2020 Reports

Announcement of Full-Year Results
Appendix 4E
2020 Annual Report

PolyNovo Limited
ABN 96 083 866 862
26 August 2020

Snapshot 2020

Worldwide

NovoSorb BTM Revenue	
2020 $19.06m 2019 $9.34m	▲ 104%

United States

NovoSorb BTM Revenue	
2020 $15.57m 2019 $7.73m	▲ 102%

Australia & New Zealand

NovoSorb BTM Revenue	
2020 $2.82m 2019 $1.57m	▲ 80%

Announcement of Full-Year Results

26 August 2020

FY20 saw the more than doubling of NovoSorb BTM sales and we had a very strong Q4. $19.1 million in FY20 versus $9.3 million in FY19 (+104%).

PolyNovo Limited reported revenue for year ended 30 June 2020 of $22.229 million an increase of 54.6% from FY19 $14.378 million.

The net loss after tax (excluding share-based payments expense) of $2.132 million for FY20 is an improvement year-on-year of 31.1% over the prior year's $3.092 million.

The Group's improved loss position included staff expansion, capital works program building the hernia factory, new market entries and upgrading facilities.

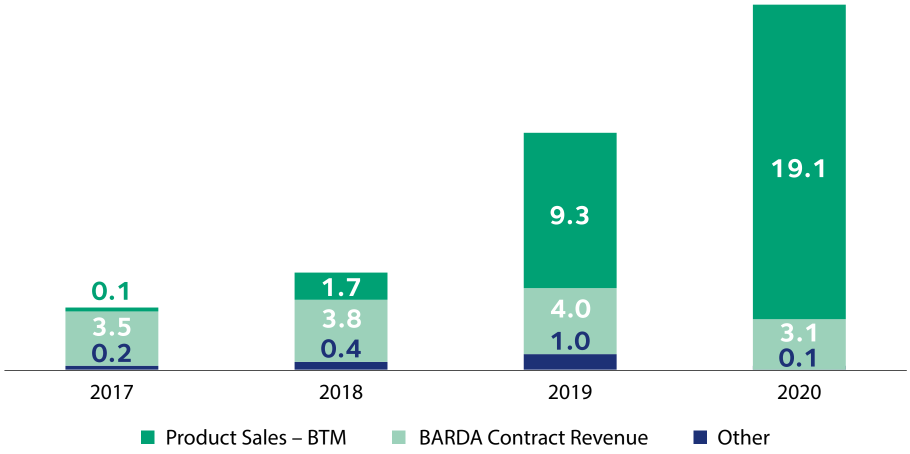
The continued rise in NovoSorb BTM sales, improvements in gross profit, manufacturing efficiencies and sales force effectiveness enabled PolyNovo to continue to invest for growth.

Cash on hand at 30 June 2020 is $11.6 million (FY19 $13.9M) and we have an unused debt facility of $2m.

We have continued to invest in our sales and marketing teams in all regions. The US is our largest market and we have continued the expansion of sales and marketing teams in that market. We have also entered UK/ Ireland and Singapore/Malaysia as direct markets in FY20 and expect to see the results of that in FY21.

The impact of CoVid19 has had little short-term impact on PolyNovo and we continue to plan for significant revenue and account growth. The year ahead is still uncertain.

Total Revenue ($m)



For FY21 we anticipated doubling our sales revenues. NovoSorb BTM European markets will expand further in FY21 through a mix of distributor appointments and direct market entries. Asian markets are also anticipated to grow with new regulatory approvals forecast in Q2 and Q3.

Our Australia/European burn trial and the US Feasibility trial results have been published. These trials have demonstrated the safety and effectiveness of NovoSorb BTM in the treatment of full thickness burns. We have also seen the publication of Professor John Greenwood et al treating a 95% TBSA burn patient with NovoSorb BTM and cultured composite skin grown in NovoSorb foam substrate.

The BARDA funded pivotal trial is progressing through its US FDA approval process and we anticipate seeing an increased clinical workload and recruitment in late Q1 and Q2.

Phase 1 of the Hernia factory build is complete and most of the manufacturing equipment is in hand. The development timeline has been impacted by CoVid19 with some machines being delayed in shipment and with international travel restrictions in place we have not been able to get European engineers on site to commission the new equipment. Our in-house teams are working through the commissioning process and we anticipate filing our US FDA 510(K) application around July 2021 with product on sale before the end of CY2021.

Further details of the product pipeline can be found in our Annual Report.

Further information

Paul Brennan
Managing Director
Mobile +61 427 662 317

David Williams
Chairman
Mobile: +61 414 383 593

Appendix 4E – Rule 4.3A

Preliminary Final report
PolyNovo Limited
ABN 96 083 866 862

1. Details of the reporting period and the previous corresponding period

Reporting Period:	**Year ended 30 June 2020**
Previous Corresponding Period:	Year ended 30 June 2019

2. Results for announcement to the market

	Change from 2019			2020
2.1. Total revenue	up	54.6%	to	**$22,228,501**
2.2. Loss after tax	up	31.5%	to	**($4,193,738)**
2.3. Loss after tax attributable to members	up	31.5%	to	**($4,193,738)**
2.4. Dividends	No dividend paid or declared in either period			
2.5. Record date for dividend entitlement	Not applicable			
2.6. Brief explanation of figures in 2.1 to 2.3:	Refer to (i) the enclosed announcement by the Chairman and Managing Director and (ii) the Chairman's and Managing Directors' Report and separate Directors' Report contained in the enclosed 2020 Annual Report.			

3. Net tangible assets

	30 June 2020	30 June 2019
Net tangible asset backing per ordinary security	**$0.036**	$0.039

4. Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow are contained in the enclosed 2020 Annual Report.

5. Details of control gained or lost over entities during the period	Not applicable
6. Details of individual dividends and payment dates	Not applicable
7. Details of dividend reinvestment plans	Not applicable
8. Details of associates and joint venture entities	Not applicable
9. For foreign entities, which set of accounting standards is	International Financial Reporting Standards

9. This report is based on accounts which have been audited. The audit report, which is unmodified is contained in the enclosed 2020 Annual Report.

Date: 26 August 2020

Jan Gielen
Company Secretary

PolyNovo®

Our vision taking shape

Annual Report 2020

Improving outcomes.
Changing lives.

Contents

“PolyNovo’s principal activity is the development of innovative medical devices for a number of applications, utilising the patented bioabsorbable polymer technology NovoSorb®.”

Paul Brennan
Managing Director

Vision

PolyNovo is prepared for an exciting future with expansion into new markets and continued growth in NovoSorb BTM production within our own facilities.

The talent within our team continues to grow ensuring we have the resources to execute our strategy of bringing disruptive medical devices to market. These devices are all focused on our mission: Improving outcomes and changing people's lives.

Global Expansion

Strong sales performance and new market entries

PolyNovo continues to double revenue from NovoSorb BTM. Sales force expansion continues with customer acquisition and deeper account penetration the focus. European and Asia new market entries are forecast for the year ahead. Hernia factory, stage 1, complete and further R&D resources being added.

FY20 has seen strong sales performances in the USA, Australia, New Zealand and Germany, Austria & Switzerland (DACH) region. Our depth of resources has improved significantly, and we have weathered the CoVid-19 pandemic very well. The maturity of our organisation and the empowerment of local teams has seen PolyNovo continue to deliver on our plan to double NovoSorb BTM revenue each year.

FY21 has a solid foundation for further revenue growth through deeper penetration of our existing markets and the entry into new markets throughout Europe and Asia. The Company has shadowed the breakeven line throughout FY20 however we have chosen to reinvest in the expansion of the Sales and Marketing teams to drive our market penetration and realise the returns of high margin sales revenue. Our research and development programs are focused on near term commercialisation devices in Hernia, Breast, Sports Medicine and Chronic wounds. FY21 will be focused on completion of the commercial manufacturing process of Syntrel, our NovoSorb based hernia devices, whilst concurrently developing new devices with our enlarged Research & Development team. Establishing multiple revenue streams whilst sweating our production assets will provide PolyNovo with a strong and sustainable future.

Achievements

CE Mark Approval
FDA Breakthrough Device Granted
Singapore Regulatory Approval
First $2 million Month for Product Sales
ASX200 Achieved
UK First BTM Surgeries January 2020
Germany First BTM Surgeries January 2020

PolyNovo has invested in four key strategic areas

1. Sales team

Sales and Marketing resources have been added to Australia, Singapore, USA and UK. Recruitment is in progress for further head office roles, an Irish sales team and further US sales roles to service new territories.

2. Research and development

The progress of the Syntrel hernia devices has been very good. The factory development program has been significant, and we have managed the CoVid-19 restrictions very well. Work has already commenced on sports medicine devices and we will see further work on these in FY21. PolyNovo's breast product development continues in parallel with the hernia program. The manufacturing process will utilise many of the same machines.

3. Organisational talent building

We continue to invest in our team. In FY20 we added Quality Assurance, Production, Engineering, Sales, Marketing, Clinical, Regulatory, Finance, Human Resources and Safety roles to the organisation.

The depth of talent within the business continues to grow. This is enabling regions to become more proactive, self-sufficient and timely in their customer engagement. CRM is fully integrated across all regions and it is a central business tool and communication vehicle that drives our customer interactions.

4. Infrastructure/capital

With the majority of the capital program now complete our Hernia factory will go through its validation and approvals process. This does not require a physical inspection by regulatory authorities however PolyNovo must complete a comprehensive suite of testing and documentation to meet the global standards. Further production expansion programs will follow bringing capacity into the NovoSorb BTM line and the ability to make other new devices in the medium term.

Australia

The Australian sales performance was strong across a wide range of clinical indications. FY20 saw our expanded sales team covering all states and territories with NovoSorb BTM used in chronic wounds, reconstructive surgeries, trauma and burns. Now that we have a significant customer base the focus of FY21 will be on deeper account penetration.

Production has been running two shifts since April 2020 and our production yields are up, production waste reduced and efficiency improvements have had a positive contribution to gross profit. The new hernia factory development has been intensive for many in the team and we are excited to be able to utilise this facility in FY21.

Europe

PolyNovo entered the UK and Irish markets with a direct sales organisation. We have expanded the team and have achieved our first sales in the National Health System (NHS) in the UK. FY21 holds great promise and we will continue to expand the sales and marketing resources in response to rising sales and customer demands.

DACH distribution via PolyMedics Innovations GmbH (PMI) has been an outstanding success. We have good sales in all three countries and see a solid growth in the number of surgeries/applications.

Our strategy has been to establish these two regions as a beachhead into Europe and we will now expand throughout Europe and the Nordics with a mix of direct sales and distribution partners.

New Zealand

PolyNovo has invested in improved warehousing and logistics processes in New Zealand. This was beneficial in our ability to service the White Island disaster. Our teams worked very closely with the hospital teams and we are pleased that so many of the patients benefited from NovoSorb BTM with some remarkable outcomes. FY21 will see continued investment in our New Zealand business as we anticipate launching Syntrel hernia devices in New Zealand immediately after the USA market and appointing a local sales representative

USA Market Penetration

The USA will remain PolyNovo's largest market for all our medical devices. In the past year the expansion of both the sales and marketing teams has bought significant benefits through improved sales and self-reliance in the day to day running of PolyNovo North America LLC. Management and the team have demonstrated they can win new accounts in a CoVid lockdown and continue to grow our revenues. FY21 will see further growth in the sales organisation.

Our BARDA program saw the completion of the feasibility burn trial and the filing of the pivotal trial integrated development environment (IDE). The US FDA also granted PolyNovo breakthrough technology status allowing us to have more frequent and direct interaction with the FDA teams. At this time we are awaiting final approval of the IDE.

FY21 will see further marketing activities preparing for the launch of Syntrel hernia devices.

Asia

PolyNovo has entered Singapore and Malaysia with a direct sales team supported by the Australian marketing group. Four Hospitals in Singapore have evaluated NovoSorb BTM with several others in progress. Our first sales were achieved in July 2020.

Middle East

Our sales performance in the Middle East has been disappointing. This is being addressed through distribution partner review and expansion into additional countries in the region. We have also appointed a dedicated business development manager, based in England, to support our EU and Middle East/ Africa partners.

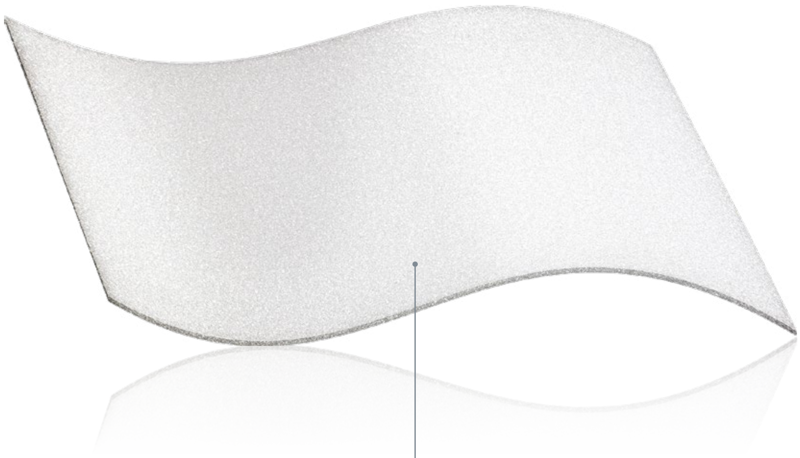
South Africa

Ascendis Medical (distributor) have filed several public hospital tenders with the outcomes of these expected in late Q1 of FY21. PolyNovo is also assisting Ascendis with data required by the private health insurance groups to achieve reimbursement within the private market.

Product Development

NovoSorb® SynTrel®

Strength through innovation



NovoSorb foam is used to encourage in-growth of new tissue to repair and reinforce the hernia area being repaired. The NovoSorb foam will resorb through hydrolysis.

NovoSorb film is fully manufactured by PolyNovo. The NovoSorb film provides strength to the device, has low adhesion generation properties and acts as a reinforcement 'wall' whilst the reparative tissue integrates into the adjacent foam.

PolyNovo will have two unique devices. One for intra-peritoneal repair and the other specifically for the retro-rectus muscle plane of repair.

The entire NovoSorb Syntrel device will reabsorb leaving behind a strong repair without the lifelong compromises and discomfort of permanent hernia repair meshes.

Our Performance

NovoSorb BTM Sales

▲ 103.9%

$19.06m 2020	$9.35m 2019

Total Revenue

▲ 54.6%

$22.23m 2020	$14.38m 2019

Cash on Hand

▼ -16.3%

$11.65m 2020	$13.92m 2019

Net Cashflow Operating Activities

▲ 87.3%

-$0.43m 2020	-$3.37m 2019

Total Employees

▲ 66.0%

78 people 2020	47 people 2019

Capital Expenditure

▲ 36.0%

$8.87m 2020	$6.52m 2019

Operating Loss

(Excl. Share Based Payments)

▼ -59.4%

-$1.13m 2020	-$2.78m 2019

Net Profit / (Loss) After Tax

(Excl. Share Based Payments)

▼ -31.1%

-$2.13m 2020	-$3.09m 2019

Chairman and MD Report

Dear Shareholder,

FY19 saw tremendous growth in our NovoSorb BTM and FY20 more than doubled that again. In the past year we have seen significant expansion of our sales and marketing resources, digital programs and new account acquisition. In addition, PolyNovo achieved sales in new markets of UK, Singapore and the DACH region.

PolyNovo has strong sales in all our direct markets and the DACH region. The US makes our largest revenue contribution. In FY20 we have seen BTM used for a wide range of indications. The continued expansion in elective, trauma and reconstructive surgery brings the benefit of more predictable and consistent revenue streams. Burn usage is still a significant portion of our sales and the White Island volcano (NZ) disaster did see a rise in our December 2019 sales.

The second half of the year was under a 'CoVid-19 cloud' however we continued to perform strongly winning new accounts, accelerating sales and ramping our production capacity. Our supply and logistics team worked well to find alternate routes to ensure air freight processes happened as a 'matter of course'.

CoVid-19 has provided many challenges but we had a strong second half and closed June 2020 with a record sales month in the US. Our digital programs with webinars, video calls, online learning systems and Customer Relationship Management software development has required our teams to be flexible and rapid in responding to the sales and marketing challenges. We are well positioned to continue these programs.

We have worked diligently throughout FY20 on our Enterprise Resource Planning system and the advanced manufacturing module, supply chain metrics and our logistics systems. This has yielded significant efficiencies and process improvements that have a positive impact on our ability to service urgent customer demands and internal stakeholders' information needs.

> "Manufacturing improvements have seen a reduction in waste, improved yields and meaningful gains in gross profit whilst reducing our environmental impact."

Manufacturing improvements have seen a reduction in waste, improved yields and meaningful gains in gross profit whilst reducing our environmental impact. We have a strong forward inventory position and sufficient capacity in our supply chain to address any potential CoVid-19 impacts or logistic challenges.

