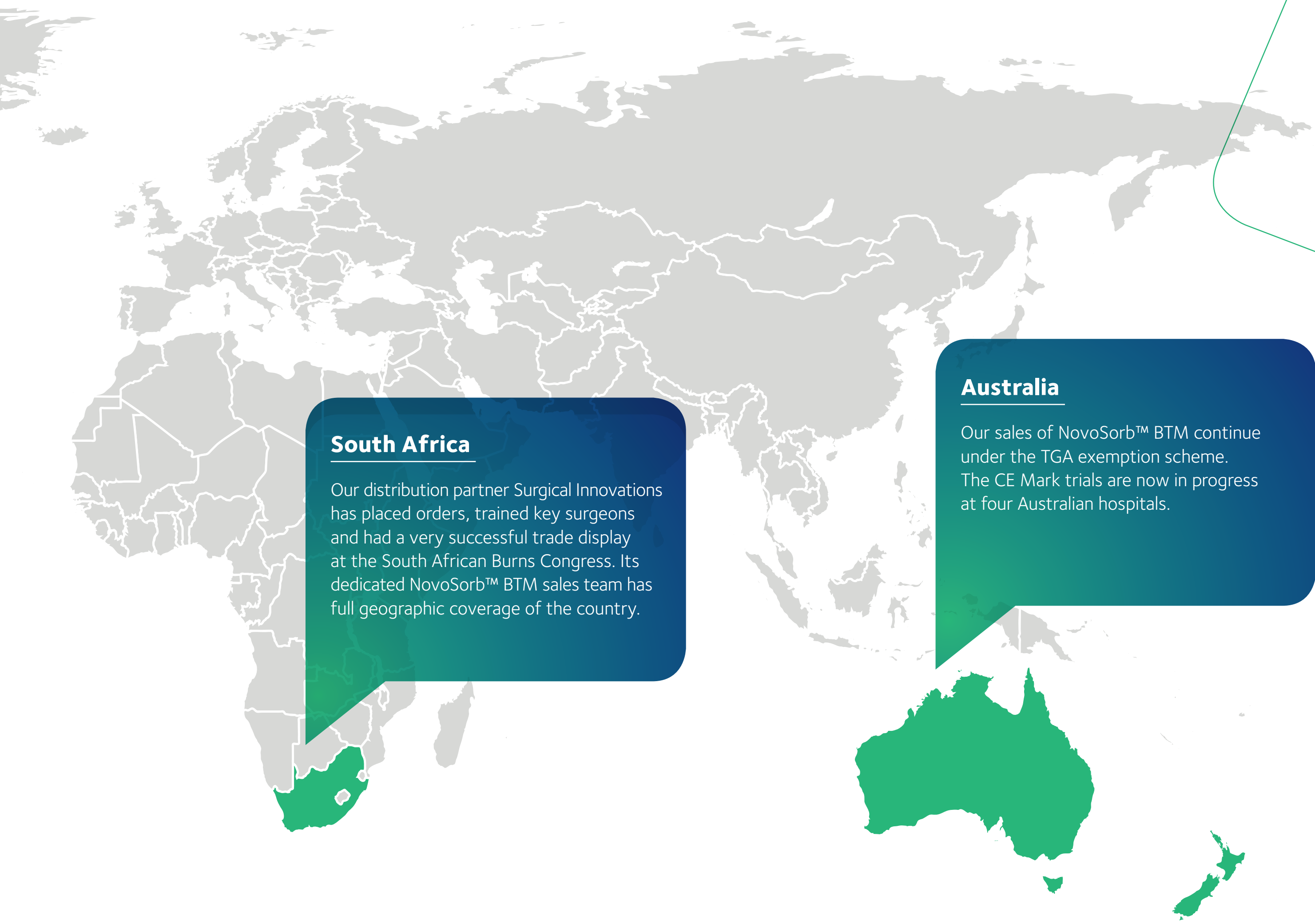
Revenue of $3.6m from the sale of goods and services continues to support the cash flow. The BARDA revenue remains the most significant revenue at this time. We will see this change in the year ahead as increased commercial revenue from NovoSorb™ BTM sales contributes to the business expansion.

US focus

Our US team includes sales representatives, a marketer, a regulatory affairs manager and a clinical programs project manager. We anticipate further expansion of our sales team as revenues flow to enable greater geographical reach and customer service.

Cleanroom expansion

Our newly expanded cleanroom manuracturing facility will deliver the capacity to service our markets, including European entry, and drive greater production efficiencies reducing our cost of goods per product.



South Africa

Our distribution partner Surgical Innovations has placed orders, trained key surgeons and had a very successful trade display at the South African Burns Congress. Its dedicated NovoSorb™ BTM sales team has full geographic coverage of the country.

Australia

Our sales of NovoSorb™ BTM continue under the TGA exemption scheme. The CE Mark trials are now in progress at four Australian hospitals.

New Zealand

A surgeon in NZ has completed initial surgeries and Device Technologies, our distributor agent in NZ, is progressing with the expansion of NovoSorb™ BTM access across the District Health Boards.

Funding of commercial activities during 2017

PolyNovo finished the 2017 year with significant cash resources of $5.5m. Approximately 50% of PolyNovo's 2017 cash requirements were funded by a variety of cash inflows.

- **$3.7m** BARDA receipts
- **$0.7m** R&D benefit receipts
- **$0.4m** Proceeds from share options
- **$0.2m** Customer receipts

Chairman's and Chief Executive Officer's Report

Dear Shareholder,

This has been a foundation year establishing a solid base for commercial sales in the United States and the rest of the world.

Market Entries

We have entered the New Zealand and South African markets through distribution partners and see the year ahead as delivering good sales growth as NovoSorb™ BTM is established as a routine surgical practice. Further market expansion into Israel, Hong Kong, Singapore and Chile is expected soon as we negotiate with distribution partners.

US Sales

In the United States we are distributing directly and have three sales staff and are recruiting another two, which will deliver excellent geographic coverage and support for surgeons. We also have a US-based marketer who is generating promotional plans for the local market supported by a US regulatory affairs person.

Our NovoSorb™ BTM is providing tangible benefits for patients, surgeons and insurers. The product's reception by surgeons has been very positive and has delivered excellent clinical outcomes and ease of application during evaluation with surgeons. When this is coupled with the benefits of early rehabilitation, possible reduction in length of stay and price advantages, we are confident we have a well-earned sales value proposition in dermal repair.

We were over-optimistic in November 2016 regarding timing of our forecast US sales but we now have a solid base for commercial growth in the US. There are over 25 major United States hospitals nearing completion of their NovoSorb™ BTM evaluation or purchase approval process with many successful complex surgeries completed during the evaluation. We are confident that it is only a matter of time before realising our significant sales potential.

BARDA

Our BARDA-funded US clinical program for full thickness burns indication is progressing well. This program comprises a feasibility trial of 10 patients being conducted at Tampa General (Florida), University of Tennessee Hospital (Memphis) and UC Davis Sacramento. Two patients have been enrolled and we anticipate the conclusion of this feasibility trial of 10 patients, to occur before January 2018. We have also concluded a swine bioresorption feasibility study which was run concurrently with the above trial. The final phase of the swine study is due to commence as soon as an interim review by the US Food and Drug Administration is finalised.

CE Mark and Trial

Our clinical programs are progressing well. The CE Mark trial has been extended to include the Royal Brisbane and Women's Hospital (Queensland), Concord and Royal North Shore Hospitals (New South Wales) in addition to the Alfred Hospital (Victoria). This should see us conclude patient recruitment in the Burns Trial by December 2017/January 2018.

PolyNovo is also working with the Therapeutic Goods Administration (TGA) to pilot NovoSorb™ BTM through the innovative technologies registration pathway. This may deliver regulatory approval and CE Mark in early 2018. PolyNovo is exploring options for distribution in Europe.

New Product Development

Our new product development for hernia and breast reconstruction has completed initial tests and we are in the process of furthering this development. There is potential for a partner in the development of our breast portfolio, which would provide PolyNovo with access to key opinion leaders in the United States who can also help refine the product design.

We are engaged with a major US company to develop a subcutaneous drug-eluting depot. Preliminary results show the NovoSorb™ polymer releases a controlled and consistent drug dose and it may present a unique opportunity to improve drug compliance rates and improved outcomes for patients.

The NovoSorb™ BTM has also demonstrated excellent biocompatibility and vascularisation with its use as a dermal depot for islet cell implantation. Islet cells produce insulin through their beta cells, and we are working with an Australian team to explore whether these islet cells are sustained and produce insulin in pigs within a NovoSorb™ BTM dermal implant. Preliminary findings have been presented this year at world forums in New York, USA and Oxford, UK.

Manufacturing

The expansion of our cleanroom production facility in Port Melbourne is now complete. Our world-class facility will deliver a higher output to service commercial volumes as well as efficiency improvements to reduce cost of goods.

Summary

In summary, we are expecting a solid uplift in sales of our NovoSorb™ BTM in FY18 in multiple countries, and particularly in the United States. Further, we have a new product pipeline and the resources supported by enhanced regulatory credentials to deliver further growth.

David Williams
Chairman

Paul Brennan
Chief Executive Officer

In the US we are distributing directly and have three sales staff and are recruiting another two, which will deliver excellent geographic coverage and support for surgeons.

NovoSorb™ BTM is PolyNovo's first commercial product. The NovoSorb™ polymer is now demonstrating its 'Platform Technology' potential in the new product formats of hernia, breast, drug elution pellet and other pipeline products in progress.

Directors' Report

The Directors of PolyNovo Limited (PolyNovo) present the Directors' Report, together with the Financial Report, of the Company and its controlled entities (the Group) for the year ended 30 June 2017 and the related Auditor's Report.

Board of Directors and Senior Management

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

Mr David Williams

(B.Ec (Hons), M.Ec, FAICD)

Non-executive Chairman

Mr Williams was appointed as a Non-executive Director on 28 February 2014 and Chairman on 13 March 2014. Mr Williams is an experienced director and investment banker with a proven track record in business development and strategy, as well as in corporate initiatives specialising in mergers and acquisitions and capital raising. He has more than 30 years' experience working with and advising ASX-listed companies in the food, medical device and pharmaceutical sectors. Mr Williams is currently Chairman of ASX Listed Medical Developments International Ltd. (ASX:MVP), and is Managing Director of corporate advisory firm Kidder Williams Ltd. Mr Williams is also Chairman of Ratemyagent.com.au. Mr Williams was previously a director of IDT (ASX:IDT).

Mr Bruce Rathie

(B.Comm, LLB, MBA, FAIM, FAICD)

Non-executive Director

Mr Rathie was appointed a Non-executive Director on 18 February 2010. Mr Rathie is an experienced company director and lawyer holding degrees in law, commerce and business having practiced as a partner in a large 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. Mr Rathie was Head of the Industrial Franchise Group at Salomon Smith Barney in the late 1990s and led Salomon's roles in the federal government's privatisation of Qantas, Commonwealth Bank (CBA3) and Telstra (T1). He now has over 15 years 'experience as a professional Non-executive Director.

He is currently Chairman of DataDot Technology Limited (7 years), Vice Chairman of Capricorn Society Limited (2 years) and Chairman of Capricorn Mutual Limited (2 years). In the medical device space, he was previously a Director of Compumedics Limited (2 years) and USCOM Limited (5 years) and has been a Non-executive Director of PolyNovo Limited since February 2010 (7 years). In addition, he was previously Chairman of Anteo Diagnostics Limited (3 years).

Dr David Mcquillan

(PhD)

Non-executive Director

Dr McQuillan was appointed a Non-executive Director on 6 August 2012. Dr McQuillan possesses extensive technical, medical, scientific and regulatory knowledge as well as merger and acquisition expertise. Dr McQuillan was with LifeCell Inc/Kinetic Concepts Inc for 12 years, and served a number of roles that increased with responsibility, including Vice-President for Research and Development at LifeCell, and Senior Vice President of Advanced Research and Technology at KCI. He was Chief Science Officer for TELA Bio, a VC-funded development-stage biotechnology company from 2013 to 2015.

Mr Max Johnston

Non-executive Director

Mr Johnston was appointed a Non-executive Director on 13 May 2014. Mr Johnston was a former senior executive with Johnson & Johnson, the world's largest medical, pharmaceutical and consumer healthcare company. He was President and CEO of Johnson & Johnson Pacific until retirement in 2009. He also led several Asia Pacific and global franchise and functional working groups. Mr Johnston has also served as a past President of ACCORD Australia, Vice Chairman of the Australian Food and Grocery Council (AFGC) and board member of the Australian Self-Medication Industry (ASMI).

Prior to joining Johnson & Johnson Max held senior local and international executive positions with Unilever and Diageo and was Non-executive Chairman of Probiotec and a Non-executive Director of ENERO until 2016. He brings extensive overseas and local experience of leading businesses and franchises in the Asia Pacific, Western and Central Europe and Africa. Other current Directorships including ProLife Foods NZ Pty Ltd and Medical Developments International (ASX:MVP).

Mr Philip Powell

(B.Comm (Hons), ACA, F.Fin, MAICD)

Non-executive Director

Mr Powell was appointed a Non-executive Director on 13 May 2014. Mr Powell has over 18 years' experience in investment banking specialising in capital raisings, IPOs, mergers and acquisitions and other successful corporate finance assignments across a diverse range of sectors including utilities, IT, pharma, financial services, food and agriculture. He spent 10 years in senior financial roles at OAMPS Ltd, a former ASX-listed financial services group and 10 years in audit with Arthur Andersen & Co. in Melbourne, Sydney and Los Angeles. Mr Powell has been involved in numerous IPO engagements, valuations and venture capital related raisings. Mr Powell is currently a Non-executive Director of Medical Developments International Ltd (ASX:MVP).

Mr Leon Hoare

(GradDipBus, AssocDipAppSc(Ortho), GAICD)

Non-executive Director

Mr Hoare was appointed a Non-executive Director on 27 January 2016. Mr Hoare is the Managing Director of Lohmann & Rauscher Australia/New Zealand (ANZ), a private EU-based medical device company. Previously, he was Managing Director of Smith & Nephew ANZ, which is one of the company's largest global subsidiaries outside the United States. Until 2014 he served as President of Smith & Nephew's Asia Pacific Advanced Wound Management (AWM) business for five years. He was also a member of the global executive management for the AWM Division. In his 24 years with Smith & Nephew, he also held roles in marketing, divisional and general management.

Mr Hoare's career also included a senior role at Bristol-Myers Squibb in surgical products, and Vice-Chair of Australia's peak medical device body, Medical Technology Association of Australia. Leon is currently a Non-executive Director of Medical Developments International Ltd (ASX:MVP).

Directors' Report continued

Mr Paul Brennan
(MBA, BSc (Nursing) RN RM)
Chief Executive Officer
Mr Brennan has extensive knowledge, exposure and understanding of the health system through his clinical background and commercial exposure with various multinational companies. He has coordinated the marketing, global strategy development, new product development and regulatory processes for the Asia-Pacific region for industry-leading organisations in relation to medical products and devices. Paul has an intimate knowledge of the manufacturing/production processes. Previously he was the Marketing Director Australia and New Zealand and Sales Director New Zealand for Smith and Nephew Healthcare from 2008 to his commencement with PolyNovo in February 2015. Paul holds a Masters of Business Administration (MBA) from Swinburne University and a Bachelor of Science (Nursing) degree from the University of New England.

Mr Gavin Smith
(B.Ec, CPA, MAICD)
CFO and Company Secretary
Mr Smith was formally appointed as a Joint Company Secretary on 20 January, 2017. He is a CPA and a member of the Australian Institute of Company Directors and is contracted on an interim basis during Ms Andrea Goldie's maternity leave period. Mr Smith has extensive experience as a Public Company CFO and Company Secretary across multiple industry sectors including industrial, agribusiness, mining and financial services. He has had involvement in a number of businesses in other regions including North and Central America, Europe and many parts of Asia and has a special interest in linking business and financial processes to supply chain activities.

In recent times, Mr Smith has been involved in a number of CFO and company secretarial roles on an interim and/or part-time basis. Prior to this, he was engaged in senior commercial finance roles for a number of major public companies including Ardagh Group, BTR Nylex, Elders, Incitec Pivot, IOOF, ION, Orica and Sunrice.

Ms Andrea Goldie
(CPA, ACA ,CTA, GIA(Cert))
CFO and Company Secretary
Ms Goldie was appointed as Chief Financial Officer (CFO) and Company Secretary on 28 October 2015. Ms Goldie has over 14 year's corporate governance experience with multinational companies within the pharmaceutical and healthcare industries. Her areas of expertise include financial accounting, statutory reporting, auditing, tax compliance, management reporting and corporate governance. These skills have been applied across a number of geographic regions including Europe, the Middle East, Africa, the Asia-Pacific region and North America. Ms Goldie is a Chartered Accountant, a Chartered Tax Adviser and a certificated member of the Governance Institute Australia. Ms Goldie holds a Bachelor of Economics (Accounting) and an MBA (Finance). Andrea commenced maternity leave on 6 February 2017 and her return, full time, is anticipated in early January 2018.

Review of Operations

Corporate and organisational structure

PolyNovo Limited, the ultimate parent entity of the PolyNovo Group, is a public company listed on the Australian Securities Exchange. As at 30 June 2017, PolyNovo Limited had four wholly owned subsidiaries: PolyNovo Biomaterials Pty Limited, NovoSkin Pty Ltd, NovoWound Pty Ltd and PolyNovo North America LLC (PNA LLC). Three subsidiary companies are Australian proprietary companies while PNA LLC is the trading and employment entity for our US commercial operations.

Principal activities and operations

PolyNovo's principal activity is the development of innovative medical devices for a number of medical applications, utilising the patented biodegradable polymer technology NovoSorb™.

NovoSorb™ is a family of proprietary medical-grade polymers that can be utilised to manufacture novel medical devices designed to support tissue repair and which 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 attributes of the NovoSorb™ technology include an unparalleled range of mechanical properties and degradation times, excellent biocompatibility and safety profile, and harmless degradation. The technology can be utilised as a foam, coating or a thermoplastic structure, with the potential to deliver drugs, a biological agent, antimicrobials and cells. In addition, the technology is scalable in terms of manufacturing and processing.

A summary of PolyNovo's lead projects is set out below:

NovoSorb™ BTM

NovoSorb™ Biodegradable Temporising Matrix (BTM) is used in a fully debrided clean surgical wound to physiologically 'close the wound'. With the BTM scaffold in place the dermal layer is regenerated within the scaffold. Once fully integrated, the outer layer is delaminated and the wound closes through secondary intention (smaller wounds) or through application of a split skin graft. The BTM has been demonstrated in human use for closure of free flap deficits and full thickness burns. Several publications and videos relating to these applications can be found on our website: www.polynovo.com.au (to view publications: navigate to Resources. To view videos: select Products, BTM and scroll to the base of the page).

In December 2015, our polymer was awarded US FDA 510(k) approval for use in surgical wound repair. This enables PolyNovo to commercially sell NovoSorb™ BTM in the United States and other markets that recognise the US FDA 510(k) approval.

PolyNovo is actively selling NovoSorb™ BTM in the United States through our own directly employed sales team. PolyNovo NA LLC is the commercial entity charged with this function. In addition to the United States, we have appointed distributors in South Africa, Australia and New Zealand to sell NovoSorb™ BTM. Further market entries will be announced in due course with our priorities being:

- Israel;
- Hong Kong; and
- Singapore.

PolyNovo is planning for European market entry through a distributor model. We anticipate this will be realised in 2018.

NovoSorb™ BTM indication for full thickness burns

NovoSorb™ BTM is an innovative treatment for any loss of the dermis. Full thickness burns treatment for regulatory 'claim' requires additional clinical evidence generation (trials). The pathway for US regulatory approval of the NovoSorb™ BTM requires extensive clinical trials that are being funded through a BARDA contract. These trials will lead to a Premarket Approval (PMA) application with the US FDA. An outline of this clinical trial process is set out below.

United States burns trial – BARDA

Our Biomedical Advanced Research and Development Authority (BARDA) contract, funded by the US Department of Health and Human Services (Office of the Assistant Secretary for Preparedness and Response), commenced on 28 September 2015. This is a non-dilutive contract that supports a projected five-year clinical pathway, which will lead to a PMA application with the US FDA and the use of our polymer in full thickness acute burns. The contract is a cost plus fixed fee contract and it will progress in specific stages that cover the base work (which has been increased since June 2016) and one further optional segment. The total cost is expected to be US$29 million, through to July 2021.

The first of the trials is a feasibility trial, currently in progress at the University of Southern Florida at Tampa General Hospital (Florida), the UC Davis Medical Center (California) and the University of Tennessee Medical Center Memphis (Tennessee). To date, two patients have been enrolled in the feasibility trial and we require 10 patients in this initial phase. We are also expanding the trial to include two additional US sites to increase the recruitment rate and lessen the trial length.

In addition, PolyNovo has completed the feasibility phase of the concurrent swine study looking at mapping the full degradation pathway of the NovoSorb™ BTM. The final phase of this swine study will begin in December 2017. This will provide valuable data to support our PMA application.

CE Mark certification

PolyNovo is also conducting a CE Mark clinical trial in burns with initial sites at St Anne's Hospital, Toulon (France) and the Alfred Hospital, Melbourne (Australia). The recruitment of patients has been slower than anticipated so we have expanded the trial to the Royal Brisbane and Women's Hospital (Queensland), the Royal North Shore Hospital and the Concord Hospital (New South Wales). To date we have recruited 17 out of 30 patients and we anticipate concluding the recruitment phase of this trial around January 2018.

Dr Marcus Wagstaff is acting as PolyNovo Medical Director overseeing the clinical conduct of these trials. Both Professor John Greenwood and Dr Marcus Wagstaff continue to publish detailed clinical evidence in peer review journals. These publications can be reviewed on our website: www.polynovo.com.au/resources.

In addition to the clinical trials, PolyNovo will submit a Conformity Assessment application to the Australia Therapeutic Goods Administration (TGA) under the innovative technologies pathway. If we are successful this will deliver an EU, mutually recognised Conformity Assessment, enabling an expedited CE Mark review. This Conformity Assessment will gain an Australian Register of Therapeutic Goods (ARTG) listing in early 2018 and a CE Mark around mid-2018. The ARTG listing will enable commercial sales and promotion in Australia before the end of FY18. The CE Mark will enable filing in each European country to promote and sell NovoSorb™ BTM early in FY19.

Hernia repair

PolyNovo developed several new materials utilising our patented NovoSorb™ polymer. Adhesion studies indicate our device out-performed the market's established low adhesion product. We are progressing this device through the final phases of design with plans to garner input from leading US hernia surgeons.

Breast sling development

PolyNovo has also developed a portfolio of breast products that show early promise. The largest global market for these is the United States where breast products are likely to require a PMA regulatory pathway with clinical trials. We are in preliminary discussions with a leading United States supplier of breast products.

NovoSorb™ drug elution depot (pellet)

PolyNovo is working with a leading US firm in the development of a subcutaneous drug-eluting depot. This is a 'pellet' form of the NovoSorb™ containing a nominated drug. As the NovoSorb™ hydrolyses (bio-reabsorbs), the drug is released at a sustained and regular dose. Laboratory data has been postive and we are looking to progress this with a formalised co-development agreement.

NovoSorb™ dermal beta cell implant

PolyNovo is collaborating with Beta Cell Technologies Pty Ltd from Adelaide on a research project exploring the potential of integrated NovoSorb™ BTM to host pancreatic islets in the skin. In a porcine trial, pig islets were successfully seeded into NovoSorb™ BTMs for 100 days and survived, producing porcine insulin. Included within this study, human islets were implanted into NovoSorb™ BTMs treated to prevent cellular rejection in pigs and the cells also survived, producing human insulin. Further pig studies are required with the hope of human trials in the coming years. This expanded use of NovoSorb™ BTM is not resource intensive for PolyNovo and offers a significant commercial opportunity in the near term.

PolyNovo completed the further expansion of our cleanroom manufacturing suite in June 2017. This expansion allows improved process flow, efficiency gains, reduced waste and quality improvements.

Bone void filler

PolyNovo has a licence agreement with Smith & Nephew for the use of NovoSorb's two-part polymer for bone void filler in orthopaedic applications. Smith & Nephew have not progressed this product through the commercial phase and we will review the status of this agreement in due course.

Capital investment

PolyNovo completed the further expansion of our cleanroom manufacturing suite in June 2017. This expansion allows improved process flow, efficiency gains, reduced waste and quality improvements. The capacity gain means we are well placed to meet the demands of further markets, such as Europe, and to come on-stream without risking supply.

During the year we also upgraded our IT system, server, backup and phone system. This reduces our IT risk and ensures we can better serve our US team through our IT infrastructure.

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 PolyNovo during the year ended 30 June 2017.

Strategic overview and likely developments

PolyNovo's focus over the next 12 months will be to:

- realise commercial NovoSorb™ BTM sales in the United States;
- accelerate sales in South Africa and New Zealand;
- finalise commercial partnerships for the BTM product in markets where the US FDA 510(k) is recognised, such as Israel, Hong Kong, Singapore, UAE/Middle East and India;
- conclude the CE Mark trial patient recruitment and file for CE Mark;
- achieve CE Mark, alternative pathway, through the innovation technology route;
- finalise the hernia product design files and move towards US FDA 510(k) submission;
- finalise breast sling product design and form a commercial partnership for market entry;
- pursue commercial partnership for the NovoSorb™ drug-eluting depot;
- support the beta cell expansion of NovoSorb™ BTM use as a dermal depot for Type I diabetes;
- continue the BARDA trial and progress to a pivotal period; and
- explore the various sales channels for distributing product in Europe.


Leica

Directors' Report continued

Significant events after the balance date

The Directors are not aware of any other matters or circumstances since the end of the financial year other than those described above, nor 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.