We announced the results of our CE Burn trial and the US feasibility burn trial in Q3. These trials showed NovoSorb BTM to be very effective in treating full thickness burns.

Professor John Greenwood also published an outstanding paper on the treatment of a patient with 95% TBSA burns. The use of NovoSorb BTM followed by his Cultured Composite Skin (grown in a NovoSorb substrate) was both remarkable and rewarding.

The factory build and fit out that will enable us to commercially manufacture NovoSorb based hernia and breast devices has continued at pace with only minor delays in the building and some small delays in equipment delivery and commissioning due to suppliers impacted by CoVid-19 restrictions.

FY21 promises to be another strong year of growth for PolyNovo in existing markets and the opportunity for further revenue contribution from new markets. We will continue to reinvest in our teams to ensure we can service these new customer demands and expand our research and development pipelines bringing new products closer to commercialisation.

Clinical trials in FY21

Our $15m USD BARDA funded US pivotal trial will begin recruitment in circa November, post US FDA approval of the IDE. The number of patients, number of sites and end points will be announced once we have the IDE. PolyNovo is greatly appreciative of BARDA's continued support and the extensive team of expert advisors they make available.

The non-clinical toxicology and full degradation study has been concluded. The final report of this trial has been submitted to the US FDA. This trial provides PolyNovo with a wealth of data to support our marketing programs and the ultimate PMA submission post-pivotal trial conclusion.

PolyNovo will begin a health economic and clinical trial for diabetic foot ulcers and venous leg ulcers to generate the data required by US health insurance groups for a reimbursement code. This process is not a regulatory requirement however it will generate supporting data for the use of NovoSorb BTM in the treatment of these wounds in an outpatient environment. This is anticipated to be a two-year program. Once reimbursement is achieved PolyNovo will establish a chronic wound sales team focused on outpatient facilities.

However, NovoSorb BTM already has regulatory approval for use in all Chronic wound applications.

New Markets FY20

Since obtaining the CE Mark in December 2019, PolyNovo has been able to promote and sell NovoSorb BTM in the UK and Ireland and the DACH region. We added two sales representatives and a marketer in England and our first sales booked in July 2020. There are many NHS accounts in evaluation, and we see significant opportunity in the UK and Ireland in FY21.

The DACH region is supported by our distribution partner PMI. We attended the DAV 38th Annual Meeting of the German-speaking Working Group for Burns Treatment) burns conference in January 2020 and achieved our first sale the day after. PMI have rapidly penetrated many of the DACH burn and trauma units and we now see several of their key opinion leaders hosting webinars outlining their NovoSorb BTM successes.

In Singapore and Malaysia, PolyNovo has entered this market with a direct sales approach. The first evaluation cases have been completed with the surgeons very pleased with the outcomes. We achieved our first sale in July 2020 in Singapore.

New markets for FY21

PolyNovo will enter Taiwan, Korea, Kuwait, UAE, Sweden, Norway, Finland, Benelux, France, Italy and Greece this financial year. Further markets may be added. We will utilise a mix of direct PolyNovo market entry and some via distributor partnerships.

Hernia

Our Hernia devices will be marketed under the Syntrel branding. These devices are different to NovoSorb BTM. They are constructed of a NovoSorb extruded film that is ultrasonically welded to NovoSorb foam. These Syntrel devices are fully resorbable implanted medical devices.

Construction of the factory is complete. The next six months will involve commissioning equipment and validation work in preparation for lab and non-clinical testing. The US FDA 510(k) application is anticipated to be filed in July/August 2021 with the devices on sale at the end of calendar year 2021.

As with all new product development, there is some inherent risk to the smooth progress of the program as we have been delayed by some European suppliers fulfilment due to CoVid-19 restrictions on their assembly and commissioning support.

Breast

The breast products will utilise many similar manufacturing techniques as the hernia devices featuring both film and foam expressions of the NovoSorb polymer. FY21 will see parallel development and refinement of manufacturing processes for these devices.

Beta-Cell Diabetes application

Beta-Cell (a non-related commercial entity) have repeated several animal studies with good outcomes. They are currently refining the surgical procedure for the injection of the islet/ beta cells before entering human trials. PolyNovo is supplying NovoSorb BTM in unique size and configuration for the program.

New Product pipeline

PolyNovo is in the early stages of developing products in the following fields: Sports medicine, drug elution polymer beads and anti-adhesion film for surgical sites.

Summary

Achieved in FY20:

- Doubled our NovoSorb BTM revenues
- Increased gross margin by 7.6% on product sales
- Achieved our CE Mark for Europe
- First sales in, Germany, Austria, Switzerland and Canada and first sales in July in England and Singapore
- Significant expansion of our sales and marketing resources
- Completed stage 1 of the hernia factory build
- Announced both CE and Feasibility burn trial outcomes
- Concluded the two year, BARDA funded, non-clinical toxicology and degradation study
- Filed pivotal trial IDE with US FDA
- Obtained $15m USD BARDA funding for the US pivotal burn trial.
- Secured finance facilities totalling 9.3m with National Australia Bank (NAB)
- Developed digital marketing programs in response to CoVid-19 restrictions and achieved sales growth and new accounts throughout the second half
- Appointed two new non-executive directors to the board
- Further upgraded the ERP system by enabling an advanced manufacturing module and established CRM in our direct markets
- Granted 4 new patents for NovoSorb technology
- Completed office refurbishment with capacity for future growth
- Launched multi-region new website.

David Williams
Chairman

Paul Brennan
Managing Director

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 2020 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 track record in business development and strategy, as well as in mergers and acquisitions and capital raising. He possesses 35 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), Chairman of RMA Global Limited and is Managing Director of corporate advisory firm Kidder Williams Ltd.

Dr Robyn Elliott
BSc (Hons) Chemistry,
PhD Inorganic Chemistry

Non-executive Director

Dr Elliott was appointed a Director of PolyNovo on 28 October 2019. Dr Elliott is currently Executive Director, Strategic Fractionation Program Delivery at CSL Behring, a global role that is responsible for business value delivery from a billion dollar capital expansion portfolio. Dr Elliott previously held Strategic Expansion and Quality Senior Director roles within CSL, was the Managing Director at IDT Australia and commenced her career at DBL Faulding. Dr Elliott has a proven track record in product development, clinical trials, regulatory affairs, audits, quality management, project management and operational strategy. Her worldwide experience in new facility delivery, production scale up, strategy, regulatory affairs and audit will be invaluable to PolyNovo as the company scales its operations globally.

Ms Christine Emmanuel
BSc (Hons) Chemistry, MSc Enterprise, FIPTA, MAICD

Non-executive Director

Ms Emmanuel was appointed a Director of PolyNovo on 13 May 2020. Ms Emmanuel is an accomplished patent and trademark attorney, and a business development professional with more than 30 years' local and international experience. Ms Emmanuel has a Bachelor of Science with a major in Economics (Hons: Chem) from Monash University, Certificate in Intellectual Property Law from Queen Mary College, University of London, Masters of Enterprise from Melbourne University. She is a member of the Chartered Institute of Patent Attorneys UK and has been on the Board of the Institute of Patent and Trade Mark Attorneys of Australia since 2010. She is on Springboard Enterprises Life Sciences Council, is a non-executive director on the board of Medical Developments International and is a member of the Australian Institute of Company Directors. Ms Emmanuel was most recently Executive Manager of Business Development and Commercial at the CSIRO, having founded and led the management of CSIRO's IP portfolio for over 10 years and managed the growth of the CSIRO equity portfolio for the last 5 years. Previously she was in-house IP Counsel for Unilever in the UK and practised as a patent and trademark attorney for Wilson Gunn (UK) and Davies Collison Cave and Griffith Hack in Melbourne.

Mr Leon Hoare
GradDipBus, AssocDipAppSc(Ortho), GAICD

Non-executive Director

Mr Hoare was appointed a Director of PolyNovo on 27 January 2016. He 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 (all divisions) until the end of 2015, one of Smith & Nephew's largest global subsidiaries outside the USA. He served as President of Smith & Nephew's Asia-Pacific Advanced Wound Management (AWM) businesses for 5 years and was 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.
His career also included a senior role at Bristol-Myers Squibb (in surgical products), and as Vice Chair of Australia's peak medical device body, Medical Technology Association of Australia.
He is currently a Non-executive Director of Medical Developments International Ltd (ASX: MVP).

Mr Max Johnston
Non-executive Director

Mr Johnston was appointed a Director of PolyNovo on 13 May 2014. Mr Johnston held the position of President and Chief Executive Officer of Johnson & Johnson Pacific, a division of the world's largest medical, pharmaceutical and consumer healthcare company for 11 years. Prior to joining Johnson & Johnson, Mr Johnston's career also included senior roles with Diageo and Unilever in Europe.
Mr Johnston has also held several prominent industry roles as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and a former member of the board of ASMI.
Mr Johnston has had extensive overseas experience during his career in leading businesses in both Western and Central-Eastern Europe and Africa as well as the Asia-Pacific region. Mr Johnston is currently a Non-executive Director of Medical Developments International Ltd (ASX;MVP), CannPal Limited (ASX:CP1), BARD1 Life Sciences Ltd (ASX:BD1) and was a former Non-executive Director of Enero Group Limited (ASX: EGG), Non-executive Chairman of Probiotec Ltd (ASX: PBP) and Non-executive chairman of AusCann Pty Ltd.

Directors' Report continued

Dr David McQuillan
BSc (Hons) Biochemistry, PhD Biochemisty
Non-executive Director

Dr McQuillan was appointed a Director of PolyNovo on 6 August 2012. He has extensive technical, medical, scientific and regulatory knowledge, as well as merger and acquisition expertise. Previously he was a Fogerty Fellow at the NIH (Bethesda, MD), an NH&MRC Fellow at the University of Melbourne, and Associate Professor at Texas A&M University (Houston, TX) where he studied Tissue Engineering, Regenerative Medicine, and Biochemistry of the Extracellular Matrix. Dr McQuillan was with LifeCell Inc/Kinetic Concepts Inc (KCI) for 12 years, holding a number of senior roles, 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. He is currently a Non-executive Director for Cell Care Therapeutics Inc (a privately held stem cell company based in Monrovia, CA) and Non-executive Director and Co-Founder of ECM Technologies Inc (a privately held biotechnology company based in Houston, TX).

Mr Philip Powell
B.Comm (Hons), ACA, F.Fin, MAICD
Non-executive Director

Mr Powell was appointed a Director of PolyNovo on 13 May 2014 and was Acting Managing Director from 15 July 2014 to 13 February 2015.

Mr Powell has many years' experience in investment banking specialising in capital raisings, Initial Public Offerings (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 is currently a Non-executive Director of Medical Developments International Ltd (ASX: MVP), BARD1 Life Sciences Ltd (ASX: BD1) and RMA Global Ltd (ASX: RMY).

Mr Bruce Rathie
B.Comm, LLB, MBA, FAIM, FAICD, FGIA
Non-executive Director

Mr Rathie is an experienced Company Director with a finance and legal background.

He practised as a partner in a large legal firm and acted as Senior Corporate Counsel to Bell Resources Limited in its early years. He then studied for his MBA in Geneva and embarked on his 15 year investment banking career. When Head of the Industrial Franchise Group at Salomon Smith Barney he led Salomon's roles in the Federal Government's privatisation of Qantas, Commonwealth Bank (CBA3) and Telstra (T1). He now has over 19 years' experience as a full time professional Non-executive Director. He is currently Chairman of Capricorn Mutual Limited and a Non-executive Director of Capricorn Society Limited, Australian Meat Processors Limited and Netlinkz Limited (ASX: NET). In the medical device space, he is Chairman of ASX listed 4DMedical Limited (ASX: 4DX) and was previously Chairman of ASX listed Anteo Diagnostics Limited and a Director of Compumedics Limited and USCOM Limited. He has been a Non-executive Director of PolyNovo since February 2010.

Mr Paul Brennan
MBA, BSc (Nursing) RN RM

Managing Director

Mr Brennan was appointed Chief Executive Officer (CEO) of PolyNovo Ltd on 13 February 2015. He was subsequently appointed Managing Director on 23 April 2020. 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 co-ordinated 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. Mr Brennan has an intimate knowledge of the manufacturing and production processes. Previously he was Marketing Director Australia and New Zealand and Sales Director New Zealand for Smith & Nephew Healthcare from 2008 to his commencement with PolyNovo in February 2015. Mr Brennan holds an MBA from Swinburne University, a Bachelor of Science (Nursing) from the University of New England in NSW, Certificate in Midwifery Central Coast Area Health Service NSW, and General Nursing certificate from St Vincent's Hospital Darlinghurst NSW.

Mr Jan Gielen
CA, Bachelor Bus (Acc)

Chief Financial Officer
and Company Secretary

Mr Gielen joined PolyNovo on 12 December 2018. Mr Gielen holds a Bachelor of Business (Accounting) degree from Monash University, is a member of the Institute of Chartered Accountants and commenced his career with Pitcher Partners. Since then Mr Gielen has held senior finance roles for various businesses across a range of industries such as retail, ICT, logistics (3PL) & medical, both locally and internationally. Mr Gielen has extensive experience in CFO and Finance Director roles for fast growing PE and VC backed businesses and played an important part in expanding these businesses globally, both from a financial and operational perspective. Mr Gielen had a long involvement from inception with ICIX, a leading SaaS platform supporting global retailers and manufacturers where he served as Finance Director in Silicon Valley.
Mr Gielen's most recent role was CFO of CardioScan for 6 years, Australia's largest cardiac reporting provider, which during his tenure expanded to HK, Singapore & North America.

Mr Ashok Srinivasan
(BEng (Mechanical), MSc (Industrial Eng)

Chief Operating Officer

Mr Srinivasan was appointed Chief Operating Officer on 6 May 2019 and left the Group on 20 December 2019.

Directors' Report continued

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 2020, PolyNovo Limited had six wholly owned subsidiaries: PolyNovo Biomaterials Pty Limited, NovoSkin Pty Ltd, NovoWound Pty Ltd, PolyNovo NZ Ltd, PolyNovo UK Ltd, and PolyNovo North America LLC (PNA LLC) and PolyNovo Singapore Private Ltd. Three subsidiary companies are Australian proprietary companies whilst PNA LLC is the trading and employment entity for our US commercial operations and PolyNovo UK Ltd will be both the employing and sales entity for UK and Ireland. PolyNovo NZ Ltd is the registered entity for the New Zealand business.

Principal Activities and Operations

PolyNovo's principal activity is the development of innovative medical devices for a number of medical applications, utilising the patented bioabsorbable 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 bio absorb in a defined fashion in-situ to harmless by-products. NovoSorb has significant advantages over competitor bioabsorbable polymers in terms of its design flexibility and biocompatibility. PolyNovo can manufacture NovoSorb polymer devices with the ability to elute drugs, antimicrobials as well as be expressed in a variety of physical formats including:

- Films
- Foam
- Coatings/sprays
- Fibres
- Plastic structures
- Biologic carrier

NovoSorb is currently covered by 56 patents all fully owned by PolyNovo. PolyNovo has no royalty or licence obligations to any other parties.

A summary of PolyNovo's lead projects is following 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 is commercially sold in Australia, USA, Canada (by exemption), New Zealand, United Kingdom, Ireland, Germany, Austria, Switzerland, Singapore, Malaysia, South Africa, India, Saudi Arabia and Israel. New markets in FY21 are expected to be Sweden, Finland, Norway, France, Benelux, Greece, Italy, Taiwan, Korea, UAE and Kuwait.

Key attributes of the NovoSorb technology include an unparalleled range of mechanical properties and bio absorption times, excellent biocompatibility and safety profile and harmless degradants.

Publications and videos relating to NovoSorb BTM applications can be found on our website: www.polynovo.com.

NovoSorb BTM continues to feature in major clinical conference presentations around the world. Many new clinical papers have been published in peer review journals and the surgeon to surgeon referral of the benefits of NovoSorb BTM continues to accelerate.

NovoSorb BTM indication for full thickness burns

NovoSorb BTM is an innovative treatment for any loss of the dermis. NovoSorb BTM is indicated for full thickness/ third degree burns in markets outside of the USA.

Full thickness burns treatment for US FDA regulatory 'claim' requires additional clinical evidence generation (trials).

This pivotal trial is in progress and funded by BARDA. Successful completion of this trial will enable PolyNovo to file a PMA claim for full thickness burn use and may lead to BARDA acquiring a stockpile of NovoSorb BTM for disaster management.

"NovoSorb BTM continues to feature in major clinical conference presentations around the world. Many new clinical papers have been published in peer review journals and the surgeon to surgeon referral of the benefits of NovoSorb BTM continues to accelerate."