Financial results

PolyNovo reported a net loss after tax of $5,006,014 for the 2017 financial year, compared to the prior year's loss of $3,355,594. The Group's major source of revenue was associated with the BARDA contract which contributed $3,456,216 in FY17, an increase of $181,289. A number of factors contributed to the increased loss of $1,650,420 in 2017 as follows:

- Research and development expenses increased by $437,445 which reflects a higher level of support required for BARDA and general R&D activities.
- Employee-related expenses increased by 72% to $4,488,816 as PolyNovo increased headcount to meet the resource requirements to service and support our commercial enterprises and clinical programs.
- Corporate, administrative and overhead expenses increased by $477,931 which reflects manufacturing overhead costs incurred during the inventory build phase and additional costs incurred in establishing our presence in the United States. There was a significant reduction in consulting and contracting costs during FY17, in part due to a heavy commitment to winning and supporting the initial phase of the BARDA contract during the 2016 financial year.
- Interest income in 2017 was $138,906 lower than 2016 due to lower cash balances.

Formation of a US corporate structure through PNA LLC and the establishment of a direct sales and support team is seen as a vital investment to service our entry into the US market. Inventory has been built over the year with a significant amount housed in a warehouse located in Louisville, Kentucky operated by our distribution logistics partner, Owens & Minor.

R&D tax incentives

During the 2017 financial year, the Company submitted an application for the Research and Development (R&D) Tax Incentive scheme managed by AusIndustry and the Australian Taxation Office (ATO). In October 2016, the Company applied to claim eligible 2016 R&D expenditure and in November 2016 received a 45% refundable tax offset of $783,356 (cash). PolyNovo has submitted its application to claim eligible expenditure for 2017 R&D activities and expects to receive a 43.5% refundable tax offset of $833,174, as disclosed in the notes to the financial statements.

PolyNovo's closing share price was $0.09 on 30 June 2015, $0.28 on 30 June 2016 and $0.21 on 30 June 2017. A high of $0.345 was reached on 20 October 2016.

Loss per share

In Australian dollars $	Cents
Basic loss per share	(0.89)
Diluted loss per share	(0.87)

Dividends

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

Indemnification and insurance of directors and officers

During the year ended 30 June 2017, 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 PolyNovo are dependent on the success of their research projects and their ability to attract funding to support these activities. Investment in research and development projects cannot be assessed on the same fundamentals as other trading enterprises and access to capital and funding for the Group and its projects going forward cannot be guaranteed. Investment in companies specialising in research projects, such as PolyNovo, should be regarded as highly speculative. PolyNovo strongly recommends that professional investment advice be sought prior to individuals making 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 endeavour of building a business around such products and services. PolyNovo 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 readers of this report are cautioned not to rely on forward-looking statements.

Environmental regulation

PolyNovo is not subject to significant environmental regulations.

Board monitoring

The Board monitors PolyNovo'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 PolyNovo's Board and committees refer to the Corporate Governance Statement in this Directors' Report.

Board and Committee Meetings

Details of the number of meetings of the Board of Directors and Board committees, and Directors' attendance at those meetings, during the year under review are set out in the table below.

Directors	Full Board		Audit and Risk Committee		Remuneration Committee	
	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend
Total number of meetings held	12		2		2	
Mr David Williams	12	12	-	-	2	2
Mr Bruce Rathie	12	12	2	2	-	-
Dr David McQuillan	12	12	-	-	-	-
Mr Philip Powell	12	12	2	2	-	-
Mr Max Johnston	12	12	2	2	-	-
Mr Leon Hoare	12	12	-	-	2	2

Directors' Shareholdings and Declared Interests

At 30 June 2017, the Directors of PolyNovo collectively hold 11,692,390 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 Williams	–	8,100,000
Mr Bruce Rathie	–	2,100,000
Dr David McQuillan	500,000	–
Mr Max Johnston	–	611,112
Mr Philip Powell	–	211,112
Mr Leon Hoare	–	170,166
Total	**500,000**	**11,192,390**

As at 30 June 2017 and as at the date of this report, no Director has an interest in any contract or proposed contract with PolyNovo other than as disclosed below or in the Group's 2017 Annual Report. Further details of the equity interests of Directors can be found in the Remuneration Report.

Auditor

Ernst & Young (EY) continues in office in accordance with section 327b(2) of the *Corporations Act 2001*.

Non-audit Services

During the year ended 30 June 2017, the amount received, or due and receivable for non-audit services provided by PolyNovo's auditor, Ernst & Young, were:

Tax compliance services	$42,283
Other compliance services supporting start-up of US operations	$77,401

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's independence was not compromised.

Auditor's Independence Declaration

The auditor has provided a written declaration that no professional engagement for the Group has been carried out during the financial year that would impair Ernst & Young's independence as auditor. This declaration is set out on page 26.

The Board sees the heavy investment in commercial resources outlined at the November 2016 AGM as being critical in achieving long-term commercial success in the US market.

Corporate Governance

Overview

The Board of PolyNovo 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 PolyNovo in terms of its size, stage of development and role in the biotechnology industry. PolyNovo performed a review of its Board policies and governance practices with reference to the eight Principles of Good Corporate Governance (Principles) 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 regarding their corporate governance structures and practices.

The Directors have considered each of the core Principles and Recommendations applicable for the year ended 30 June 2017. There are instances where the Group would not benefit from compliance with the Recommendations, and in some instances the Group has not had the resources to comply. The Recommendations that were not adopted are discussed in the Corporate Governance Statement located on the Company's website.

PolyNovo's Corporate Governance Statement, which summarises the Group's corporate governance practices and incorporates the disclosures required by the ASX Principles, can be viewed on the Company's website at www.polynovo.com.au/company (scroll to base of page).

Remuneration Report

The Directors' of PolyNovo present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and its controlled entities (the Group) for the year ended 30 June 2017. This Remuneration Report is audited.

This Remuneration Report forms part of the Directors' Report and includes details of the Group's remuneration strategy and arrangements for the 2017 financial year.

This report outlines the compensation arrangements for the key management personnel of PolyNovo and explains how these arrangements are linked to Company performance.

Key Management Personnel

Key management personnel are those persons who are responsible for planning, directing and controlling the activities of the Group. The Board has determined that the key management personnel of the Group are the Non-executive Directors and Senior Managers (Executives) of PolyNovo, whose details are set out below.

Non-executive Directors

- Mr David Williams – *Non-executive Chairman (appointed as Non-executive Director on 28 February 2014 and Non-executive Chairman on 13 March 2014)*
- Mr Bruce Rathie – *Non-executive Director (appointed 18 February 2010)*
- Dr David McQuillan – *Non-executive Director (appointed 6 August 2012)*
- Mr Max Johnston – *Non-executive Director (appointed 13 May 2014)*
- Mr Philip Powell – *Non-executive Director (appointed 13 May 2014)*
- Mr Leon Hoare – *Non-executive Director (appointed 27 January 2016)*

Senior Managers

- Mr Paul Brennan – Chief Executive Officer *(appointed 13 February 2015)*
- Ms Andrea Goldie – *Chief Financial Officer/Company Secretary (appointed 28 October 2015 and commenced maternity leave on 6 February 2017)*
- Mr Gavin Smith – *Chief Financial Officer/Company Secretary (appointed Company Secretary 20 January 2017 and Chief Financial Officer on 6 February 2017 in an interim capacity)*

Remuneration Strategy

PolyNovo 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 PolyNovo's progress towards commercialising its various projects.

PolyNovo's annual expenditure has predominantly been driven by research and development activities. 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 and with more of the Group's activities slanted towards the commercialisation stage, additional milestones in relation to the achievement of product sales and production targets will be added to the traditional clinical trials and licensing deals milestones. Such milestones are directly linked to 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 endeavour to result in greater shareholder wealth.

PolyNovo'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 a compensation policy for Non-executive Directors and a separate policy for Senior Managers.

Non-executive Director Remuneration

The compensation of Non-executive Directors is based on market practice, Directors' duties and the level of Director accountability. The compensation policy is designed to attract and retain competent and suitably qualified Non-executive Directors and aims to align Directors' interests 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. In addition, as medium-and long-term incentives, Non-executive Directors may be invited to participate in the PolyNovo Employee Share Option Plan. Non-executive Directors are encouraged to own shares in PolyNovo.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is approved by shareholders. This limit has been set at $400,000.

Total Non-executive Directors' fees (including superannuation but excluding share-based payments) for the year ended 30 June 2017 were $324,225. The Directors' fees are considered within the average range for similar sized companies in the biotechnology industry and are reviewed periodically.

Executive Remuneration

PolyNovo's compensation policy for its senior managers is determined by the Board and is designed to link performance and retention strategies to ensure that:

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

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

1. Fixed annual compensation comprising salary and benefits, superannuation and non-monetary benefits.
2. Medium-and long-term incentives, through participation in the PolyNovo Employee Share Option Plan ('the Plan') with share price thresholds to be achieved.

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 salaries are 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.

Medium and Long Term Incentives

PolyNovo's medium and long term incentive policy for Senior Managers encourages high-quality performance and long-term retention. Carefully designed and performance linked equity incentive plans are widely recognised as an effective way of providing performance incentives.

Service Contracts

Chief Executive Officer – PolyNovo Limited

Mr Paul Brennan was appointed Chief Executive Officer of PolyNovo Limited on 13 February 2015.

The key terms of his contract are as follows:

- A salary of $270,000 per annum inclusive of superannuation.
- A short term incentive bonus of up to 20% of total package upon achieving set KPIs. To achieve this bonus Mr Brennan must meet value creating targets for the financial year, which may include:
  - develop and implement a three-to five-year corporate and product strategy;
  - align clinical strategy with regulatory and commercial outcomes;
  - commercialisation of wounds and burns products; and
  - advance the use of NovoSorb™ in other areas.

- a long term incentive plan in the form of equity interest. Details of the options package and the fair value of options and other compensation are included in the 'CEO Performance Incentives' section of the Remuneration Report and in Tables A, B, C and D below;
- no fixed employment term; and
- the Group may terminate the employment contract by providing three months' notice or payment in lieu of notice. In the event of resignation, a notice period of three months is required.

Company Secretary and Chief Financial Officer

Ms Andrea Goldie was appointed Company Secretary and CFO on 28 October 2015. The terms of her contract are as follows:

- a salary of $175,000 per annum;
- superannuation of 9.50%;
- no fixed employment term; and
- the Group may terminate the employment contract by providing three months' notice or payment in lieu of notice. In the event of resignation, a notice period of six months is required.

Ms Goldie commenced maternity leave on 6 February 2017. During Ms Goldie's leave of absence, Mr Gavin Smith is providing interim CFO and Company Secretary services through an Independent Contractor Agreement which expires on 12 January 2018. The services are provided at a cost of $975 per day worked and either party can terminate the Agreement by giving one month's notice at any time prior to 12 December 2017.

CEO Performance Incentives

The performance evaluation of the Chief Executive Officer is conducted by the Board.

On 6 August 2015, PolyNovo issued an options package compromising three tranches of 4,185,095 share options (a total of 12,555,285 options), to the CEO, Mr Paul Brennan.

The vesting hurdle for the options is linked to the PolyNovo volume weighted average market price. The vesting hurdles for each tranche are as follows:

- $0.18 per share for tranche 1;
- $0.25 per share for tranche 2; and
- $0.35 per share for tranche 3.

The share price must be sustained over a period of at least 90 consecutive calendar days. Any vested options are exercisable at 9 cents and may be exercised within 90 days of vesting. The options package will expire on 5 August 2018.

The first tranche of options vested and were exercised in April 2016 and the second tranche of options vested and were exercised in two transactions – 3,368,200 shares on October 2016 and 816,895 shares in December 2016. The third tranche of options had not vested as at 30 June 2017.

All shares issued under the incentive scheme are escrowed for a period of 12 months commencing on the date of issue. The Board approved a waiver to this policy for the 816,895 shares issued in December 2016, which Mr Brennan donated to Giant Steps with 300,000 of these shares to not be subject to the 12-month escrow period.

The expense relating to the incentive scheme shares during the financial year was $177,225.

Remuneration of Key Management Personnel

Details of the remuneration for key management personnel for the years ended 30 June 2017 and 30 June 2016 are set out in Table A below.