USA Burns Trial – BARDA

Our Biomedical Advanced Research and Development Authority (BARDA) contract, funded by the U.S. Department of Health and Human Services (Office of the Assistant Secretary for Preparedness and Response) commenced on 28 September 2015. This feasibility trial concluded in March 2020 and the Company has announced the excellent result of this trial on 21 April 2020.

PolyNovo completed the swine toxicology study mapping the full degradation pathway of the NovoSorb BTM during FY20. The data generated in this study will support our PMA application and add to the body of evidence demonstrating the mode of action of NovoSorb BTM.

The pivotal trial will be funded by BARDA to US$15 million. PolyNovo will also contribute to the trial through provision of product, staff resources and infrastructure support. We are awaiting final approval of the investigational device exemption (IDE) by the US FDA and this will determine the final number of patients, number of sites and end points. These criteria define the timeline and we will announce the details of this as soon as we receive this approval.

Successful completion of the pivotal trial will lead to a PMA application with the US FDA and the use of our scaffold in full thickness acute burns. The contract is a cost-plus monthly reimbursement basis.

The finalised list of trial hospitals will be published via an ASX announcement later in the year.

Dr Marcus Wagstaff is acting as PolyNovo Medical Director overseeing the clinical conduct of PolyNovo trials and providing valuable clinical support for our global medical teams.

Regulatory approvals for NovoSorb BTM in FY20

CE Mark Certification

PolyNovo UK achieved first sales in July 2020 to 5 NHS's. Several others are in evaluation with strong customer interest and advocacy.

Singapore and Malaysia

PolyNovo has achieved regulatory approvals in Singapore and Malaysia during FY20. A direct sales force has also been appointed in Singapore and completed several surgeries utilising NovoSorb BTM.

Hernia Repair

PolyNovo completed the Stage 1 build of the factory and this will allow us to commercially manufacture Syntrel hernia devices. Stage 2 and 3 relate to further capacity increases and manufacturing redundancy capacity. These will be stages undertaken in FY21/22.

Current timelines anticipate filing a US FDA 510(k) application in June/July 2021. This will allow an on-sale target of late 2021. There remains some risk in the timeline as we work through the scale up from R&D to commercial manufacturing transfer.

Directors' Report continued

Breast Device Developments

PolyNovo has been developing breast products in partnership with Establishment Labs (EL). The focus in the past year has been on the breast 'pocket' device. This device will aid in the placement, orientation and reduce the risk of capsular contraction.

PolyNovo sees good opportunities in both reconstructive and aesthetic market segments for these products.

"PolyNovo has invested further into the upgrade of our Enterprise Resource Planning (ERP) system by enabling an advance manufacturing module and a Client Relationship Management (CRM) tool to actively manage the business and customer needs across multiple countries."

NovoSorb Dermal Beta Cell Implant

PolyNovo is collaborating with BetaCell Technologies Pty Ltd, on a research project exploring the potential of integrated NovoSorb BTM to host pancreatic islets in the skin. Betacell have completed several swine studies with good results. They are currently refining the surgical procedure before determining the timeline to human trials. PolyNovo will manufacture unique shapes and sizes of NovoSorb BTM for the application.

BetaCell, have funding supported by the Juvenile Diabetes Research Foundation (JDRF, US). BetaCell will manage the trial program.

NovoSorb Drug Elution Depot (pellet)

PolyNovo produced polymers with up to 45% of the weight being a bound drug. Our initial work is focused on low temperature extrusion for optimal drug stabilisation. Further development will continue in the coming year with the aim to develop a comprehensive technical dossier in preparation of clinical trials. PolyNovo is likely to license this technology to a pharmaceutical partner once we have established robust evidence to support the mode of action and stability of drug elution rates.

Capital investment

PolyNovo has completed the majority of our capital program with completion of Stage 1 being the construction of the hernia factory and purchase of production equipment. There are additional pieces of equipment to acquire in Q1 of FY21. Stage 2 of the hernia factory is the fitout.

The expenditure program will be updated at the half year results as we have tender bidding in process for this program. Currently we rent space and facilities from Universal Biosensors to house our film production. This will come back to the Port Melbourne facility once Stage 2 is complete.

PolyNovo has invested further into the upgrade of our Enterprise Resource Planning (ERP) system by enabling an advance manufacturing module and a Client Relationship Management (CRM) tool to actively manage the business and customer needs across multiple countries. The ERP system is also integrated into the CRM program to provide live sales against target and order dispatch reports to the sales team. This complete integration is bringing significant benefit to our teams and the efficiencies of the business in establishing new accounts and servicing customer needs.

Paradigm eQMS system has also been installed and this program is undergoing validation processes. Once validation is complete this will greatly improve the electronic handling of the quality related activities.

Significant Changes in the State of Affairs

PolyNovo secured a $9.3m debt facility during the period, secured over 1/320 Lorimer St, Port Melbourne, to fund capital expenditure. Other than the above and except as otherwise set out in this report, the Directors are unaware of any significant changes in the principal activities of PolyNovo during the year ended 30 June 2020.

Strategic Overview and Likely Developments

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

- Continue to accelerate revenue from NovoSorb BTM in the existing markets and expand our geographic reach as outlined
- Conduct validation and verification processes for the hernia product leading to the filing of US FDA 510(K)
- Commence recruitment for the US pivotal burn trial by end of Calendar Year 20
- Advance our sports medicine product
- We look forwards making commercial grade prototypes of breast products with our new manufacturing machines and facility coming on stream in FY21.
- Further develop NovoSorb drug eluting depot
- Support the BetaCell expansion of NovoSorb BTM use as a dermal deposit for Type 1 diabetes
- Begin recruitment for the US DFU/VLU reimbursement trial
- Establish our first GPO/IDN agreements in the US
- Continue the partnership with Skin TE on their Cultured Skin Composite utilising NovoSorb foam substrate within a bioreactor

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.

The Group continues to monitor the impact of the pandemic (CoVid-19) and the response from governments in controlling outbreaks. The Group continues to take steps to mitigate an impact of the pandemic by increasing stock levels locally in all markets to avoid any potential supply chain impediments and focusing on digital sales and marketing campaigns.

Announcements released by the Company after the balance date include:

- 10 July 2020 – Pivotal Trial Protocol Update
- 10 July 2020 – Trading Update
- 14 July 2020 – BARDA Funding for Pivotal Trial

Financial Results

PolyNovo Limited reported revenue for the year ended 30 June 2020 of $22,228,501 an increase of $7,850,576 from the prior year's $14,377,925. The net loss after tax (NLAT) of $4,193,738 for FY20 was an increase of $1,003,845 from the prior year's $3,189,893. The NLAT included share-based payments expense of $2,061,772 (2019: $97,041).

A number of factors contributed to the result as follows:

- Revenue from the sale of commercial products for FY20 increased by 104% to $19,064,982 from the prior year's $9,348,226
- Revenue from BARDA for FY20 decreased by 23% to $3,091,140 from the prior year's $4,000,994. This decrease is reflective of the lower activity in the transition from feasibility to pivotal trial. Revenue is expected to increase in FY21 once the Pivotal trial commences following US FDA protocol approval.
- Employee related expenses (increased by 76% to $15,073,365. This increase is due to share-based payments expense provided to key management personnel and headcount increases to drive growth primarily within marketing, sales, production, quality and human resources.
- Included in revenue is interest income for FY20 of $35,311 which is $298,792 lower than prior year's $334,103 due to a decrease in cash on hand.
- Depreciation and amortisation increased by $527,575 attributable to 12 months depreciation of the acquired 320 Lorimer Street building and leased assets recognised under AASB 16 following transition as at 1 July 2019.
- Corporate, administrative and overhead expenses increased by 58% to $6,271,861 reflecting the increased growth and activity in the business.

R&D Tax Incentives

During the 2020 financial year, the Company received a 43.5% refundable tax offset of $694,182 (cash) in relation to the FY19 R&D tax incentive scheme.

PolyNovo will submit an application in relation to FY20. However, as the Company has exceeded the $20 million R&D cash tax threshold being the maximum revenue allowable for the claiming of a cash refund, a deduction is recognised against taxable income.

Directors' Report continued

During the 2020 financial year, the Company has recognised a FY19 R&D tax incentive income of $36,956 (cash) which relates to a successful overseas application granted in the year.

Closing share price	
30 June 2016	$0.28
30 June 2017	$0.21
30 June 2018	$0.54
30 June 2019	$1.54
30 June 2020	$2.54

A high of $3.15 was reached on 2 February 2020.

Loss Per Share

In Australian dollars $	Cents
Basic loss per share – cents	(0.63)
Diluted loss per share – cents	(0.63)

As the Group made a loss for the year ended 30 June 2020, potential ordinary shares, being options or performance rights to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

Dividends

No amounts have been recommended by the Directors 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 2020, 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.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

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.

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.

		Full Board		Audit and Risk Committee		Remuneration Committee	
Directors	**Role**	**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		1	
Mr David Williams	Non-Executive Director	12	12	-	-	1	1
Dr Robyn Elliott	Non-Executive Director	7	7	-	-	-	-
Ms Christine Emmanuel	Non-Executive Director	2	2	-	-	-	-
Mr Leon Hoare**	Non-Executive Director	12	12	-	-	1	1
Mr Max Johnston	Non-Executive Director	12	12	2	2	-	-
Dr David McQuillan	Non-Executive Director	12	12	-	-	-	-
Mr Philip Powell*	Non-Executive Director	12	12	2	2	-	-
Mr Bruce Rathie	Non-Executive Director	12	12	2	2	-	-
Mr Paul Brennan	Executive Director	12	12	-	-	-	-

* Mr Philip Powell is Chair of the Audit Committee.
** Mr Leon Hoare is Chair of the Remuneration Committee.

Directors' Shareholdings and Declared Interests

At 30 June 2020, the Directors of PolyNovo collectively hold 35,795,334 shares in the Company.

As at the date of this report the interests of the Directors in the Company's shares are:

Name Directors	Shares held directly	Shares held indirectly
Mr David Williams	-	18,000,000
Dr Robyn Elliott	-	-
Ms Christine Emmanuel	-	-
Mr Leon Hoare	-	1,280,220
Mr Max Johnston	-	1,533,612
Dr David McQuillan	608,313	-
Mr Philip Powell	-	1,266,667
Mr Bruce Rathie	-	3,605,555
Mr Paul Brennan	5,315,872	4,185,095
Total	5,924,185	29,871,149

As at 30 June 2020 and as at the date of this report, no Director has an interest in any contract or proposed contract with PolyNovo other than disclosed below or in the Groups 2020 Annual Report. Further details of the equity interests of Directors can be found in the Remuneration Report.

Directors' Report continued

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 2020, the amount received, or due and receivable for non-audit services provided by PolyNovo's auditor Ernst & Young were as shown below. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

	$
Tax compliance services	172,537
Corporate secretarial services	36,156
Total	208,693

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. The declaration is set out on page 30.

ESG Statement and Corporate Governance

PolyNovo brings disruptive, innovative and regenerative medical device products to market that improve the clinical, functional and cosmetic outcomes for our patients. Our products offer significant health economic benefits to patients, surgeons and health systems. To date, no NovoSorb BTM treated area of our patients have had to undergo scar revision surgery. This reduces the social, economic, physiological and emotional demands of our patients allowing them to recover to their best possible lives. It is also encumbered upon us to realise our social and ecological responsibilities. At this early stage of our commercial development we cannot afford to invest in all endeavours however we strive to improve on all aspects of our business year on year.

Our People

PolyNovo provides a safe, functional and aesthetically pleasing environment for all of our staff. Our offices in Port Melbourne and San Diego have considered ergonomics, lighting, airflow and provision of creative spaces and well-equipped meeting rooms. We utilise LED lighting to ensure we minimise energy use but also provide excellent illumination for all work functions.

All staff have an appraisal and development program to ensure we continue to develop our skill base, improve the productivity of the business and give our staff the opportunity of personal growth. Training is achieved through conference attendance, specific targeted educational programs and mentorship from colleagues and managers.

Our Environment

PolyNovo runs a cleanroom production facility for the manufacture of implantable medical devices. These facilities consume significant energy resources. PolyNovo offsets this by sourcing power through our provider, Red Energy, who are committed to renewable energy sourcing from solar, wind and Snowy hydro. Other measures to reduce energy and waste are:

- LED lighting on a mix of timers and central shutdown switches
- Ability to shut down air conditioning when not required by encapsulating work in progress device elements within sealed foiled storage pouches
- A dedicated waste reduction program focused on high yield and full consumption of input ingredients
- Recycling of paper and cardboard waste
- Redundant chemical disposal via ToxFree, an accredited environmental waste recycling/disposal group
- Sourcing raw materials in the smallest minimum order quality to meet production forecast, thereby minimising waste of expired input materials. This can cost more per kilo in the initial purchase however we save in waste, disposal and environmental impact
- Using airfreight finished goods to global markets as our product is light weight and carbon output from shipping would be more significant
- Minimising international travel to essential travel that drives significant business opportunities. This also reduces the impact on staff wellbeing. Video conferencing maintains interaction and reduces travel.
- Utilising e-storage of files wherever possible and use electronic signature when legally possible to reduce printing and storage
- Have introduced a sophisticated ERP, CRM and eQMS system to reduce paper use and waste
- PolyNovo uses little water in the production of our products
- Have a no smoking policy at our offices and external receptacles for cigarette butts (if people do smoke) to reduce these plastic items contaminating our waterways

Our Community

PolyNovo supports various social programs through sponsorships, advertising placement, staff and volunteer time. We are members of industry associations focused on developing the Biotech and medical device community and the talent pool this industry sector nurtures. We support medical professionals in their associations via sponsorships and educational programs.

We are particularly pleased to support Angel Faces www.angelfaces.com. This group supports young women who have suffered significant burns to build social confidence, social networks and rehabilitate through peer-to-peer support. Our staff also attend and support local burn camps for children, actively dedicating their time in the support the children and their families.

PolyNovo also provides free NovoSorb BTM for charity and reconstructive surgery cases around the world, enabling access to the best clinical outcomes.

Modern Slavery

PolyNovo only sources raw materials from reputable accredited suppliers. We regularly review our suppliers to ascertain they maintain full and current accreditation to international quality standards.

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 2020. 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/company

Remuneration Report – Audited

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 2020. This Remuneration Report is audited. Variable pay arrangements to key management personnel are subject to the governance and approval of the Remuneration Committee and no variable pay has been made this period.

This Remuneration Report forms part of the Directors' Report and includes details of the Group's remuneration strategy and arrangements for the 2020 financial year.

Mr Paul Brennan received a discretionary bonus of $75,000 inclusive of superannuation relating to the financial year 2019.

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. The following are Key Management Personnel during the period unless otherwise stated.

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)
- Dr Robyn Elliott – Non-executive Director (appointed 28 October 2019)
- Ms Christine Emmanuel – Non-executive Director (appointed 13 May 2020)
- Mr Leon Hoare – Non-executive Director (appointed 27 January 2016)
- Mr Max Johnston – Non-executive Director (appointed 13 May 2014)
- Dr David McQuillan – Non-executive Director (appointed 6 August 2012)
- Mr Philip Powell – Non-executive Director (appointed 13 May 2014)
- Mr Bruce Rathie – Non-executive Director (appointed 18 February 2010)

Managing Director and Senior Managers

- Mr Paul Brennan – Managing Director (appointed 13 February 2015)
- Mr Jan Gielen – Chief Financial Officer/Company Secretary (appointed 12 December 2018)
- Mr Ashok Srinivasan – Chief Operating Officer (appointed 6 May 2019, resigned 20 December 2019)

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 the Managing Director and 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 $600,000.

Total Non-executive Directors' fees (including superannuation but excluding share-based payments and consulting fees) for the year ended 30 June 2020 were $466,174. 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 Remuneration Committee 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 three 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.
3. Short-term incentives, through a bonus scheme dependent upon performance against objectives and targets which are linked to PolyNovo's overall corporate strategy.

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. Long term incentive plans are measured over 3 years.

Short Term Incentives

PolyNovo's short term incentive policy for Senior Managers encourages high-quality performance in achieving key performance indicators during the current financial year. Bonus schemes are widely recognised as an effective way of providing performance incentives.

Short term incentives are based on the Company exceeding budgeted total group revenue by at least ten percent (10%). The maximum incentive is twenty percent (20%) of salary.

Mr Paul Brennan received a bonus of$75,000 inclusive of superannuation during the financial year 2020 in relation to services performed in the financial year 2019.

Service Contracts

Managing Director (MD)

Mr Paul Brennan was appointed CEO of PolyNovo Limited on 23 February 2015. He was subsequently appointed MD on 23 April 2020.

Effective 1 October 2019, his employment contract was updated to align with executive positions in other similar companies to improve retention and to reward performance in line with Company strategy.