Table A		Short term			Post employment	Leave allowances		Share-based payments		
		Cash salary & fees $	Cash bonus $	Consulting fees $	Superannuation $	Annual & long service $	Termination benefits $	Options and performance rights $	Total $	% performance based
Directors										
Mr David Williams (Chairman/Non-executive Director)	**2017**	**75,000**	**-**	**-**	**7,125**	**-**	**-**	**-**	**82,125**	**-**
	2016	75,000	-	-	7,125	-	-	-	82,125	-
Mr Bruce Rathie (Non-executive Director)	**2017**	**45,000**	**-**	**-**	**4,275**	**-**	**-**	**-**	**49,275**	**-**
	2016	45,000	-	-	4,275	-	-	-	49,275	-
Dr David McQuillan (Non-executive Director)	**2017**	**45,000**	**-**	**-**	**-**	**-**	**-**	**-**	**45,000**	**-**
	2016	45,000	-	-	-	-	-	-	45,000	-
Mr Max Johnston (Non-executive Director)	**2017**	**45,000**	**-**	**-**	**4,275**	**-**	**-**	**-**	**49,275**	**-**
	2016	45,000	-	-	4,275	-	-	-	49,275	-
Mr Philip Powell (Non-executive Director)	**2017**	**45,000**	**-**	**-**	**4,275**	**-**	**-**	**-**	**49,275**	**-**
	2016	45,000	-	-	4,275	-	-	-	49,275	-
Mr Leon Hoare (Non-executive Director)	**2017**	**45,000**	**-**	**-**	**4,275**	**-**	**-**	**109,000**	**158,275**	**69%**
	2016	18,750	-	-	1,781	-	-	-	20,531	-
Subtotal compensation for Directors	**2017**	**300,000**	**-**	**-**	**24,225**	**-**	**-**	**109,000**	**433,225**	**25%**
	2016	**273,750**	**-**	**-**	**21,731**	**-**	**-**	**-**	**295,481**	**-**
Key management personnel										
Mr Paul Brennan (CEO)	**2017**	**246,575**	**24,658**	**-**	**25,767**	**12,253**	**-**	**177,225**	**486,478**	**41%**
	2016	246,575	-	-	23,425	13,158	-	308,602	591,760	52%
Mr Chris Mews	**2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2016	93,280	10,000	-	13,447	-	53,815	-	170,542	-
Ms Andrea Goldie (CFO / Company Secretary)	**2017**	**116,667**	**-**	**-**	**11,083**	**(5,470)**	**-**	**-**	**122,280**	**-**
	2016	117,340	-	-	11,147	7,691	-	-	136,178	-
Mr Gavin Smith (Interim CFO/Company Secretary)	**2017**	**-**	**-**	**100,132**	**-**	**-**	**-**	**-**	**100,132**	**-**
	2016	-	-	-	-	-	-	-	-	-
Subtotal compensation for other key management personnel	**2017**	**363,242**	**24,658**	**100,132**	**36,850**	**6,783**	**-**	**177,225**	**708,890**	**28%**
	2016	**457,195**	**10,000**	**-**	**48,019**	**20,849**	**53,815**	**308,602**	**898,480**	**35%**
Total compensation for all key management personnel	**2017**	**663,242**	**24,658**	**100,132**	**61,075**	**6,783**	**-**	**286,225**	**1,142,115**	**27%**
	2016	**730,945**	**10,000**	**-**	**69,750**	**20,849**	**53,815**	**308,602**	**1,193,961**	**27%**

1. Leave allowances: annual and long service: increase during period reflects leave taken or paid out during period is less than accrued entitlement.
2. Mr Paul Brennan: Cash bonus paid in 2017 relates to the 2016 year.
3. Ms Andrea Goldie: Leave allowances reduced because leave paid during the period.
4. Note: Annual leave provision changes not considered in previous years. Comparatives for 2016 updated.

Options Granted as Part of Remuneration

During the year ended 30 June 2017, 1,000,000 options (2016: 12,555,285) were granted, no options were cancelled (2016: nil), and no options were forfeited (2016: nil). These options were issued pursuant to the PolyNovo Employee Share Option Plan.

Details of the share-based payment component included in total remuneration in Table B are set out below.

Table B

2017 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 for-feited/ lapsed during the year $	Value of options exercised during the year $	Number of shares issued upon exercise of options	Value of shares received upon exercise of options $	Value of options yet to be expensed $	Fair value of options included in remunera-tion during the year $	% compen-sation consisting of options during the year
Mr David Williams											
Options	19-May-14	2,500,000	$0.03300	-	-	-	-	-	-	-	-
Options	19-May-14	7,500,000	$0.05300	-	-	-	-	-	-	-	-
Mr Bruce Rathie											
Options	20-Nov-12	500,000	$0.01730	-	-	-	-	-	-	-	-
Options	17-Nov-14	500,000	$0.04300	-	-	-	-	-	-	-	-
Dr David McQuillan											
Options	20-Nov-12	500,000	$0.01730	-	-	-	-	-	-	-	-
Options	17-Nov-14	500,000	$0.04300	-	-	-	-	-	-	-	-
Mr Philip Powell											
Options	17-Nov-14	500,000	$0.04300	-	-	-	-	-	-	-	-
Options	17-Nov-14	500,000	$0.05400	-	-	-	-	-	-	-	-
Mr Max Johnston											
Options	17-Nov-14	500,000	$0.04300	-	-	-	-	-	-	-	-
Options	17-Nov-14	500,000	$0.05400	-	-	-	-	-	-	-	-
Mr Leon Hoare											
Options	18-Nov-16	500,000	$0.12000	$60,000	-	-	-	-	-	$60,000	38%
Options	18-Nov-16	500,000	$0.09800	$49,000	-	-	-	-	-	$49,000	31%
Mr Paul Brennan											
Options	6-Aug-15	4,185,095	$0.04944	-	-	-	-	-	-	-	-
Options	6-Aug-15	4,185,095	$0.04326	-	-	$181,028	4,185,095	$1,175,911	-	$125,714	26%
Options	6-Aug-15	4,185,095	$0.03692	-	-	-	-	-	$55,803	$51,511	10%
Total		**27,555,285**		**$109,000**	**-**	**-**	**-**	**-**	**-**	**$286,225**	

Options granted in year ended 30 June 2017

The fair value of options granted during the year, as included in Table B, was determined using a binomial option pricing model due to the immediate vesting conditions attached to these options. The fair value of options included in remuneration during the year was $109,000 and represents 100% allocation to the year ended 30 June 2017 due to the immediate vesting conditions.

Options granted in year ended 30 June 2016

The fair value of options granted in the previous year and which formed part of remuneration during the year ($177,225), as included in Table B, was determined using a Monte Carlo simulation-based model. A Monte Carlo simulation-based model simulates the path of the share price according to a probability distribution assumption. After a large number of simulations, the arithmetic average of the outcomes, discounted to the valuation date, is calculated to represent the option value. This model can accommodate complex exercise conditions when the number of options exercised depends on some function of the whole path followed by the share price.

Each tranche of options has an expiry date of three months after vesting, and the options package will expire on 5 August 2018. Shares issued upon exercise of options are escrowed for a period of 12 months from issue. The option-pricing model values each of the 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.

Remuneration Report continued

Options Granted as Part of Remuneration continued

Options expiry dates

Participant	Date
Mr David Williams	3 July 2017
Mr Leon Hoare	1 February 2019
Mr Paul Brennan	5 August 2018
All others	17 November 2017

Key Management Personnel Disclosures

Movements in shares of the Company

The movement during the reporting period in the number of shares in the Company held either directly or indirectly by each of the key management personnel, including their related parties, is set out in the table below:

Table C	Balance at 1 July 2016	Granted as compen-sation	On exercise of options	Net change other	Balance at 30 June 2017	Balance at end of year – directly held	Balance at end of year – indirectly held
Directors							
Mr David Williams	**7,727,038**	–	–	372,962	**8,100,000**	–	8,100,000
Mr Bruce Rathie	**1,841,882**	–	–	258,118	**2,100,000**	–	2,100,000
Dr David McQuillan	**500,000**	–	–	–	**500,000**	500,000	-
Mr Max Johnston	**261,112**	–	–	350,000	**611,112**	–	611,112
Mr Philip Powell	**211,112**	–	–	–	**211,112**	–	211,112
Mr Leon Hoare	**110,166**	–	–	60,000	**170,166**	–	170,166
Other key management personnel							
Mr Paul Brennan*	**4,452,247**	–	4,185,095	(816,895)	**7,820,447**	162,577	7,657,870
Ms Andrea Goldie	**225,905**	–	–	–	**225,905**	–	225,905
Mr Gavin Smith	**-**	–	–	250,000	**250,000**	–	250,000

* Mr Paul Brennan donated 816,895 shares to Giant Steps (the Board approved 300,000 shares to not be subject to 12-month escrow period).

Options and performance rights of key management personnel

The option holdings of key management personnel for the year ended 30 June 2017 are set out in the following table.

Table D	Balance at 1 July 2016	Granted as compen-sation	Options exercised	Net change other	Balance at 30 June 2017	Total vested at end of year	Total exercisable at end of year	Total not exercisable at end of year	Total vested during year
Directors									
Mr David Williams*	2,500,000	-	-	-	2,500,000	-	2,500,000	-	-
Mr Bruce Rathie	500,000	-	-	-	500,000	-	500,000	-	-
Dr David McQuillan	500,000	-	-	-	500,000	-	500,000	-	-
Mr Max Johnston	1,000,000	-	-	-	1,000,000	-	1,000,000	-	-
Mr Philip Powell	1,000,000	-	-	-	1,000,000	-	1,000,000	-	-
Mr Leon Hoare	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-	1,000,000
Other key management personnel									
Mr Paul Brennan	8,370,190	-	4,185,095	-	4,185,095	-	-	4,185,095	4,185,095
Ms Andrea Goldie	-	-	-	-	-	-	-	-	-
Mr Gavin Smith	-	-	-	-	-	-	-	-	-
Total	**13,870,190**	**1,000,000**	**4,185,095**	**-**	**10,685,095**	**1,000,000**	**6,500,000**	**4,185,095**	**5,185,095**

* Mr David Williams exercised 2,500,000 options on 3 July 2017.

Loans To Key Management Personnel

No loans have been made to Directors of PolyNovo or to any other key management personnel, including their personally related entities.

Other Key Management Personnel Transactions

No other transactions between the Group and any of the Directors of PolyNovo or any other key management personnel have been identified.

This Directors' Report, incorporating the Corporate Governance Statement and Remuneration Report, has been signed in accordance with a Resolution of the Directors made on 24 August 2017.

Mr David Williams
Chairman
24 August 2017

Auditor's Independence Declaration

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

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

Auditor's independence declaration to the Directors of PolyNovo Limited

As lead auditor for the audit of PolyNovo Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit*;* and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of PolyNovo Limited and the entities it controlled during the financial year.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
24 August 2017

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Notes	30 June 2017 $	30 June 2016 $
Revenue			
Sale of goods		**136,896**	-
Sale of materials		**25,000**	2,112
Royalty revenue		**2,014**	165
BARDA revenue	4(b)	**3,456,216**	3,274,927
Finance revenue	4(a)	**138,906**	193,366
Total revenue		**3,759,032**	**3,470,570**
Other income			
Research and development tax benefit	4(g)	**833,174**	846,818
Profit on sale of available-for-sale and other assets		**-**	78,925
Other income		**-**	2,002
Change in inventories of finished goods and work in progress	9	**937,228**	-
Raw materials and consumables used		**(51,619)**	-
Operating Leases	4(e)	**(359,420)**	(352,966)
Employee-related expenses	4(c)	**(4,488,816)**	(2,604,262)
Research and development expenses		**(3,136,002)**	(2,698,557)
Depreciation expense	4(d)	**(246,971)**	(219,685)
Corporate, administrative and overhead expenses	4(f)	**(2,252,620)**	(1,774,689)
Net loss for the period		**(5,006,014)**	**(3,251,844)**
Income tax benefit	5	**-**	-
Net loss for the period		**(5,006,014)**	**(3,251,844)**
Other comprehensive income			
Net fair value gains on available-for-sale financial assets	12	**-**	45,000
Reclassification to profit and loss	12	**-**	(148,750)
Total comprehensive income/(loss) for the period		**(5,006,014)**	**(3,355,594)**
Loss for the period is attributable to:			
Non-controlling interest	18	**-**	(189,970)
Owners of the parent		**(5,006,014)**	(3,061,874)
		(5,006,014)	**(3,251,844)**
Total comprehensive loss for the period attributable to:			
Non-controlling interest	18	**-**	(189,970)
Owners of the parent		**(5,006,014)**	(3,165,624)
Loss attributable to members of the parent		**(5,006,014)**	**(3,355,594)**
Loss per share			
Basic loss per share – cents	7	**(0.89) cents**	(0.62) cents
Diluted loss per share – cents	7	**(0.87) cents**	(0.60) cents

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	30 June 2017 $	30 June 2016 $
Current assets			
Cash and cash equivalents	8	5,496,609	10,746,691
Inventories	9	981,112	-
Receivables	10	1,369,535	1,556,275
Prepayments		62,006	38,665
Other financial assets	24	50,000	50,000
Total current assets		7,959,262	12,391,631
Non-current assets			
Property, plant and equipment	13	1,452,354	992,676
Intangible assets	14	2,519,788	2,519,788
Other assets	11	124,460	120,774
Total non-current assets		4,096,602	3,633,238
Total assets		12,055,864	16,024,869
Current liabilities			
Trade and other payables	15	892,737	590,614
Provisions	16(a)	176,874	115,219
Total current liabilities		1,069,611	705,833
Non-current assets			
Provisions	16(b)	14,623	16,016
Deferred rent liability		158,764	191,294
Total non-current liabilities		173,387	207,310
Total liabilities		1,242,998	913,143
Net assets		10,812,866	15,111,726
Equity			
Contributed equity	17(a)	114,476,370	114,099,712
Reserves	17(b)	(6,368,415)	(6,698,911)
Retained earnings/(accumulated losses)	17(c)	(97,295,089)	(92,289,075)
Parent interests		10,812,866	15,111,726
Non-controlling interest	18	-	-
Total equity		10,812,866	15,111,726

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Contributed equity $	Gains/ (losses) on available-for-sale financial assets $	Other reserves $	Acquisition of non-controlling interest reserves $	Retained earnings $	Owners of the parent $	Non-controlling interests $	Total $
As at 30 June 2015	**94,870,080**	**103,750**	**2,286,443**	**(477,596)**	**(89,227,201)**	**7,555,476**	**(162,170)**	**7,393,306**
Loss for the period	-	-	-	-	(3,061,874)	(3,061,874)	(189,970)	(3,251,844)
Other comprehensive Income	-	(103,750)	-	-	-	(103,750)	-	(103,750)
Total comprehensive income for the period	-	(103,750)	-	-	(3,061,874)	(3,165,624)	(189,970)	(3,355,594)
Issue of shares	12,092,973	-	-	-	-	12,092,973	-	12,092,973
Issue of shares on exercise of options	1,216,659	-	-	-	-	1,216,659	-	1,216,659
Issue of shares on acquisition of non-controlling interest	5,920,000	-	-	-	-	5,920,000	-	5,920,000
Acquisition of non-controlling interest	-	-	-	(8,816,360)	-	(8,816,360)	352,140	(8,464,220)
Share-based payments	-	-	308,602	-	-	308,602	-	308,602
As at 30 June 2016	**114,099,712**	**-**	**2,595,045**	**(9,293,956)**	**(92,289,075)**	**15,111,726**	**-**	**15,111,726**
Loss for the period	-	-	-	-	(5,006,014)	(5,006,014)	-	(5,006,014)
Issue of shares on exercise of options	376,658	-	-	-	-	376,658	-	376,658
Share-based payments	-		330,496	-	-	330,496	-	330,496
As at 30 June 2017	**114,476,370**	**-**	**2,925,541**	**(9,293,956)**	**(97,295,089)**	**10,812,866**	**-**	**10,812,866**

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2017

	Notes	30 June 2017 $	30 June 2016 $
Cash flows from operating activities			
Receipts from customers		167,136	-
Receipts from BARDA reimbursements and advances		3,674,028	2,552,442
Receipts of research and development benefit		783,356	885,180
Receipts from royalty revenue		3,234	4,218
Income from sale of materials		-	2,323
Payments to suppliers and employees		(9,789,287)	(7,000,582)
Net cash outflows from operating activities	8	**(5,161,533)**	**(3,556,419)**
Cash flows from investing activties			
Interest received		208,967	189,734
Payments for purchase of property, plant and equipment		(581,745)	(204,689)
Proceeds from sales of available-for-sale financial assets		-	73,925
Term deposits now classified as cash and cash equivalents		-	10,000
Net cash (outflows)/inflows used in investing activities		**(372,778)**	**68,970**
Cash flows from financing activties			
Net cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)		-	12,092,973
Payments for non-controlling interests (including associated costs)		-	(2,544,221)
Proceeds from the exercise of options		376,659	1,216,659
Cash flows from financing activities		**376,659**	**10,765,411**
Net (decrease)/increase in cash and cash equivalents		(5,157,652)	7,277,962
Cash and cash equivalents at beginning of period		**10,746,691**	**3,460,454**
Effects of exchange rate changes on cash and cash equivalent		(92,430)	8,275
Cash and cash equivalents at end of period	8	**5,496,609**	**10,746,691**

The acompanying notes form part of these financial statements.

Notes to the Financial Statements
For the year ended 30 June 2017

1. Corporate Information

The Financial Report of PolyNovo Limited (the Company) and its controlled entities (the Group) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 24 August 2017.

PolyNovo Limited, a for-profit entity, is a Company incorporated in Australia, whose shares are publicly traded on ASX Limited (ASX code: PNV).

The Company operates predominantly in the medical device and healthcare industry and has operations in Australia and the USA.

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 a historical cost basis, except for available-for-sale financial assets, which have been measured at fair value. The Financial Report is presented in Australian dollars.

The financial statements have been prepared in compliance with Legislative Instrument 2016/191 'ASIC Corporations (Rounding in Financial/Directors' Reports)'.

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 the 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 its shares, options and performance rights. The financial statements take no account of the consequences, if any, of the inability of the Company to obtain adequate funding or 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.

The Group has adopted all applicable new and amended Australian Accounting Standards and AASB Interpretations that apply as of 1 July 2016. Those Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted. Details of the new and amended Standards adopted, along with a summary of the new and amended Standards that are not yet effective, are set out below.

(c) Changes in accounting policy, disclosures, standards and interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2016.

- AASB 2012–3 Amendments to Australian Accounting Standards –Offsetting Financial Assets and Financial Liabilities
- AASB 2013–4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (AASB 139)
- AASB 1031 Materiality
- AASB 2013–9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments
- AASB 2014–1 Part A – Annual Improvements 2010–2012 Cycle
- AASB 2014–1 Part A – Annual Improvements 2011–2013 Cycle
- AASB CF 2013–1 Amendments to the Australian Conceptual Framework.
- AASB Interpretation 22 – Foreign Currency Transactions and Advance Consideration
- AASB Interpretation 23 – Uncertainty Over Income Tax Treatments

The above new and amended Australian Accounting Standards and AASB Interpretation did not have any material impact on the accounting policies, financial position or performance of the Group.

2. Summary of Significant Accounting Policies continued

(c) Changes in accounting policy, disclosures, standards and interpretations continued

The following new Australian Accounting Standards have been issued by the AASB but are not yet effective for the period ended 30 June 2017. They have not been adopted by the Group for the year ended 30 June 2017.

- AASB 9 Financial instruments: this replaces AASB 139. AASB 9 is effective for annual periods beginning on or after 1 January 2018.
- AASB 15 Revenue from Contracts with Customers: this replaces the existing revenue recognition standards. AASB 15 is effective for annual reporting periods commencing on or after 1 January 2018.
- AASB 16 Leases: supersedes AASB 117. AASB 16 will be effective for annual periods beginning on or after 1 January 2019.
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.

The Group has not decided whether to early adopt any or all of these standards at this point in time.

The Group is completing a preliminary assessment of the potential impact of the adoption of AASB 9, AASB15 and AASB 16 on its consolidated financial statements. A preliminary update covering the potential impact from the adoption of each standard follows:

- AASB 9 - The Group does not anticipate significant issues on adoption based on existing financial instruments.
- AASB 15 - The Group's treatment for customer contract arrangements will be assessed as the revenue-related arrangements are entered into. Initial assessment of existing contracts has not indicated any material change to recognition of revenue.
- AASB 16 - The Group's current operating lease at its Port Melbourne headquarters will be assessed. There will be an impact on the Group's Balance Sheet and Income Statement. The Group does not anticipate significant issues on adoption based on existing lease arrangements.

In addition, the following amendments to existing standards (issued but not yet effective) are not expected to result in significant changes to the Company's accounting policies in the future:

- AASB 2014-4 - Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception
- AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs (AASB 8, AASB 133 & AASB 1057)
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2017. The Group controls an investee if and only if the Group has:

- power over the investee (that is, rights that give it the ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate a change in one or more of the three elements of control. Consolidation of a subsidiary commences when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Statement of Comprehensive Income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Items of profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary;
- de-recognises the carrying amount of any non-controlling interests;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(e) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

(f) 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, have an indefinite useful life and are subject to annual impairment testing (see Note 2(g) 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.

(g) Impairment of intangible and other assets

Intangible assets that have an indefinite useful life are not subject to amortisation. They 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.

2. Summary of Significant Accounting Policies continued

(h) Share-based payments

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.

The PolyNovo Employee Share Option Plan was in place for the year ended 30 June 2017. Information relating to this Plan is set out in Note 6 and in the Remuneration Report section of the Directors' Report.

The cost of share-based payments under the terms of the Share Option Plan is measured by reference to the fair value of options at the date at which they are granted. The fair value of options granted is determined by using the Monte Carlo simulation model or the binomial option valuation model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the Remuneration Report, and/or Note 6.

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. The employee benefit expense recognised each period takes into account the most recent estimate of the number of options that are expected to vest.

(i) 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	6.67 to 12 years

(j) Plant and equipment impairment

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, when events or changes in circumstances indicate that the carrying value may be impaired. An asset is impaired when its carrying value exceeds its estimated recoverable amount. In this instance, the asset is written down to its recoverable amount and the impairment loss recognised in the Statement of Comprehensive Income.

For impairment testing purposes, the recoverable amount of an asset is estimated as the higher of its fair value less cost of disposal and its 'value-in-use'. Value-in-use is calculated by discounting, the estimated future cash flows derived from use of the asset, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Disposal

Plant and equipment is de-recognised 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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised in the Statement of Comprehensive Income.

(k) 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.

(l) Investments

Available-for-sale investments

After initial recognition, investments 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 disposed of. At this point, the cumulative gain or loss previously reported in Other Comprehensive Income (equity) is included in the Statement of Comprehensive Income (profit and loss).

The Group had no available-for-sale investments as at 30 June 2017.

(m) Cash and cash equivalents

Cash at bank and short-term deposits maturing 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. 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 and are measured as the present value of the expected future payments to be made.

(o) Operating leases

The minimum lease payments of operating leases, where the lessor 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 when it is probable that future economic benefits will flow to the entity and the revenue can be reliably measured.

Revenue from the sale of goods is measured at fair value of consideration received or receivable. Revenue is recognised when the amount of revenue can be reliably measured and it is probable that the future economic benefits will flow to PolyNovo Limited and the significant risks and rewards of ownership of the goods have passed to the buyer.

The amount of revenue arising on the BARDA contract is determined by the BARDA agreement between PolyNovo and BARDA. Revenue is measured in accordance with the criteria set out in the contract and is assessed based on employee timesheets, sub-contractor invoices, direct BARDA expenses and other indirect rates as defined in the contract or otherwise agreed with BARDA. The BARDA contract is a cost plus fixed fee contract of a reimbursement nature and has a pre agreed contract period and contract value. The customer, being the US Government, has low or no credit risk.

Interest revenue is recognised when the Group has the right to receive the interest payment. Interest receivable, and GST recoverable are recorded at amortised cost. Due to the short-term nature of these receivables amortised cost equates to face value.

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

(q) Inventory

Inventory is measured at cost for raw materials and packaging materials. A standard cost has been derived for finished goods and semi-finished goods. The standard cost includes an allocation of materials, direct labour and manufacturing overheads. The value of finished goods and semi-finished goods may include an allocation of manufacturing variances incurred during the period if it is determined that the relevant production remains in inventory at balance date.

(r) 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 tax benefit revenue is recognised when there is reasonable assurance of receipt.

(s) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured and are normally settled on 30-day terms. Due to the short-term nature of these payables amortised cost equates to fair value.

2. Summary of Significant Accounting Policies continued

(t) Income tax

Deferred income tax is provided on all temporary differences at balance date, calculated as the difference between the tax cost base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The same criteria apply for recognition of tax assets relating to unused tax losses.

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) effective 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).

(u) Significant accounting, estimates and assumptions

Deferred tax liability

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

Share-based payments

Estimating fair value for share-based payment transactions requires selection of the most appropriate valuation model, which in turn is dependent on the terms and conditions of the share-based payment granted. Determination of the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, is also required. The models and related assumptions used for estimating the fair value of share-based payment transactions are disclosed in Note 6 and in the Remuneration Report.

Impairment of intangibles

Impairment exists when the carrying value of an asset exceeds its recoverable amount. PolyNovo determines the recoverable amount of an intangible asset by assigning a value to each project in the pipeline, using a probability adjusted net present value method. The key assumptions used to determine the recoverable amount for the different assets is further explained in Note 14.

(v) Goods and services tax (GST)

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

- where the GST incurred on 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, which 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 Cash Flow Statement on a gross basis (that is, 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.

(w) Earnings per share (EPS)

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

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

- the 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; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

The resultant net profit/(loss) is divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(x) 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.

(y) Foreign currency translation

The functional currency of each of the entities in the Group must reflect the primary economic environment in which the entity operates. Accordingly, the relevant functional currencies are Australian dollars for Australian entities and US dollars for the US entity. 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.
- 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).

(z) Comparatives

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

(aa) Security deposits

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

3. Segment Information

Operating segment

PolyNovo has only one operating segment, being the development of the NovoSorb™ technology for use in a range of biodegradable medical devices.

The chief operating decision-maker from 13 February 2015 is the Chief Executive Officer of PolyNovo Limited.

The chief operating decision-maker reviews the results of the business on a single entity basis. For financial results refer to the Statement of Comprehensive Income and Statement of Financial Position.

The chief operating decision-maker monitors the operating results of the Group for the purpose of making decisions about resource allocation in order to progress the commercialisation of the PolyNovo technology.

4. Revenues and Expenses

(a) Finance revenue

	30 June 2017 $	30 June 2016 $
Term deposit interest	**121,029**	174,785
Bank account interest	**17,766**	14,949
Interest income - other	**111**	3,632
	138,906	**193,366**

(b) BARDA revenue

Revenue from contract with BARDA	**3,456,216**	**3,274,927**

The contract with the Biomedical Advanced Research and Development Authority (BARDA) is a cost plus fixed fee reimbursement contract that was awarded on 28 September 2015. The contract is to fund the full cycle of clinical trial activities relating to commercialisation of the Company's BTM in deep tissue burns.