Remuneration Report – Audited continued

The key terms of his contract are as follows:

- a salary of $388,127 per annum;
- superannuation of 9.50%;
- a short term annual performance bonus of up to 20% of salary inclusive of superannuation, dependent upon the Company's performance against key targets;
- 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 'MD 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 (CFO)

Mr Jan Gielen was appointed CFO and Company Secretary on 12 December 2018.

Effective 1 October 2019, his employment contract was updated to align with executive positions in other similar companies to improve retention and to reward performance in line with Company strategy.

The terms of his contract are as follows:

- a salary of $200,000 per annum;
- superannuation of 9.50%;
- 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 'CFO 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.

Chief Operating Officer (COO)

On 20 December 2019, Mr Ashok Srinivasan resigned as COO.

MD Performance Incentives

The performance evaluation of the MD is conducted by the Board.

On 1 October 2019, PolyNovo granted shares up to the value of $10 million dollars in three equal tranches to the Managing Director, Mr Paul Brennan. Details of the three equal tranches are set out below.

The vesting hurdles for the shares is aligned to PolyNovo's market capitalisation reaching and maintaining at all times, $2 billion dollars for a minimum period of three consecutive months in the relevant financial year. This is equivalent to PolyNovo's share price trading at all times above $3.03 for a continuous three-month period.

Once vested, the shares can be allotted in three tranches as follows:

- Tranche 1: 1,100,110 shares, vest over 2 years;
- Tranche 2: 1,100,110 shares, vest over 2 years; and
- Tranche 3: 1,100,110 shares, vest over 3 years.

Any unvested shares will be cancelled at expiry on 30 June 2023 or on the date of termination or cessation of employment.

Once vested, fifty percent (50%) of the shares will be in escrow for twelve months and the remaining fifty percent (50%) for twenty-four months.

The fair value of the shares relating to the incentive scheme was $4,891,089. The expense relating to the incentive scheme shares during the financial year was $1,633,713.

CFO Performance Incentives

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

On 6 March 2019, PolyNovo issued an options package comprising three tranches totalling 1,000,000 options to the CFO, Mr Jan Gielen. Details of the three tranches are set out below.

The vesting hurdle for the options is linked to Mr Gielen's length of employment and the PolyNovo volume weighted average market price. The vesting hurdles are as follows:

- First hurdle – 12 months of employment with the Company; and
- Second hurdle – a share price of 90 cents must be sustained over a period of at least 90 consecutive calendar days.

Once vested, the options can be exercised in three tranches as follows:

- Tranche 1: 300,000 options – not to be exercised before 31 December 2020 and not later than 30 June 2021;
- Tranche 2: 300,000 options – not to be exercised before 31 December 2021 and not later than 30 June 2022; and
- Tranche 3: 400,000 options – not to be exercised before 31 December 2022 and not later than 30 June 2023.

The options whether they have vested or not will be cancelled on the date of termination or cessation of employment.

The exercise price is $0.60 per option tranche.

All shares issued under the incentive scheme are escrowed for a period of 12 months from date of issue. Sixty percent (60%) of the shares issued on the exercise of options are restricted shares subject to rule 9 of the Employee Option Plan for a period of 12 months from the date of issue.

The fair value of the options relating to the incentive scheme shares was $321,700. The expense relating to the incentive scheme shares during the financial year was $264,787 (2019: $56,913). The fair value of the option expense was fully incurred as at 30 June 2020.

Remuneration Report – Audited continued

Remuneration of Key Management Personnel

Details of the remuneration for key management personnel for the years ended 30 June 2020 and 30 June 2019 are set out in Table A below.

		Short term			Post employment	Leave allowances[1]		Share-based payments		
Table A		Cash salary & fees $	Cash bonus $	Consulting fees[2] $	Superannuation $	Annual and long service $	Termination benefits[3] $	Options and performance rights $	Total $	% performance based
Non-Executive Directors										
Mr David Williams	**2020**	**84,133**	**–**	**–**	**7,993**	**–**	**–**	**–**	**92,126**	**–**
(Chairman/Non-executive Director)	2019	81,850	–	–	7,776	–	–	–	89,626	–
Dr Robyn Elliott	**2020**	**42,651**	**–**	**–**	**4,052**	**–**	**–**	**–**	**46,703**	**–**
(Non-executive Director)	2019	–	–	–	–	–	–	–	–	–
Ms Christine Emmanuel	**2020**	**8,523**	**–**	**–**	**810**	**–**	**–**	**–**	**9,333**	**–**
(Non-executive Director)	2019	–	–	–	–	–	–	–	–	–
Mr Leon Hoare	**2020**	**59,030**	**–**	**–**	**5,608**	**–**	**–**	**–**	**64,637**	**–**
(Non-executive Director)	2019	51,850	–	–	4,926	–	–	–	56,776	–
Mr Max Johnston	**2020**	**59,030**	**–**	**–**	**5,608**	**–**	**–**	**–**	**64,637**	**–**
(Non-executive Director)	2019	51,850	–	–	4,926	–	–	–	56,776	–
Dr David McQuillan	**2020**	**59,463**	**–**	**24,490**	**–**	**–**	**–**	**–**	**83,953**	**–**
(Non-executive Director)	2019	52,500	–	69,912	–	–	–	–	122,412	–
Mr Philip Powell	**2020**	**59,030**	**–**	**–**	**5,608**	**–**	**–**	**–**	**64,637**	**–**
(Non-executive Director)	2019	51,850	–	–	4,926	–	–	–	56,776	–
Mr Bruce Rathie	**2020**	**59,030**	**–**	**–**	**5,608**	**–**	**–**	**–**	**64,637**	**–**
(Non-executive Director)	2019	51,850	–	–	4,926	–	–	–	56,776	–
Subtotal compensation for Non-Executive Directors	**2020**	**430,889**	**–**	**24,490**	**35,285**	**–**	**–**	**–**	**490,663**	**–**
	2019	**341,750**	**–**	**69,912**	**27,480**	**–**	**–**	**–**	**439,142**	**–**
Key management personnel										
Mr Paul Brennan	**2020**	**359,589**	**68,493**	**–**	**40,668**	**31,524**	**–**	**1,633,713**	**2,133,987**	**80%**
(MD)	2019	264,840	–	–	25,160	25,871	–	–	315,871	–
Mr Jan Gielen	**2020**	**195,662**	**–**	**–**	**18,588**	**13,135**	**–**	**264,787**	**492,172**	**54%**
(CFO/Company Secretary)	2019	101,627	–	–	9,655	8,275	–	56,913	176,470	32%
Mr Ashok Srinivasan	**2020**	**69,231**	**–**	**–**	**6,577**	**–**	**3,741**	**–**	**79,549**	**–**
(COO)	2019	26,862	–	–	2,552	2,272	–	–	31,686	–
Mr Greg Lewis	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(CFO/Company Secretary)	2019	83,144	–	–	7,259	6,334	–	(2,827)	93,910	3%
Subtotal compensation for other key management personnel	**2020**	**624,482**	**68,493**	**–**	**65,833**	**44,659**	**3,741**	**1,898,500**	**2,705,708**	**73%**
	2019	**476,473**	**–**		**44,626**	**42,752**	**–**	**54,086**	**617,937**	**9%**
Total compensation for all key management personnel	**2020**	**1,055,370**	**68,493**	**24,490**	**101,118**	**44,659**	**3,741**	**1,898,500**	**3,196,371**	**62%**
	2019	**818,223**	**–**	**69,912**	**72,106**	**42,752**		**54,086**	**1,057,079**	**5%**

1. Leave allowances: annual and long service: Reflects the employees' entitlement for the 2020 financial year.
2. Mr David McQuillan: consulting fees: Services provided in relation to product development for the hernia project. The consulting fees are excluded from the aggregate Directors' fee pool limit.
3. Mr Srinivasan: Annual leave paid on on termination of employment.

Options Granted as Part of Remuneration

During the year ended 30 June 2020, 3,300,330 share options (2019: 1,000,000) were granted, no options were cancelled (2019: nil), and no options were forfeited (2019: 1,000,000). 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

2020 financial year	Grant date	Grant number	Average fair value per option at grant date $	Fair value of options granted during the year $	Value of options forfeited lapsed during the year $	Value of options exercised during the year $	Number of shares issued upon exercise	Value of shares received upon exercise of options $	Value of options yet to be exercised $	Fair value of options included in remun-eration during the year $	% compen-sation consisting of options during the year
Mr Paul Brennan											
Shares	1-Oct-19	1,100,110	$0.51400	1,696,369	–	–	–	–	1,696,369	634,396	30%
Shares	1-Oct-19	1,100,110	$0.49300	1,627,063	–	–	–	–	1,627,063	608,477	29%
Shares	1-Oct-19	1,100,110	$0.47500	1,567,657	–	–	–	–	1,567,657	390,840	18%
Sub-total		3,300,330	–	4,891,089	–	–	–	–	4,891,089	1,633,713	
Mr Jan Gielen											
Options	6-Mar-19	300,000	$0.23600	–	–	–	–	–	70,800	51,920	11%
Options	6-Mar-19	300,000	$0.31100	–	–	–	–	–	93,300	76,565	16%
Options	6-Mar-19	400,000	$0.39400	–	–	–	–	–	157,600	136,302	28%
Sub-total		1,000,000	–	–	–	–	–	–	321,700	264,787	
Total		**4,300,330**	–	**4,891,089**	–	–	–	–	**5,212,789**	**1,898,500**	

Options and shares granted in year ended 30 June 2020

The fair value of share options granted during the year, as included in Table B, was determined using a Monte Carlo simulation based pricing model due to it analysing options where the exercise condition is dependent on outcomes associated with factors other than or in addition to, the share price. The fair value of the options included in remuneration during the year was $1,633,713. This represents 80% allocation to the year ended 30 June 2020 as the options have not yet vested.

Options granted in year ended 30 June 2019

The fair value of options granted during the year, as included in Table B, was determined using a Monte Carlo simulation based pricing model due to it analysing options where the exercise condition is dependent on outcomes associated with factors other than or in addition to, the share price. The fair value of options included in remuneration during the year was $56,913. This represents 32% allocation to the year ended 30 June 2019 as the options have not yet vested.

Options expiry dates

Participant	Date
Mr Paul Brennan	
• Tranche 1	30 June 2023
• Tranche 2	30 June 2023
• Tranche 3	30 June 2023

Other terms of the share options include:
- Vesting hurdles – the Company market capitalisation reaching and maintaining $2 billion for a minimum period of three consecutive months in the relevant financial year. This is equivalent to the Company's share price trading at all times above $3.03 for a continuous three-month period.
- Allocation – if market capitalisation is not achieved in the relevant financial year, the share options are available in the following year.
- Escrow period – once vested, fifty percent (50%) of the share options will be in escrow for a period of 12 months and the remaining fifty percent (50%) will be in escrow for a period of 24 months.

Remuneration Report – Audited continued

Participant	Date
Mr Jan Gielen	
Tranche 1	30 June 2021
Tranche 2	30 June 2022
Tranche 3	30 June 2023

Other terms of the share options include:

- Vesting hurdles – 12 months of employment with the Company and a share price of 90 cents must be sustained over a period of at least 90 consecutive calendar days.
- Exercise price – $0.60 per option tranche.
- Escrow period – 12 months from date of issue with sixty percent (60%) of the shares issued on the exercise of options are restricted shares subject to rule 9 of the Employee Option Plan for a period of 12 months from the date of issue.

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 2019[3]	Granted as compen-sation	On exercise of options	Net change other[1,2]	Balance at 30 June 2020	Balance at end of year – directly held	Balance at end of year – indirectly held
Directors							
Mr David Williams	16,600,000	–	–	1,400,000	**18,000,000**	–	18,000,000
Dr Robyn Elliott	–	–	–	–	**–**	–	–
Ms Christine Emmanuel	–	–	–	–	**–**	–	–
Mr Leon Hoare	1,280,220	–	–	–	**1,280,000**	–	1,280,000
Mr Max Johnston	1,511,112	–	–	22,500	**1,533,612**	–	1,533,112
Dr David McQuillan	1,000,000	–	–	(391,687)	**608,313**	608,313	–
Mr Philip Powell	1,266,667	–	–	–	**1,266,667**	–	1,266,667
Mr Bruce Rathie	3,555,555	–	–	50,000	**3,605,555**	–	3,605,555
Other key management personnel							
Mr Paul Brennan	10,100,967	–	–	(600,000)	**9,500,967**	5,315,872	4,185,095

1. 'Net Change Other' reflects shares privately acquired or disposed during the period.
2. Disposal of shares by Mr Paul Brennan occurred during the period before he was appointed Managing Director.
3. Opening balance has been revised to exclude shares held by closely related parties where there is no control or significant influence by the KMP.

Options and performance rights of key management personnel

The option and share holdings of key management personnel for the year ended 30 June 2020 are set out in the following table.

Table D	Balance at 1 July 2019	Granted as compen-sation	Options exercised	Net change other	Balance at 30 June 2020	Total vested at end of year	Total exercis-able at end of year	Total not exercis-able at end of year	Total vested during year
Directors									
Mr Paul Brennan	–	3,300,330	–	–	3,300,330	–	–	3,300,330	–
Other key management personnel									
Mr Jan Gielen	1,000,000	–	–	–	1,000,000	1,000,000		1,000,000	
Total	**1,000,000**	**3,300,330**	**–**	**–**	**4,300,330**	**1,000,000**		**4,300,330**	

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

David McQuillan and Associates LLC, an entity associated with Dr David McQuillan was contracted to provide hernia consulting services, this contract ended in October 2019.

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 26 August 2020.

Mr David Williams
Chairman
26 August 2020

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 the financial report of PolyNovo Limited for the financial year ended 30 June 2020, 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
26 August 2020

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Notes	30 June 2020 $	30 June 2019[1] $
Revenue from contracts with customers	4(a)	**22,156,123**	13,349,220
Other income			
Research and development tax benefit	4(f)	**36,956**	694,602
Interest income	4(b)	**35,311**	334,103
Other income		**111**	–
Total revenue		**22,228,501**	14,377,925
Changes in inventories of finished goods and work in progress		**(1,703,521)**	(1,294,146)
Operating Leases		**–**	(193,597)
Employee-related expenses	4(c)	**(15,073,365)**	(8,549,240)
Research and development expenses		**(2,352,698)**	(3,248,426)
Depreciation and amortisation expense	4(d)	**(837,175)**	(309,600)
Corporate, administrative and overhead expenses	4(e)	**(6,271,861)**	(3,972,809)
Lease liability interest expenses	16	**(98,977)**	–
Finance costs	17	**(18,000)**	–
Net loss for the period before tax		**(4,127,096)**	**(3,189,893)**
Income tax expense	5	**(66,642)**	–
Net loss for the period after tax		**(4,193,738)**	**(3,189,893)**
Other comprehensive income			
Loss on translation of foreign operation	18(b)	**(152,132)**	(216,639)
Total comprehensive income/(loss) for the period		**(4,345,870)**	**(3,406,532)**
Loss for the period is attributable to:			
Owners of the parent		**(4,193,738)**	(3,189,893)
		(4,193,738)	(3,189,893)
Total comprehensive loss for the period attributable to:			
Owners of the parent		**(4,345,870)**	(3,406,532)
Loss attributable to members of the parent		**(4,345,870)**	(3,406,532)
Loss per share			
Basic loss per share – cents	7	**(0.63) cents**	**(0.48) cents**
Diluted loss per share – cents	7	**(0.63) cents**	**(0.48) cents**

1. The Group has initially applied AASB 16 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings (refer to note 16).

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 $	30 June 2019[1] $
Current assets			
Cash and cash equivalents	8	**11,647,701**	13,920,695
Inventories	9	**1,217,042**	1,215,450
Receivables and contract assets	10	**3,921,519**	4,405,047
Prepayments	11	**2,441,740**	310,321
Other financial assets	24	**50,000**	50,000
Total current assets		19,278,002	**19,901,513**
Non-current assets			
Property, plant and equipment	12	**13,890,380**	6,008,219
Intangible assets	13	**1,900,168**	2,148,016
Right of use asset	16	**2,646,521**	–
Other assets	11	**141,870**	170,767
Total non-current assets		18,578,939	**8,327,002**
Total assets		37,856,941	**28,228,515**
Current liabilities			
Trade and other payables	14	**3,171,995**	1,751,829
Lease liability	16	**323,876**	–
Interest-bearing loans and borrowings	17	**5,304,372**	–
Income tax payable	5	**54,729**	–
Deferred tax liability	5	**10,837**	–
Provisions	15(a)	**608,722**	312,172
Total current liabilities		9,474,531	**2,064,001**
Non-current liabilities			
Provisions	15(b)	**166,834**	47,738
Lease liability	16	**2,420,058**	–
Interest-bearing loans and borrowings	17	**1,983,494**	–
Deferred rent liability		**–**	17,297
Total non-current liabilities		4,570,386	**65,035**
Total liabilities		14,044,917	**2,129,036**
Net assets		23,812,024	**26,099,479**
Equity			
Contributed equity	18(a)	**139,070,502**	139,070,502
Reserves	18(b)	**(4,602,269)**	(6,511,909)
Accumulated losses	18(c)	**(110,656,209)**	(106,459,114)
Parent interests		23,812,024	26,099,479
Total equity		23,812,024	26,099,479