4. Revenues and Expenses continued

(c) Employee-related expenses

	30 June 2017 $	30 June 2016 $
Wages and salaries	**(2,932,348)**	(1,464,853)
Superannuation	**(233,945)**	(169,538)
Share-based payments (expense) (See Note 6)	**(330,496)**	(308,602)
Directors' fees (including superannuation)	**(324,225)**	(295,481)
Severance payments (including superannuation)	**(16,425)**	(53,815)
Long service leave provision	**(7,806)**	(1,895)
Annual leave provision	**(52,457)**	(27,625)
Payroll taxes	**(183,860)**	(68,015)
Administration	**(131,300)**	(6,707)
Employee welfare	**(33,931)**	(6,763)
Recruitment fees	**(242,023)**	(200,968)
	(4,488,816)	**(2,604,262)**

(d) Depreciation expense

Depreciation – office equipment	**(49,018)**	(24,326)
Depreciation – laboratory equipment	**(68,122)**	(62,949)
Depreciation – leasehold improvements	**(129,831)**	(132,410)
	(246,971)	**(219,685)**

(e) Rental expense relating to operating leases

Rental expense and outgoings	**(359,420)**	(352,966)
	(359,420)	**(352,966)**

(f) Corporate, administrative and overhead expenses

Insurances	**(185,563)**	(59,411)
Accounting and audit fees	**(259,526)**	(167,706)
Investor relations and share registry expenses	**(131,475)**	(114,570)
Legal fees	**(35,601)**	(140,753)
Consultants and contractors	**(526,466)**	(877,882)
Travel	**(403,228)**	(129,003)
Marketing costs	**(167,213)**	(41,224)
Communication expenses	**(117,119)**	(42,034)
Quality and testing	**(97,673)**	-
Consumables and supplies	**(39,434)**	-
Repairs and maintenance	**(34,363)**	-
Other	**(254,959)**	(202,106)
	(2,252,620)	**(1,774,689)**

(g) Research and development tax benefit

Research and development tax benefit income of $833,174 (2016: $846,818) was recognised as income in the Statement of Comprehensive Income. $833,126 is receivable, as recognised in the Statement of Financial Position, with respect to the year ended 30 June 2017.

5. Income Tax

(a) Income tax benefit/(income tax expense)

	30 June 2017 $	30 June 2016 $
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Income tax benefit/(income tax expense)	-	-
Income tax recognised directly in equity		
Deferred tax expense	-	-
Available-for-sale asset	-	-
Reconciliation of income tax expense to prima facie tax payable		
Net loss before income tax expense	5,006,014	3,251,844
Prima facie tax calculated at 27.5% (2016: 30%)	(1,376,654)	(975,553)
Tax effect of amounts which are not included in accounting loss:		
Research and development	526,689	522,205
Non-assessable rental deposit	-	(1,090)
Non-assessable grant income	(229,110)	(234,992)
Tax effect of amounts which are not deductible:		
Share-based payments	90,887	92,581
Other	-	-
	(988,188)	(596,850)
Current year tax losses not brought to account	1,115,737	786,555
Current year temporary differences not brought to account	(127,549)	(189,705)
Income tax benefit/(income tax expense)	-	-

5. Income Tax continued

(b) Deferred tax assets and liabilities

	30 June 2017 $	30 June 2016 $
Deferred tax assets	302,303	987,631
Deferred tax liabilities	(302,303)	(987,631)
Net deferred tax assets/(liabilities)	-	-
Deferred tax balances reflects temporary differences attributable to:		
Amounts recognised in profit and loss		
Recognised tax losses	77,243	867,320
Recognised on temporary differences	225,060	120,311
Interest receivable	-	(231,695)
Amount recognised due to acquisition of PolyNovo	(302,303)	(755,936)
Net deferred tax assets/(liabilities)	-	-
Movement in temporary differences during the year:		
Balance as of 1 July	-	-
Credit to profit and Loss	-	-
Charged to equity	-	-
Net deferred tax assets/(liabilities) as 30 June	-	-

(c) Deferred tax assets not brought to account

Unrecognised, unconfirmed tax losses for which no deferred tax asset has been recognised	87,701,802	82,521,187
Deductible temporary differences – no deferred tax asset has been recognised	463,815	189,705
	88,165,617	82,710,892
Potential tax benefit at 27.5%	24,245,545	24,813,268

The availability of the tax losses 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 2017 is contingent upon the following:

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

Given the Group's history of recent losses (with the exceptions of the benefit 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 a prior year, consideration was given to PolyNovo's ability to satisfy the tax loss recoupment tests for losses incurred in 2003 and earlier income years. Based 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. Share-Based Payments

(a) Employee share-based payment plans

The Company provides benefits to employees and Non-executive Directors in the form of share-based payment transactions, whereby employees and Non-executive Directors render services in exchange for shares or rights over shares.

The expense recognised in the Statement of Comprehensive Income for the years ended 30 June 2017 and 30 June 2016 were $330,496 and $308,602 respectively.

(b) Share-based payments for the year ended 30 June 2017

During the 2017 financial year, 3,000,000 options were issued and 4,185,095 were exercised. Details of the share options granted pursuant to the terms of the PolyNovo Employee Share Option Plan (ESOP) are as follows:

- On 18 November 2016, following members' approval at the Company's Annual General Meeting, an options package comprising 500,000 options exercisable at $0.25 and 500,000 options exercisable at $0.33 were issued to Mr Leon Hoare, a Non-executive Director. The options vested immediately on issue and expire on 1 February 2019.
- On 9 December 2016, the Company issued employee share options to two employees. Each employee was granted 1,000,000 options on identical terms that will become immediately exercisable at $0.33 only when the share price of PolyNovo Limited is above $0.50 for more than three months. The options vest as soon as the vesting hurdles are achieved and are exercisable within three months of vesting. The options expire on 31 December 2018.

The expense relating to the incentive scheme shares recognised in the Statement of Comprehensive Income during the 2017 financial year was $330,496.

2017	Balance at 1 July 2016	Granted as compen-sation	Options exercised	Net change other (forfeited, lapsed, expired)	Balance at 30 June 2017	Total vested at end of year	Total exercisable at end of year	Total not exercisable at end of year	Total vested during year	Share-based payments expense $
Directors										
Mr Leon Hoare	-	1,000,000	-	-	**1,000,000**	1,000,000	1,000,000	-	1,000,000	$109,000
Other key management personnel										
Mr Paul Brennan	8,370,190	-	4,185,095	-	**4,185,095**	-	-	4,185,095	-	$177,225
Other employees	-	2,000,000	-	-	**2,000,000**	-	-	2,000,000	-	$44,271
Total	**8,370,190**	**3,000,000**	**4,185,095**	**-**	**7,185,095**	**1,000,000**	**1,000,000**	**6,185,095**	**1,000,000**	**$330,496**

The fair value of options granted during the year to Mr Leon Hoare, as included in the above table, was determined using a binomial option pricing model due to the immediate vesting conditions attached to these options.

The fair value of options granted during the year to other employees, as included in the above table, was determined using a Monte Carlo simulation-based model. A Monte Carlo simulation-based model simulates the path of the share price according to a probability distribution assumption. After a large number of simulations, the arithmetic average of the outcomes, discounted to the valuation date, is calculated to represent the option value. This model can accommodate complex exercise conditions when the number of options exercised depends on some function of the whole path followed by the share price.

6. Share-Based Payments continued

Options issued during the period

Grant date	Number of options	Exercise Price	Vesting hurdle	Risk-free interest rate	Volatility	Expiry date	Dividend yield	Average fair value per option
18 November 2016	500,000	$0.25	None; vested immediately on issue	1.70%	73%	01 February 2019	-	$0.120
18 November 2016	500,000	$0.33	None; vested immediately on issue	1.70%	73%	01 February 2019	-	$0.098
09 December 2016	2,000,000	$0.33	3 months share price exceeds $0.50	1.76%	72.56%	3 months after vesting and 31 December 2018	-	$0.082

(c) Share-based payments for the year ended 30 June 2016

During the 2016 financial year, on 6 August 2015, an options package compromising 3 tranches of 4,185,095 share options (a total of 12,555,285 options), were granted to the CEO, Mr Paul Brennan pursuant to the terms of the PolyNovo ESOP.

The vesting hurdle for the options is linked to the PolyNovo volume weighted average market price. The vesting hurdles for each tranche are as follows:

- $0.18 per share for tranche 1;
- $0.25 per share for tranche 2; and
- $0.35 per share for tranche 3.

The share price must be sustained over a period of at least 90 consecutive calendar days. Any vested options are exercisable at 9 cents and may be exercised within 90 days of vesting. The options package will expire on 5 August 2018. The first tranche of options vested and were exercised in April 2016, when the volume weighted average share price of PolyNovo was above $0.18 for more than 90 consecutive calendar days. The second and third tranche of options had not vested as at 30 June 2016. All shares issued under the incentive scheme are escrowed for a period of 12 months commencing on the date of issue.

The expense relating to the incentive scheme shares recognised in the Statement of Comprehensive Income during the 2016 financial year was $308,602.

2016	Balance at 1 July 2015	Granted as compen-sation	Options exercised	Net change other (forfeited, lapsed, expired)	Balance at 30 June 2016	Total vested at end of year	Total exercis-able at end of year	Total not exercisable at end of year	Total vested during year	Share-based payments expense $
Other key management personnel										
Mr Paul Brennan	-	12,555,285	4,185,095	-	8,370,190	4,185,095	-	8,370,190	4,185,095	$308,602

The fair value of options granted during the year, as included in the above table, was determined using a Monte Carlo simulation-based model. A Monte Carlo simulation-based model simulates the path of the share price according to a probability distribution assumption. After a large number of simulations, the arithmetic average of the outcomes, discounted to the valuation date, is calculated to represent the option value. This model can accommodate complex exercise conditions when the number of options exercised depends on some function of the whole path followed by the share price.

7. 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 2017	(0.89) cents per share
30 June 2016	(0.62) cents per share

Diluted EPS:

30 June 2017	(0.87) cents per share
30 June 2016	(0.60) cents per share

	30 June 2017	30 June 2016
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	($5,006,014)	($3,061,874)
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	561,760,275	493,258,179
Potential weighted average number of ordinary shares on issue plus all unexercised share options used in the calculation of diluted EPS	574,445,360	507,128,359

Apart from the exercise of 2,500,000 options to ordinary shares by Mr David Williams on 3 July 2017, there were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

8. Cash and Cash Equivalents

Reconciliation of cash at the end of the year

	30 June 2017 $	30 June 2016 $
Cash at bank (i)	5,496,609	3,246,691
Short term deposits (ii)	-	7,500,000
	5,496,609	10,746,691
Cash and cash equivalents are denominated in:		
Australian dollars	3,599,272	9,269,572
US dollars	1,897,337	1,477,119
	5,496,609	10,746,691

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

(ii) By 30 June 2017, short-term deposits had been transferred to cash at bank (refer Note 24(e)). (2016: short-term deposits with varying maturity terms and interest rates at 2.92% to 2.98%).

For the purpose of the Consolidated 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.

8. Cash and Cash Equivalents continued

Reconciliation of net loss after income tax to net cash flow from operating activities

	30 June 2017 $	30 June 2016 $
Net Loss	(5,006,014)	(3,251,844)
Adjustments for non-cash items:		
Depreciation	246,971	219,685
Share-based payment expense	330,496	308,602
Interest	(138,906)	(3,632)
Gain on disposal of available-for-sale assets	-	(78,925)
Unrealised foreign exchange rate differences	92,430	(7,949)
Change in assets and liabilities during the financial year:		
(Increase)/decrease in prepayments	(23,335)	(27,605)
(Increase)/decrease in trade receivables	212,488	(693,576)
(Increase)/decrease in inventory	(981,112)	-
(Increase)/decrease in other assets	(49,568)	(201,535)
Increase/(decrease) in payables	(112,513)	368,398
Increase/(decrease) in provisions	60,263	29,520
Increase/(decrease) in other liabilities	207,267	(217,558)
Net cash outflows from operating activities	**(5,161,533)**	**(3,556,419)**

9. Inventories

Inventories comprise of the following:

	30 June 2017 $	30 June 2016 $
Finished goods	381,027	-
Work in progress	556,201	-
	937,228	-
Raw materials and other (at cost)	43,884	-
	981,112	-

The total of inventory is held at lower of cost or net realisable value (NRV).

10. Receivables (Current)

	30 June 2017 $	30 June 2016 $
Trade receivables and accrued income	485,589	697,058
R&D tax concession	833,126	783,308
Interest receivable	-	74,238
GST recoverable	49,836	-
Royalty revenue receivable	-	1,019
Sundry receivables	984	652
	1,369,535	1,556,275

Trade receivables and accrued income relates to PolyNovo's BARDA project and represents invoiced and uninvoiced services for labour and sub-contractor expenses.

11. Other Assets (Non-Current)

Non-current

	30 June 2017 $	30 June 2016 $
Security deposit	124,460	120,774

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

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

	30 June 2017 $	30 June 2016 $
Balance at beginning of year	-	98,750
Gain/(impairment) of available-for-sale financial asset	-	45,000
Sale of financial assets	-	(143,750)
Balance at end of year	-	-

This Note relates to the sale of financial assets which was transacted in the previous financial year. The following is a summary of the transaction as disclosed in the 2016 Annual Report.

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

On 8 June 2016, PolyNovo sold all ordinary shares in Neuren for net proceeds of $73,925. The cumulative balance of other comprehensive income previously recognised in equity was transferred to profit and loss on disposal.

13. Plant and Equipment

	30 June 2017 $	30 June 2016 $
Office equipment		
(i) Cost		
Opening balance	281,979	209,640
Reclassification	-	44,825
Additions	146,523	27,514
Disposals and write-off of equipment	-	-
Closing balance	**428,502**	**281,979**
(ii) Accumulated depreciation		
Opening balance	(221,218)	(152,000)
Reclassification	-	(44,823)
Depreciation for the year	(49,018)	(24,395)
Closing balance	(270,236)	**(221,218)**
Net book value – office equipment	**158,266**	**60,761**

13. Plant and Equipment continued

Laboratory plant and equipment

	30 June 2017 $	30 June 2016 $
(i) Cost		
Opening balance	1,275,090	784,414
Reclassification	-	313,502
Additions	88,030	177,174
Impairment	-	-
Closing balance	1,363,120	1,275,090
(ii) Accumulated depreciation		
Opening balance	(955,698)	(588,102)
Reclassification	-	(304,666)
Depreciation for the year	(68,371)	(62,930)
Closing balance	(1,024,069)	(955,698)
Net book value – laboratory plant and equipment	339,051	319,392

	30 June 2017 $	30 June 2016 $
Leasehold improvements		
(i) Cost		
Opening balance	1,461,848	1,461,848
Additions	472,804	-
Closing balance	1,934,652	1,461,848
(ii) Accumulated depreciation		
Opening balance	(849,325)	(708,077)
Reclassification	-	(8,838)
Depreciation for the year	(130,290)	(132,410)
Closing balance	(979,615)	(849,325)
Net book value – leasehold improvements	955,037	612,523
Net book value – plant and equipment	1,452,354	992,676

14. Intangible Assets

	30 June 2017 $	30 June 2016 $
Intangible assets	2,519,788	2,519,788

Indefinite life intangible assets, comprising intellectual property, were acquired through the business combination with PolyNovo Biomaterials Pty Ltd on 17 December 2008. These were initially recognised at fair value and have been subsequently measured at cost and subject to annual impairment tests. These are indefinite intangible assets that relate to the acquired NovoSorb™ technology.

As part of the acquisition accounting, a deferred tax liability was recognised in respect of these intangibles as the carrying values are expected to be recovered through use.

The impairment assessment at 30 June 2017 and 30 June 2016 was based on a valuation report prepared by an independent third party.

The valuation report was prepared by assigning a value to projects in the Group's pipeline on a probability-weighted basis, based on future cash flows. In arriving at a valuation for each project, assumptions were made on a project-by-project basis. The assumptions used for each project are outlined below:

	30 June 2017	30 June 2016
Growth rate	2%	2%
Valuation date	30 June 2016	30 June 2016
After-tax discount rate	20%	20%
Pre-tax discount rate	not applicable	not applicable
Royalty on sales	5% to 8%	5% to 8%
Market penetration	5% to 7.5%	5% to 7.5%

Growth rate: derived from published data on growth prospects and historical growth of products being sold into those conditions.

Royalty on sales: based on available industry data.

Market penetration: a best estimate, taking into consideration the 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.

Consideration was also given to recent transactions in the field of each project and the market capitalisation of ASX-listed companies with similar technology. The report concluded that the value of the intellectual property is in excess of its current carrying value.

No reasonable possible changes in the assumptions were identified which could cause an impairment of the identified intangible assets except for a failure in clinical trials. Due to the nature of the business, the cash flows were assessed on a short-term 12-month basis with assumptions applied to future model to assess the recoverable amount of identified intangibles.

The recoverable amount has been determined using a value-in-use method.

The Directors considered this valuation report and it is the opinion of the Directors that PolyNovo's intangible assets are not impaired as at 30 June 2017.

15. Trade and Other Payables

	30 June 2017 $	30 June 2016 $
Trade creditors and payables	421,414	406,311
Other payables	471,323	184,303
Total trade and other payables	892,737	590,614

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

16. Provisions

(a) Current provisions

	30 June 2017 $	30 June 2016 $
Annual leave	122,194	69,737
Long service leave	54,680	45,482
Total current provisions	**176,874**	**115,219**

(b) Non-current provisions

Long service leave	14,623	16,016
Total non-current provisions	**14,623**	**16,016**

17. Contributed Equity and Reserves

(a) Movement in contributed equity

	30 June 2017 $	30 June 2016 $
Contributed equity at beginning of year	114,099,712	94,870,080
Shares issued: capital raising	-	12,847,816
Costs of share issue	-	(754,843)
Shares issued on acquisition of non-controlling interest	-	5,920,000
Exercise of options	376,658	1,216,659
Contributed equity at end of year	114,476,370	114,099,712

	Number of Shares	
On issue at start of year	558,863,915	418,509,426
Shares issued: capital raising	-	95,169,394
Shares issued on acquisition of non-controlling interest	-	32,000,000
Exercise of options	4,185,095	13,185,095
On issue at end of year	563,049,010	558,863,915

(b) Reserves

	30 June 2017 $	30 June 2016 $
Share-based payments reserve (i)	2,925,541	2,595,045
Gains/(losses) on available-for-sale financial assets (ii)	-	-
Acquisition of non-controlling interest reserve (iii)	(9,293,956)	(9,293,956)
Balance at end of period	(6,368,415)	(6,698,911)

(i) Share-based payments reserve

Balance at beginning of period	2,595,045	2,286,443
Share-based payments movement	330,496	308,602
Balance at end of period	2,925,541	2,595,045

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

	30 June 2017 $	30 June 2016 $
(ii) Gains/(losses) on available-for-sale financial assets reserve		
Opening balance	-	103,750
Unrealised gain/(loss) on available-for-sale financial assets	-	45,000
Reclassification to profit and loss on disposal of assets	-	(148,750)
Balance at end of period	-	-

	30 June 2017 $	30 June 2016 $
(iii) Acquisition of non-controlling interest reserve		
Opening balance	**(9,293,956)**	(477,596)
Acquisition of non-controlling interest	-	(8,816,360)
Balance at end of year	**(9,293,956)**	**(9,293,956)**

This reserve represents the premium paid by PolyNovo Limited for the non-controlling interest in subsidiary entities PolyNovo Biomaterials Pty Ltd, NovoSkin Pty Ltd and NovoWound Pty Ltd.

(c) Accumulated losses

	30 June 2017 $	30 June 2016 $
Accumulated losses at beginning of year	**(92,289,075)**	(89,227,201)
Net loss attributable to members of the parent	**(5,006,014)**	(3,061,874)
Accumulated losses at end of financial year	**(97,295,089)**	**(92,289,075)**

18. Non-Controlling Interests

	30 June 2017 $	30 June 2016 $
Opening balance	-	(162,170)
Current year share of accumulated losses	-	(189,970)
Acquisition of non-controlling interest	-	352,140
Balance at end of year	-	-

During the financial year ended 30 June 2016, the Group acquired the non-controlling interest in subsidiary entities NovoSkin Pty Ltd and NovoWound Pty Ltd. The PolyNovo Group, as at 30 June 2016, is a wholly owned group of companies.

19. Commitments and Contingencies

Operating lease commitments

The Group has entered into commercial office and laboratory leases. These leases have an initial term of 12 years, from 2008 to 2020, with a further five-year option. Future minimum rentals payable under the non-cancellable operating leases are as follows:

	30 June 2017 $	30 June 2016 $
Not later than one year	**286,560**	275,539
Later than one year, but not later than five years	**554,598**	841,158
	841,158	**1,116,697**

19. Commitments and Contingencies continued

Contingencies

The Directors are not aware of any other contingent liabilities or contingent assets at 30 June 2017. There has been no change in this assessment up to the date of this report.

20. Related Party Disclosures

As set out in the disclosures under key management personnel (Note 25), there were no transactions with related parties during the year ended 30 June 2017.

21. Events after the Balance Sheet Date

The Directors are not aware of any other matters or circumstances since the end of the financial year other than those described above, nor 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.

22. Auditor's Remuneration

The auditor of PolyNovo Limited is Ernst & Young. The amounts received or due and receivable by Ernst & Young for audit and other services were as follows:

	30 June 2017 $	30 June 2016 $
An audit or review of the Financial Reports of the entity:		
- Half-year and full-year audits	**107,470**	93,000
Other services in relation to the entity:		
- Tax compliance services	**42,283**	12,500
- Preparation and lodgement of research and development tax benefit application, AusIndustry review and overseas applications	**-**	23,250
- Other compliance services supporting start-up of US operations	**77,401**	-
Total auditor's remuneration	**227,154**	**128,750**

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's independence was not compromised.

23. Parent Entity Information

	30 June 2017 $	30 June 2016 $
Current assets	**21,586,481**	21,443,043
Total assets	**27,629,604**	27,492,777
Current liabilities	**134,254**	86,322
Total liabilities	**134,254**	86,322
Issued capital	**114,476,370**	114,099,711
Retained earnings	**(83,942,341)**	(83,324,082)
Total reserves	**(3,038,679)**	(3,369,175)
Total shareholders' equity	**27,495,350**	27,406,455
Profit/(loss) of the parent entity	**(618,259)**	(1,141,714)
Total comprehensive income/(loss) of the parent entity	**(618,259)**	(1,245,464)

Details of operating leases entered into by PolyNovo Limited are provided in Note 19.

24. Financial Risk Management Objectives and Policies

(a) Financial instruments

The Group's financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables, other financial assets and available-for-sale financial assets.

	30 June 2017 $	30 June 2016 $
Cash and cash equivalents	**5,496,609**	10,746,691
Trade and other receivables	**1,369,535**	1,556,275
Other financial assets (classified as held to maturity)[1]	**50,000**	50,000
Trade and other payables	**892,737**	590,614

1. At 30 June 2017 and 30 June 2016, the carrying value of these held-to-maturity assets approximated fair value.

24. Financial Risk Management Objectives and Policies continued

(b) Risk management policy

The Group has a formal risk management policy and framework. The Group's approach to risk management involves identifying, assessing and managing risk, including consideration of identified 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 risks that are likely to impact its financial performance, continued growth and survival are minimised in a cost-effective manner.

(c) Significant accounting policies

Details of the significant accounting policies and methodologies adopted in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

Details in relation to interest revenue earned on holdings of cash and cash equivalents are disclosed in Note 4.

(d) 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 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 17. The Board monitors the need to raise additional equity from the equity markets based on its ongoing review of PolyNovo's actual and forecast cash flows, which are provided by management.

(e) Financial risk management

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

- interest rate risk;
- credit risk;
- liquidity risk; and
- foreign currency risk.

Interest rate risk

Interest rate risk arises when the value of a financial instrument fluctuates as a result of changes in market interest rates.

The Group is exposed to interest rate risks in relation to its holdings in cash and cash equivalents. The objective of managing interest rate risk is to minimise the Group's exposure to fluctuations in interest rates. To manage this risk, the Group locks a portion of the Group's cash and cash equivalents into term deposits. The required maturity period of term deposits is determined based on the Group's cash flow forecast with particular focus on the timing of cash requirements. In addition, the Group considers the lower interest rate received on cash held in the Group's operating account compared to placing funds on term deposit. Account is also taken of 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 interest rates (current at the end of each year) on the Group's financial assets and financial liabilities as at 30 June 2017, along with prior year comparatives, was as follows:

2017	Weighted average effective interest rate	Floating interest rate $	Fixed interest rate 0 to 90 days $	Fixed interest rate 91 to 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	0.6%	5,496,609	-	-	-	-	-	5,496,609
Other financial assets	2.49%	-	-	50,000	-	-	-	50,000
Receivables	-	-	-	-	-	-	1,369,535	1,369,535
Total financial assets		5,496,609	-	50,000	-	-	1,369,535	6,916,144
Financial liabilities:								
Trade and other payables	-	-	-	-	-	-	892,737	892,737
Total financial liabilities:	-	-	-	-	-	-	892,737	892,737

2016	Weighted average effective interest rate	Floating interest rate $	Fixed interest rate 0 to 90 days $	Fixed interest rate 91 to 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	2.05%	3,246,691	1,000,000	6,500,000	-	-	-	**10,746,691**
Other financial assets	2.94%	-	-	50,000	-	-	-	**50,000**
Receivables	-	-	-	-	-	-	1,556,275	**1,556,275**
Total financial assets		**3,246,691**	**1,000,000**	**6,550,000**	**-**	**-**	**1,556,275**	**12,352,966**
Financial liabilities:								
Trade and other payables	-	-	-	-	-	-	590,614	**590,614**
Total financial liabilities:		**-**	**-**	**-**	**-**	**-**	**590,614**	**590,614**

24. Financial Risk Management Objectives and Policies continued

There has been no change to the Group's exposure to interest rate risk, other than the fact that cash holdings are lower than at the previous year's end. As noted above, cash is invested in term deposits of varying maturity terms to maximise interest income as well as to meet the timing of operational cash flow requirements. All term deposits are with the NAB, to ensure market interest rates are achieved without compromising the security of funds on deposit.

The Group had a large component of cash invested in fixed term deposits well into the 2017 financial year and as the various fixed terms expired, the funds have not been reinvested in the expectation that cash is required to fund current operations and the expected build in trade receivables commensurate with the anticipated increase in commercial product sales to hospitals and distributors.