1. The Group has initially applied AASB 16 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings (refer to note 16).

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Contributed Equity $	Other Reserves $	Acquisition of Non-Controlling Interest Reserves $	Retained Earnings $	Owners of the Parent $	Total $
As at 30 June 2018	**138,120,502**	**2,901,645**	**(9,293,956)**	**(103,269,221)**	**28,458,970**	**28,458,970**
Loss for the period	–	–	–	(3,189,893)	(3,189,893)	(3,189,893)
Issue of shares on exercise of options	950,000	–	–	–	950,000	950,000
Translation of foreign operations	–	(216,639)	–	–	(216,639)	(216,639)
Share based payments	–	97,041	–	–	97,041	97,041
As at 30 June 2019	**139,070,502**	**2,782,047**	**(9,293,956)**	**(106,459,114)**	**26,099,479**	**26,099,479**
Adjustment related to new accounting standards	–	–	–	(3,357)	(3,357)	(3,357)
Adjusted balance as at 1 July 2019[1]	**139,070,502**	**2,782,047**	**(9,293,956)**	**(106,462,471)**	**26,096,122**	**26,096,122**
Loss for the period	–	–	–	(4,193,738)	(4,193,738)	(4,193,738)
Translation of foreign operations	–	(152,132)	–	–	(152,132)	(152,132)
Share based payments	–	2,061,772	–	–	2,061,772	2,061,772
As at 30 June 2020	**139,070,502**	**4,691,687**	**(9,293,956)**	**(110,656,209)**	**23,812,024**	**23,812,024**

1 The Group has initially applied AASB 16 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings (refer to note 16).

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2020

	Notes	30 June 2020 $	30 June 2019[1] $
Cash flows from operating activities			
Receipts from customers		18,419,968	7,768,050
Receipts from BARDA reimbursements		3,385,242	4,323,872
Receipts of research and development income tax credit		694,182	794,256
Receipts from royalty revenue		245	245
Payment of interest on lease liabilities		(98,977)	–
Payments to suppliers and employees		(22,827,983)	(16,256,156)
Net cash outflows from operating activities	8	(427,323)	**(3,369,733)**
Cash flows from investing activities			
Interest received		24,759	581,566
Payments for purchase of property, plant and equipment		(8,869,219)	(6,520,204)
Transferred to cash and cash equivalents		–	19,000,000
Net cash outflows used in investing activities		(8,844,460)	**13,061,362**
Cash flows from financing activities			
Net cash flows from financing activities			
Payment of principal on lease liabilities		(260,584)	–
Proceeds from debt loan facility		7,287,866	–
Proceeds from the exercise of options		–	950,000
Cash flows from financing activities		7,027,282	**950,000**
Net (decrease)/increase in cash and cash equivalents		(2,244,501)	10,641,629
Cash and cash equivalents at beginning of period		13,920,695	**3,147,081**
Effects of exchange rate changes on cash and cash equivalent		(28,493)	131,985
Cash and cash equivalents at end of period	8	11,647,701	**13,920,695**

1. The Group has initially applied AASB 16 using the modified retrospective approach. Under this approach, comparative information is not restated) and the cumulative effect of initially applying AASB 16 is recognised in retained earnings (refer to note 16).

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2020

1. Corporate Information

The Financial Report of PolyNovo Limited (the Company) and its controlled entities (the Group) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 26 August 2020.

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, New Zealand, United Kingdom 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. 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)' and rounded to the nearest dollar.

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 effects of unsuccessful research, development and commercialisation of the Group's projects. The Group considered the impact of COVID-19 pandemic in making their going concern assessment assuming how the business, research and development activities might be affected as well as the Group's ability to meet its debts and obligations during such environment taking into account all available information about the future. The Group has taken steps to mitigate any impact of the pandemic by increasing production capacity and output, increasing stock levels locally in all markets and focusing on digital sales and marketing campaigns.

(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 2019. 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 preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities.

In preparing the consolidated financial statements, the significant estimates, judgements and assumptions made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the most recent consolidated financial statements. As at 30 June 2020, there were no new judgments, estimates or assumptions other than those mentioned in the notes to the financial statements (refer to (v) below).

As at 30 June 2020, there were no new judgements, estimates or assumptions other than those mentioned in the notes to the financial statements (refer to Note 2).

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2019.

- AASB 23 Uncertainty Over Income Tax Treatment (AASB 23)
- AASB 16 Leases (AASB 16)

Notes to the Financial Statements continued

For the year ended 30 June 2020

2. Summary of Significant Accounting Policies continued

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

AASB 23 Uncertainty Over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of the recognition and measurement criteria in AASB 112 Income Taxes. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group has assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions with no impact on the consolidated financial statements of the Group.

AASB 16 Leases

The Group adopted AASB 16 Leases using the modified retrospective approach from 1 July 2019. The impact that this initial application of AASB 16 has on the consolidated financial statements, is described below.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. AASB 16 replaces existing leases guidance, including AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of its office premises and office equipment. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Group also applied the available practical expedients wherein it:

- Applied the practical expedient not reassess whether a contract is, or contains, a lease at 1 July 2019
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- For lease payments the Group applies the practical expedient wherein it does not separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months or less
- Applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Summary of new accounting policies

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The adoption of AASB 16 required the Group to make several judgements, estimate and assumptions, these included:

- The estimated lease term – The term of each lease was based on the non-cancellable lease unless management was 'reasonably certain' to exercise options to extend the lease.
- The discount rate used to determine the lease liability –The Group used an incremental borrowing rate of 3.9% for Australian based lease arrangements and 3.9% for US based lease arrangements at the lease commencement date as the interest rate implicit in the leases are not readily determinable. As the Group had no observable debt and no specific interest rates in existing lease contracts in place as at 1 July 2019, market information was used.
- Interest payments on lease liabilities have been recorded in cash flows from operating activities within the Statement of Cash Flows.

Transition

The application date of AASB 16 for the Group is 1 July 2019. Using the modified retrospective approach the right-of-use assets for operating leases was recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Therefore, the cumulative effect of adopting AASB16 is recognized as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

The Group applies the following transition practical expedients:

- Applied the practical expedient not to reassess whether a contract is, or contains a lease;
- A single discount rate to a portfolio of leases with reasonable similar characteristics;
- Applied a short-term lease exemption to leases with leases term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of the initial application.

The transitional impact upon initial adoption of AASB 16 as at 1 July 2019 is:

- Inclusion of right of use asset of $2.5m;
- Inclusion of a lease liability of $2.5m;
- Decrease in retained earnings by $0.004m.

The weighted average borrowing rate used upon adoption of AASB 16 Leases was 3.6%.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

Lease commitments reconciliation	**$**
Minimum lease payments contracted for as at 30 June 2019	3,005,377
Payments in optional extension periods not recognised as at 30 June 2019	–
Less: short term leases not recognised as a liability	(23,074)
Gross lease commitments as at 1 July 2019	2,982,303
Weighted average incremental borrowing rate at 1 July 2019	3.6%
Lease liabilities at 1 July 2019 as a result of initial application of AASB 16	**2,516,582**

Current lease liabilities of $323,876 and non-current lease liabilities of $2,420,058 are shown in The Statement of Financial Position. The total cash outflow for leases in the Consolidated Cash Flow Statement for the year ended 30 June 2020 was $260,584 shown as payment of principle and $98,977 as payment of interest on lease liabilities

Previously, the Group recognised an operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Leases in which the Group is a lessee

The Group did not enter into any arrangements as at transition date where it was considered as lessor.

Notes to the Financial Statements continued

For the year ended 30 June 2020

2. Summary of Significant Accounting Policies continued

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2020. 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) Revenue from Contracts with Customers

The Group is in the business of designing, manufacturing and selling biomedical devices. Revenue from contracts with customers is recognised when performance obligations pursuant to that contract are satisfied by the Group.

The Group has identified the following main categories of revenue:

Commercial product sales

The group revenue primarily consists of the sale of its NovoSorb BTM product. Revenue is recorded when the customer takes possession of the product. All contracts with customers are standardised and satisfy the criteria of transaction approval, identification of each party's rights, payment terms, commercial substance, and probable collection based on the customer's ability and intention to pay. Revenue is recognised at a point in time when control over the product transfers to the customer, which is assessed to be at the time of receipt of goods by the customer.

Distribution sales

The group sells its BTM product in certain overseas territories via a distributor model. The sales are made direct to a distributor being the customer of PolyNovo Limited, with the distributor permitted to resell the BTM product to an end user. The group has assessed these arrangements to consider that control passes to the distributor at the point the distributor takes possession of the product. The group consider themselves to be acting as principal in the sale of goods to distributors and recognise revenue on a gross basis.

All contracts with distributors are standardised, and satisfy the criteria of transaction approval, identification of each party's rights, payment terms, commercial substance, and probable collection based on the customer's ability and intention to pay. Revenue is recognised at a point in time when control over the product transfers to the distributor as the customer, which is assessed to be at the time of receipt of goods by the distributor.

BARDA revenue

The BARDA arrangement requires the group to provide to BARDA a solution for severe thermal burns, with the performance obligation as defined in the terms of the arrangement being to perform research and development for specific clinical and trial tasks to support the product development of Biodegradable Temporal Matrix (BTM) for severe thermal burns. Judgement has been applied to consider that the license of intellectual property and research and development activities are not distinct. Revenue is recognised over time based on input measures of specified costs, with the performance obligations being achieved through delivery to BARDA of the contracted clinical studies and trial tasks to support the development of the BTM product for severe thermal burns.

BARDA is considered a customer in accordance with AASB 15 as the nature of services performed by PolyNovo are considered part of the group's licence of intellectual property and normal research and development operating activities and in exchange, consideration is to be paid as the group progresses with its research and development of a mass scalable severe thermal burns product.

Licence revenue

The Group entered into a fixed term licence arrangement with a customer to provide use of specific intellectual property owned by the group to permit certain research and development activity to be performed by the customer with the objective to develop new commercial products. The arrangement's performance condition is satisfied on delivery of the licence, with no further requirements to enhance the intellectual property. The revenue recognised reflects the consideration to which the Group expects to be entitled to for transfer of the licence, and is recognised on a point in time basis, based on control of the licence being transferred and there being no further ongoing obligations required over the licence term.

The Group is entitled to further revenue from the delivery of the licence upon the customer's achievement of certain milestones. However, given there is uncertainty as to whether these milestones will be achieved, revenue is currently constrained and will be recognised when uncertainty is resolved.

Contract balances contract asset

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. As at 30 June 2020, the Group has disclosed in Note 4(a) contract assets. The Group did not recognise any contract liabilities as at 30 June 2020 (30 June 2019: Nil).

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

Notes to the Financial Statements continued

For the year ended 30 June 2020

2. Summary of Significant Accounting Policies continued

(g) 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 had an initial indefinite useful life on acquisition. In the prior period, and following the first commercial sales of NovoSorb BTM, amortisation was recognised across the finite life of the intangible assets. See Note 13 for further detail.

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

(h) 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 including definite lived intangible 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 impairment assessment 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 which is based on – 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.

(i) Share-based payments

The Group 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 2020. 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. All option and performance right arrangements are settled in equity.

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

(j) Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(k) Right of use assets

The Group recognises right of use assets at the commencement of a lease. Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the assets, as follows:

Property	4 to 10 years
Office equipment	4 to 5 years
Manufacturing Equipment	3 years

(l) 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:

Property	25 years
Office equipment	3 to 10 years
Laboratory plant and equipment	3 to 13.33 years
Leasehold improvements	3 to 10 years

The Group has reassessed the useful life of Property from 40 to 25 years effective 1 July 2019. The useful life revision is accounted for prospectively in accordance with AASB 108.

(m) 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.

(n) Research and development costs

Research and development 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.

(o) Cash and cash equivalents

Cash at bank and short-term deposits are stated at nominal value. Cash at bank and short-term deposits are amounts with a maturity of three months or less. If greater than three months, these amounts are recognised within 'other financial assets'.

(p) 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.

(q) Interest income

Interest income is recognised when the Group has the right to receive the interest payment using the effective interest rate method.

(r) 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.

(s) 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 income tax revenue is recognised when there is reasonable assurance of receipt.

Notes to the Financial Statements continued

For the year ended 30 June 2020

2. Summary of Significant Accounting Policies continued

(t) 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.

(u) 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.

Income tax expense of $66,642 has been recognised for the New Zealand trading subsidiary after absorbing all carried forward tax losses.

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).

(v) Significant accounting, estimates and assumptions

Deferred taxes

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 whether these are probable of realisation and the amount of the DTA that can be used to offset the impact of the DTL. Judgment is also required in assessing whether any deferred tax assets can be recorded for unbooked tax losses and other timing differences. 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 considers indicators of impairment and if an indicator exists, will determine the recoverable amount of the intangible asset. An estimate is provided on the useful life of the current intangible asset based on the existing patent period. The assessment for the current period is further explained in Note 13.

Expected Credit Loss

Estimating the expected credit loss (ECL) for trade receivables and contract assets requires selection of an appropriate method and significant judgement to determine the amount. The method applied categorises trade receivables and contract assets into various customer segments, then to determine the ECL amount, an assessment of the correlation between historical observed default rates and forecast economic conditions is applied. Further details on expected credit loss are disclosed in Note 10.

(w) 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.

(x) 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.

(y) 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.

(z) 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.
- On consolidation, the assets and liabilities of the foreign operation are translated into Australian dollars at the rate of exchange prevailing at the reporting date except for retained earnings which is translated at a historic rate of exchange pertaining to the relevant financial year. The Statement of Comprehensive Income is translated at an average exchange rate over the financial year.
- The exchange difference arising on translation for consolidation are recognised in the balance sheet as a foreign currency translation reserve. On disposal of a foreign operation, the reserve is reclassified to profit or loss.

(aa) Comparatives

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

(ab) Security deposits

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

(ac) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Classification and measurement

Except for certain trade receivables, the group initially measures a financial asset at its fair value. Financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: The Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the SPPI criterion).

Impairment

The Group recognises an allowance for expected credit losses (ECLs). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

Notes to the Financial Statements continued

For the year ended 30 June 2020

2. Summary of Significant Accounting Policies continued

(ac) Financial Instruments continued

The provision matrix is initially based on the Group's historical observed default rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. Generally, trade receivables are written off if past due for more than one year. The total expected credit loss is disclosed in note 10.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group has assessed forecast economic conditions and impact of the pandemic (Covid-19) in all regions. This assessment is reflected in the application of the provision matrix to calculate ECL's. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Financial Liabilities

Classification and measurement

The Group's financial liabilities are classified at fair value through loans and borrowings and payables as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings.

For the purposes of subsequent measurement, after initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit and loss. For more information, refer to Note 17.

3. Segment Information

Business Segment

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

The chief operating decision-maker is the Managing Director 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.

During the period, sales to BARDA in the United States of America, represented 14% of total sales revenue from contracts with customers.

	30 June 2020 $	30 June 2019 $
Revenue from contracts with customers		
Geographical areas		
United States of America	**18,665,595**	11,729,101
Australia and New Zealand	**2,822,146**	1,572,088
Rest of World	**668,382**	48,031
	22,156,123	**13,349,220**

	30 June 2020 $	30 June 2019 $
Non-current assets		
Geographical areas		
United States of America	**722,817**	72,907
Australia and New Zealand	**15,930,338**	8,254,095
	16,653,155	**8,327,002**

4. Revenues and Expenses

(a) Revenue from Contracts with Customers

Below is set out the disaggregation of group revenue from contracts with customers.

	30 June 2020 $	30 June 2019 $
Commercial product sales	19,064,983	9,348,226
BARDA revenue	3,091,140	4,000,994
	22,156,123	13,349,220

(b) Finance revenue

	30 June 2020 $	30 June 2019 $
Term deposit interest	22,905	341,392
Bank account interest	10,067	–
Other	2,339	(7,289)
	35,311	334,103

(c) Employee-related expenses

	30 June 2020 $	30 June 2019 $
Wages and salaries (including sales commission)	(10,522,502)	(6,494,587)
Superannuation	(532,366)	(355,097)
Share-based payments expense (see Note 6)	(2,061,772)	(97,041)
Other	(1,956,725)	(1,602,515)
	(15,073,365)	(8,549,240)

Included in other employee related expenses are directors' fees of $466,174 (2019:$369,230) and payroll taxes of $502,851 (2019: $300,985).