The analysis below details the impact on the Group's loss after tax and equity if the interest rate associated with the closing balance of financial assets was to fluctuate by the margins below, assuming all other variables had remained constant:

	Loss (higher)/lower Equity higher/(lower) 2017 $	Loss (higher)/lower Equity higher/(lower) 2016 $
+ 1% (100 basis points)	**55,470**	107,967
- 1% (100 basis points)	**(55,470)**	(107,967)

Credit risk

Credit risk arises when a counterparty defaults 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 in relation to its holdings of cash and cash equivalents, they are placed on deposit 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 previous years the Group has had minimal trade and other receivables, with the majority of its cash being provided via shareholder investment.

In 2017, the receivables balance at 30 June 2017 includes $485,589 owing by BARDA, a US government agency. BARDA is contractually obliged to reimburse the Group for services provided and is considered to be a low credit risk customer.

Trade receivables are expected to grow significantly as commercial product sales to hospitals and distributors increase.

The aging analysis of trade and other receivables is as follows.

2017	0-30 days $	30-60 days $	60-90 days $	90+ day $	Total $
Trade and other receivables	**262,809**	**273,600**	**-**	**-**	**536,409**
2016					
Trade and other receivables	697,984	10,041	-	64,942	772,967

Liquidity risk

Liquidity risk arises if the Group encounters difficulty in raising funds to meet its financial liabilities.

The Group is exposed to liquidity risk via its trade and other payables. Responsibility for managing liquidity risk rests with the Board, who regularly review liquidity risk by monitoring the undiscounted cash flow forecasts and actual cash flows provided to them by management. This process is undertaken 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 other available external sources. The Board may also review the timing of internal programs if necessary to moderate cash requirements.

A maturity analysis of trade and other payables, based on contractual terms, is set out below:

2017	0-30 days $	30-60 days $	60-90 days $	90+ day $	Total $
Trade and other payables	865,289	12,253	187	15,008	892,737
2016					
Trade and other payables	513,147	64,967	12,500	-	590,614

Foreign currency risk

Foreign currency risk arises when foreign currency exchange rates fluctuate against the Australian dollar, resulting in a foreign currency exchange loss or gain to the Group.

The Group is exposed to foreign currency risk via its cash and cash equivalents, trade receivables and trade payables as part of its normal business.

The Group incurs foreign currency expenses predominantly in USD and EUR. To reduce foreign currency risk exposure, the Group maintains an amount of cash and cash equivalents in USD. The Group receives payment from its overseas customer (BARDA) in USD and pays USD trade payables from its USD funds. EUR denominated payable balances carry some foreign currency risk, however these payable balances are typically low in value (nil balance at 30 June 2017) and are therefore considered to expose the Group to minimal risk.

The holdings of cash and cash equivalents, trade receivables and trade payables analysed by nominated currency at 30 June 2017, along with prior year comparatives, were as follows.

2017	Denominated in AUD $	Denominated in USD $	Denominated in EUR $	Denominated GBP $	Total $
Financial assets					
Cash and cash equivalents	3,599,272	1,897,337	-	-	5,496,609
Receivables	883,946	485,589	-	-	1,369,535
Total financial assets	4,483,218	2,382,926	-	-	6,866,144
Financial liabilities					
Trade and other payables	572,069	318,180	760	1,728	892,737
Total financial liabilities	572,069	318,180	760	1,728	892,737

24. Financial Risk Management Objectives and Policies continued

A hypothetical 10% strengthening in the exchange rate of the Australian dollar against the US dollar (as at 30 June 2017) with all other variables held constant would have a $243,860 unfavourable effect on the loss and equity for the 2017 financial year.

2016	Denominated in AUD $	Denominated in USD $	Denominated in EUR $	Total $
Financial assets				
Cash and cash equivalents	9,269,572	1,477,119	-	10,746,691
Receivables	859,217	697,058	-	1,556,275
Total financial assets	**10,128,789**	**2,174,177**	**-**	**12,302,966**
Financial liabilities				
Trade and other payables	173,474	417,140	-	590,614
Total financial liabilities	**173,474**	**417,140**	**-**	**590,614**

A hypothetical 10% strengthening in the exchange rate of the Australian dollar against the US dollar (as at 30 June 2016) with all other variables held constant would have a $175,704 unfavourable effect on the loss and equity for the 2016 financial year.

25. 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 the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the 2017 and 2016 financial years. Unless otherwise indicated they were key management personnel during the whole of the financial years.

PolyNovo's key management personnel are its Directors' and members of the Senior Management team. Details of each Director and Senior Executive, who are classified as key management personnel, are provided in the Remuneration Report.

(b) Compensation by category: key management personnel

	30 June 2017 $	30 June 2016 $
Short term	**788,032**	740,945
Post-employment – superannuation	**61,075**	69,750
Leave allowances	**6,783**	20,849
Share-based payments	**286,225**	308,602
Termination benefits	**-**	53,815
	1,142,115	**1,193,961**

(c) Interests held by key management personnel

Share options held by key management personnel to purchase ordinary shares have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	2017 number outstanding	2016 number outstanding
2014	03/07/17	$0.20	2,500,000	2,500,000
2014	17/11/17	$0.14	1,000,000	1,000,000
2014	17/11/17	$0.20	2,000,000	2,000,000
2015	05/08/18	$0.09	4,185,095	8,370,190
2016	01/02/19	$0.25	500,000	-
2016	01/02/19	$0.33	500,000	-
			10,685,095	13,870,190

(d) Loans to key management personnel

No loans have been made to Directors of PolyNovo or to any other key management personnel, including their personally related entities.

(e) Other transactions with Directors

No other transactions between the Group and any of the Directors of PolyNovo or any other key management personnel have been identified.

There were transactions with Directors during the year ended 30 June 2016 as follows:

- Kidder Williams Ltd, an entity associated with Mr David Williams, received payments in the amount of $110,000. These payments were in respect to consulting services provided to PolyNovo Limited in relation to a capital raising.

26. Controlled Entities

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

		Percentage owned	
	Country of incorporation	30 June 2017 %	30 June 2016 %
Company:			
PolyNovo Limited	Australia	100%	100%
Subsidiaries of PolyNovo Limited:			
PolyNovo North America LLC	United States	100%	-
PolyNovo Biomaterials Pty Ltd	Australia	100%	100%
NovoSkin Pty Ltd	Australia	100%	100%
NovoWound Pty Ltd	Australia	100%	100%

PolyNovo North America LLC was incorporated on 26 August 2016.

In the year ended 30 June 2016, PolyNovo completed the acquisition of the non-controlling interests in subsidiary companies NovoSkin Pty Ltd and NovoWound Pty Ltd on 22 December 2015.

PolyNovo Limited (ABN 96 083 866 862)
Directors' Declaration
For the year ended 30 June 2017

In accordance with a resolution of the Directors of PolyNovo 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 2017 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 2017.

On behalf of the Board,

Mr David Williams
Chairman
24 August 2017

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

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

Independent Auditor's Report to the Members of PolyNovo Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of PolyNovo Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Building a better working world

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Going concern

Why significant	How our audit addressed the key audit matter
For the year ended 30 June 2017, the Group has recorded a loss of $5 million and a cash outflow from operations of $5.2 million. As at 30 June 2017 the Group had cash reserves of $5.5 million as disclosed in Note 8. Notwithstanding the above, the Group has prepared the financial report on the going concern basis which assumes continuity of normal operations into the foreseeable future. The Group has prepared a cashflow forecast for the period to 31 August 2018 which underpins their assessment and has performed sensitivity analysis in respect of key assumptions. A key assumption underpinning this forecast is commercial sales growth. Our assessment of the Group's conclusion that the Group is a going concern is a key audit matter given the significant judgement involved in estimating future cashflows of the Group. Note 2 of the financial report contain disclosures with respect to the going concern assumption.	We obtained the Group's going concern assessment and supporting cashflow forecasts and sensitivity analysis models, noting that these had been approved by the Board of Directors. We clerically checked the models for arithmetic accuracy. We assessed key assumptions against supporting evidence and considered the historical reliability of the Group's cashflow forecasting process. We enquired with key management personnel as to the pipeline of customer orders and current discussions with key prospective customers. We also enquired as to the cost deferral/reduction opportunities and other options available to the Group should there be delays in the achievement of these anticipated commercial sales. We performed additional sensitivity analysis adjusting key revenue and cost assumptions. We considered the adequacy of going concern related disclosures made in Note 2 of the financial report.

Existence and Valuation of inventory

Why significant	How our audit addressed the key audit matter
At 30 June 2017, the Group held inventories of $981,112 on the consolidated statement of financial position, as disclosed in Note 9, which relates to finished product, work in progress and raw materials. The audit of the existence and valuation of inventories is a key audit matter given the significance of the inventories balance at 30 June 2017, and being the first year that inventories has been recorded. In addition there is judgement required in determining whether it is recorded at the lower of cost and net realisable value. The valuation of the inventories is assessed considering forecast inventory usage and sales and expiry dates of product. As at 30 June 2017, the Group had inventories held at a central warehouse and by a third party logistics provider in the US.	We attended both the inventories count at the warehouse and in the US to assess the existence of inventory at year end. We tested a sample of inventory items to assess the build-up of cost, including allocations of labour and manufacturing overheads. We assessed the Group's consideration of the level of inventory on hand in light of current sales forecasts and considering expiry dates. We tested a sample of product sales to assess whether the margin achieved was sufficient to support the recoverable amount of the inventory on hand. We considered the accounting policy as disclosed in Note 2 of the financial report for compliance with Australian Accounting Standards.

Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Building a better working world

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Building a better working world

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 25 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of PolyNovo Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
Melbourne
24 August 2017

Additional Information Required by ASX
For the year ended 30 June 2017

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

Ordinary Shares

As at 18 August 2017 there were 565,549,010 ordinary shares on issue held by 5,822 shareholders. Each ordinary share carries one vote per share.

Top 20 Shareholders as at 18 August 2017

Shareholder	No. of shares	%
The Trust Company (Australia) Limited <Mof A/C>	65,550,000	11.59
HSBC Custody Nominees (Australia) Limited	23,229,619	4.11
Citicorp Nominees Pty Limited	18,142,877	3.21
Mr John Edward Greenwood <The Greenwood Family A/C>	16,000,000	2.83
Lateral Innovations Pty Ltd <Trust A/C>	12,168,548	2.15
Moggs Creek Pty Ltd <Moggs Creek Super A/C>	10,000,000	1.77
Monash Investment Holdings Pty Ltd	9,607,520	1.70
J A B Investments (SA) Pty Ltd <J A B A/C>	9,000,000	1.59
Mr Anthony Shane Kittel + Mrs Michele Therese Kittel <Kittel Family Super A/C>	7,116,084	1.26
Mrs Suzanne Kenley	5,200,000	0.92
J A B Investments (SA) Pty Ltd <J A B A/C>	5,000,000	0.88
Mr Laurent Fossaert	4,835,139	0.85
Dr Gavin James Shepherd + Mrs Catherine Jane Shepherd <Shepherd Investment A/C>	4,762,627	0.84
UBS Nominees Pty Ltd	4,428,454	0.78
BNP Paribas Nominees Pty Ltd <Ib Au Noms Retailclient Drp>	4,309,551	0.76
Simone Maree Beks	4,185,095	0.74
CSIRO	4,081,250	0.72
Mr Paul James Lappin + Ms Siobhan Catherine Lyons <Lappin Super Fund A/C>	3,849,076	0.68
Mr David Kenley	3,650,000	0.65
J P Morgan Nominees Australia Limited	3,632,969	0.64
Total	**218,748,809**	**38.68**

Unquoted Securities

Options over unissued shares

As at 24 August 2017, a total of 10,185,095 options over ordinary shares are on issue held by eight individual holders.

There are 4,000,000 options on issue to Directors as at the date of this report. Options do not carry a right to vote.

PolyNovo issued 3,000,000 options during the year ended 30 June 2017. Details of the options issued to three individuals are included in Note 6.

The range of shareholders based on number of shares held as at 18 August 2017 is as follows:

Range of units	No. of holders	No. of shares
1 – 1000	734	438,689
1,001 – 5,000	1,602	4,770,617
5,001 – 10,000	868	7,114,095
10,001 – 100,000	1,966	70,765,751
100,001 and over	652	482,459,858
Number of holders with less than a marketable parcel	1,505	1,886,777

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>	65,550,000
Mr David Kenley	26,941,611

Quotation of the Company's Shares

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

Corporate Directory

ABN 96 083 866 862

Non-executive Chairman

Mr David Williams

Non-executive Directors

Mr Bruce Rathie
Dr David McQuillan
Mr Philip Powell
Mr Max Johnston
Mr Leon Hoare

Chief Executive Officer

Mr Paul Brennan

Company Secretaries

Ms Andrea Goldie
Mr Gavin Smith

Registered Office

Unit 2/320 Lorimer Street
Port Melbourne
Victoria 3207

T (03) 8681 4050
F (03) 8681 4099

Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford, Victoria 3067
T 1300 850 505

Auditors

Ernst & Young
8 Exhibition St
Melbourne Victoria

Website

www.polynovo.com.au

Australian Securities Exchange

PolyNovo shares are quoted on ASX Limited
(ASX Code: PNV)

PolyNovo

2/320 Lorimer Street
Port Melbourne
Victoria Australia 3207

T +613 8681 4050
F +613 8681 4099

polynovo.com.au