(d) Depreciation and amortisation expense

	30 June 2020 $	30 June 2019 $
Depreciation – property, plant and equipment	(121,973)	(61,752)
Depreciation – laboratory equipment	(46,955)	–
Depreciation – leasehold improvements	(76,798)	–
Depreciation – lease asset	(343,601)	–
Amortisation – intangible assets	(247,848)	(247,848)
	(837,175)	(309,600)

Depreciation of property, plant and equipment is also included in the cost of inventory.

Notes to the Financial Statements continued

For the year ended 30 June 2020

4. Revenues and Expenses continued

(e) Corporate, administrative and overhead expenses

	30 June 2020 $	30 June 2019 $
Insurances	**(1,003,364)**	(613,934)
Accounting and audit fees	**(476,386)**	(365,531)
Investor relations and share registry expenses	**(459,685)**	(203,618)
Consultants and contractors	**(559,962)**	(300,520)
Travel	**(1,320,545)**	(1,321,801)
Marketing costs	**(801,401)**	(828,463)
Communication expenses	**(191,002)**	(82,251)
Foreign exchange gain	**57,798**	345,216
Other	**(1,517,314)**	(601,907)
	(6,271,861)	**(3,972,809)**

Included in other administrative expenses are software licences $165,243 (2019: $150,484), 3PL fees $279,258 (2019: $114,019) and freight $357,158 (2019: $42,495).

(f) Research and development tax benefit

Research and development tax benefit income of $36,956 (2019: $694,602) was recognised as other income in the Statement of Comprehensive Income. $36,956 (2019: $694,602) is receivable, as recognised in the Statement of Financial Position, as it relates to last financial year.

5. Income Tax

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

	30 June 2020 $	30 June 2019 $
Current income tax		
Current income tax charge	**(66,642)**	–
Deferred income tax		
Relating to origination and reversal of temporary differences	**–**	–
Income tax benefit/(income tax expense)	**(66,642)**	–
Income tax recognised directly in equity		
Deferred tax expense	**–**	–
Reconciliation of income tax expense to prima facie tax payable		
Net loss before income tax expense	**4,127,096**	3,189,893
Prima facie tax calculated at 27.5% (2019: 27.5%)	**(1,134,951)**	(877,220)
Tax effect of amounts which are not included in accounting loss:		
Research and development	**399,879**	439,116
Non-assessable R&D income tax credit	**(87,142)**	(191,016)
Tax effect of amounts which are not deductible:		
Share-based payments	**567,057**	26,686
	(255,158)	(602,434)
Current year tax losses not brought to account/utilised in the period	**343,386**	778,965
Current year temporary differences not brought to account	**(154,870)**	(176,532)
Income tax benefit/(income tax expense)	**(66,642)**	–

(b) Deferred tax assets and liabilities

	30 June 2020 $	30 June 2019 $
Deferred tax assets	**565,994**	435,521
Deferred tax liabilities	**(565,994)**	(435,521)
Net deferred tax assets/(liabilities)	**–**	–
Deferred tax balances reflects temporary differences attributable to:		
Amounts recognised in profit and loss		
Recognised tax losses	**–**	–
Recognised on temporary differences	**518,580**	435,521
Tax effect of new accounting standard changes	**47,414**	–
Amount recognised due to acquisition of PolyNovo (intangibles)	**(565,994)**	(435,521)
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

	30 June 2020 $	30 June 2019 $
Unrecognised, unconfirmed tax losses for which no deferred tax asset has been recognised	**95,483,316**	92,462,871
Deductible temporary differences – no deferred tax asset has been recognised	**563,162**	641,934
	96,046,478	93,104,805
Potential tax benefit at 27.5%	**26,412,781**	25,603,821

General note for DTA/DTL

Deferred tax assets and liabilities are recognised for temporary differences at the rates expected to be applied when the assets are recovered, or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits.

Deferred tax assets are recognised for deductible temporary differences including AASB 16 changes, provision for employee entitlements, other provisions and accrued expenses.

Deferred tax liabilities are recognised for taxable temporary differences including prepayments, differences in accounting and tax base of intangible assets and depreciable assets, and the deferred recognition of income for tax purposes.

(d) Current tax liability

	30 June 2020 $	30 June 2019 $
Provision for Income Tax	**54,729**	–

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 2020 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.

Notes to the Financial Statements continued

For the year ended 30 June 2020

5. Income Tax continued

(d) Current tax liability continued

Given the Group's history of recent losses (with the exceptions of the benefit noted in (d) below) the Group has not recognised a net 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.

(e) 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 2020 and 30 June 2019 were $2,061,772 and $97,041 respectively.

(b) Share-based payments for the year ended 30 June 2020

During the 2020 financial year, 4,300,330 options were issued. Details of the share options granted pursuant to the terms of the PolyNovo Employee Share Option Plan (ESOP) are as follows:

- On 13 August 2019, the Company granted employee share options to Sr VP Sales & Marketing (Americas), Mr Ed Graubart. He was granted 1,000,000 options exercisable at $1.55. The options vest upon 12 months of employment with the Company and a share price of $1.55 being sustained over a period of 90 consecutive calendar days. Once vested, the options can be exercised as follows:
  - Tranche 1: not to be exercised before 13 August 2021 and not later than 13 August 2022.
  - Tranche 2: not to be exercised before 13 August 2022 and not later than 13 August 2023.
  - Tranche 3: not to be exercised before 13 August 2023 and not later than 13 August 2024.
  - Tranche 4: not to be exercised before 13 August 2024 and not later than 13 August 2025.

If not exercised the options become void. The options package will expire on 13 August 2025. The expense relating to the options package during the year was $163,272. Should Mr Graubart leave employment prior to the exercise date, the share options will be forfeited and option expenses will be reversed.

- On 1 October 2019, the Company granted up to the value of $10 million dollars of employee shares to the Managing Director, Mr Paul Brennan. He was granted 3,300,330 shares at $3.03. The shares vest upon the Company market capitalisation reaching and maintaining at all times, $2 billion dollars for a minimum period of three consecutive months in the relevant financial year. Once vested, the shares can be allocated as follows:
  - Tranche 1: 1,100,110 shares, to vest over 2 years.
  - Tranche 2: 1,100,110 shares, to vest over 2 years.
  - Tranche 3: 1,100,110 shares, to vest over 3 years.

The shares package will expire on 30 June 2023. The expense in relation to the shares package during the year was $1,633,713. Any unvested shares will be cancelled on the date of termination or cessation of Mr Brennan's employment.

The expense relating to the incentive scheme shares recognised in the Statement of Comprehensive Income during the 2020 financial year was $2,061,772.

2020	Balance at 1 July 2019	Granted as compen-sation	Options exercised	Net change other (forfeited, lapsed, expired)	Balance at 30 June 2020	Total vested at end of year	Total exer-cisable at end of year	Total not exer-cisable at end of year	Total vested during year	Share-based pay-ments expense $
Key management personnel										
Mr Paul Brennan	–	3,300,330	–	–	3,300,330	–	–	3,300,330	–	1,633,713
Mr Jan Gielen	1,000,000	–	–	–	1,000,000	1,000,000	–	1,000,000	1,000,000	264,787
Other employees	–	1,000,000	–	–	1,000,000	–	–	1,000,000		163,272
Total	**1,000,000**	**4,300,330**		**–**	**5,300,330**	**1,000,000**	**–**	**5,300,330**	**1,000,000**	**2,061,772**

The fair value of options granted during 2020, as included in the above table, were 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.

Options issued during the period

Grant date	Number of options	Exercise Price	Vesting hurdle	Risk-free interest rate	Volatility	Expiry*	Dividend yield	Average fair value per option
13 August 2019	1,000,000	$1.55	12 months service period and 3 months share price exceeds $1.55	T1 0.66%	47.04%	13-Aug-22	–	$0.423
				T2 0.67%	57.03%	13-Aug-23	–	$0.588
				T3 0.68%	59.30%	13-Aug-24	–	$0.704
				T4 0.73%	61.59%	13-Aug-25	–	$0.720

* Each tranche must be exercised by the expiry date and 13 August of the preceding year otherwise they become void.

Key valuation assumptions for the Employee Share Options:

Parameters	Assumptions
Valuation date	Grant Date
Share price	Closing share price as at the valuation Date – Source: Bloomberg.
Expected life	Assumed Share Appreciation Rights will be exercised at the first opportunity i.e. as early as possible.
Risk-free interest rate	The risk free interest rates are derived from the Australian Government Bonds as at Valuation Date. The terms to maturity have been selected to align with the expected life of the options.
Dividend yield	The dividend yield is the rate of dividend expressed as a continually compounded percentage of the share price. In determining an appropriate dividend yield, forecasted dividend information provided by the management of Polynovo Limited has been relied upon.
Expected volatility	A share's volatility measure captures the charateristics of fluctuations in the share's price. The value of options is extremely sensitive to the volatility measure and as a result great care should be taken in determining the appropriate volatility percentage. To accurately value options, a volatility measure should be selected that is most likely to represent the future volatility of the shares during the life of the options: the implied volatility. Accordingly, in determining the expected volatility, the historical market volatility has been taken into account.
Other	Other assumptions that have not been incorporated into our valuation model include: (i) any change of control events and reorganisation of capital during the relevant performance periods or service periods. (ii) any dilution effect from the issue of options noting that they will not likely have a material impact on the Polynovo Limited security price.

Notes to the Financial Statements continued

For the year ended 30 June 2020

6. Share-based Payments continued

(b) Share-based payments for the year ended 30 June 2020 continued

Grant Date	Number of shares	Vesting Hurdle	Risk-free interest rate	Volatility	Average fair value per share
1 October 2019	**3,300,330**	Company market capitalisation $2 billion for three consecutive months	0.66%	48.64%	T1 $0.514 T2 $0.493 T3 $0.475

Parameters	Assumptions
Valuation date	Grant Date
Share price	Closing share price as at the valuation Date – Source: Bloomberg.
Expected life	Assumed Share Appreciation Rights will be exercised at the first opportunity i.e. as early as possible.
Risk-free interest rate	The risk free interest rates are derived from the Australian Government Bonds as at Valuation Date. The terms to maturity have been selected to align with the expected life of the options.
Dividend yield	The dividend yield is the rate of dividend expressed as a continually compounded percentage of the share price. In determining an appropriate dividend yield, forecasted dividend information provided by the management of Polynovo Limited has been relied upon.
Expected volatility	A share's volatility measure captures the charateristics of fluctuations in the share's price. The value of options is extremely sensitive to the volatility measure and as a result great care should be taken in determining the appropriate volatility percentage. To accurately value options, a volatility measure should be selected that is most likely to represent the future volatility of the shares during the life of the options: the implied volatility. Accordingly, in determining the expected volatility, the historical market volatility has been taken into account.
Retesting Vesting Hurdle	Any shares that have not yet been allocated will be available for allocation at the next allocation date, subject to the vesting hurdle being met. For unallocated shares to be allocate the vesting hurdle meeds to be met in the relevant financial year.
Number of Shares Allocated	The total number of shares available for allocation will be calculated by dividing the $10M granted by the issue price. The issue price is the share price which equates to a $2 billion market capitalisation.
Other	Other assumptions that have not been incorporated into our valuation model include: (i) any change of control events and reorganisation of capital during the relevant performance periods or service periods. (ii) any dilution effect from the issue of options noting that they will not likely have a material impact on the Polynovo Limited security price.

(c) Share-based payments for the year ended 30 June 2019

During the 2019 financial year, 1,000,000 options were issued and 3,000,000 were exercised. Details of the share options granted pursuant to the terms of the PolyNovo Employee Share Option Plan (ESOP) are as follows:

- On 6 March 2019, the Company granted employee share options to Mr Jan Gielen. He was granted 1,000,000 options exercisable at $0.60. The options vest upon 12 months of employment with the Company and a share price of $0.90 being sustained over a period of 90 consecutive calendar days. Once vested, the options can be exercised as follows:
  - Tranche 1: not to be exercised before 31 December 2020 and not later than 30 June 2021.
  - Tranche 2: not to be exercised before 31 December 2021 and not later than 30 June 2022.
  - Tranche 3: not to be exercised before 31 December 2022 and not later than 30 June 2023.

If not exercised the options become void. The options package will expire on 30 June 2023. The expense relating to the options package during the year was $56,913. Should the CFO leave employment prior to the exercise date, the share options will be forfeited and option expenses will be reversed.

The weighted average share price of the options exercised in the period was $0.32.

The expense relating to the incentive scheme shares recognised in the Statement of Comprehensive Income during the 2019 financial year was $97,041.

2019	Balance at 1 July 2018	Granted as compen-sation	Options exercised	Net change other (for-feited, lapsed, expired)*	Balance at 30 June 2019	Total vested at end of year	Total exer-cisable at end of year	Total not exer-cisable at end of year	Total vested during year	Share-based pay-ments expense $
Directors										
Mr Leon Hoare	1,000,000	–	1,000,000	–	–	–	–	–	–	–
Other key management personnel										
Mr Jan Gielen	–	1,000,000	–	–	1,000,000	–	–	1,000,000	–	56,913
Mr Greg Lewis	1,000,000	–	–	(1,000,000)	–	–	–	–	–	–
Other employees	2,000,000	–	2,000,000	–	–	–	–	–	(2,000,000)	40,128
Total	**4,000,000**	**1,000,000**	**3,000,000**	**(1,000,000)**	**1,000,000**	**–**	**–**	**1,000,000**	**(2,000,000)**	**97,041**

* The net change reflects share options forfeited in the period by the former CFO.

Options issued during the period

Grant date	Number of options	Exercise Price	Vesting hurdle	Risk-free interest rate	Volatility	Expiry*	Dividend yield	Average fair value per option
6 March 2019	1,000,000	$0.60	12 months service period and 3 months share price exceeds $0.90	T1 1.67%	45.9%	30-Jun-21	–	$0.236
				T2 1.60%	54.8%	30-Jun-22	–	$0.311
				T3 1.65%	59.7%	30-Jun-23	–	$0.394

* Each tranche must be exercised by the expiry date and 31 December of the preceding year otherwise they become void.

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 2020	(0.63) cents per share	30 June 2019	(0.48) cents per share

Diluted EPS:			
30 June 2020	(0.63) cents per share	30 June 2019	(0.48) cents per share

Notes to the Financial Statements continued

For the year ended 30 June 2020

7. Earnings Per Share (EPS) continued

	30 June 2020 $	30 June 2019 $
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	**(4,193,738)**	(3,189,893)
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	**661,088,044**	659,663,386
Potential weighted average number of ordinary shares on issue plus all unexercised share options used in the calculation of diluted EPS	**663,088,044**	660,663,386

At 30 June 2020 there existed share options that if vested, would result in the issue of additional ordinary shares over the period to FY2023. In the current period, these potential ordinary shares are considered antidilutive as their conversion to ordinary shares would reduce the loss per share. Accordingly, they have been excluded from the dilutive earnings per share calculation. There were no further 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 2020 $	30 June 2019 $
Cash at bank(i)	**11,647,701**	13,920,695
Cash and cash equivalents are denominated in:		
Australian dollars	**6,260,340**	10,464,990
US dollars	**5,291,876**	3,233,959
NZ dollars	**93,112**	221,746
Euros	**2,373**	–
	11,647,701	**13,920,695**

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

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.

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

	30 June 2020 $	30 June 2019 $
Net Loss	**(4,193,738)**	(3,189,893)
Adjustments for non-cash items:		
Depreciation and amortisation	**837,175**	691,033
Share-based payment expense	**2,061,772**	97,041
Finance cost	**18,000**	–
Interest	**(35,311)**	(247,463)
Unrealised foreign exchange rate differences	**152,132**	(348,625)
Change in assets and liabilities during the financial year:		
(Increase)/decrease in prepayments (excluding manufacturing equipment)	**(259,946)**	(145,556)
(Increase)/decrease in trade receivables	**(870,525)**	(1,007,641)
(Increase)/decrease in inventory	**(1,592)**	(131,864)
(Increase)/decrease in other assets	**28,897**	(962,522)
Increase/(decrease) in payables	**1,030,247**	1,567,567
Increase/(decrease) in provisions	**415,646**	54,925
Increase/(decrease) in other liabilities	**389,919**	253,265
Net cash outflows from operating activities	**(427,323)**	(3,369,733)

9. Inventories

Inventories comprise of the following:

	30 June 2020 $	30 June 2019 $
Finished goods	907,441	947,926
Provision for finished goods	(87,041)	–
	820,400	947,926
Work in progress	323,594	218,719
	1,143,994	1,166,645
Raw materials and other (at cost)	73,048	48,805
	1,217,042	1,215,450

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

During the period, the Group has written off work in progress for a total of $191,724 as a result of product expiry dates and quality issues in two batches.

10. Receivables and Contract Assets (Current)

	30 June 2020 $	30 June 2019 $
Trade receivables	2,901,346	2,483,424
Contract assets	782,716	442,405
R&D tax concession	36,956	694,602
Interest receivable	330	–
GST recoverable	179,386	43,755
Sundry receivables	20,785	740,861
	3,921,519	4,405,047

Trade receivables and contract assets relates to invoices to customers for sale of goods and PolyNovo's BARDA project representing invoiced and un-invoiced services for labour and sub-contractor expenses.

The changes in the balances of trade receivables and the information about the credit exposures are disclosed in Note 24(e).

Contract assets

Contract assets are initially recognised for revenue earned from the provision of research and development services as receipt of consideration is conditional on the acceptance by the customer. Upon completion of the milestone and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

As at 30 June 2020, the Group has contract assets of $782,716 (2019: $442,405). Amounts are invoiced in the month following satisfaction of the performance obligation. There are no significant expected credit losses related to the contract assets.

The Group has an agreement with BARDA to provide research and development services which has been extended until August 2025 for the Pivotal Trial. BARDA has committed funding of $USD 15m for the Pivotal trial.

Expected credit loss

Based on the business failure rates by class of customers and Dun & Bradstreet credit score the Expected Credit Losses relating to trade receivables and contract assets the Group has recognised $40,412 as at 30 June 2020 (2019: $27,076). No trade receivables or contract assets were written off during the period.

Notes to the Financial Statements continued

For the year ended 30 June 2020

10. Receivables and Contract Assets (Current) continued

Contract assets continued

As described in note 2(c), the Group uses a provision matrix to measure its expected credit loss. The Group has considered the impact of CoVid-19 in assessing the expected credit loss. Set out below is information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix as at 30 June 2020:

	Trade Receivables and Contract Assets				
	June 0-30 Days $	May 60-90 Days $	Apr 60-90 Days $	Mar+ 90+ Days $	Total $
Expected credit loss rate	0.3%	0.2%	0.0%	44.6%	
Estimated total gross carrying amount at default	3,140,721	508,746	6,463	68,544	**3,724,474**
Expected credit loss	8,789	1,070	–	30,553	**40,412**

Contract assets and trade receivables due in less than 30 days and other financial assets have an expected credit loss which are not significant.

11. Other Assets

During the period the Group has prepaid for the purchase of property plant and equipment of $1,871,475 (2019: $310,321) required for the new manufacturing facility.

	30 June 2020 $	30 June 2019 $
Security deposit	**141,870**	170,767
Closing balance	**141,870**	170,767

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

12. Property, Plant and Equipment

	30 June 2020 $	30 June 2019 $
Property		
(i) Cost		
Opening balance	**4,894,863**	–
Additions	**443,459**	4,894,863
Closing balance	**5,338,322**	4,894,863
(ii) Accumulated depreciation		
Opening balance	**–**	–
Depreciation for the year	**(103,003)**	–
Closing balance	**(103,003)**	–
Net book value – property	**5,235,319**	4,894,863

During FY19, the group acquired a freehold property in Port Melbourne for total cost $4,894,863 inclusive of non-refundable purchase taxes. Depreciation on the building commenced from 1 July 2019.

	30 June 2020 $	30 June 2019 $
Office equipment		
(i) Cost		
Opening balance	562,707	509,733
Additions	713,692	54,991
Disposals	–	(2,017)
Closing balance	1,276,399	562,707
(ii) Accumulated depreciation		
Opening balance	(388,255)	(328,203)
Depreciation for the year	(120,473)	(60,052)
Closing balance	(508,728)	(388,255)
Net book value – office equipment	767,671	174,452

	30 June 2020 $	30 June 2019 $
Laboratory plant and equipment		
(i) Cost		
Opening balance	1,681,908	1,386,301
Additions	198,411	295,607
Disposals	(9,298)	–
Closing balance	1,871,021	1,681,908
(ii) Accumulated depreciation		
Opening balance	(1,183,473)	(1,101,441)
Depreciation for the year	(127,511)	(82,032)
Disposals	4,183	–
Closing balance	(1,306,801)	(1,183,473)
Net book value – laboratory plant and equipment	564,220	498,435

	30 June 2020 $	30 June 2019 $
Leasehold improvements		
(i) Cost		
Opening balance	1,942,780	1,936,560
Additions	140,511	6,220
Closing balance	2,083,291	1,942,780
(ii) Accumulated depreciation		
Opening balance	(1,561,610)	(1,263,284)
Depreciation for the year	(46,223)	(298,326)
Closing balance	(1,607,833)	(1,561,610)
Net book value – leasehold improvements	475,458	381,170

Notes to the Financial Statements continued

For the year ended 30 June 2020

12. Property, Plant and Equipment continued

	30 June 2020 $	30 June 2019 $
Construction in Progress		
(i) Cost		
Opening balance	59,299	–
Additions	6,788,413	59,299
Closing balance	6,847,712	59,299
Net book value – construction in progress	6,847,712	59,299
Net book value – property, plant and equipment	13,890,380	6,008,219

13. Intangible Assets

Intangible assets, comprising intellectual property, were acquired through the business combination with PolyNovo Biomaterials Pty Ltd on 17 December 2008. The acquired intangible assets were initially recognised at fair value.

Following the consistent commercial sales of NovoSorb BTM, amortisation of intangible assets commenced in FY2018 over the remaining finite life through to March 2028 being the remaining patent life period over which economic benefits will be consumed. No indicators of impairment related to the NovoSorb technology have been identified as at 30 June 2020.

	30 June 2020 $	30 June 2019 $
Intangibles		
(i) Cost		
Opening balance	2,519,788	2,519,788
Additions	–	–
Closing balance	2,519,788	2,519,788
(ii) Accumulated amortisation		
Opening balance	(371,772)	(123,924)
Amortisation for the year	(247,848)	(247,848)
Closing balance	(619,620)	(371,772)
Net book value	1,900,168	2,148,016

14. Trade and Other Payables

	30 June 2020 $	30 June 2019 $
Trade creditors and payables	1,611,945	581,698
Other payables	1,560,050	1,170,131
Total trade and other payables	3,171,995	1,751,829

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

15. Provisions

(a) Current provisions

	30 June 2020 $	30 June 2019 $
Annual leave	530,973	245,739
Long service leave	77,749	66,433
Total current provisions	608,722	312,172

(b) Non-current provisions

Long service leave	91,834	47,738
Make good	75,000	–
Total non-current provisions	166,834	47,738

16. Right of Use Assets

Group as a lessee

The Group has lease contracts for various items of property, office equipment and lease equipment used in its operations. Leases of property generally have lease terms between 3 and 10 years, while office and manufacturing equipment generally have lease terms between 3 and 5 years. Refer to note 2 (c) for more detail on the Groups adoption of AASB16.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Right-of-use assets			
	Property $	Office Equipment $	Manufacturing Equipment $	Total $
Reconciliation of carrying amounts				
Transition adjustment at 1 July 2019	2,461,155	16,395	22,374	**2,499,923**
Additions (net)	469,187		21,012	**490,199**
Depreciation expense	(324,453)	(7,567)	(11,581)	**(343,601)**
As at 30 June 2020	2,605,889	8,828	31,804	2,646,521

The following are the amounts recognised in profit or loss in addition to low value and short term leases of $3,044 per month:

	2020 $	2019 $
Depreciation expense of right-of-use assets	343,601	–
Interest expense on lease liabilities	98,977	–
Total amount recognised in profit or loss	363,350	–

The Group had total cash outflows for leases of $359,561 in 2020. The Group also had non-cash additions to right-of-use assets and lease liabilities of $389,959 in 2020. There are no new leases to commence therefore the future cashflows of leases yet to commence is Nil.

Group as Lessor

The Group has not entered into any leases as lessor.

Notes to the Financial Statements continued

For the year ended 30 June 2020

17. Financial Liabilities: interest bearing loans and borrowings

(a) Interest bearing facility details

The Group has secured two finance facilities during the current period with National Australia Bank (NAB). The facilities detailed below are used to fund capital expenditure items.

					Current interest-bearing loans and borrowings		Non-current interest bearing loans and borrowings	
	Facility Amount $	Interest rate %	Repayment Terms	Maturity	30 June 2020 $	30 June 2019 $	30 June 2020 $	30 June 2019 $
Financing Facilities								
Trade finance*	6,000,000	BBSY +1.7	Interest only	30 April 2021	4,808,499	–	–	–
Equipment finance*	9,300,000	3.16	5 years P&I		495,873	–	1,983,494	–
Total	15,300,000				5,304,372	–	1,983,494	–

* Drawdown on the facilities commenced in late June 2020, therefore no interest has been paid nor has any interest expense been accrued.

Trade finance facility

The purpose of this facility is to fund deposits and progress payments for capital expenditure items.

The facility is an interest only facility and repayment of the facility is funded by drawing down on the equipment finance facility.

The facility has a limit of $6 million and was made available on the 22 May 2020. The facility limit reduces to $1m on 30 September 2020 and matures on 30 April 2021. The limit reduction to $1m on 30 September 2020 is tailored to meet capital expenditure requirements.

This facility is secured over the property at 1/320 Lorimer St, Port Melbourne VIC 3207.

Equipment finance facility

Purpose of this facility is to fund repayment of the trade finance facility used for purchasing capital expenditure items such as hernia manufacturing equipment and construction of the cleanroom.

The facility has a limit of $9.3 million and was made available on the 22 May 2020.

Repayments are made over 5 years and comprise of principal and interest. The facility currently attracts an interest rate of 3.16% p.a.

The facility is secured over the property at 1/320 Lorimer St, Port Melbourne VIC 3207.

As required by NAB's terms and conditions the parent entity PolyNovo Limited, has provided a cross-guarantee in conjunction with wholly owned subsidiaries Novoskin Pty Ltd and Novowound Pty Ltd for the facilities. The aggregate amount payable by the cross-guarantors is limited to $15,300,000 excluding interest and penalties.

(b) Changes in liabilities arising from financing activities

	1-Jul-19 $	Cash Flows $	Foreign Exchange Movement $	New leases $	Other $	30-Jun-20 $
Current interest-bearing loans and borrowings (excluding items listed below)	–	–	–	–	5,304,372	5,304,372
Current lease liabilities (Note 16)	236,663	(260,584)	(6,490)	99,748	254,539	323,876
Non-current interest-bearing loans and borrowings (excluding items listed below)	–	–	–	–	1,983,494	1,983,494
Non-current lease liabilities (Note 16)	2,279,919	–	(46,455)	441,133	(254,539)	2,420,058
Total liabilities from financing activities	2,516,582	(260,584)	(52,945)	540,881	7,287,866	10,031,800

Other: represents the reclassification of lease liabilities from non-current to current.

	1-Jul-18 $	Cash Flows $	Foreign Exchange Movement $	New leases $	Other $	30-Jun-19 $
Current interest-bearing loans and borrowings (excluding items listed below)	–	–	–	–	–	–
Current lease liabilities (Note 16)	–	–	–	–	–	–
Non-current interest-bearing loans and borrowings (excluding items listed below)	–	–	–	–	–	–
Non-current lease liabilities (Note 16)	–	–	–	–	–	–
Total liabilities from financing activities	–	–	–	–	–	–

Notes to the Financial Statements continued

For the year ended 30 June 2020

18. Contributed Equity and Reserves

(a) Movement in contributed equity

	30 June 2020 $	30 June 2019 $
Contributed equity at beginning of year	**130,070,502**	138,120,502
Exercise of options	**–**	950,000
Contributed equity at end of year	**139,070,502**	139,070,502

	Number of Shares	
On issue at start of year	**661,088,044**	658,088,044
Exercise of options	**–**	3,000,000
On issue at end of year	**661,088,402**	661,088,044

(b) Reserves

	30 June 2020 $	30 June 2019 $
Share-based payments reserve (i)	**5,219,758**	3,157,986
Foreign currency translation reserve (ii)	**(528,071)**	(375,939)
Acquisition of non-controlling interest reserve (iii)	**(9,293,956)**	(9,293,956)
Balance at end of period	**(4,602,269)**	(6,511,909)

(i) Share-based payments reserve

Balance at beginning of period	**3,157,986**	3,060,945
Share-based payments movement	**2,061,772**	97,041
Balance at end of period	**5,219,758**	3,157,986

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

(ii) Foreign currency translation reserve

Opening balance	**(375,939)**	(159,300)
Translation of foreign operations	**(152,132)**	(216,639)
Balance at end of period	**(528,071)**	(375,939)

This reserve represents on consolidation, the translation of the foreign operation into Australian dollars. The exchange difference is recognised in the balance sheet as a reserve. Please refer to Note 2(y) for further information.

(iii) Acquisition of non-controlling interest reserve

Opening balance	**(9,293,956)**	(9,293,956)
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 a previous period in subsidiary entities PolyNovo Biomaterials Pty Ltd, NovoSkin Pty Ltd and NovoWound Pty Ltd.

(c) Accumulated losses

	30 June 2020 $	30 June 2019 $
Accumulated losses at beginning of year	(106,462,471)	(103,269,221)
Net loss attributable to members of the parent	(4,193,738)	(3,189,893)
Adjustment relating to new accounting standards	–	(3,357)
Accumulated losses at end of financial year	(110,656,209)	(106,462,471)

19. Commitments and Contingencies

Manufacturing equipment commitments

The Group has entered into new contractual agreements with suppliers for the supply of manufacturing equipment. The equipment will be received in FY21 and the remaining balance of $734,802 will be paid accordingly.

Contingencies

The Directors are not aware of any other contingent liabilities or contingent assets at 30 June 2020. There has been no change in this assessment up to the date of this report.

20. Related Party Disclosures

Related party transactions are disclosed under key management personnel (Note 25).

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 announced to the ASX 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.

Post year end, further lockdown restrictions were imposed in Australia as a result of CoVid-19 and other countries around the globe are starting to experience second waves of the virus.

The Group continues to monitor the impact of the pandemic (CoVid-19) and the response from governments in controlling outbreaks. The Group continues to take steps to mitigate any impact of the pandemic by increasing stock levels locally in all markets to avoid any potential supply chain impediments and focusing on digital sales and marketing campaigns.

Stage 2 of the factory build, which will be used to manufacture hernia and breast devices, will commence in the September 2020 quarter and is expected to be completed by March 2021.

Notes to the Financial Statements continued

For the year ended 30 June 2020

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:

Auditor's Remuneration	30 June 2020 $	30 June 2019 $
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	171,401	145,577
Fees for other services		
– Tax compliance	22,000	12,500
Total fees to Ernst & Young (Australia)	193,401	157,077
Fees to other overseas member firm of Ernst & Young (Australia)		
Fees for auditing the financial report of any controlled entities	10,395	–
Fees for other services		
– Tax compliance	150,537	106,830
– Corporate secretariat support	36,156	–
Total fees to overseas member firms of Ernst & Young (Australia)	197,089	106,830
Total fees to Ernst & Young	390,489	264,907

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 2020 $	30 June 2019 $
Current assets	47,527,016	47,644,550
Total assets	53,558,589	53,676,752
Current liabilities	2,689,410	1,433,889
Total liabilities	2,689,410	1,433,889
Issued capital	139,070,502	139,070,502
Retained earnings	(87,456,861)	(84,021,405)
Total reserves	(744,462)	(2,806,234)
Total shareholders' equity	50,869,179	52,242,863
Loss of the parent entity	(3,435,457)	(491,215)
Total comprehensive loss of the parent entity	(3,435,457)	(491,215)

Details of lease contracts entered into by PolyNovo Limited are provided in Note 16.

In accordance with the terms and conditions of the NAB facility arrangements disclosed in note 17, the parent entity, PolyNovo Limited, has provided a cross-guarantee in conjunction with wholly owned subsidiaries Novoskin Pty Ltd and Novowound Pty Ltd. The aggregate amount payable by the cross-guarantors is limited to $15,300,000 excluding interest and penalties.

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 and other financial liabilities.

	30 June 2020 $	30 June 2019 $
Cash and cash equivalents	11,647,701	13,920,695
Trade and other receivables	3,921,519	4,405,047
Other financial assets[1]	50,000	50,000
Trade and other payables	3,171,995	1,751,829
Lease liabilities	2,743,934	–
Trade finance facility	4,808,499	–
Equipment finance facility	2,479,367	–

1. At 30 June 2020 $50,000 is held in a term deposit maturing on 16 March 2021 at an interest rate of 1.31%

(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.

(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 debt and equity attributed to equity holders of the Group comprising contributed equity, reserves and accumulated losses as disclosed in Note 18. 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.

Notes to the Financial Statements continued

For the year ended 30 June 2020

24. Financial Risk Management Objectives and Policies continued

(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 and its trade finance and equipment finance facilities. 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 2020, along with prior year comparatives, was as follows:

2020	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	0.27%	11,647,701	–	–	–	–	–	11,647,701
Other financial assets	1.43%	–	–	50,000	–	–	–	50,000
Receivables	–	–	–	–	–	–	3,921,519	3,921,519
Total financial assets	–	11,647,701	–	50,000	–	–	3,921,519	15,619,220
Financial liabilities								
Trade and other payables	–	–	–	–	–	–	3,171,995	3,171,995
Trade Finance Facility	BBSY+1.7%	4,808,499	–		–		–	4,808,499
Equipment Finance Facility	3.16%	2,479,367	–	–	–	–	–	2,479,367
Total financial liabilities	–	7,287,866	–	–	–	–	3,171,995	10,459,861

2019	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	1.39%	13,920,695	–	–	–	–	–	13,920,695
Other financial assets	2.64%	–	–	50,000	–	–	–	50,000
Receivables	–	–	–	–	–	–	3,680,081	3,680,081
Total financial assets	–	13,920,695	–	50,000	–	–	3,680,081	17,650,776
Financial liabilities:								
Trade and other payables	–	–	–	–	–	–	1,751,829	1,751,829
Total financial liabilities	–	–	–	–	–	–	1,751,829	1,751,829

There has been a change to the Group's exposure to interest rate risk due to taking out trade finance and equipment finance facilities and 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 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) 2020 $	Loss (higher)/ lower Equity higher/(lower) 2019 $
+ 0.5% (50 basis points)	**58,239**	139,707
- 0.5% (50 basis points)	**(58,239)**	(139,707)

The range of +0.5%/-0.5% as an assumption is based on current macro-market economic conditions in which the group holds its cash and cash equivalent balances.

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 2020, the contract asset at 30 June 2020 includes $782,716 owing by BARDA, a US government agency as detailed in Note 10. BARDA is contractually obliged to reimburse the Group for services provided and is considered to be a low credit risk customer.

Notes to the Financial Statements continued

For the year ended 30 June 2020

24. Financial Risk Management Objectives and Policies continued

(e) Financial risk management

In 2020, the trade receivables balance at 30 June 2020 includes $2,901,346 owing by customers. Trade receivables has grown and this is expected to continue as commercial product sales to hospitals and distributors increase. The ageing analysis of trade and other receivables is as follows.

	0-30 days $	30-60 days $	60-90 days $	90+ day $	Total $
2020					
Trade and other receivables	3,306,739	507,676	6,463	63,356	3,884,234
2019					
Trade and other receivables	2,452,198	323,983	66,079	143,219	2,985,479

The above total trade and other receivable amounts as at 30 June 2020 and 30 June 2019 do not include the R&D tax credit receivable amounts of $36,956 and $694,602 respectively.

The Group considers the maximum credit risk from potential default of the counter party to be equal to the carrying amount of the asset. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit loss is not significant.

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 and its trade finance and equipment finance facilities. 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 is set out below:

Year ended 30 June 2020	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	> 5 years $	Total $
Interest-bearing loans and borrowings*	–	4,808,499	495,873	1,983,494	–	7,287,866
(excluding items below)						
Lease Liabilties (Note 16)	–	104,219	319,831	1,869,319	906,590	3,199,959
Trade and other Payables	50,070	3,121,925	–	–	–	3,171,995
	50,070	8,034,643	815,704	3,852,813	906,590	13,659,820

*$4,808,499 is the trade finance balance which is funded at maturity by drawing down on the equipment finance facility

Year ended 30 June 2019	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	> 5 years $	Total $
Interest-bearing loans and borrowings	–	–	–	–	–	–
(excluding items below)	–	–	–	–	–	–
Lease Liabilties (Note 16)	–	–	–	–	–	–
Other Financial Liabilities	–	–	–	–	–	–
Trade and other Payables	409,186	1,342,643	–	–	–	**1,751,829**
	409,186	1,342,643	–	–	–	**1,751,829**

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, NZD and EURO. To reduce foreign currency risk exposure, the Group maintains an amount of cash and cash equivalents in USD, NZD and EURO. The Group receives payment from its overseas customers in USD, NZD and EURO and pays US, NZD and EURO trade payables from its USD, EURO and NZD funds. GBP and SGD denominated payable balances carry some foreign currency risk, however these payable balances are typically infrequent and low in value and are therefore considered to expose the Group to minimal risk. At 30 June 2020 the Group had a EURO and GBP denominated prepaid balance of $1,376,134 and $232,018 respectively, representing non-refundable deposits on R&D manufacturing equipment the Group will receive in FY21. The Company has subsequently opened a EURO and GBP bank account to mitigate foreign currency exposure.

The holdings of cash and cash equivalents, trade receivables and trade payables analysed by nominated currency at 30 June 2020, along with prior year comparatives, were as follows.

2020	Denominated in AUD $	Denominated in USD $	Denominated in NZD $	Denominated EURO $	Denominated In GBP $	Denominated In SGD $	Total $
Financial assets							
Cash and cash equivalents	6,260,340	5,291,876	93,112	2,373	–		11,647,701
Receivables	408,753	3,139,094	9,673	335,321	27,582	1,096	3,921,519
Total financial assets	6,669,093	8,430,970	102,785	337,694	27,582	1,096	15,569,220
Financial liabilities							
Trade and other payables	1,969,251	1,135,066	19,100	1,465	35,009	12,104	3,171,995
Total financial liabilities	1,969,251	1,135,066	19,100	1,465	35,009	12,104	3,171,995

A hypothetical 10% strengthening in the exchange rate of the Australian dollar against the local currencies of the Parents' overseas subsidiaries (as at 30 June 2020) with all other variables held constant would have the following effect on the loss and equity for the 2020 financial year for the Group:

Country	$	
United States of America	(61,782)	unfavourable
United Kingdom	136,343	favourable
New Zealand	(22,443)	unfavourable
Singapore	(21,357)	unfavourable
Total	**30,761**	**favourable**

Notes to the Financial Statements continued

For the year ended 30 June 2020

24. Financial Risk Management Objectives and Policies continued

A 10% strengthening in the exchange rate has been applied based on current market economic conditions.

2019	Denominated in AUD $	Denominated in USD $	Denominated in NZD $	Denominated EURO $	Denominated In GBP $	Total $
Financial assets						
Cash and cash equivalents	10,464,990	3,233,959	221,746	–		13,920,695
Receivables	964,175	2,759,895	8,768	672,209	–	4,405,047
Total financial assets	11,429,165	5,993,854	230,514	672,209		18,325,742
Financial liabilities						
Trade and other payables	668,452	1,040,821	27,436	–	15,120	1,751,829
Total financial liabilities	668,452	1,040,821	27,436	–	15,120	1,751,829

A hypothetical 10% strengthening in the exchange rate of the Australian dollar against the US dollar (as at 30 June 2019) with all other variables held constant would have a $65,950 unfavourable effect on the loss and equity for the 2019 financial year. A 10% strengthening in the exchange rate has been applied based on current market economic conditions.

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 2020 and 2019 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 2020 $	30 June 2019 $
Short term	**1,148,354**	888,135
Post-employment – superannuation	**101,118**	72,106
Leave allowances	**44,659**	42,752
Share-based payments	**1,898,500**	54,086
Termination benefits	**3,741**	–
	3,196,372	1,057,079

(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	2020 number outstanding	2019 number outstanding
2019	30/06/21	$0.60	**300,000**	300,000
2019	30/06/22	$0.60	**300,000**	300,000
2019	30/06/23	$0.60	**400,000**	400,000
2019	1/10/22	–	**1,100,110**	–
2019	1/10/22	–	**1,100,110**	–
2019	1/10/22	–	**1,100,110**	–
			4,300,330	1,000,000

(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

There were transactions with Directors during the year ended 30 June 2020 as follows:

- David McQuillan and Associates LLC, an entity associated with Dr David McQuillan, received payments in the amount of $24,490 (2019: $69,912). These payments were in respect to consulting services provided to PolyNovo North America LLC in relation to advisory and consulting services for the hernia project.

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

Notes to the Financial Statements continued

For the year ended 30 June 2020

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 2020 %	30 June 2019 %
Company:			
PolyNovo Limited	Australia	**100%**	100%
Subsidiaries of PolyNovo Limited:			
PolyNovo North America LLC	United States	**100%**	100%
PolyNovo Biomaterials Pty Ltd	Australia	**100%**	100%
NovoSkin Pty Ltd	Australia	**100%**	100%
NovoWound Pty Ltd	Australia	**100%**	100%
PolyNovo NZ Limited	New Zealand	**100%**	100%
PolyNovo Singapore Private Ltd	Singapore	**100%**	–
PolyNovo UK Limited	United Kingdom	**100%**	100%

Directors' Declaration

For the year ended 30 June 2020

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

- In the opinion of the Directors:
- 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:
  - giving a true and fair view of the Company and the Group's financial position as at 30 June 2020 and of their performance for the year ended on that date;
  - complying with Australian Accounting Standards and *Corporations Regulations 2001*; and
  - complying with International Financial Reporting Standards as issued by the International Accounting Standards Board.
- 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.
- 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 2020.

On behalf of the Board,

Mr David Williams
Chairman

26 August 2020

Independent Auditor's Report

For the year ended 30 June 2020

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

Building a better working world

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 2020, 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 2020 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 (including Independence Standards) (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.

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.

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Recognition of revenue

Why significant	How our audit addressed the key audit matter
The Group has recognised revenue from the sale of commercial products and revenue from services performed in respect of research and development. For sales of commercial products, revenue is recognised upon delivery of the product to the customer. The Group sells to customers in various territories. Commercial product sales have significantly increased this financial year. Services revenue is recognised as the services are delivered. Notes 2, 3 and 4 of the financial statements outline the Company's accounting policies with respect to revenue recognition and revenue disclosures. Revenue recognition was considered a key audit matter due to the increasing sales profile of the Group.	Our audit procedures with respect to the Group's revenue recognition included: ► assessing new contracts with customers for terms and conditions that could impact the timing of recognition and measurement of revenue; ► assessing the operating effectiveness of the Group's controls by testing a sample of controls with respect to the initiation and recording of commercial sales transactions; ► assessing on a sample basis, whether revenue was correctly recognised based on the products delivered as at 30 June 2020 with reference to supporting documentation including contracts, purchase orders proof of delivery, cash receipts and credit notes; ► assessing the Group's performance obligations under the services contract to check that revenue is recognised only for services provided during the year and at the contracted rate; ► comparing subsequent cash receipts to balances outstanding at year end on a sample basis; and ► assessing whether the Company's revenue disclosures as outlined in Notes 2, 3 and 4 are complete and meet the requirements of Australian Accounting Standards.

Independent Auditor's Report continued

For the year ended 30 June 2020

Building a better working world

Existence and valuation of inventory

Why significant	How our audit addressed the key audit matter
At 30 June 2020, the Group held inventory of $1.21 million which comprised raw materials, work in progress and finished goods. The disclosure in respect of inventory is included in note 9, Material inventories were held at a central warehouse in Australia and by third-party logistics providers in the United States of America ('US'). The cost of inventory is determined based on the standard cost of production and, where applicable, capitalisable manufacturing variances. The net realisable value of the inventory is assessed at year end considering inventory sales, forecast usage, expiry dates of products and quality assessments. The existence and valuation of inventory was considered a key audit matter given the significance to the group of inventory and the judgements required in determining the valuation of inventory.	Our procedures with respect to existence and valuation of inventory included: ► attending the inventory counts that occurred, reperforming the inventory counts and agreeing count results into the year end inventory listing. Due to travel and social distancing restrictions resulting from the COVID-19 pandemic, we could not physically attend these inventory counts. However, we observed the inventory counts using video and other technologies; ► assessing that the nature of costs included in inventory, including allocations of labour and manufacturing overheads, were consistent with the requirements of Australian Accounting Standards; ► agreeing, on a sample basis, the amount of costs capitalised in inventory to supporting documentation; ► assessing and recalculating the Group's judgements related to manufacturing variances; and ► assessing the inventory net realisable values with reference to the ageing of inventory, expiry dates, gross margins achieved, sales forecasts and outcomes of quality assessments. ► Assessing the disclosures in respect of inventory in the financial statements.

Accounting for share based payment arrangements

Why significant	How our audit addressed the key audit matter
During the year, the Group issued options to certain employees, including the Managing Director, under share based payment arrangements. The share based payment arrangements included both market based and non-market based vesting conditions. In determining the value of the new arrangements, the Group used the services of a third-party valuation specialist. The Group also has existing share based payment arrangements with the Chief Financial Officer that are being expensed over their vesting period. The share based payments expense recorded for the year ended 30 June 2020 is $2.06 million.	Our procedures with respect to share based payment arrangements included: ► agreeing the terms of the share based payment arrangements issued during the year to contracts; ► assessing, in conjunction with our valuation specialists, the appropriateness of the valuation methodology used by management's specialist and the key input assumptions such as volatility rates, expected life and probability of achieving the market-based performance conditions; ► assessing the Group's judgements in relation to the probability of achieving non-market based vesting conditions; ► recalculating the share based payments expense recorded in the Statement of Comprehensive Income over the relevant vesting periods; and

Details of these share based payment arrangements are disclosed in Note 6 of the financial report and the Remuneration Report with respect to the arrangements with the Managing Director and Chief Financial Officer.

There is judgement involved in determining the fair value of share based payment arrangements and the subsequent recording of the fair value as an expense over the estimated vesting period. As a result, and given the magnitude of the expense in the current year, the audit of the share based payment arrangements was considered a key audit matter.

- assessing the disclosures in Note 6 and the Remuneration Report in relation to the share based payment arrangements.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 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, with the exception of the Remuneration Report and our related assurance opinion.

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.

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.

Independent Auditor's Report continued

For the year ended 30 June 2020

Building a better working world

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.

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 27 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of PolyNovo Limited for the year ended 30 June 2020, 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
26 August 2020

Additional Information Required by ASX

For the year ended 30 June 2020

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

Ordinary Shares

As at 14 August 2020 there were 661,088,044 ordinary shares on issue held by 20,708 shareholders. Each ordinary share carries one vote per share.

Top 20 Shareholders as at 14 August 2020

Shareholder	No. of shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	66,551,382	10.07
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	50,570,980	7.65
CITICORP NOMINEES PTY LIMITED	19,619,513	2.97
MOGGS CREEK PTY LTD <MOGGS CREEK SUPER A/C>	17,400,000	2.63
LATERAL INNOVATIONS PTY LTD <TRUST A/C>	10,924,103	1.65
NATIONAL NOMINEES LIMITED	9,834,664	1.49
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	9,308,685	1.41
MR ANTHONY SHANE KITTEL + MRS MICHELE THERESE KITTEL <KITTEL FAMILY SUPER A/C>	7,922,500	1.20
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	6,625,645	1.00
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	6,186,654	0.94
SANDHURST TRUSTEES LTD <JMFG CONSOL A/C>	5,688,623	0.86
BNP PARIBAS NOMS PTY LTD <DRP>	5,375,513	0.81
MS SIMONE MAREE BEKS	4,185,095	0.63
MR PAUL GERARD BRENNAN	4,185,095	0.63
COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION	4,081,250	0.62
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	3,809,451	0.58
MR PAUL JAMES LAPPIN + MS SIOBHAN CATHERINE LYONS <LAPPIN SUPER FUND A/C>	3,254,631	0.49
MR LAURENT FOSSAERT	3,214,172	0.49
MR DAVID KENLEY	3,139,855	0.47
DR MARCUS JAMES DERMOT WAGSTAFF + MRS LARA KATE WAGSTAFF	3,056,377	0.46
Total	244,934,188	37.05

Unquoted Securities

Options over unissued shares

As at 30 June 2020, a total of 5,300,330 options over ordinary shares are on issue held by three individuals including the Managing Director. Options do not carry a right to vote.

PolyNovo issued 4,300,330 options during the year ended 30 June 2020. Details of the options issued are included in Note 6.

The range of shareholders based on number of shares held as at 14 August 2020 is as follows:

Range of units	No. of holders	No. of shares
1 – 1000	6,025	3,368,850
1,001 – 5,000	7,187	20,021,934
5,001 – 10,000	2,841	22,689,098
10,001 – 100,000	3,943	122,906,278
100,001 and over	712	492,101,884
Number of holders with less than a marketable parcel	779	102,303

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
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	66,551,382	10.07
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	50,570,980	7.65

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

Dr Robyn Elliott
Ms Christine Emmanuel
Mr Leon Hoare
Mr Max Johnston
Dr David McQuillan
Mr Philip Powell
Mr Bruce Rathie

Managing Director

Mr Paul Brennan

Company Secretary

Mr Jan Gielen

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 3000

Website

www.polynovo.com

Australian Securities Exchange

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

2/320 Lorimer Street
Port Melbourne
Victoria Australia 3207
T +613 8681 4050
F +613 8681 4099
polynovo.com